



2009

PARLIAMENT OF TASMANIA

**AUDITOR-GENERAL  
SPECIAL REPORT No. 86**

**Major works procurement: Nation Building  
projects, Treasurer's Instructions 1299 and  
1214**

**November 2009**

*Presented to both Houses of Parliament in accordance with the provisions of Audit  
Act 2008*

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*Tasmanian Audit Office*

**GPO Box 851**

**Hobart**

**TASMANIA 7001**

**Phone: (03) 6226 0100, Fax (03) 6226 0199**

**Email: [admin@audit.tas.gov.au](mailto:admin@audit.tas.gov.au)**

**Home Page: <http://www.audit.tas.gov.au>**

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19 November 2009

President  
Legislative Council  
HOBART

Speaker  
House of Assembly  
HOBART

Dear Madam President

Dear Mr Speaker

**SPECIAL REPORT NO. 86**

**Major works procurement: Nation Building projects, TI 1299 and TI 1214**

This report has been prepared consequent to examinations conducted under section 23 for submission to Parliament under the provisions of section 30 of the *Audit Act 2008*.

The report examines the preparedness of agencies to comply with the requirements of the National Partnership Agreement on the Nation Building and Jobs Plan and with Treasurer's Instruction 1299 as well as their compliance with this TI and also with TI 1214.

Yours sincerely

H M Blake

**AUDITOR-GENERAL**



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## FOREWORD

This audit examined three matters:

1. The State's preparedness to comply with the *National Partnership Agreement on the Nation Building and Jobs Plan: Building Prosperity for the Future and Supporting Jobs Now* (NPA) under which Tasmania was required to remove any impediments to its timely and effective implementation.
2. Departmental preparedness to, and compliance with, Treasurer's Instruction 1299 *Procurement for projects impacted by the Nation Building and Jobs Plan*. This TI was issued in March 2009 and provided for streamlined procurement practices, subject to eligibility criteria and reporting requirements. Procurements approved under TI 1299 were exempt from standard planning processes including those required by the State's *Land Use Planning and Approvals Act 1993*.
3. Departmental compliance with Treasurer's Instruction 1214 *Agency Procurement Audit Requirements: building and construction/roads and bridges* which was introduced following dissolution of the Public Works Tender Board and dissemination of procurement tasks into government departments.

Regarding the NPA and TI 1219, I concluded that the responsible departments are well prepared to comply and have met all of their obligations, including reporting requirements to date. I also concluded that departments have generally complied with the requirements of TI 1214 or have made arrangements to do so.

H M Blake

Auditor-General

19 November 2009

## LIST OF ACRONYMS AND ABBREVIATIONS

DEEWR	Department of Education, Employment, and Workplace Relations (Commonwealth)
NPA or the Agreement	National Partnership Agreement on the Nation Building and Jobs Plan: Building Prosperity for the Future and Supporting Jobs Now
TI	Treasurer's Instruction
Treasury	Department of Treasury and Finance
DHHS	Department of Health and Human Services
DoE	Department of Education
DIER	Department of Infrastructure, Energy and Resources,
DPIPWE	Department of Primary Industries, Parks, Water and Environment
Justice	Department of Justice
HIU	Housing Innovations Unit
HT	Housing Tasmania
NGO	Non-Government Organisation
BER	Building the Education Revolution



## **Executive summary**

## EXECUTIVE SUMMARY

### *Background*

#### *The National Partnership Agreement (NPA)*

In March 2007, the United States' subprime mortgage industry collapsed exposing enormous amounts of unsustainable debt. The resulting financial crisis spread around the globe through international securities and investment markets. Following economists' predictions of a long and protracted recession should the resultant downturn in the Australian economy continue unabated, the Australian Government significantly increased spending on infrastructure improvements including school and social housing projects.

In early February 2009, the Commonwealth, State and Territory governments entered into the *National Partnership Agreement on the Nation Building and Jobs Plan: Building Prosperity for the Future and Supporting Jobs Now* (NPA). Under the NPA, Tasmania was required to remove any impediments to the timely and effective implementation of the NPA.

This audit reviewed the preparedness of Treasury (as Coordinator), Department of Health and Human Services (DHHS) and Department of Education (DoE) to comply with NPA requirements.

