House of Commons

International Development Sub-Committee

Oral evidence: ICAI’s review on DFID’s approach to value for money through tendering and contract management, HC 1504

Wednesday 28 Nov 2018

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Watch the meeting

Members present: Paul Scully (Chair); Mr Nigel Evans; Mr Ivan Lewis; Stephen Twigg.

Questions 1-29

Witnesses

I: Tina Fahm, Lead Commissioner, ICAI, Ian McPherson, Team Leader, ICAI, Juliet Chua, Director General for Finance and Corporate Performance, DFID and Nick Ford, Head of Procurement and Commercial, DFID.

Examination of witnesses

Witnesses: Tina Fahm, Ian McPherson, Juliet Chua and Nick Ford.

Q1 **Chair:** Thank you very much. I am sorry for the delay in starting. Unfortunately, we are going to be slightly constrained on time because of numbers. We need to keep quorate, but we want to have a proper, full discussion, so I will get straight into it, if I may. Tina, I will come to you first for an overview. Let me kick off, as ever, by asking about the methodology. Your review was based on a sample of 44 contracts.

Tina Fahm: That is correct.

Q2 **Chair:** I am just wondering what method you used to select that sample.

Tina Fahm: There were four core components to our methodology. Those included a literature review, where we looked at best practice in procurement across Government and internationally. We also reviewed reports from inquiries that had been conducted by this Committee. We undertook a strategic review, which included looking at DFID's strategy for procurement and its policies, procedures and processes, and we benchmarked those against what we had found in the literature review. We undertook an in-depth review of 44 contracts, which constituted our desk reviews, and we followed through on two of those in country case study reviews—we visited Nigeria and Tanzania. Our approach is outlined on page 7 of our report in box 2, where we identify seven attributes against which we tested the sample of 44 contracts.

Q3 **Stephen Twigg:** This question is to Juliet or Nick. In the review, ICAI states that only 32%—14—of the 44 contracts it looked at contained a convincing assessment of the services required and the capacity of the market to deliver them. How can that be justified?

Juliet Chua: We really welcome ICAI's review. Obviously, this is the second of two on procurement. We were pleased with the recognition that the pace of change is accelerating and the recognition overall of the improvements we have made.

Thank you for your question. You asked specifically about the way we put together and assess need. I think it is worth saying that our overall approach starts very much at our high-level aims. For an individual country team or programme team, we start very much with a diagnosis of need, then work out what the appropriate delivery partner is. We work that through right from the point of programme concept—commercial thinking should be integral all the way through that. We judge what the right partner is and then turn that into a judgment about the right procurement route. That is the overall approach we take through our smart rules and our expectation for our SROs.

Obviously, ICAI looked back at a set of our contracts over a period of time, and it identified a number of issues with them. Part of our reforms is about how we improve overall and making sure that we have the strongest possible capability in terms of the way that commercial practice is translated into our individual contracts over time. Indeed, we agree with the recognition that contract management is an area we want to strengthen. We want to take that forward.

Q4 **Stephen Twigg:** Tina, what is your view on that response?

Tina Fahm: Overall, we found that DFID is on a journey with regard to procurement. We did note a number of improvements. However, there was a difference with commercial contracts in particular. That is an area we highlighted in one of our recommendations. In the Government's response, we are led to believe that the change programme is under way. However, there is still some concern with regard to the responses to our recommendations. DFID has agreed to all three, but I would welcome an opportunity during this session perhaps to drill down a little.

Q5 **Chair:** In the last financial year, DFID awarded seven contracts without a competitive procurement process. That is obviously significantly lower than in previous years, but it is still a cause for concern.

Nick Ford: There are a number of reasons, as we undertake analysis of what the right route to market is—value for money sits at the heart of that—so when we move forward with a programme, the commercial delivery managers will work with the programme team on what the best commercial strategy is. I was really pleased that ICAI recognised that new improvements were put in place in this area around developing robust sourcing strategies, and around a procurement steering board to govern how we go to market and which procurement route we follow. We do a detailed analysis of what the most appropriate is out of the various procurement opportunities and channels. At certain times, that might be to go forward with a single source on value-for-money and commercial, as well as operational, rationales. In those situations, many of the tools that we have introduced around cost transparency or benchmarking against our fee rate database mean we can clearly assess and ensure that we still get value for money when we do that.

