



2007

PARLIAMENT OF TASMANIA

**AUDITOR-GENERAL  
SPECIAL REPORT No. 70**

**Procurement in government  
departments  
and  
Payment of accounts by government  
departments  
November 2007**

*Presented to both Houses of Parliament in accordance with the provisions of Section  
57 of the Financial Management and Audit Act 1990*

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13 November 2007

President  
Legislative Council  
HOBART

Speaker  
House of Assembly  
HOBART

Dear Mr President

Dear Mr Speaker

**SPECIAL REPORT NO. 70**

**Procurement in government departments and Payment of accounts by government departments**

This report has been prepared consequent to examinations conducted under section 44 of the *Financial Management and Audit Act 1990*, for submission to Parliament under the provisions of section 57 of the Act.

The report deals with two compliance audits concerning aspects of acquisition of goods and services. The first examined compliance with relevant Treasurer's Instructions by six government departments for procurement over \$10 000. The second was concerned with the timely payment of invoices by five government departments.

Yours sincerely

H M Blake

**AUDITOR-GENERAL**



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# Foreword

This report contains two compliance audits conducted in 2007. The first audit examines procurement processes for acquisitions over \$10 000 in six government departments other than procurement for building and construction work. The second audit looks at how well five departments complied with trading terms when processing accounts for payment.

With government procurement, a series of Treasurer's Instructions outlines the guiding principles that departments are obliged to follow: value for money; open and effective competition; compliance with ethical standards; and enhancing opportunities for local business.

Likewise, Treasurer's Instructions detail the standards that departments must apply to payment of accounts (payment is always to be made in accordance with agreed terms and by the due date). Broadly, good cash management should achieve two goals: efficient and effective management of public funds while giving suppliers confidence that their cash flow will not be jeopardised by tardy payment of accounts.

In the case of procurement, while we found that Treasurer's Instructions had generally been applied, various exceptions were noted at most departments that we audited. Accordingly, this report contains recommendations aimed at strengthening compliance.

Sample testing in the audit of payment of accounts indicated a high proportion (24%) of accounts were not paid by the due date. The report contains recommendations that aim to reduce the level of overdue payments.

H M Blake

Auditor-General

13 November 2007

## List of acronyms and abbreviations

ANZGPA	Australian and New Zealand Government Procurement Agreement
AUSFTA	the Australia–United States Free Trade Agreement
AVCG	Australian Volunteer Coast Guard
DED	Department of Economic Development
DHHS	Department of Health and Human Services
DoE	Department of Education
DIER	Department of Infrastructure, Energy and Resources
DPAC	Department of Premier and Cabinet
DPEM	Department of Police and Emergency Management
DPIW	Department of Primary Industries and Water
DTAE	Department of Tourism, Arts, and the Environment
EVP	Estimated value of procurement
FMAA	<i>Financial Management and Audit Act 1990</i>
ICNTAS	Industry Capability Network Tasmania
RFQ	Request for quotation
RFT	Request for tender
Tascorp	Tasmanian Public Finance Corporation
TI	Treasurer’s Instruction
Treasury	Department of Treasury and Finance



## **Executive summaries**

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## Executive summary — Procurement in government departments

This audit assessed compliance with Treasurer’s Instructions (TIs) that relate to the requirements that departments must follow when procuring goods and services. Our audit involved sample testing at the following departments:

- Education (DoE)
- Health and Human Services (DHHS<sup>1</sup>)
- Infrastructure, Energy and Resources (DIER)
- Police and Emergency Management (DPEM)
- Tourism, Arts, and the Environment (DTAE)
- Treasury and Finance (Treasury).

The criteria that we applied came from the TIs below and, in the main, our sample testing covered the period from July 2006 to March 2007. The specific areas of compliance that we tested, and the way that we grouped the TIs, were:

- Frameworks and principles
  - 1101 Principles
  - 1102 International obligations
  - 1103 Procurement delegations and authorisations
  - 1104 Valuing procurements
  - 1109 Procurement documentation and handling of submissions
  - 1110 Procurement web site reporting
- Procurements from \$10 000–\$100 000 (1106)
- Procurements over \$100 000 (1107)
- Exemptions from seeking written quotations (1114).

### *Audit opinion*

#### *Frameworks and principles*

The frameworks and principles outlined in the TIs on procurement of goods and services have been applied with few exceptions.

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<sup>1</sup> Audit testing was limited to Housing Tasmania at DHHS.

### *Procurements from \$10 000–\$100 000*

We found that DHHS and Treasury fully complied with TI 1106.

We noted exceptions where:

- DIER, DPEM and DTAE had not obtained three quotations
- DoE and DPEM could not produce Request for Tender documentation.

### *Procurements over \$100 000*

We found that DPEM and Treasury fully complied with TI 1107.

We noted exceptions where:

- DIER and DHHS were unable to confirm that they had determined local capability by contacting Industry Capability Network Tasmania (ICNTAS)
- DoE and DTAE were unable to confirm that all suppliers had been notified of the outcome.

### *Exemptions from seeking written quotations and calling tenders*

Generally, we found that departments sought exemptions in line with the provisions of TI 1114 and that approval by Treasury relied on a robust business case being made.

We noted an exception with the DPEM marine procurements where operational urgency, cited in the exemption, had not arisen from unforeseen circumstances.

### *List of recommendations*

The following table reproduces the recommendations contained in the body of this Report.

<b>Rec No</b>	<b>Section</b>	<b>Dept</b>	<b>Recommendation</b>
1	1.1.4	DoE	We recommend that purchase orders are properly completed and that copies of all purchase orders issued are retained.
2	1.1.6	DoE DIER	We recommend that, in accordance with TI 1110, departments introduce a procedure to ensure that they post details of all procurements with a total value of \$50 000 or over on the Treasury web site.

3	1.2.2	DIER DPEM DTAE	We recommend that, in compliance with TI 1106, quotations be sought for procurements in the range of \$10 000–\$100 000.
4	1.2.4	DoE DPEM	We recommend that copies of Requests for Quotation be retained for future reference in support of procurements.
5	1.2.5	DoE DTAE DPEM	We recommend that where verbal advice of the quotation process is given to suppliers, records should be noted accordingly.
6	1.3.4	DIER DHHS	We recommend that where verbal advice is sought from ICNTAS records be noted accordingly.
7	1.3.7	DoE DTAE	We recommend that where verbal advice of the procurement process is given to suppliers, records should be noted accordingly.
8	1.4.3	DPEM	We recommend that exemptions sought on the grounds of operational urgency should be appropriately justified with particular emphasis on why the events leading to the urgency were unforeseen.

### Management responses

#### Department of Education

The Department of Education (DoE) notes the recommendations of the report. With many of DoE’s procurement functions taking place outside the central bureaucracy there are significant challenges to the Agency in seeking to achieve ideal procurement practices. The Audit’s findings are useful to DoE to guide support processes and to identify areas where review and revision of policies and procedures may be necessary. In recent times considerable effort has been invested in improving works and services procurement practices, and the fact that many schools have participated in the Australian Government’s *Investing in Our Schools* program has provided significant opportunities for a number of schools to be reminded of the requirements of good procurement practices. This is a program which has provided many schools with funding to undertake minor works projects and the importance of appropriate tendering or quotation practices has been reinforced as part of the central support for the program.

DoE will continue to pursue improved compliance and the publication of this report will provide an opportunity for DoE to remind all operational areas of the requirement to apply sound procurement practices.

## Department of Health and Human Services

I note the draft report and endorse your recommendation relating to your finding concerning the Department (Recommendation 6).

## Department of Infrastructure, Energy and Resources

The Department is pleased with the high level of compliance with the TIs identified in this report. The non-compliance identified in sections 1.1.6 and 1.2.2 relate to the one procurement. This procurement was for specialised traffic equipment for which there was only one viable supplier at the time of purchase. Despite this, the Department acknowledges that the proper procedure was not followed and has brought this to the attention of the necessary officers. The Department will review its procedures to sufficiently document advice from ICNTAS.