#### *Treasurer's Instruction 1299*

In March 2009 the Treasurer issued Treasurer's Instruction (TI) 1299 *Procurement for projects impacted by the Nation Building and Jobs Plan* (TI 1299). It provided streamlined procurement practices, subject to eligibility criteria and reporting requirements. Procurements approved under TI 1299 were exempt from standard planning processes including those required by the State's *Land Use Planning and Approvals Act 1993*.

This audit reviewed the compliance and preparedness to comply of Treasury, DHHS and DoE, with the requirements of TI 1299.

#### *Treasurer's Instruction 1214*

TI 1214 *Agency Procurement Audit Requirements: building and construction/roads and bridges* came into force in 2006 and relates to the procurement of major works.

The Treasurer introduced TI 1214 following dissolution of the Public Works Tender Board and dissemination of procurement tasks into government departments. The objectives of TI 1214 included ensuring departments complied with best practice procurement

processes. Accordingly, procurements are subject to internal audits and reports of those audits should be provided to Treasury.

This audit looked at whether departments had complied with TI 1214 with respect to major works procurements undertaken from 30 June 2007 to 30 June 2009.

### *Detailed audit conclusions*

#### *National Partnership Agreement*

DoE, DHHS and Treasury were well prepared to comply with NPA requirements and have met all of their obligations under the agreement, to date.

#### *Treasurer's Instruction 1299*

DoE, DHHS and Treasury have met the reporting requirements of TI 1299 to date, and have good processes in place to enable the requirements to be met in future.

#### *Treasurer's Instruction 1214*

Government departments have generally complied with the requirements of TI 1214 or have made arrangements to do so.

### *List of recommendations*

The following table reproduces the one recommendation contained in the body of this report.

<b>Rec No.</b>	<b>Section</b>	<b>We recommend that ...</b>
1	3.3	... Treasury ensure effective monitoring of TI 1214 reports and follow up non-receipt with departments.



**Audit Act 2008 section 30 — Submissions and comments received**

## AUDIT ACT 2008 SECTION 30 — SUBMISSIONS AND COMMENTS RECEIVED

### Introduction

In accordance with section 30 (2) of the *Audit Act 2008*, a copy, or relevant extracts, of this report was provided to the Secretaries of the following departments:

- Treasury and Finance
- Health and Human Services
- Education
- Infrastructure, Energy and Resources
- Justice
- Primary Industries, Parks, Water and Environment
- Justice

with a request for comment or submissions.

A summary of findings was also provided to the Treasurer with a request for comment or submissions.

The comments and submissions provided are not subject to the audit nor the evidentiary standards required to reach an audit conclusion. Responsibility for the accuracy, fairness and balance of those comments rests solely with the agency head.

## SUBMISSIONS AND COMMENTS RECEIVED

### Department of Treasury and Finance

Treasury supports the findings of the audit and provides the following comment: In relation to Recommendation 1, Treasury notes that monitoring of receipt of internal audit extracts required to be submitted by agencies does occur. Treasury has provided follow up advice to all agencies on the need to provide this extract since the TI was released in 2006. As Treasury would not be aware of when agencies have conducted their internal audits and therefore when the two months following the completion of the audits have occurred, Treasury has taken the follow up approach of reminding all agencies of their obligations under the TI. Treasury will continue to ensure effective monitoring and follow up with agencies.

## Department of Education

DoE concurs with the audit conclusions. In relation to TI 1214, *Agency Procurement Audit Requirements: building and construction/roads and bridges*, I wish to advise that DoE has now forwarded the compliance audit report for 2007–08 to Treasury. The compliance audit for 2008–09 is now also in progress.

## Department of Primary Industries, Parks, Water and Environment

The TI 1214 reviews for 2007–08 and 2008–09 have been completed. The reports will be considered by the Department's Audit Committee on 6<sup>th</sup> November following which they will be provided to the Department of Treasury and Finance. The TI 1214 reviews will form part of the new forward annual internal audit work program for the Department.





## **Introduction**

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## INTRODUCTION

### *Background*

#### *The National Partnership Agreement*

In March 2007, the United States' subprime mortgage industry collapsed exposing enormous amounts of unsustainable debt. The resulting financial crisis spread around the globe through international securities and investment markets. Following economists' predictions of a long and protracted recession should the resultant downturn in the Australian economy continue unabated, the Australian Government significantly increased spending on infrastructure improvements including school and social housing projects.