Q6 **Chair:** In that same year, you had I think an average 3.3 tenders for each contract, but you are aiming for four. Are you confident of reaching that target in the coming year?

Juliet Chua: This is obviously an indicator that we keep under close review. We see it as a measure for testing whether or not we are growing the amount of competition in the market. Actually, we are really pleased that, since we last spoke to you, it has gone from 3.3 to 3.9, which means that we are well on track for the target we set for 2019.

It is worth saying that what we care about is quality bids, not just numbers of bids. It is critical that we get quality bids, so we are looking at segmenting and testing thematically and in country to see healthy competition across all the different aspects. There may be cases in specific instances where you will see a lower number of bids because of very highly specialist, difficult-to-operate environments, but we are pleased to see the growth overall and that indicator now being at 3.9.

Chair: Brilliant, thank you very much. Tina.

Tina Fahm: We certainly noted the improvement. We note also that DFID's target is four by April 2019, so there is a way to go. I think that we need to caution here against unintended consequences. Really, DFID has that in scope in terms of its engagement with the market.

Q7 **Chair:** What sort of unintended consequences are you thinking of?

Tina Fahm: It is about ensuring that smaller suppliers in particular are not in any way disadvantaged, or become not minded to engage. It is really important that the engagement or relationship that DFID builds with the supplier market is robust and strong.

Q8 **Chair:** It is good that we raise the ability of small businesses and organisations to come in and get involved.

To turn to one particular contract, will you tell us how the Land Investment for Transformation programme in Ethiopia—it was let before the business case was approved—was justified?

Nick Ford: We have looked at the evidence. When you look at the volume that we have been processing, on that specific one it was just an error that manifested through the programme. Certainly by the time that the procurement went to market, the business case was approved.

Juliet Chua: I think it is worth coming in on the strengthening of our controls overall that we have put in place through the reforms and governance within the organisation to ensure that we have got really strong oversight, essentially, of the decision making from the point of business case through to decisions on individual procurements. We have strengthened our controls. We now have a new commercial board for the organisation as well as the procurement and controls board.

Q9 **Chair:** Tina, is there anything you can see in that—that you can see that it might not happen again?

Tina Fahm: Yes, this is a very important point, and thank you for bringing it up. I would like to invite my team leader for the review to answer.

Ian McPherson: There are a couple of points to bring up. One is on the LIFT programme, which you alluded to, where the business case followed the procurement process. I am pleased to say that DFID now has a procurement steering board in place. One of the purposes of that is to prevent that kind of thing happening.

Going back to the earlier question, which links into the LIFT programme, while we fully support moving to four bidders per contract, it is an easy target to measure but I am not sure it is a necessarily relevant target to meet if you get the wrong type of bidders. It is more important that the procurement steering board do pre-market and early market engagement and understand what the market for delivery of those contracts is, particularly in areas of conflict, rather than just targeting getting four bids in, three of which are not relevant. It is more important to have quality bids rather than a number of bids.

It is true to say that Ethiopian Land Investment for Transformation programme was £72 million. The fact that that squeaked through a business case following a procurement process is an indication that the governance structure was not in place before the procurement steering board was in place.

Q10 **Chair:** I have one final question in this section. Juliet, ICAI said that you should make greater use of the negotiated approach to procurement because it leads to more flexible contracts. What do you say in response to that?

Juliet Chua: As part of our overall commercial reform agenda, we have sought to introduce a procuring capacity and a much larger commercial team within DFID, and to build that capability to be able to operate a range of different procurement tools. I am going to invite Nick to say a little bit about the terms on which we use more negotiated approaches. Essentially, we are positioning ourselves to be able to do a whole range of broader commercial approaches and to recognise when it is appropriate to do so.

Nick Ford: I recognise that ICAI recommended doing more competition with negotiation. I don't think this is what ICAI were inferring, but there is no one-size-fits-all. It is about what is best for the programme, what is going to deliver the best value for money and what is going to deliver the maximum development impact. We will look at various procurement routes.