## Department of Police and Emergency Management

I note that recommendations 3, 4, 5 and 8 have applicability to the Department of Police and Emergency Management (DPEM). The following information is provided in response to these recommendations:-

**Recommendation 3 – We recommend that, in compliance with TI 1106, quotations be sought for procurements in the range of \$10,000 - \$100,000**

The DPEM agrees with this recommendation and has developed a procurement workflow document outlining the appropriate procurement processes for goods and services in the \$10,000–\$100,000 range. This information will be provided as part of a training package for relevant officers together with posting on the departmental intranet site.

**Recommendation 4 – We recommend that copies of Requests for Quotation be retained for future reference in support of procurements**

A quotation template is currently being developed, based on the Tasmanian Government purchasing website template, which will address this issue. This information will be disseminated as part of a training package and through the departmental intranet site.

**Recommendation 5 – We recommend that where verbal advice of the quotation process is given to suppliers, records should be noted accordingly**

This recommendation will be incorporated into documentation discussed under Recommendation 4.

**Recommendation 8 – We recommend that exemptions sought on the grounds of operational urgency should be appropriately justified with particular emphasis on why the events leading to the urgency were unforeseen**

Urgency may dictate the need to undertake a shortened procurement process, regardless of whether this is foreseen or unforeseen. The Department should be free to apply for such approval, with the right to accept the validity of this need resting with the Secretary of Department of Treasury and Finance (DOTAF).

This situation is borne out in respect to the replacement of *PV Freycinet*. The need for the replacement of *PV Freycinet* was identified in 2000 and reiterated as part of the Department's Strategic Asset Management Plan (SAMP) in 2005. Funding was not available at this stage to apply an open tender process as suggested should have been the case.

The urgency of this was magnified in 2007 with expenditure on repairs and maintenance and newly identified problems over the preceding 18 months in excess of \$65,000. The need for further repairs and maintenance and the operational impacts of sending this vessel on missions up to 200 nautical miles at sea, meant that this matter could no longer be postponed.

Whilst a level of urgency could be argued to have been foreseen, the nature of capital expenditure dictates that a managed replacement plan is not always available, particularly under a cash appropriation system, and hence even though this may be foreseen, the need to comply with all Treasurer's Instructions may require that the exemption process is followed.

It should be noted that Tasmania Police sought the independent advice from Naval Architects to conduct the "value for money assessments" (later proven) on both projects prior to any consideration given to any contract. Had Tasmania Police received any advice not to proceed, from any of the independent assessments or independent due diligence processes undertaken (i.e. Treasury, ICNTAS, naval architects, probity adviser etc), we would have reassessed the process. The fact remains we did not receive any advice not to proceed.

## **Department of Tourism, Arts and the Environment**

The department notes the recommendations made in respect of the limited exceptions identified. The department has well documented procurement frameworks and will continue to place strong emphasis on the training, education and support tools within the framework.

## Department of Treasury and Finance

Overall, the results of the audit are pleasing, and indicate that there is a high level of awareness in agencies of the Treasurer's Instructions (TIs) and the way in which they are required to undertake goods and services procurement.

In relation to Recommendation 8, I do not agree with the underlying conclusion that, for capital assets, agencies should be able to always predict when any asset will require replacement.

Agencies implement management plans for their capital assets and at times will decide to change usage patterns or maintenance routines to prolong the life cycle of the asset. In implementing such management of assets, agencies can still encounter circumstances which change the capacity of the asset to operate effectively that were unforeseen at the time the decision was made to manage the asset's life cycle a certain way. In the case at hand, while DPEM may have known since 2000 that the vessel was approaching replacement, it does not follow that it necessarily had sufficient time to run an open tender process from the time the actual replacement became absolutely necessary. I understand that in this instance, the circumstances altered the operational capacity of the asset in such a quick timeframe that the only option available was to seek an urgent replacement to ensure ongoing effectiveness.

## Executive summary — Payment of accounts by government departments

The payment of accounts by government departments is set out under Treasurer's Instruction (TI) 402 and is a cash management process designed to ensure efficient and effective management of public monies, as well as giving suppliers confidence that their accounts will be paid by the due date.

Our audit objective was to establish that the accounts payable processes within agencies were in accordance with TI 402 and/or agencies' own policies and instructions. Similar audits have been done in the past, including one in 2005.

This report audited the following government departments:

- Economic Development (DED)
- Health and Human Services (DHHS)
- Premier and Cabinet (DPAC)
- Police and Emergency Management (DPEM)
- Primary Industries and Water (DPIW).

We also conducted an analysis of 30 June 2007 unprocessed invoices to determine whether there was evidence of deliberate delay by departments in payment of accounts at financial year's end.

### *Audit opinion*

#### *Policy framework*

We found that most departments had adequate finance manuals incorporating the accounts payable function. However, we were disappointed by the lack of a verifiable process for reviewing the finance manual in order to ensure a culture of continuous improvement in financial management.

#### *Accountability for transactions*

We found that, in most cases, payment of accounts was properly authorised and based on correct documentation, however we also found that 24% of invoices sampled were paid after the due date. This high level of late payment of accounts is of concern and could impact on potential suppliers' willingness to do business with government departments.

There was, however, no evidence found to indicate that departments deliberately withheld, in a material manner, paying invoices close to 30 June 2007.



## List of recommendations

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

Rec No	Report section	Recommendation
1	2.1.1	DHHS finance manual to clearly indicate that all accounts should be paid in accordance with agreed terms and by the due date, as required by TI 402.
2	2.1.1	All departments to introduce a process to ensure periodic review of finance manuals.
3	2.1.1	DPEM and DPIW finance manuals to include links or material from relevant departmental policies or procedures.
4	2.2.2	All departments to review their payment processes to ensure that all accounts are paid in accordance with agreed terms and by the due date.
5	2.2.2	All departments to remind their business units of the requirement to pay suppliers by the due date or within the terms of trade.
6	2.2.5	All departments to develop processes to facilitate review and authorisation of accounts that relate to many users.

## Management responses

### Department of Economic Development

The Department supports the recommendations in the report. However, it should be noted in regards to invoices with short terms of trade, with a decentralised agency it is not always possible to meet the payment date due to clearance and approval processes required in regional offices. The Department endeavours to meet these timeframes whenever possible and there are existing processes in place to support this. The Department's monthly payment processing KPIs report shows that on average the Department is processing accounts within the 30-day standard trade terms at all times. This report was provided during the audit process.

In regard to the periodic review of finance manuals, the Department supports the recommendation; however the report does not reflect that the Department does have a documented requirement in its current operating plan to update the finance manual. It should be noted that the Department updates its policies and procedures continuously as processes change within the organisation. Major reviews are conducted when significant structural changes occur

within the Department. The Department considers that its finance manual is current and up-to-date.

## Department of Health and Human Services

### General

In relation to the comment included in the report in 2.1.1, which read: “*We were concerned that the finance manual indicated that creditors with payments over \$50 000 per annum should be paid 45 days from statement date. The manual also outlined that in the absence of a statement the invoice was to be considered not due until 45 days after the last day of the invoice month. Potentially, suppliers who deliver goods early in the month will not receive payment for at least 65 days.*”

DHHS acknowledges that the information in the Financial Management Manual (FMM) appears to be worded incorrectly and does not represent current practice, and will ensure that the information is corrected during the review of the FMM.

Generally, creditors with payments over \$50,000 per annum are paid 45 days from *invoice date* whilst creditors with payments under \$50,000 per annum are paid within 30 days of *invoice date*.

Where a creditor issues a combined invoice/statement each month (instead of individual invoices throughout the month), the date of the invoice/statement is used as a basis on which the due date is calculated, which is a common practice across government agencies.

While standard creditor payment terms are generally applied to all creditors in accordance with departmental guidelines, a common sense approach is used to vary those terms where appropriate. This is assessed on a case by case basis.