In early February 2009, the Commonwealth, State and Territory governments entered into the *National Partnership Agreement on the Nation Building and Jobs Plan: Building Prosperity for the Future and Supporting Jobs Now* (NPA or the Agreement). Under the NPA, Tasmania was required to remove any impediments to the timely and effective implementation of the NPA. The State government enacted the *Nation Building and Jobs Facilitation (Tasmania) Act 2009* (the Act). The Act facilitated and expedited the implementation of the NPA in Tasmania. This audit reviewed the preparedness of Treasury (as Coordinator), DHHS and DoE to comply with the requirements of the NPA.

#### *Treasurer's Instruction 1299*

In March 2009 the Treasurer issued Treasurer's Instruction 1299 *Procurement for projects impacted by the Nation Building and Jobs Plan* (TI 1299). TI 1299 provided streamlined procurement practices, subject to eligibility criteria and reporting requirements. Procurements approved under TI 1299 were exempt from standard planning processes including those required by the *Land Use Planning and Approvals Act 1993*. This audit reviewed the compliance and preparedness to comply of Treasury, Department of Health and Human Services and Department of Education, with the requirements of TI 1299.

#### *Treasurer's Instruction 1214*

TI 1214 *Agency Procurement Audit Requirements: building and construction/roads and bridges* came into force in 2006 and relates to the procurement of major works.

The Treasurer introduced TI 1214 following dissolution of the Public Works Tender Board and dissemination of procurement tasks

into government departments. The objectives of TI 1214 included ensuring departments complied with best practice procurement processes. Accordingly, procurements are subject to internal audits and reports of those audits should be provided to Treasury. This audit looked at whether departments had complied with TI 1214.

### *Audit objective*

The objectives of this audit were to assess whether government departments:

- were prepared to comply with the NPA
- had complied or were prepared to comply with TI 1299
- had complied with TI 1214.

### *Audit scope*

The scope of this audit was limited to:

- nation building projects delivered in Tasmania under the NPA
- procurements approved to use TI 1299
- major works procurements subject to TI 1214 undertaken in the two-year period 30 June 2007 to 30 June 2009 and the corresponding internal audit programs
- selected government departments.

Initially, the audit of compliance with TI 1214 considered major works procurements undertaken at each of the nine government departments. However, for reporting purposes, a sample of departments that had undertaken a significant number of major works procurements or were involved in delivering projects identified under the NPA were selected for this audit. The departments were:

- Treasury
- Health and Human Services (DHHS)
- Education (DoE)
- Infrastructure, Energy and Resources (DIER)
- Primary Industries, Parks, Water and Environment (DPIPWE)
- Justice.

## Audit criteria

The audit criteria that we applied were:

- preparedness by Treasury, DHHS and DoE to comply with NPA:
  - monitoring arrangements
  - allocation of funding and commissioning of contractors
  - reporting
- compliance or preparedness to comply with TI 1299, of Treasury, DHHS and DoE by:
  - reporting approved contracts in annual reports
  - reporting approved contracts on the Treasury's tenders website at [www.tenders.tas.gov.au](http://www.tenders.tas.gov.au)
  - providing Head of Agency approvals for contracts to Treasury
  - monthly reporting of approved contracts to Treasury
- compliance with TI 1214 by:
  - subjecting a percentage of procurements to an internal compliance audit
  - determining sample size with regard to Australian Auditing Standard ASA 530 *Audit Sampling and Other Means of Testing*
  - providing an extract of the internal audit report to Treasury within two months of finalising the compliance audit.

## Audit approach

To conduct the audit we:

- reviewed the NPA, TI 1299 and TI 1214
- interviewed key staff responsible for implementation of the NPA, TI 1299 and TI 1214
- reviewed relevant documentation
- assessed departments' preparedness to comply with the requirements. of the NPA and TI 1299
- assessed departments' compliance with TI 1214.

Representatives from Treasury, DHHS and DoE contributed to an Audit Advisory Committee for this audit.

### *Timing*

Planning for this performance audit began in June 2009. Fieldwork was completed in September and the report was finalised in October 2009.

### *Resources*

The total cost of the audit excluding production costs was \$58 000.