We have now implemented a segmentation process—it is an across-Government segmentation—that segments our procurement into strategic, managed and routine, based on a number of factors including value, complexity, risk and the market. We would expect the routine levels to be going through a framework type of approach and routes—a quick and efficient procurement route. The group in the middle—the managed group—would use a mixture, but more probably open and restricted, as we have used historically. The strategic ones are where we would expect to do more of the competition with negotiation. Competition with negotiation in the procurement sense is a fairly new procedure. It only came in with the new regulation in 2015. We need a level of capability to be able to do that both within the commercial team and in the programme teams, as well as in the supply base. This is a lengthier, more costly procurement process for both parties involved. While we would certainly do more—we have seven under way at the moment—it will not become a default.

We have also increased our use of open, which is a one-stage process. What we have been trying to do is to grow the market. We have been trying to ensure that our reforms are balanced and are bringing on SMEs. We are using open more because it is a one-stage process and is less cumbersome for suppliers, and we can bring in new smaller suppliers through that route as well.

We certainly recognise that it is the route to go for the highly complex, and we have been building the capability and are now starting to do that.

Q11 **Mr Lewis:** These first questions are for Juliet and Nick. Out of the 44 contracts in the ICAI sample, 34 had to be amended, with an average of three amendments each. Does that suggest that the contracts are being designed too rigidly? Is it fair, as ICAI argue—I think most people would objectively feel this is correct—that, given the frequency with which the contracts are amended, programmes may have actually been procured on incorrect assumptions? What is your response to that?

Juliet Chua: I would start by saying that there are a range of reasons for which a contract may be amended. Some may be for really fairly straightforward administrative reasons, such as change of personnel, but there may be very good VFM reasons why we want to extend a contract, particularly in the instance, for example, of humanitarian work where there is an absolute crisis and there is absolutely a value-for-money piece to do it. Nevertheless, there may be circumstances where better contract management would mean that we would have sought to make sure that we are going back to the market.

We welcome the analysis that ICAI did in this area. I will ask Nick to say a little more about what we have learned from that and how we take that forward. Essentially, what we recognise is that it is important for contracts to be well designed from the outset, but also to be well managed. This Committee has previously been interested in adaptive programming. It is absolutely important that we get the balance right between good contracting and clear expectations for our suppliers and, given some of the most challenging environments we operate in, taking stock as we go through and building contracts in a way that reflects changing circumstances.

Nick Ford: As ICAI recognise, we have established much more robust governance around these contract amendments, including a smart guide and the associated training that goes with it. As Juliet says, there are a number of reasons. Operationally on the ground, we experienced that in Sierra Leone with Ebola, when we had to reprogramme and change contracts. In administration, historically when we moved from inception to implementation we used to raise a contract amendment, but we have stopped doing that. We now just award the contract for the total amount with a break clause. There may be commercial changes, some of them through the supplier review—we implemented the code of conduct into our high-value strategic contracts, so that needed a level of amendment.

As Juliet said, there is the value for money development impact grounds. CARD-F in Afghanistan would be a good example—it was a £20 million amendment, but it meant we continued to develop the agrimarket and slow down the reliance on poppy cultivation. Also, the question is about adaptive programming and ensuring that our programmes can respond to the changing nature on the ground, as we know. The new process we have put in place will ensure that we have the right commercial model at the outset, with the right KPIs and the fee rate transparency and breakdown, so we can clearly see, as we negotiate a contract amendment for the right reasons, that value for money will be part of that. When we are setting up the contracts at the end, it is about building in the criteria that enable us to be adaptive.

If I use an example we have just awarded at the moment, which is strengthening host refugee populations in Ethiopia, we have implemented a four-stage contract. Stage 1 is about information gathering and trying to understand what it is about. That will take the first six months. We will then move into the six months to 18 months, where we will run some pilots. From 18 months to around 30 months we will scale up some of those pilots and maybe introduce a few more, or scale down pilots if they are not working, and then from 30-plus months we will start to do the full roll-out and increase the monitoring and evaluation to see what is working. That is a good example where, if we have got it right at the outset and built it into the contract, we can be adaptive.