### Recommendations

- 1 DHHS considers that the FMM sufficiently complies with TI 402. The DHHS FMM states that: “The Department will pay creditors for goods and services received on receipt of a duly authorised and certified invoice (or claim form), and in accordance with the agreed terms of trade” (7.3.1). However, DHHS will clarify our payment terms and extend this paragraph to include the following stipulation “and by due date”.
- 2 Section 1.4 of the DHHS FMM states that: “The FMM will be reviewed regularly and updated as appropriate”. The FMM has traditionally been reviewed on an annual basis, usually after the completion of the Financial Audit in October of each year. This review has been identified each year during the Business Planning processes as a key task for Finance to undertake in the following financial year, in accordance with TI 102.

- 4 As indicated during the Audit, DHHS is currently reviewing our payment processes and exploring the implementation and streamlining of electronic transactional processes in order to ensure that all invoices are entered into the Finance One system in a timely manner and paid in accordance with agreed terms and by the due date.
- 5 Management within DHHS are acutely aware of the need to pay suppliers within terms of trade and by the due date. This is regularly brought to the attention of both the Senior Executive, Finance Managers and Business Unit Managers, and an Agency Creditors Report identifying the level of “Creditors Overdue by 3 Days” is provided to Senior Executive on a monthly basis. It is anticipated that with the implementation of electronic transactional processing of all purchase orders, and centralisation and scanning of invoices, issues regarding unprocessed invoices will be minimised.
- 6 DHHS recognises that delays in authorising invoices is one of the main reasons for late payment of accounts. By implementing electronic transactional processing, processes for authorisation of accounts will be streamlined by centralising and scanning invoices into the Finance One system.

## Department of Police and Emergency Management

Overall the Department of Police and Emergency Management (DPEM) notes the outcomes, recommendations and DPEM findings, outlined in the report. Furthermore, DPEM considers the Compliance Audit will provide further impetus to the Department’s ongoing review of supplier payment processing.

Please find following some comments in relation to some of the specific findings contained in the report:

### 2.2.2 Were payments made by the due date?

The Department has recently implemented the electronic purchasing module of the Finance One financial management information system. The implementation of this module has significantly improved the timeliness of the account payment process. In the next eight months it is planned to upgrade Finance One to the Connected Intelligence version of the system. This will see electronic purchasing disseminated to all Departmental staff as the process is further simplified and improved.

More generally the Department will utilise this report to continue the improvement of supplier payment processes and the promulgation of financial management policy and procedures.

## Department of Premier and Cabinet

The Department is concerned that the conclusions and recommendations in the Report are based on an extremely small sample of invoices, and a significantly skewed sample at that, and provide a distorted and unsustainable view of the level of its overdue invoice payments. Extrapolating overall performance from this sample grossly misrepresents the Department's actual performance in invoice payment.

The number of overdue payments is based on a sample of 24 invoices only. As the Department's annual invoice total is about 11,500 this represents less than a quarter of 1% of the total invoices paid. Furthermore, included in the sample of 24 invoices selected by Audit, seven invoices related to one creditor and represented 29% of the sample. When compared to the total population, this same creditor represents only 6% of invoices paid over the same period. There were also two other creditors with multiple invoices included in the audit test sample, which further distorted the findings.

The Department's more comprehensive analysis of the number of invoices paid over the same 6-month sampling period found that only 22% of invoices were not paid within 30 days. This figure compares favourably with the reported performance of the other agencies reviewed as part of this report.

The report also contains a factual error. With regard to the policy framework the report incorrectly states that the Finance Manual was being developed at the time of the audit. DPAC has had a finance manual in place since 1996, which was being redeveloped at the time of the audit.

As part of our commitment to continuous improvement, the following measures are in place to improve the payment process:

- implementation of due date processing in the Department's financial system;
- improved tracking of invoices received in Finance and on-forwarding to departmental staff for authorisation;
- increased use of the Tasmanian Government Card for acquisition of goods and services; and
- change in accounting procedures to prioritise payments in accordance with due dates on invoices.

Other measures planned to be introduced include:

- regularly reminding delegated officers within the department to authorise invoices received from suppliers as a matter of priority;

- review of accounting processes and the use of electronic processes for supplier invoice management;
- improved communication of purchasing and payment processes, including the Finance and Procedures Manuals; and
- introduction of additional processes for the active follow up of outstanding invoices.

## **Department of Primary Industries and Water**

The Department supports the recommendations made within the report.

As a general comment, the Department had already commenced a review of the format and structure of its finance manual, including formalising the review process and cross-referencing the policies to the Treasurer's Instructions, supporting guidelines and procedures where applicable.

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## **1 Procurement in government departments**

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# 1 Procurement in government departments

The Department of Treasury and Finance (Treasury) maintains a series of Treasurer's Instructions (TIs) related to procurement of goods and services by government departments. Those TIs are designed to ensure that government procurement is undertaken in a manner that reflects a number of principles, namely:

- value for money
- open and effective competition amongst potential suppliers
- compliance with ethical standards
- opportunities exist for local enterprises to do business with government if they wish to do so.

In cases where it would apply, compliance with Australia's international treaty obligations (Australia–US Free Trade Agreement, AUSFTA) is also assured.

The level of administrative effort needed to comply with the TIs varies depending on the estimated value of the goods and services to be procured. So, for acquisitions at the lower end of the scale (i.e. under \$10 000) discretionary quotations are sufficient while major procurements (those over \$100 000) call for a full tender process.

In 2000, this Office tabled a report on procurement practices in all government departments<sup>2</sup>. At that time, Treasury required departments to comply with the *Handbook for Government Procurement* that we used to frame the scope and objective of the audit. That previous report was subject to a follow-up audit in 2005 when we found that 91% of recommendations had been implemented to some extent<sup>3</sup>. Of 31 individual recommendations originally made, only two had not been implemented at all.

Notwithstanding that positive result, government procurement remains an ongoing large-scale activity with high levels of materiality. As well, the change in the regulatory framework (i.e. away from the *Handbook for Government Procurement* and on to a corresponding series of TIs) suggested that it would be worthwhile to review the situation once more.

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<sup>2</sup> Special Report No. 34 *Procurement*. November 2000.

<sup>3</sup> Special Report No. 53 *Follow-up audits*. April 2005



## *Objective*

The objective of the audit was to establish that procurement by public government departments was in accordance with applicable TIs (see Criteria below).

## *Scope*

Originally, the audit encompassed the procurement of goods and services valued at more than \$10 000 at the following departments:

- Education (DoE)
- Health and Human Services, specifically Housing Tasmania (DHHS)
- Infrastructure, Energy and Resources (DIER)
- Tourism, Arts and the Environment (DTAE)
- Treasury and Finance (Treasury).

Following representations from a Member of Parliament about the procurement process used to arrange construction of a new police vessel and acquire outboard motors, we extended the scope of the audit to also encompass Police and Emergency Management (DPEM).

The period audited was predominantly 1 July 2006 to 31 March 2007 and we selected samples accordingly. However, to ensure that the sample was sufficiently broad some older transactions were sometimes needed, as in the case of exemptions.

We deliberately excluded procurements associated with construction and building works because these matters are covered by a discrete set of Treasurer's Instructions.

## *Criteria*

The audit criteria that we applied in this audit were derived from the following TIs:

- 1101 Principles
- 1102 International obligations
- 1103 Delegations
- 1104 Valuation
- 1106 Procurement \$10 000–\$100 000
- 1107 Procurement over \$100 000
- 1109 Documentation
- 1110 Web site requirements

- 1114 Exemptions.

TIs are written to include strict requirements as well as guidance notes. In helping departments understand the essential and non-essential elements when applying TIs, Treasury advises that:

Black letter (or bold) items ... are mandatory and other plain font items are instructional or for the purpose of providing guidance only.

Our compliance audit focuses on those black letter requirements.

### *Audit methodology*

The audit included:

- review of departmental guidelines and policies to support compliance with the applicable TIs
- judgment sampling to ensure a mix of high- and low-value procurements, and a range of types of goods and services
- where possible a review of exemptions sought under TI 1114.