## **1 National Partnership Agreement**

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# 1 NATIONAL PARTNERSHIP AGREEMENT

## 1.1 Background

The NPA outlines roles and responsibilities for both the Commonwealth and state governments. In addition, more detailed bilateral agreements and implementation plans were developed between each state and the Commonwealth. This Chapter examined the preparedness to comply with the requirements of the NPA by Treasury, DHHS and DoE. To test that preparedness we looked at:

- monitoring arrangements
- allocation of funding and commissioning of contractors
- reporting.

## 1.2 Monitoring arrangements

*Were monitoring arrangements established by the end of February 2009?*

Under the NPA, the states were responsible for establishing monitoring arrangements to ensure there was a co-ordinated project management approach for the significant investment being made by the Commonwealth. These arrangements were to be in place by the end of February 2009.

We looked to see whether departments had established monitoring arrangements in accordance with the NPA. To ensure compliance, officers needed to be appointed to the following roles:

- Coordinator-General
- coordinators within relevant departments.

We found that before the end of February 2009 a senior Treasury official had been appointed as Coordinator-General, and each relevant department had appointed a coordinator to liaise with the Coordinator-General.

In addition, bilateral agreements confirming delivery details and implementation plans were signed between the Commonwealth and the relevant departments. As an example, a bilateral agreement had been executed between the Commonwealth Department of Education, Employment, and Workplace Relations (DEEWR) and DoE to manage the NPA's education component.



### 1.3 Allocation of funding and commissioning of contractors

*Was the allocation of funding and commissioning of contractors carried out within terms of the NPA?*

The NPA established a framework between the Commonwealth and the states to ensure maximum benefit was derived from the infrastructure and stimulus measures. The Agreement also sought to ensure the states maintained existing infrastructure expenditure.

We selected two areas — social housing (DHHS) and education (DoE) — that were to receive significant NPA funding. We looked at a number of requirements including the identification and cost of projects.

#### 1.3.1 Social Housing

The Housing Innovations Unit (HIU) within DHHS was responsible for developing new approaches to increase the supply and improve the condition of social and affordable public housing in the Tasmanian community. Responsibility for implementing the NPA social housing component was given to HIU.

##### *Identification of new projects*

Under the NPA, states were responsible to identify social housing projects already planned, which could be brought forward for completion by the end of June 2010. HIU had already provided Treasury with estimates of social housing infrastructure activity in Tasmania for the next four years. These forecasts were used as a benchmark against which additional benefit could be measured.

States were also responsible for undertaking a competitive process to determine suitable new social housing projects to be funded through the new construction element of the initiative for 2009–10 onwards.

HIU considered three approaches to obtaining additional housing for its Nation Building project proposals, namely:

- using land that Housing Tasmania (HT) already owned but for which no building plans had been developed
- calling for expressions of interest from non-government organisations (NGOs), with the intention of using NPA funding to build social housing units on NGO land
- issuing a request-for-tender to private developers to build units and sell them to HT. HIU was specifically looking for proposals that did not increase broad-acre social housing developments.

This information was then assessed by an Evaluation Committee established for this purpose. Its members included representatives from DHHS, Treasury and the Valuer-General. Following recommendations from the Evaluation Committee, DHHS submitted selected proposals to the Commonwealth for approval.

We concluded that DHHS had identified suitable social housing projects by the end of June 2009.

### *Identification of repair and maintenance projects*

The NPA also invited identification of dwellings that needed refurbishment. Initially, the focus was on properties that were uninhabitable, but the only such properties identified were considered to be beyond repair. Subsequently, Tasmania negotiated with the Commonwealth to use the funding to bring a number of bathrooms and kitchens in existing housing stock up to contemporary living standards.

Around 500 properties received upgrades using approximately \$9 M provided under the NPA repair and maintenance element. This included \$1 M to upgrade the energy efficiency of 350 dwelling units.

### *Predefined need for funding*

In order to determine whether the infrastructure and stimulus measures were likely to provide additional benefit over forecast state expenditure, we looked at whether predefined need had been identified for the selected projects. We also tested whether the projects were likely to achieve the key outcomes nominated for the scheme.

Approximately 3000 people were on the waiting list for social housing at the time audit fieldwork was initiated. Of those, 1000 were in high need.