Q12 **Mr Lewis:** Two questions: first, would you consider introducing longer-term contracts? Some of the contracts are incredibly short, which might be for political reasons to do with changing policy priorities or other reasons. Secondly, there is a clear distinction between changing circumstances that require one to change contracts and faulty design. It is not too difficult to differentiate the two. When ICAI respond, they may want to explain to us. Out of the 34 contracts that have been amended, roughly what proportion were to do with changing circumstances on the ground and what proportion were to do with faulty design in the first place? I think we are clear that an organisation such as DfID must be able to respond to changing circumstances, but equally we know that, from a procurement point of view, many organisations that seek to contract with DfID have legitimate concerns about inconsistency and changes. My first question is about longer-term contracts. Secondly, what proportion of changes are to do with faulty design and what proportion are to do with changing circumstances?

Nick Ford: In the longer term it would be sensible to award longer-term contracts. We are starting to award some now for six years. The challenge that prevents that is probably more about the spending review and approval of the policy aims of programming, but that is certainly an activity we are looking to do, and ensuring that within that programme there are mechanisms and methods such as break clauses, terminations and scaling up or down. I agree it is an area we should be exploring.

Juliet Chua: Can I come in briefly on your point about design? Right across our commercial reform agenda there is an emphasis on getting further upstream in the way we think commercially as an organisation, both in our sourcing strategies and in the way we perhaps integrate the commercial thinking very early in the process, right at the concept stage for our business cases. Our intention is absolutely to strengthen our capability to do that. We are doing it through an extensive training programme across the organisation at a range of different levels to ensure we have very strong contracts, but also to strengthen capability through the dialogue we have with our suppliers early in our engagement to ensure that we set those contracts up on very strong terms.

Tina Fahm: Chair, can I come back on that point before inviting Ian to expand? This is an important point. Out of the 711 contracts that we reviewed during the five-year period, the amendments totalled £2 billion. The overall value of those contracts was £10.4 billion, so this is significant both in terms of time taken and in terms of the integrity of the procurement process. DFID is saying that some of this will be remedied through adaptive programming, and I agree—there will be changes in circumstances, and there is a need for flexibility and agility. However, it is also down to good procurement practices and making sure that the right judgments are made from the outset. That is where we felt that there was a significant gap. I'll invite Ian to perhaps expand on that.

Ian McPherson: It is important to note that a contract amendment is a time-consuming and expensive piece of work, not only for DFID, but for a supplier to enter into. A well-designed contract allows a level of flexibility. I would argue that some of the contracts we reviewed—those 34 in particular—had been too rigid in their approach and did not leave enough flexibility to change contracts when things change on the ground, left of arc and right of arc, when personnel change or there is a slight change in scope.

If the pre-market engagement is done properly and the right route to market is taken, then the contract can be as adaptable and flexible as is necessary to allow for those changes without formal contract amendments. That has been a significant weakness, and I acknowledge the fact that that's being grasped now, but we can only comment on what we see. However, it would indicate that there has been a lack of foresight in the pre-procurement process, which means that the contract itself is too rigid and not flexible enough.

Q13 **Stephen Twigg:** This is for Juliet and Nick, regarding the recent supplier review. When you conducted that supplier review, it was a wide consultation, but did not include consulting existing suppliers. ICAI suggests that this may be contrary to Cabinet Office guidelines. What do you say to that?

Nick Ford: During the supplier review, we consulted extensively. We consulted across Government; we consulted with other donors and other institutions; we consulted with the private sector outside of development, because we wanted fresh thinking; and we also consulted with a number of individuals who had been quite critical of DFID's procurement practices. We believe we did undertake very extensive consultation, which led to a number of the reforms that we then implemented. The Cabinet Office process enables you to consider the consultation that you've undertaken, and we did consider it and moved forward with the consultation we undertook.

Since the review, we have continued to consult. We updated DFID's terms and conditions in August. That was taking into account feedback that we had received from suppliers during the period and making some changes. We have held a number of roundtable events with suppliers; we also have one-to-one engagement. Obviously, part of the review was implementing the strategic relationship management with suppliers, so we have taken that feedback on board, and we are running a series of "open for business" events to understand the feedback from the supplier base. We will continue to do that on the forms going forward.

Q14 **Stephen Twigg:** So are you saying that the original purpose of the review was to take, in a sense, external advice, and that is why you did not go to the suppliers, but then there were subsequent opportunities where existing suppliers could contribute to shaping the new approach? Do I understand that correctly?