### *Timing*

Planning for the audit commenced in March 2007 with fieldwork finalised in September 2007. The report was completed in October 2007.

### *Resources*

The total cost of the audit excluding report production costs was approximately \$63 100.

## **1.1 Frameworks and principles**

The following sections of this Chapter deal with TIs that outline international obligations or prescribe general administrative conditions that apply to procurements.

### **1.1.1 TI 1101 — Principles**

There are basic principles that determine the way that government procurement must be conducted:

- value for money
- open and effective competition amongst potential suppliers
- compliance with ethical standards
- opportunities exist for local enterprises to do business with government if they wish to do so.

Due to the broad nature of the principles, no specific test was conducted against this TI. Our findings in relation to the procurement principles are based on audit review of the other TIs.

### *1.1.2 TI 1102 – International obligations*

Australia is a signatory to a range of bilateral free trade agreements. As of 1 January 2005, those arrangements which included specific government procurement commitments included:

- the Australian and New Zealand Government Procurement Agreement (ANZGPA)
- the Australia–United States Free Trade Agreement (AUSFTA).

Together with the Commonwealth and all other States and Territories, the Tasmanian Government is a signatory to the ANZGPA. Similarly, the Tasmanian Government, with the Commonwealth and all other jurisdictions, has confirmed that it will participate in the Government Procurement Chapter of the AUSFTA.

All relevant international obligations are incorporated into the procurement policy framework as expressed in the TIs.

Audit testing showed no exceptions in relation to this TI.

### *1.1.3 TI 1103 – Procurement delegations and authorisations*

It is a requirement of this TI that all purchases, leases or rentals of equipment and disposals of property must be made in the name of the Crown, or a relevant statutory corporation. The power to enter into contracts binding the Crown is inherent in the office of the Minister. Generally, authorisation of the power to contract is delegated by the appropriate Minister to the Head of Agency.

The TI goes on to list the following details in respect of delegation and authorisation:

- The power to contract (and to sub-delegate to other officers) has been delegated by the Minister to the Head of Agency.
- Delegations for officers to enter into contracts must be in writing and specify monetary limits.
- Authority to engage consultants cannot be delegated below Deputy Secretary level.

Audit testing showed no exceptions in relation to this TI.

#### 1.1.4 TI 1104 – Valuing procurements

This TI explains how a procurement is to be valued. Amongst other obligations, the following points are stipulated:

- Estimated value of procurement (EVP) must include any premiums, fees, commissions, interest and other revenue streams that may be provided for in the proposed contract.
- EVP must include the value of any options to extend the proposed contract.
- When a procurement is to be conducted in multiple parts with contracts to be awarded to one or more suppliers, an agency must base its calculation on the estimated total maximum value of all contracts over the entire duration of the procurement.
- A procurement must not be divided into separate parts for the purpose of avoiding any procurement threshold.

Audit testing showed no exceptions in relation to this TI at Treasury, DTAE, DIER and DHHS.

At DoE we observed three examples where the level of documentation in regard to purchase orders was insufficient to enable us to assess the actual cost of the procurement:

- One instance whereby the cost of the procurement (approximately \$78 000) was not noted on the purchase order.
- Two instances (one with a value of \$67 000 the other was \$44 000) whereby no purchase order was sighted.

#### **Recommendation 1 (DoE)**

**We recommend that purchase orders are properly completed and that copies of all purchase orders issued are retained.**

#### 1.1.5 TI 1109 – Procurement documentation and handling of submissions

TI 1109 provides instruction on the quotation, tender and contract documentation to be used by agencies in procurements. It also explains the process to be adopted in relation to the receipt and opening of procurement documentation. Some of the major black letter requirements are:

- Procurement specifications must not restrict competition, reflect bias to any brand, or act as a barrier to the consideration of any alternatives.

- For procurements that involve tenders, agencies must use only Conditions of Tender and Contract that have been approved by the Crown Solicitor.

Audit testing showed no exceptions in relation to this TI.

### *1.1.6 TI 1110 — Procurement web site reporting*

TI 1110 specifies that all procurements with a total value of \$50 000 or over undertaken by an agency must be entered on the Tenders section of the web site ([www.purchasing.tas.gov.au](http://www.purchasing.tas.gov.au)).

At DoE we noted three procurements (valued at \$67 000, \$78 000 and \$67 000), and one at DIER (valued at \$64 000), that were not recorded on the web site in accordance with TI 1110.

#### **Recommendation 2 (DoE and DIER)**

**We recommend that, in accordance with TI 1110, departments introduce a procedure to ensure that they post details of all procurements with a total value of \$50 000 or over on the Treasury web site.**

### *1.1.7 Conclusion*

With the exceptions noted above, the frameworks and principles outlined in the TIs on procurement of goods and services have been applied.

## *1.2 Procurements from \$10 000–\$100 000*

This section reports on our findings of sample testing for procurements valued in the above range. As outlined in the audit scope, we did not audit procurements valued under \$10 000.

### *1.2.1 TI 1106 — Procurement valued at \$10 000–\$100 000*

Broadly, for procurements in this range, TI 1106 (Procurement valued at \$10 000–\$100 000) makes the following conditions mandatory:

- Agencies must seek at least three written quotations unless an exemption has been granted.
- Where local capability exists, at least one quotation must be sought from local business (agencies may contact Industry Capability Network Tasmania — ICNTAS — for free assistance in identifying local capability).
- Request for quotation (RFQ) documentation must provide all the information necessary to enable potential suppliers to prepare appropriate submissions in response.

- All suppliers submitting a quotation must be advised of the outcome of the quotation process and provided with details of the successful offer.

### 1.2.2 *Three written quotations*

Generally, all departments complied with the requirements of TI 1107. However, we did notice some exceptions during testing:

- one case at DTAE (valued at \$40 000) where the supplier was selectively engaged without the receipt of an exemption from Treasury to seek three quotations
- one case (valued at \$64 000) at DIER had no evidence that any quotes were obtained contrary to TI 1106
- two procurements at DPEM where three suppliers were not contacted; in one case (valued at \$16 000), RFQ documentation was sent to two suppliers and in the other case (valued at \$13 000) just one supplier was contacted.

#### **Recommendation 3 (DIER, DPEM and DTAE)**

**We recommend that, in compliance with TI 1106, quotations be sought for procurements in the range of \$10 000–\$100 000.**

### 1.2.3 *One quotation from local business*

All departments met this requirement.

### 1.2.4 *Request for quotation documentation*

TI 1106 requires that:

The Request for Quotation (RFQ) documentation must provide all the information necessary to enable potential suppliers to prepare appropriate submissions in response.

DHHS, DIER, DTAE and Treasury complied with this requirement.

However, at DoE, in half of the selections that we made (i.e. six procurements<sup>4</sup>) RFQ documentation was not sighted. Similarly, at DPEM for half of the selections that we made (i.e. five procurements<sup>5</sup>), RFQ documentation was not sighted.

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<sup>4</sup> Procurements with a total value of \$328 000 comprising \$67 000, \$78 000, \$43 000, \$29 000, \$44 000 and \$67 000.

<sup>5</sup> Procurements with a total value of \$87 000 comprising \$16 000, \$13 000, \$21 000, \$24 000 and \$13 000.

Where the RFQ was not available for examination, it was not possible to confirm that the documents had complied with the above requirement.

**Recommendation 4 (DoE and DPEM)**

**We recommend that copies of Requests for Quotation be retained for future reference in support of procurements.**

*1.2.5 Suppliers advised of the outcome*

Procurements that we sampled at DHHS, DIER and Treasury showed evidence that suppliers had been notified as to the outcome.

However, at DoE, DTAE and DPEM we were unable to sight evidence that suppliers had been advised. The TI does not state what form that advice should take and it is possible that verbal feedback had been provided. However, when verbal advice is given, a file note should have been made to provide a confirmation.