The NPA contained a key outcome measure requiring HT to:

- provide a fifty percent reduction in the waiting time for people with high housing needs on public housing lists
- reduce the number of low-income households paying more than half their income in rent.

NPA funding is expected to provide a fifty percent reduction in the waiting list by provision of 65 new housing units, costing \$16 M, under Stage One and another 447, costing \$109 M, under Stage Two. The increase in housing stock is also expected to reduce the number of low-income households paying more than half their income in rent.

Accordingly, we concluded that a predefined need existed for the new housing and that the NPA's key outcome measure should be achieved by the selected projects.

### *Review project costs*

The NPA involved significant Commonwealth funding. We considered inadequate monitoring could result in spending inefficiencies. Also, we were advised that some construction prices had increased by ten percent as soon as the Commonwealth announced the NPA funding. In addition, shortages of materials had the potential to lead to price escalations.

We examined DHHS's review processes and found the following cost control measures:

- a Land Cost Index, developed by comparing tender amounts with assessments undertaken by the Valuer-General
- fixed prices to be used for off-the-plan unit purchases
- design and construct options requiring the contract price to be settled prior to construction
- independent quantity surveyors engaged to verify costs for both repair and new construction contracts.

As well, DHHS had appointed two extra maintenance contractors to undertake repair and maintenance components of NPA projects rather than just redirecting existing contractors. That initiative allowed both HT and DHHS to demonstrate added benefit from NPA funding while continuing to maintain existing work effort.

### *1.3.2 Building the Education Revolution*

NPA funding in the area of education was managed under the *Building the Education Revolution* (BER) banner. The objectives of BER funding were to provide new facilities and refurbishments to meet current and future needs in both government and non-government schools. DoE was also to ensure that existing infrastructure spending (approximately \$25 M per annum) was being maintained.

The NPA outlined a number of requirements for funding under BER, which referred to three elements:

- *Primary schools for the 21st Century*: to build or refurbish multipurpose halls, libraries or other buildings in all primary schools, (funding limits varying from \$250 000 to \$3 M depending on school enrolments)

- *National School Pride*: to refurbish and build minor infrastructure, (funding limits varying from \$50 000 to \$200 000 depending on school enrolments)
- *Science and Language Labs for 21st Century Secondary Schools*: to provide funding to selected secondary schools and colleges on the basis of demonstrated need, readiness and capacity, (national funding average of \$2 M per project).

### *Identification of projects*

The NPA required the states to prioritise school infrastructure projects and prepare project lists for approval by the Commonwealth. School Principals were encouraged to communicate and negotiate with each other to identify and prioritise needs and then to apply for NPA funding.

By September 2009, DoE had identified 442 project proposals, at government schools, made up of:

- 217 *Primary Schools for 21<sup>st</sup> Century* projects (estimated cost \$270 M)
- 203 *National School Pride* projects (estimated cost \$27 M)
- 22 *Science and Language Labs for 21<sup>st</sup> Century Secondary Schools* projects (estimated cost \$31 M).

As required, DoE encouraged all Tasmanian schools to apply for funding under the NPA. At the time of the audit there were 157 project proposals at non-government schools, made up of:

- 79 *Primary Schools for 21<sup>st</sup> Century* projects (estimated cost \$91 M)
- 70 *National School Pride* projects (estimated cost \$9 M)
- Eight *Science and Language Labs for 21<sup>st</sup> Century Secondary Schools* projects (estimated cost \$13 M).

We found DoE had responded to NPA requirements to participate effectively in all of the funding application rounds. Applications had been processed in a timely manner to obtain the best possible outcomes.

### *Agreed design templates*

As well as calling for and assessing project proposals, state responsibilities included agreeing to a set of design templates for libraries and multipurpose halls. Design templates were to be used to expedite the design and planning phases of infrastructure projects

wherever possible and were to be submitted to the Commonwealth by the end of February 2009.

Tasmania submitted design templates to DEEWR, in accordance with the NPA. These designs, along with templates submitted by other states and territories, were compiled into a single CD. In Tasmania, DoE provided a copy of this CD to primary schools and architectural consultants.

### *Review project costs*

We asked DoE whether it had any processes planned or in place to review NPA project costs. In response, DoE advised that it had used TI 1299 to engage architectural consultants for BER projects. Architectural consultants engaged by DoE were responsible for engaging independent quantity surveyors to assess estimates and prices for every major project. Where prices exceed the quantity surveyor's pre-tender estimate, DoE required project officers to negotiate lower prices and value for money with the successful tender applicant.