Nick Ford: Yes, I think that is correct. Obviously, the initial reason for the review was about our current supplier base, so what we wanted to do was get fresh thinking.

Stephen Twigg: Get an external review?

Nick Ford: And that informed the reforms that we implemented; in fact, we have established an external high-level panel to help input into those reforms. Subsequently, we have implemented the reforms; we obviously now have them in operation, and now we are consulting, and will always continue to consult as we need to tweak or update those reforms. That will include the current supplier base.

Q15 **Stephen Twigg:** Tina, do you have any thoughts on that response?

Tina Fahm: We still have concerns about consultation. In our recommendation, we certainly found that the Government response to the consultation was wanting. We had made specific reference to Cabinet Office guidance, which understandably is guidance, but in the Government's response, that was ignored. We feel that DFID's approach will not be as challenging as what is outlined in the Government framework and context, including that opportunity to feed back.

I would like to push a little further, because one of our recommendations alluded to improving the management information system. The Government indicated in their response that they are setting up a process through which suppliers will be able to provide feedback on the effectiveness and usefulness of the new portal. The plan is to have the new arrangements in place by the beginning of next year, and it would be interesting to find out just how far DFID has gone down the route of ensuring that suppliers will be able to engage from the get-go.

Q16 **Stephen Twigg:** Nick, do you have any thoughts on that?

Nick Ford: I am pleased that we are investing in a new platform. We undertook an extensive process, which was supported by the Government digital department, to ensure that we got the right solution that met DFID's requirements. We have contracted that and we are getting on with the build phase. We expect to go live in an agile and adaptive way at the start of the year, and we will roll on functionality and capability as we learn and progress through the year. There is no "big bang" or "go live" with everything on day one, which plays to what Tina was quite rightly saying. We will utilise engagement within DFID—the tool will obviously be used extensively across DFID's international footprint, as well as in our international supply chain—and we will set up a supplier user group. We are working through the communication and terms of reference around that at the moment, and it will help to inform that adaptive nature as we roll out capability throughout 2019.

Q17 **Stephen Twigg:** Thank you. The suspension of the normal procurement functions during the supplier review caused some disruption, and there are two specific questions about that. Can you draw from that disruption any lessons for future such reviews? One specific example that ICAI highlighted was gaps in the distribution of bed nets in Nigeria. Has that now been resolved?

Nick Ford: During the review, there was a very short period where we paused—quite rightly, considering the accusations that had been made by the IDC—while we took stock. We paused for a short period and then restarted, so the impact on the business was managed and mitigated. Through the review, we implemented reforms that were substantial for DFID, as well as for the supply chain and supply base. Implementing those reforms caused a slowdown in some of the operations, but now that we have done that and moved to operationalisation, we can start to speed up and get on top of that. Through the review we established a learning mechanism, involving extensive communication with the organisation about lessons learned and how the impacts were hitting on the ground. My leadership team, including me, visited every country office during the process to see how it was bedding in, and we have run weekly commercial surgeries with the business. We ran a commercial week in the summer across the whole organisation, in order to share learning and hear what was working well and what was not. We have absolutely taken on board the lessons from that early phase of the supply review.

Tina Fahm: I would like to invite Ian to comment, because he led the visit to Nigeria and will have some insights on that.

Ian McPherson: It is interesting. I go back to Nick's point that DFID did look at Cabinet Office guidance and consulted in a different way. Cabinet Office guidance is built around a thing called the Gunning principles, which is the law of precedent. That clearly states that the full range of people, businesses and voluntary bodies affected by any policy should be engaged with. I appreciate that DFID felt the need to do this quickly, but I feel that the pace of the introduction of the supplier review and the lack of consultation created that tension between the supplier market and DFID as a commissioning body. Again, Tina mentioned that it is bringing in a new management information system, but other Government Departments that have brought those in have consulted widely in accordance with Cabinet Office guidance, and therefore when they go live, there is no argument for the supplier market to complain about the system, because they have been involved throughout in how the process will be delivered.

We still feel strongly that, had the Gunning principles and Cabinet Office guidance been applied when the supply review came out, despite the need for pace, it would have been of massive benefit to DFID. The same will be true if Cabinet Office guidance is followed in future. When we have spoken to suppliers as a result of this review, there is still a feeling that consultation is done in a more measured way than that applied by the Cabinet Office.