**Recommendation 5 (DoE, DTAE and DPEM)**

**We recommend that where verbal advice of the quotation process is given to suppliers, records should be noted accordingly.**

*1.2.6 Conclusion*

We found that DHHS and Treasury fully complied with TI 1106.

At DoE, DIER and DPEM exceptions were noted with recommendations made accordingly.

*1.3 Procurements over \$100 000*

This section reports on our findings of sample testing for procurements over \$100 000.

*1.3.1 TI 1107 – Goods and services procurement valued at \$100 000 and over*

Requirements of this TI 1107 include the following:

- Tenders must be called unless an exemption has been granted.
- At least one tender must be sought from a local business where local capability exists.
- Agencies must consult with the ICNTAS in order to identify local capability.

- The RFQ documentation must provide all the information necessary to enable potential suppliers to prepare appropriate submissions in response.
- Tenders must be publicly advertised<sup>6</sup>.
- All suppliers making a submission must be advised of the outcome of the procurement process and provided with details of the successful offer.

### *1.3.2 Tenders must be called*

The only exceptions that we noted in relation to the requirement for tenders to be called related to cases where an exemption was sought and approved by Treasury (refer to section 1.4).

### *1.3.3 Tenders from local business*

In one procurement at DIER, no tender was received from a local business because there were no suitable suppliers in Tasmania. This was accepted as reasonable as the procurement had gone to open tender.

No exceptions were noted at other departments.

### *1.3.4 Consult with ICNTAS*

As a rule, we noted that departments had met their obligation to consult with the ICNTAS to ascertain local capability. There were three exceptions — two instances at DIER (valued at \$163 000 and \$170 000) and one at DHHS with a value of \$189 000 — where there was no evidence of contact with ICNTAS although this may have occurred verbally. In situations where verbal advice is received, a file note should have been made for confirmation.

No exceptions were noted at other departments.

#### **Recommendation 6 (DIER and DHHS)**

**We recommend that where verbal advice is sought from ICNTAS records be noted accordingly.**

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<sup>6</sup> Tenders must be publicly advertised unless the Secretary, or an authorised delegate at Treasury, determines it would be more appropriate to seek offers from selected tenderers.



### *1.3.5 Request for tender (RFT) documentation*

In line with the requirements of TI 1107, we found that RFT documentation contained all the necessary information that would allow potential suppliers to prepare appropriate submissions.

### *1.3.6 Tenders must be publicly advertised*

In all cases, departments had complied with the condition that tenders be publicly advertised (unless an exemption had been granted — see section 1.4).

### *1.3.7 Suppliers advised of the outcome*

At DoE and DTAE we noted single incidences where procurements went to tender but there was no evidence that all suppliers were notified of the outcome. The TI does not state what form that advice should take and it is possible that verbal feedback had been provided. However, when verbal advice is given, a file note should have been made to provide a confirmation.

No exceptions were noted at other departments.

#### **Recommendation 7 (DoE and DTAE)**

**We recommend that where verbal advice of the procurement process is given to suppliers, records should be noted accordingly.**

### *1.3.8 Conclusion*

We found that DPEM and Treasury fully complied with TI 1107.

At DoE, DHHS, DIER and DTAE exceptions were noted with recommendations made accordingly.

## *1.4 Exemptions from seeking written quotations and calling tenders*

Open and effective competition is one of the basic principles of government procurement. However, circumstances may arise where departments need to seek approval to be exempt from the provisions of TI 1106 or TI 1107 and be permitted to deal with a single supplier.

### *1.4.1 TI 1114 — Exemptions from seeking written quotations and calling tenders*

TI 1114 has examples of the situations where exemptions may apply and these include:

- no tenders were submitted

- no tenders were submitted that conformed to the essential requirements of the tender
- extreme urgency brought about by unforeseen events
- no suppliers satisfied the conditions for participation
- where the goods or services can be supplied only by a particular supplier
- additional deliveries of goods or services by the original supplier that are intended either as replacement parts, extensions, etc.
- purchases possible under exceptionally advantageous conditions that only arise in the very short term (e.g. ‘piggybacking’).

The decision to approve an exemption is not entered into lightly and the delegation to approve exemptions is restricted to the Secretary of Treasury or an authorised delegate. Departments must provide a soundly constructed business case that clearly identifies the relevant circumstances and allows the delegate to exercise his or her authority in possession of all the necessary information. All exemptions granted to departments are subsequently advised in the Treasury Annual Report. The Appendix has details of exemptions for 2005–06 and 2006–07.

#### *1.4.2 Use of exemptions*

As noted in section 1 (see Scope) of this Report, because of their relative infrequency, it was sometimes necessary to select cases that occurred prior to 1 July 2006.

DoE was the only department where we did not find any exemptions from seeking written quotations and calling tenders. Table 1 indicates details of the exemptions that we examined.

**Table 1: Details of procurements for which exemptions were granted**

Department	Procurements	
	Number	Value (\$000s)
DHHS	1	180
DIER	1	1 845
DPEM	3	1 179 486 262
DTAE	4	107 84 120 13
Treasury	2	16 177

No issues were noted with the above cases for DHHS, DIER, DTAE or Treasury. However, two of the DPEM procurements came in for detailed examination.

### 1.4.3 *Tasmania Police — exemptions for marine procurements*

Tasmania Police sought and obtained exemptions for two separate procurements for equipment used in marine policing activities. Details regarding these two follow.

#### 1.4.3.1 *Replacing the PV Freycinet*

##### *Background*

The *PV Freycinet* is one of only two ocean-going vessels currently owned and operated by Tasmania Police. It can operate up to 200 nautical miles (370 km) offshore and constitutes a valuable part of the current Tasmania Police fleet giving it the ability to enforce both state and federal legislation.

However, its ability to provide a safe and reliable year round capability was compromised by the vessel's age — now over 27 years — and increasingly heavy demands on maintenance that were costly and necessitated more and more downtime.

The need to replace the *PV Freycinet* had been identified in strategic asset management planning by Tasmania Police in 2000. A Cabinet document from that time also indicated that a replacement vessel should be sought by 2006.

With an estimated cost of around \$1M, such a procurement (i.e. more than \$100 000) would normally require adherence to TI 1107 that entails tendering in an open market process.

### *Locating a source of supply*

Tasmania Police became aware that the Australian Volunteer Coast Guard (AVCG) in Victoria had signed a contract in July 2006 with a Tasmanian firm, Sabre Marine, to construct two vessels after a lengthy, national tender process. In the view of Tasmania Police, the best value for money was in being able to ‘piggyback’ off the arrangement between the local constructor and AVCG.

The specifications of the proposed Tasmanian vessel were not identical with those under construction for the AVCG. The *PV Freycinet’s* replacement (described as 15-metre ocean-going mono-hull patrol vessel) was to be larger as noted in Table 2\*.

**Table 2: Comparative dimensions of vessels**

Dimension	AVCG vessel	Proposed vessel
Measured length	12.0	15.0
Beam	4.0	4.8
Depth	1.9	2.1
Cubic number	91.2	151.2

\* Dimensions cited in naval architect’s letter of 18 June 2007

So, to determine whether there was sufficient similarity between the larger vessel planned for Tasmania Police and those for AVCG was a matter of importance in deciding the validity of benefiting from the terms of the Victorian contract. Regarding local capability, advice from ICNTAS indicated that the situation from when the Victorian tender was let had not significantly changed.

Tasmania Police engaged two separate naval architects to decide independently the issue of similarity between the vessels. A probity auditor was later used to verify the processes used in employing the naval experts. Advice from the naval architects was that the vessel design proposed by Tasmania Police was sufficiently similar so as to fall within the terms of the AVCG contract.

For Tasmania Police, the way was then clear to piggyback on the AVCG contract and that necessitated seeking an exemption under TI 1114 from usual tendering requirements.