In practice, it is not possible to guarantee that project costs will not be inflated above pre-stimulus levels, but we were satisfied that DoE had established reasonable processes to contain costs as much as possible.

## *1.4 Reporting*

In this Section, we discuss Tasmania's preparedness to comply with NPA reporting requirements. As mentioned at Section 1.2, Treasury had appointed a Coordinator-General who was central to all reporting requirements, which included:

- relevant departments reporting to Treasury
- Treasury reporting at a national level to the Heads of Treasury
- Treasury reporting to the Commonwealth Ministerial Council.

Relevant departments are required to provide quarterly reports on NPA projects to the Coordinator-General. Collating that information, the Coordinator-General then reports to the Commonwealth.

In relation to agreed NPA reporting arrangements, we found that DoE and DHHS had been meeting their reporting requirements to the relevant Commonwealth departments. They also routinely provide copies of these reports to the Tasmanian Treasury.

### 1.4.1 Benchmarking

The NPA requires heads of treasuries to establish expenditure and output benchmarks for each sector receiving additional Commonwealth funding. In order to establish these benchmarks, Treasury provided the Heads of Treasury group with a forecast of Tasmania's source expenditure for DoE infrastructure and social housing as well as projected housing stock movements and targets for the next four years.

In accordance with NPA guidelines, Treasury provided benchmarking information including NPA expenditure information to the Heads of Treasury group by agreed deadline dates in February and May 2009.

The Agreement also required quarterly reporting of activity undertaken by the states against the benchmarks, including expenditure.

At the time of this audit, Treasury had met the deadline for the only report — *Activity against Benchmarks* — required to date. The report included the required expenditure data. We also found that Treasury processes were adequate to enable Tasmania to comply with future Commonwealth deadlines for reports.

## 1.5 Conclusion

DoE, DHHS and Treasury were well prepared to comply with NPA requirements and have met all of their obligations under the Agreement, to date.

## **2 Treasurer's Instruction 1299**

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## 2 TREASURER'S INSTRUCTION 1299

### 2.1 Background

TI 1299: *Procurement for projects impacted by the Nation Building and Jobs Plan* provides for streamlined procurement practices, subject to eligibility criteria and reporting requirements. This Chapter reports whether the government departments involved, DoE, DHHS and Treasury, were compliant or prepared to comply with those reporting requirements, namely to:

- list approved contracts in their annual reports
- report contracts to Treasury and provide details on Treasury's tenders website
- provide copies of Head of Agency approvals to Treasury.

### 2.2 Annual report

We reviewed TI 1299 DoE and DHHS annual reporting and found that:

- It was standard process for HIU to report contracts to DHHS' Contract Section, including TI 1299 contracts. Standard process for DHHS Contract Section included collation of contract information for the department's annual report.
- The DoE Procurement Section maintained the necessary information with respect to all contracts awarded, in anticipation of providing this material in its next annual report.

### 2.3 Tenders website

Project details were promptly provided from HIU and BER project managers through Treasury's Tenders website. When departments add information to the Tenders website they flag TI 1299 contracts, allowing Treasury to identify them. This process obviated the need for departments to separately report contracts approved under TI 1299.

### 2.4 Head of Agency approvals

We found that all Head of Agency approvals were being correctly reported to Treasury. In relation to DHHS and DoE individually, we found that:



- HIU advised that few of its NPA projects had required the use of TI 1299. However, where used, they were reported to Treasury.
- At DoE the head of agency had provided details for each of the BER projects.

Both DoE and HIU told us that despite the ability to use TI 1299 to expedite procurements, they had undertaken the standard open tender procurement processes in order to identify possible project proposals. Despite this, TI 1299 may be required later to procure components of NPA projects, such as sourcing the fittings to complete new homes or classrooms.

## 2.5 Conclusion

DoE, DHHS and Treasury have met the reporting requirements of TI 1299 to date, and have good processes in place to enable the requirements to be met in future.