Juliet Chua: I just want to come back on the question of pace. I think it is important to recognise the context in which the supplier review took place; there were serious concerns, reflecting the Committee's own investigation. I don't think we would be apologetic for recognising some very real concerns about unethical behaviour and tackling that, and moving forward at pace. So from the perspective of pace, the review reflected some very serious reforms that we wanted to put in place. We absolutely agree with ICAI about the importance of communication and consultation, and engaging with the supplier base in a whole range of different ways, as Nick has described. The urgency to proceed reflected the strength of feeling from our Ministers, and the wider inputs.

Q18 **Mr Lewis:** This question is, again, to Juliet and Nick. The supplier review concluded that each new contract should specify the expected level of supplier profit, with DFID being allowed to recover any profits above this level. Is there not a risk that this would encourage suppliers to conceal profits?

Nick Ford: Thank you for the question. I was pleased that while the ICAI report was focused on profit, it also recognised the efforts DFID is undertaking to boost competition—it is probably a more appropriate way to ensure fair and reasonable profits—through running fair procurement in a competitive market. That is why the profit clause that we introduced is only one element of the various reforms. They include good competition, the work we are doing through open business events, the fact that we are now at 3.9 in our average bids—that demonstrates the good work there—benchmarking of fees and costs, cost transparency, and applying a more detailed level of scrutiny around open-book accounting.

However, we also wanted to introduce some protection clauses, of which the profit clause is a good example. We also introduced strategic relationship management, so we are really working and getting to know the suppliers as well as the code of conduct. We went further than that. This Committee was critical of DFID's reliance on self-certification previously, so we have also introduced a compliance team that works with suppliers to ensure that we can meet the standards of the code of conduct and also to look at the profit clause. I will come on to that in a bit more detail.

That clause is not a novel one; it is established in the model service contracts used across Government, but DFID slightly adapted it to take into account DFID's context. At the outset, suppliers submit their anticipated profit for the life of the programme through the competition phase, which is set by the competitive process. Annually, they resubmit to DFID the profit they have actually made and their anticipated profit over the remainder of the contract. If that starts to exceed the original expectation, we will have a discussion with the supplier and agree on how to take that forward. It absolutely does not limit profit, and it absolutely does not penalise efficiency and innovation. We want those things, so there is no cap on the profit. This is about triggering a discussion around the best way to reinvest, if there is further profit made than was originally anticipated.

Together with the other measures—I highlighted them at the start—that we have implemented around cost transparency, the compliance team and open-book accounting, that scrutiny will ensure that we have a really good grip and suppliers are not doing what you implied. I think it is also fair to say that the vast majority of our supply base share the same moral sentiment around what DFID is trying to do for the greater global good. I think this is the third ICAI report on the trot that shows that there is no evidence of excess profits in DFID's procurement market, and that they are competitive.

Q19 **Mr Lewis:** Very quickly, how do you define excessive profits?

Nick Ford: We recognise that ICAI's reports have said that there is no evidence of excess profit in DFID's procurement market. Through the fee rate transparency, we see the full breakdown of fees. We have published a cost policy, which articulates what will be included in profit, what should be included in overheads and what is included in frontline programme delivery. We have established a fee rate database, which records all of those across all our programmes, countries and thematics, so that we can compare and undertake benchmarking. We can also undertake benchmarking externally, as we have been doing with other donors and institutions, so we can have good scrutiny of the profit.

Q20 **Chair:** Turning to the code of conduct for suppliers, do you think that the new code of conduct coming in might discourage smaller organisations, which we were talking about, from bidding?

Juliet Chua: We are absolutely focused on ensuring that we attract SMEs. As described earlier, we have a range of different ways in which we are seeking to engage and open DFID's business to SMEs. We look closely at the number of SMEs that we are working with, and we are really pleased to see the proportion of SMEs among our suppliers has continued to grow and is now at 39%. That suggests that we are not seeing a falling away of SMEs participating in DFID business, but we need to keep that under review.