#### *1.4.3.2 Outboard motors*

##### *Background*

In addition to the ocean-going craft mentioned in section 1.4.3.1, Tasmania Police has numerous specialist vessels that are used for search and rescue, diving, fisheries surveillance, etc.. Ongoing maintenance issues, such as escalating costs and increased downtime,

made it clear to Tasmania Police that a replacement program for outboard motors was needed.

### *Locating a source of supply*

Tasmania Police conducted market investigations and consultations with other jurisdictions and suitable worldwide manufacturers. As a result of the research, Tasmania Police became aware of a contract between NSW Police and NSW-based firm, Britton Marine. Tasmania Police discussed the contract with their NSW counterparts and became convinced that robust tendering arrangements had been applied and the best value for money would be obtained by ‘piggybacking’ off the NSW contract.

#### *1.4.3.3 The exemption process*

On 29 March 2007, Tasmania Police wrote to Treasury seeking an exemption (covering both the replacement vessel and the outboard motors) in line with TI 1114.

However, the letter was not sufficiently detailed and did not present clear reasons as to why the exemption was necessary. Consequently, Treasury requested more information and a second request (12 April 2007) was submitted by Tasmania Police that cited reasons of operational urgency. Specifically, the application stated:

If the *PV Freycinet* is dry docked for repair or continual unscheduled maintenance, full state-wide coverage and back up operational requirements would be compromised.

The case made for the outboard motors was put in the following terms:

In relation to the repower of the Devil Cat, Sentinel Class and other specialist Tasmania Police vessels, again, timely action to ensure the ongoing operations performed by these vessels is required. As with *PV Freycinet*, these vessels facilitate important safety and security functions for Tasmania and delayed work on the motors would place these services at risk.

On 18 April 2007, Treasury granted exemptions for both procurements. The Treasury memorandum does not explicitly identify the grounds for the exemptions but does take note of the arguments raised by Tasmania Police including operational urgency. During the course of our audit, a senior Treasury official confirmed that as the basis for approving the exemptions.

Whilst we accept that operational urgency is a valid reason for an exemption to be granted, we also note that the need for a replacement for the *PV Freycinet* was identified in 2000. Therefore, it should have been possible for a timely open tender process, as

required by TI 1107, to have been followed. We believe that the system put in place by TI 1107 has not worked as intended.

**Recommendation 8**

**We recommend that exemptions sought on the grounds of operational urgency should be appropriately justified with particular emphasis on why the events leading to the urgency were unforeseen.**

*1.4.4 Conclusion*

With the exception of the Tasmania Police marine procurements, we found that departments sought exemptions in line with the provisions of TI 1114 and that approval by Treasury relied on a robust business case being made.

## 2 Payment of accounts by government departments

## 2 Payment of accounts by government departments

This is our third audit report regarding the implementation of cash management policies and procedures and compliance with TI 402 (Cash Management) within government<sup>7</sup>.

TI 402 requires the Head of Agency to ensure that payment of accounts is always to be made by the due date, and if no date is specified that accounts should generally be paid within 30 days.

Departments have been responsible for the payment of accounts since Treasury decentralised the function more than ten years ago<sup>8</sup>. Treasury recognised the need for improved cash management procedures to ensure the efficient and effective management of public monies<sup>9</sup>.

Our audit in 2005 found common problems in the policy framework adopted by agencies and their accountability for accounts payable transactions.

TI 102 (Finance Manual) provides instructions on the establishment and maintenance of finance manuals within agencies. It sets the framework for the financial management process and the underpinning that departments should have in their own accounting and financial management policies and guidelines.

### *Objective*

The objective of the audit was to establish that the accounts payable processes within agencies were in accordance with TI 402 and/or agencies' own policies and instructions.

### *Scope*

The audit examined management and control of the payment of accounts covering accounts payable transactions for the six months from November 2006 to April 2007. Departments audited were:

- Economic Development (DED)
- Health and Human Services (DHHS)
- Premier and Cabinet (DPAC)
- Police and Emergency Management (DPEM)

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<sup>7</sup> Formerly TI 208.

<sup>8</sup> Department of Treasury and Finance, *Tasmania's Financial Management Reform Strategy*.

<sup>9</sup> Department of Treasury and Finance, *Tasmania's Financial Management Reform Strategy – 1997 Progress Report*, p15.



- Primary Industries and Water (DPIW).

### *Criteria*

We applied the following audit criteria:

- compliance with TI 102 Finance Manuals
- compliance with TI 402 Cash Management
- accountability for transactions:
  - cash payments made too soon
  - cash payments contrary to terms
  - unauthorised payments
  - adequacy of controls
- management review.

### *Audit methodology*

The audit included:

- review of internal policies and guidelines documented in agencies' 'finance manual' in order to establish the level of compliance with TI 102
- detailed testing of selected purchases for the period under review, including adherence to the payment terms and mode of payment and ascertaining whether payments were appropriately authorised, to establish compliance with TI 402
- inquiries of key personnel to determine the level of management review and follow up of invoices due to be paid
- collecting additional data regarding payments outstanding as at 30 June 2007 to determine the status and number of aged creditors for each audited agency.

### *Timing*

The audit commenced in April 2007 with fieldwork finalised in September 2007. The report was completed in October 2007.

### *Resources*

The total cost of the audit excluding report production costs was approximately \$58 600.

## 2.1 Policy framework

### 2.1.1 Was there a well documented finance manual?

A standard component of our compliance audits is to determine whether compliance with the targeted legislation and TIs is supported by a well documented and current finance manual, as required by the *Financial Management and Audit Act 1990 (FMAA)* and TIs.

Specifically we tested whether the finance manual:

- existed
- was current and subject to periodic review
- complied with TI 402
- had translated TI 402 into specific activities that were expected within the department
- was readily accessible by staff.

#### *DHHS*

The DHHS finance manual was under review at the time of the audit, but did require compliance with TI 102 and TI 402. It also included internal policies and controls to outline specific processes within the agency to ensure compliance with the TIs.

We were concerned that the finance manual indicated that creditors with payments over \$50 000 per annum should be paid 45 days from statement date. The manual also outlined that in the absence of a statement the invoice was to be considered not due until 45 days after the last day of the invoice month. Potentially, suppliers who deliver goods early in the month will not receive payment for at least 65 days.

No other conflicts were noted with TIs and DHHS internal policies.

#### **Recommendation 1 (DHHS)**

**We recommend that finance manuals clearly indicate that all accounts should be paid in accordance with agreed terms and by the due date, as required by TI 402.**

#### *DPEM, DPAC, DED*

All of these agencies had a finance manual, although the DPAC manual was being developed at the time of the audit. The finance manuals explicitly required compliance with TI 402 and also included internal policies and controls to outline specific processes within the departments and ensure compliance with this TI.

However, the DPEM manual only partially incorporated policies and controls over the accounts payable function within the finance manual.

No conflicts were noted with departments' internal policies and TIs.

We also identified that departments lacked a process for periodic review of the finance manual. Some departments recognised the need for review but no evidence of such a review was observed.

**Recommendation 2 (All departments)**

**We recommend that departments introduce a process to ensure periodic review of finance manuals.**

**Recommendation 3 (DPEM, DPIW)**

**We recommend that finance manuals include links or material from relevant departmental policies or procedures.**

*DPIW*

Policies and procedures in the finance manual complied with TI 102. However, the finance manual was not sufficiently comprehensive or detailed in relation to accounts payable and lacked reference to TI 402.

DPIW had satisfactory internal policies and controls relating to payment of accounts but there was insufficient linkage to the finance manual.

We found that DPIW had an undocumented policy to review the finance manual annually. Also there was an inbuilt electronic process of review in the department's web publishing database which is set to provide automatic notification by email to the content owner when a policy or procedure needs review.

**2.1.2 Conclusions**

We found that most departments had adequate finance manuals incorporating the accounts payable function. Despite this, we were disappointed by the lack of a verifiable process for reviewing the finance manual in order to ensure a culture of continuous improvement in financial management.