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### **3 Treasurer's Instruction 1214**

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## 3 TREASURER'S INSTRUCTION 1214

### 3.1 Background

The Treasurer introduced Treasurer's Instruction 1214: *Agency Procurement Audit Requirements: building and construction/roads and bridges*, in August 2006 following dissolution of the Public Works Tender Board. Its objective was to ensure procurement processes were properly managed, by requiring government departments to include major works procurements in their internal audit programs and to provide extracts of the relevant internal audit reports to Treasury annually.

In this Chapter, we look at whether Treasury and five government departments — DHHS, DoE, DIER, DPIPWE and Justice — had processes to ensure that:

- A percentage of procurements were subject to compliance audit.
- The number of contracts subject to audit testing was determined with regard to Australian Auditing Standard 530: *Audit Sampling and Other Means of Testing*.
- TI 1214 compliance audit reports were forwarded to Treasury within two months of finalising the compliance audit.

### 3.2 Previous survey

In October 2007, we undertook a survey of government departments to assess compliance with TI 1214. That survey found that Treasury had only received reports from DHHS and the Department of Police and Emergency Management, although DoE had also scheduled a compliance audit of its procurement processes.

For most of the non-reporting departments, the omission was considered minor, since they had initiated few major works. The lack of a report from DIER was more significant since that department had initiated numerous major works procurements. Unlike some departments, DIER did not have its own internal audit function although external providers had been contracted to complete an internal audit for the 2006–07 financial period.

### 3.3 2009 findings

Of the five government departments audited in September 2009, we found only DHHS and DoE had in-house internal audit programs and had included TI 1214 compliance audits in those internal audit programs. During the course of our audit, DIER, DPIPWE and

Justice engaged auditors to undertake outstanding TI 1214 compliance audits.

Where audits had occurred, we were satisfied that the percentage of procurements sampled for each of the compliance audits had been determined with regard to ASA 530 *Audit Sampling and Other Means of Testing*.

The following subsections review compliance for individual departments for the financial years between 2006–07 and 2008–09.

### 3.3.1 DHHS

DHHS had conducted a compliance audit of a percentage of the procurements undertaken in the department for each of the three financial years between 2006–07 and 2008–09. A report of each of these audits was provided to Treasury.

### 3.3.2 DoE

An annual TI 1214 procurement compliance audit was included in the DoE internal audit program following the 2007–08 financial year. DoE completed an audit of 2007–08 procurements in August 2009. However, enquires at Treasury in September 2009 found Treasury had not received that report.

### 3.3.3 DIER

An external auditor completed a TI 1214 compliance audit for 2006–07 and a copy of that report was provided to Treasury in April 2008. DIER also contracted external auditor to undertake TI 1214 compliance audits for 2007–08 and 2008–09. DIER advised reports will be sent to Treasury upon completion.

### 3.3.4 DPIPWE

In July 2008, an external auditor completed a compliance review of four major works procurements undertaken by the then Department of Primary Industries and Water in 2006–07. A copy of that report was only provided to Treasury in September 2009.

We found DPIPWE had engaged an external auditor to undertake TI 1214 reviews for 2007–08 and 2008–09. DPIPWE advised reports will be sent to Treasury upon completion.

### 3.3.5 Justice

Justice did not complete a TI 1214 procurement compliance audit for 2006–07. The department undertook no major works procurements in 2007–08 and one in 2008–09. We found Justice had engaged an external auditor to undertake a TI 1214 review for

2008–09. Justice advised a report will be sent to Treasury upon completion.

**Recommendation 1**

**We recommend that Treasury ensure effective monitoring of TI 1214 reports and follow up non-receipt with departments.**

**3.4 Conclusion**

Government departments have generally complied with the requirements of TI 1214 or have made arrangements to do so.

## **Independent auditor's conclusion**

## INDEPENDENT AUDITOR'S CONCLUSION

This independent conclusion is addressed to the Speaker of the House of Assembly and the President of the Legislative Council. It relates to my audit of compliance by six government departments with Treasurer's Instruction (TI) 1214 *Agency Procurement Audit Requirements: building and construction/roads and bridges*. The audit also measured government departments' compliance or preparedness to comply with the recently introduced TI 1299 *Procurement for projects impacted by the Nation Building and Jobs Plan* and the requirements of the *National Partnership Agreement on the Nation Building and Jobs Plan: Building Prosperity for the Future and Supporting Jobs Now* (NPA). My audit was based on the audit objective, audit scope and audit criteria detailed in the Introduction to this Report.