The code obviously applies to all organisations that are working with us. Adherence to the code sets a very clear benchmark of expectations, and that is then then used across the supply chain. SMEs may also be participating as part of a wider consortium—as part of a programme of delivery—and not just as either the prime or as part of the supply chain. The expectation of the code would be a part of that. We are keeping that key indicator about the volume of engagement via SMEs, in terms of their interests through the early market engagement phase, under review. The proportion of DFID spending with suppliers that is going to SMEs is currently at 39%, which means that we are well on track for our 40% target for 2022. In fact, we are probably running faster than that.

Q21 **Chair:** As I have said, contractors have been a bit concerned about having to ensure compliance right the way down the supply chain and about how that might affect them. What have you got to say about that?

Juliet Chua: Our expectation is that the prime needs to make sure it has a policy in place that reflects the code. We follow up through our compliance team to check adherence to the code, both through spot checks and deep dives. Then the prime is responsible for ensuring that that adherence follows all the way through the supply chain, and that there are appropriate levels of policies for those that they are working with. Obviously, some of our suppliers work with very long supply chains, and they need to make sure that that is working all way through.

Q22 **Chair:** You have not got anything in the t's and c's or the code of conduct about sexual exploitation or abuse. I wonder, especially in the current climate and what we have been through over the last year, if you have any plans in mind for that.

Juliet Chua: We updated the code to reflect the safeguarding concerns. The original code was issued in September 2017 and we updated it to reflect the very serious concerns around safeguarding earlier this year.

Q23 **Chair:** Tina, is there anything that you have heard that you want to come in on?

Tina Fahm: Just to build on what Juliet has said, we welcome the reforms that DFID has introduced. They are very alive to collusion, risks around collusion and conflicts of interest. That is absolutely the right direction to go in. Linking back to consultation and the sensitivities around smaller suppliers, keeping them in sight is going to be really important. Within the last two weeks, we have undertaken some engagement events. We have met CSOs and large organisations, and there has really been a plea that DFID, in engaging with them, needs to understand the different circumstances.

Juliet Chua: I just want to come back to CSOs. We are obviously working on applying the code of conduct through into accountable grants, and are doing a very detailed piece of work thinking about pre-engagement with the CSO community, and working with Bond on that. I want to make the point that we want to make absolutely sure that we are understanding its application through CSOs.

Q24 **Stephen Twigg:** On the recruitment of procurement professionals, the review highlights reliance on temporary staff to fill up to 10% of commercial positions. Is there a recruitment issue here in terms of getting permanent staff?

Juliet Chua: We have been investing in growing our procurement capability across the organisation. We are really proud of our procurement and commercial team. We have some really fantastic professionals who work with us from a range of different backgrounds—public and private sector—and we have really built up the team. When it is fully staffed, the blueprint that we have got will have 142 members of staff—there are currently 121. Currently, we have a number of interim and temporary staff. Finding really fantastic procurement professionals involves going out and looking really hard for them; it is a competitive market out there. Nevertheless, DFID is a fantastic place to work and people are really attracted by the mission and the nature of what we are doing and seeking to achieve. We continue to recruit, and have worked with the Government Commercial Organisation on applying their standards, and a number of our team members sit as part of their accreditation model. That is something that we will continue to do, but we are confident that we have a strong team in place and we are continuing to grow it.

Q25 **Stephen Twigg:** I understand that the commercial delivery manager role was reduced so it became shared across a number of country offices. ICAI argued that that has negatively affected procurement capacity. Is that a decision you could reconsider?

Nick Ford: In parallel with the review, we were consulting with heads of office and programme teams on what is the right—well, reviewing our frontline commercial operating model. Following that and the feedback from the programme teams, some programme teams wanted commercial delivery managers in country, some preferred them to be fly-in, fly-out from the UK, and some wanted a hub. We have recently established a hub in Tanzania that will support other offices as well. The model, again, is not one size fits all; it will vary depending on what is right.

The key is that we have increased the number of commercial delivery managers, and we have been very successful in recruiting them. They will also transition to the Government Commercial Organisation and go through that accreditation process for 2019, which will ensure that they are at the right, appropriate standard. We have scaled up to provide that support to the organisation.