**2.2 Accountability for transactions**

Treasury has overall responsibility for managing cash resources and borrowing or investing surplus funds to meet day-to-day requirements, based on pooled departmental bank accounts.

Surplus funds are invested by Treasury with the Tasmanian Public Finance Corporation (Tascorp) either in short-term investments or for longer periods depending on projected cash flow requirements. In the event there is a daily cash deficit, additional funds are borrowed through Tascorp.

Departments' contribution is via effective cash management processes such as payments of accounts in accordance with agreed terms and taking advantage of discounts offered by suppliers.

Across the five departments audited, we sampled transactions to test whether:

- Payments were made too early.
- Payments were made by the due date.
- Available discounts were realised.
- Payments were delayed at end of year to 'stretch' the budget.
- Payments were authorised and supported by original documentation.
- The most efficient method of payment was adopted.

### *2.2.1 Were payments made too early?*

Effective cash management requires that payments, particularly of large amounts, are not made earlier than required by the agreed terms or due date. We took the approach that any invoice paid more than 14 days before the due date had been paid too early. Our sampling identified no significant instances of payments being made too early.

### *2.2.2 Were payments made by the due date?*

Failure to pay accounts by the due date can impact on the financial reputation of the state government and on the willingness of suppliers to offer goods and services or submit tenders to government departments.

We took the approach that the due date on the invoice was the intended date for payment and if no due date was indicated then 30 days from invoice date was appropriate.

Our testing indicated that 24% of invoices selected for testing were paid late. Figure 1 shows the results of our testing, department by department.

**Figure 1: Agency payments overdue**

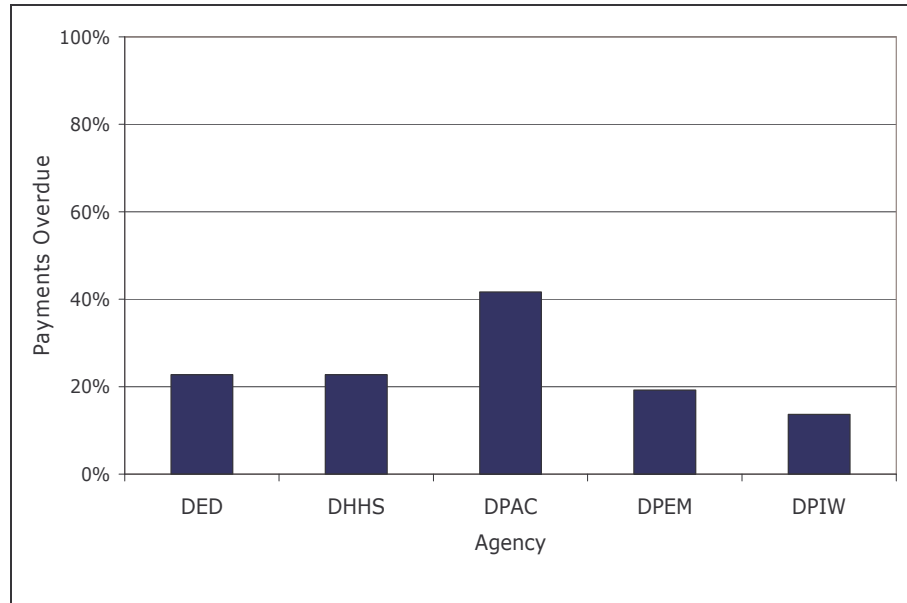


Figure 1 indicates that each of the departments had failed to meet the due date for payment on at least 14% of invoices that we sampled.

Reasons for the late payments included:

- delays in obtaining authorisation for payment
- lack of invoice management procedures
- mixed paper-based and electronic purchasing systems
- failure to negotiate more favourable terms.

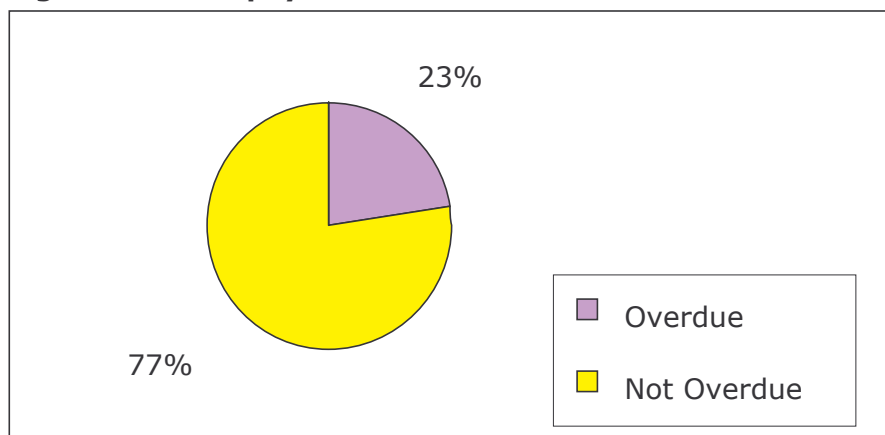
**Recommendation 4 (All departments)**

**We recommend that agencies review their payment processes to ensure that all accounts are paid in accordance with agreed terms and by the due date.**

*DHHS*

At DHHS we found five instances (23%) of non-compliance as shown in Figure 2.

**Figure 2: DHHS payments<sup>10</sup>**



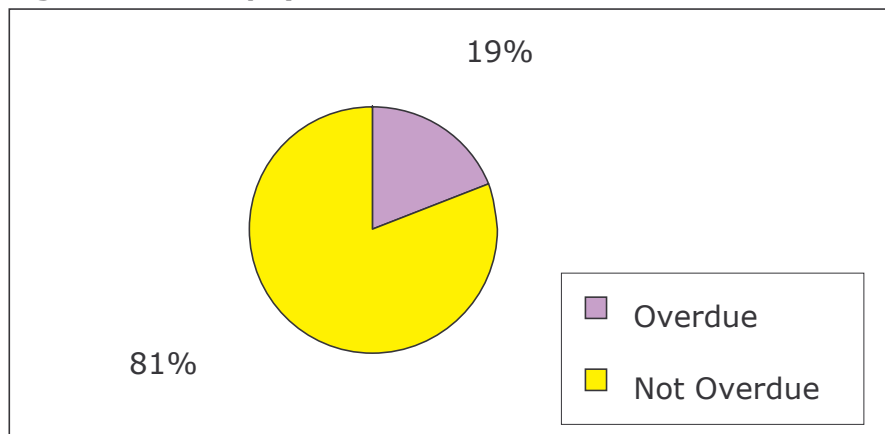
Of the late payments (\$8587), three exceeded 60 days and two were instances where the payment term was less than 14 days and the accounts were paid outside of this term.

We found that DHHS had comprehensive policies and guidelines in relation to payments of accounts, but there was a lack of clarity as to responsibility for follow up of unprocessed invoices.

#### *DPEM*

At DPEM we also found five instances (19%) of non-compliance as shown in Figure 3.

**Figure 3: DPEM payments**



All of the late payments had terms of 15 days or less (\$42 083).

DPEM had comprehensive policies and guidelines in relation to accounts payable but there was a lack of clarity within business units as to where the responsibility to follow up unprocessed invoices lay.

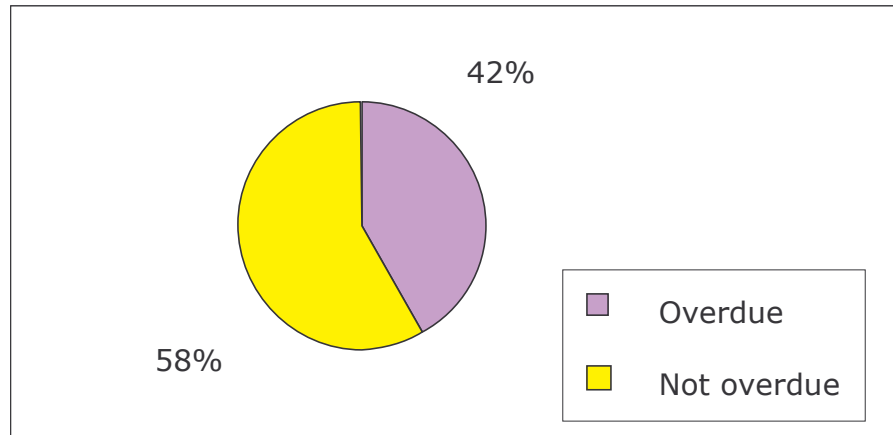
<sup>10</sup> Subsequent to finalising the audit, we were advised that actual payment dates may in some instances be later than the dates originally provided by DHHS, and consequently our calculated percentage of overdue payments is likely to understate the problem.