In developing the scope of this audit and completing my work, the six departments concerned provided me with all of the information that I requested. There was no effort by any party to the audit to limit the scope of my work. This Report is a public document and its use is not restricted in any way by me or by any other person or party.

### *Responsibility of the Secretaries of the Departments selected for audit covered by this Report*

These Secretaries were responsible for ensuring compliance by their departments with TIs 1214 and 1299 and their preparedness to comply with the requirements of the NPA and future requirements of TI 1299.

### *Auditor-General's responsibility*

In the context of this compliance audit, my responsibility was to express a conclusion on whether or not the Departments complied with the requirements of the Treasurer's Instructions and, where relevant, were prepared to comply with the requirements of the NPA and future requirements of the Treasurer's Instructions.

I conducted my audit in accordance with Australian Auditing Standard ASAE 3100 *Compliance Engagements* which required me to comply with relevant ethical requirements relating to audit engagements. I planned and performed the audit to obtain reasonable assurance of whether each of the departments complied with TI 1214 and 1299 and were prepared to comply with the requirements of the NPA and future requirements of TI 1299.

My work involved obtaining evidence of the compliance and preparedness to comply based on the objectives and criteria outlined



in the Introduction to this Report. The criteria were established by me without influence. The procedures depended on my judgement, based on the criteria and on my assessment of the risks of material misstatement of the information obtained by me as part of this audit.

In making this risk assessment, I considered internal controls, risk management systems and management processes relevant to the management of major works. For the purpose of expressing this opinion I did not consider the effectiveness of the departments' internal control processes generally.

I believe that the evidence I have obtained was sufficient and appropriate to provide a basis for my conclusion.

*Auditor-General's overall conclusion*

Based on the audit criteria and for reasons outlined in the remainder of this Report, it is my conclusion that the Departments complied with TI 1214 and TI 1299 and were prepared to comply with the requirements of the NPA and future requirements of TI 1299.

However, my work did result in findings leading to one recommendation related to Treasury's monitoring of compliance with TI 1214 by government departments.

H M Blake

Auditor-General

19 November 2009



## **Recent reports**

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## RECENT REPORTS

	<b>Tabled</b>	<b>Special Report No.</b>	<b>Title</b>
Aug	2006	61	Elective surgery in public hospitals
Nov	2006	62	Training and development
Nov	2006	63	Environmental management and pollution control act by local government
Nov	2006	64	Implementation of aspects of the <i>Building Act 2000</i>
Apr	2007	65	Management of an award breach Selected allowances and nurses' overtime
Jun	2007	66	Follow-up audits
Jun	2007	67	Corporate credit cards
Jun	2007	68	Risdon Prison: Business case
Oct	2007	69	Public building security
Nov	2007	70	Procurement in government departments Payment of accounts by government departments
Nov	2007	71	Property in police possession Control of assets: Portable and attractive items
Apr	2008	72	Public sector performance information
Jun	2008	73	Timeliness in the Magistrates Court
Jun	2008	74	Follow up of performance audits April – October 2005
Sep	2008	75	Executive termination payments
Nov	2008	76	Complaint handling in local government
Nov	2008	77	Food safety: safe as eggs?
Mar	2009	78	Management of threatened species
May	2009	79	Follow up of performance audits April – August 2006
May	2009	80	Hydro hedges
Jun	2009	81	Contract management
Aug	2009	82	Head of Agency contract renewal
Oct	2009	83	Communications by Government and The <i>Tasmanian Brand</i> project
Oct	2009	84	Funding the Tasmanian Education Foundation

## **Current projects**

## CURRENT PROJECTS

Performance and compliance audits that the Auditor-General is currently conducting:

<b>Title</b>	<b>Subject</b>
<b>Profitability, and economic benefits to Tasmania, of Forestry Tasmania</b>	Evaluates Forestry Tasmania's long-term financial and economic performance.
<b>Teaching of science in public high schools</b>	Examines the quality of science teaching in Tasmanian high schools.
<b>Public service productivity</b>	Looks at the trends, prevention and management of stress leave, long term sick leave, suspension and poor performance. Also considers broad public sector efficiency measures.
<b>Employment of family members by Members of Parliament</b>	Examines process applied when recruiting staff in Electoral offices and in the offices of Ministers.