Tina Fahm: We welcome the efforts that DFID has made to grow its procurement cadre. In 2011, it stood at around 41; as Juliet said, in August, it was 121. We also note that there has been training for senior staff, and the new procurement steering board has been put in place, so the governance and leadership around procurement have been significantly strengthened. However, we are also minded that DFID now sees itself as a commissioning organisation. Our concern is that these new capabilities and skills are located in just a few staff at the top of the organisation and do not cascade throughout the organisation. It would be helpful for us to know to what extent this professionalisation, if you like, around procurement will continue.

Juliet Chua: I want to say very clearly that this is a major change programme for the whole organisation. It cannot be about a certain number of skills located with a small number of people, whether they are at the top of the office or located in particular locations. Through a number of different channels, including the training on the individual supplier review aspects, the recent training on commercial awareness, the training for SROs and the training for the SCSs, we have sought to make sure there is senior leadership and real visibility of the agenda across the organisation. We also recognise that we need to build a core capability across.

In our management response, we were clear that we are sponsoring foundation-level training on contract management, which will be rolled out to a large number of staff so we can make sure we have those core contract management day-to-day implementation skills that sit as part of the overall programme management, and build the overall cadre within PCD who will help to shepherd the organisation and make sure we absolutely have all the different strands of capability we need.

Q26 **Chair:** Finally, if we can quickly turn to the procurement guidance for DFID staff, I am wondering if the guidance that is issued in the smart guides is mandatory.

Juliet Chua: We have a number of smart rules that essentially guide all our operations to make sure we are getting value for money and really fantastic programme management. Then we have the smart guidance that sits alongside that, which essentially exists to support programme managers, commercial delivery managers and everybody who is involved in designing a programme and taking it all the way through. We recognise that in DFID we are operating in a very broad range of contexts, so we need people to use their judgment effectively, informed by really good guidance, so they design the most optimal programme and set of commercial engagements.

Our guidance, in general, is not mandatory, but it exists and is updated regularly to make sure that it reflects best practice and that learning is happening across the organisation. ICAI identified a number of instances where they worried whether some of the guidance was out of date. We continue to update it. Obviously, we have been implementing these reforms at pace, so we are making sure that is under review.

Q27 **Chair:** That is what I was going to ask. They have raised that, and you say that you are updating it, but I think some of it was undated. What sort of assurances do you have that it is not still happening?

Nick Ford: The smart guides and smart rules have an overarching process, through the programme cycle committee in DFID, around the governance of the rules and guides. That goes through a biannual update—a refresh to check. To build on what Juliet said, we were delivering a lot of changes at pace, so through that process we found that some of the smart guides were slightly behind. The team is working on updating those, but then will continue on a biannual basis, as part of the governance of the smart guides and smart laws process, to ensure they stay topical.

Q28 **Chair:** Is there something in place to make sure the staff are using the latest? Do they know they are using the latest?

Nick Ford: The guides and processes are all on the system.

Q29 **Chair:** So they can't use another?

Nick Ford: They shouldn't have printed copies. That is good practice. The important bit is not just the guidance but how to apply it in practice. That is where the experts come in to support the business.

Tina Fahm: We observed during our review that there was not a guide on contract management per se—the end-to-end process of contract management, which was absolutely fundamental to our review. We are encouraged by the efforts in place to widen and deepen the advice that is available.

Ian McPherson: It is very important that DFID is a diverse organisation, as it operates in many countries across the globe. Having a simple, straightforward place for me to find all the information I need to enable me to do my job is absolutely crucial. We found some confusion over the guides—some were not dated. I accept and acknowledge the need to have everything on an IT-based system, but if I am operating in the field in southern Sudan, I might need a little guide in my pocket. It is about making sure things are up to date, clear, concise and crisp. We found some weaknesses there. We are back to management information—not externally facing management information for suppliers, but internally facing for users of the service. It is crucial.

As Tina mentioned, we were quite critical of contract management in our review. I know DFID is grasping that to ensure the right guidance, training and education throughout the organisation. To quote Juliet's predecessor, "commercialisation needs to run throughout the business—it's everybody's business." DFID is a commissioning organisation; it is not the responsibility of the PCD to be commercial—it is everybody's responsibility. That has to be underpinned by good guidance.

Chair: Ian, Tina, Juliet and Nick, thank you so much for that interesting discussion.