We also identified a manual paper-based purchasing culture within DPEM which, in some instances, failed to facilitate payment by due date.

### DPAC

At DPAC we found ten instances (42%) of non-compliance as shown in Figure 4.

**Figure 4: DPAC payments**



Of the overdue invoices (\$80 034), two had terms of seven days, seven were paid between 31–60 days after invoice date, and one was paid 71 days after invoice date. On the other hand, we did note that four of the overdue invoices were for payments to an internal division within DPAC rather than to an external supplier.

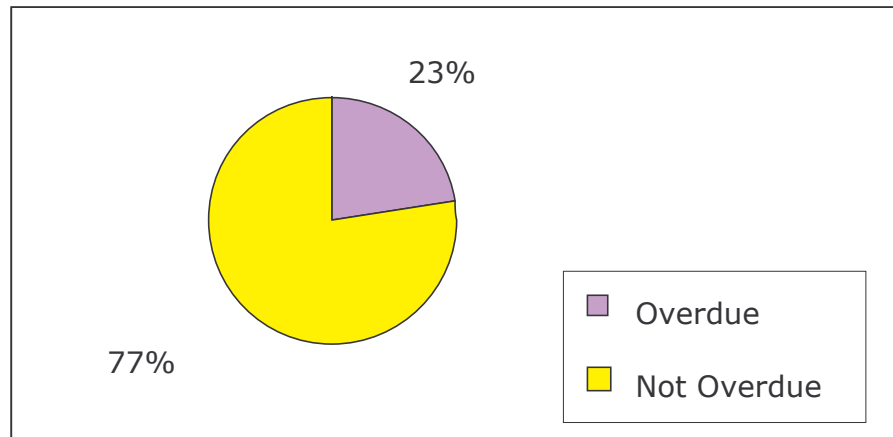
DPAC frequently experienced internal delays with authorisation of invoices. Although details of invoices were recorded prior to forwarding to the appropriate area for authorisation, due dates were not recorded which led to some invoices not receiving sufficient priority.

The department has advised that it has moved towards ‘due date processing’ from July 2007.

### DED

At DED we found five instances (23%) of non-compliance as shown in Figure 5.

**Figure 5: DED payments**



Of the five late payments (\$9425), two had terms of 30 days whereas the remaining three had terms of 15 days or less. Where the payment terms were 30 days, DED paid the invoices within 41 days.

All of the five overdue invoices had been sent directly to the business unit from the supplier. The practice is not uncommon and should lead to fewer delays in invoice processing, provided that business units are aware of their requirements under TI 402.

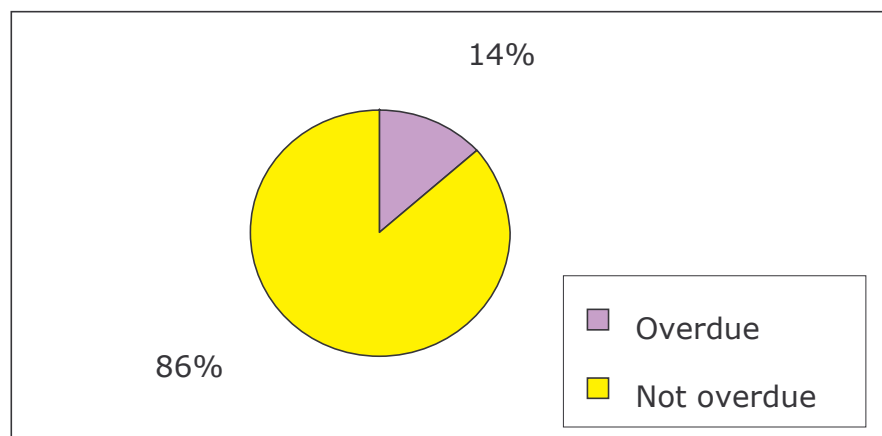
**Recommendation 5 (All departments)**

**We recommend that business units be reminded of the requirement to pay suppliers by the due date or within the terms of trade.**

*DPIW*

At DPIW we found three instances (14%) of non-compliance as shown in Figure 6.

**Figure 6: DPIW payments**





Of the three overdue instances (\$46 549), two had terms of 14 days or less. The remaining overdue invoice was for a regular creditor whose payment was for a compilation of weekly invoices.

We found that DPIW lacked adequate accounts payable guidelines but had aggressive follow-up processes.

**2.2.3** *Were available discounts realised?*

We tested to see if departments had taken advantage of offered discounts, however the number of discounts offered was low and testing only disclosed one possible discount that had not been claimed. All agencies indicated that they actively look for discounts and audit observation provided some support for that assertion.

**2.2.4** *Were payments delayed at end of year to 'stretch' the budget?*

We reviewed outstanding creditors as at 30 June 2007 to determine whether the level of outstanding invoices that had remained unpaid for 30 days or more indicated a deliberate policy to ensure that departmental budgets were not exceeded. We used departments' monthly budgeted expenditure as a point of comparison, as shown in Table 3.

**Table 3: Invoices outstanding for more than 30 days as at 30 June 2007**

Department	Value (\$)	Percentage of average monthly expenditure
DHHS	\$3 496 913	3.3%
DPEM	\$169 181	1.2%
DPAC	\$27 121	0.3%
DED	\$48 211	0.7%
DPIW	\$8 278	0.1%

The level of 30-day outstanding creditors at 30 June 2007 provides no evidence of deliberate delay in payment because of budget shortfalls.

**2.2.5** *Were payments authorised and supported by original documentation?*

Two key controls to ensure the integrity of government payments are that they should be authorised by a properly delegated officer and be based on an original supplier invoice.

Our sample testing found few exceptions and we concluded that departments had sufficient control procedures in place in relation to the authorisation and payment of invoices.

However, as previously noted, authorisation delays have been one of the main reasons for late payment of accounts, particularly in cases where more than one authorisation is required, such as phone accounts and taxi fares.

We noted that DED had identified Cabcharge authorisation as an area that required specific guidelines. In our view, the DED Cabcharge policy, which required the responsible officer to maintain a list of e-tickets allocated for control and authorisation purposes, represented best practice.

**Recommendation 6 (All departments)**

**We recommend that departments develop processes to facilitate review and authorisation of accounts that relate to services provided to many users.**

**2.2.6** *Was the most efficient mode of payment adopted?*

We found that agencies actively encouraged use of electronic payments, and the Tasmanian Government Card for small payments.

**2.2.7** *Conclusions*

We found that, in most cases, payment of accounts was properly authorised and based on correct documentation. However, the high level of late payment of accounts is of concern and could impact on potential suppliers' willingness to do business with government departments.

### **3 Recent reports**

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### 3 Recent reports

<b>Year</b>	<b>Special Report No.</b>	<b>Title</b>
2003	45	Business names and incorporated associations: What's in a name?
2003	46	Leave in government departments
2003	47	Public sector web sites
2003	48	Grants to the community sector
2003	49	Staff selection in government agencies
2003	50	Police response times
2004	-	Ex-gratia payment to the former Governor Mr R W Butler AC
2004	51	Special purpose and trust funds: Department of Health and Human Services
2004	52	Internal audit in the public sector
2005	53	Follow-up audits
2005	54	Compliance audits
2005	55	Gun control in Tasmania
2005	56	TT-Line: Governance review
2005	57	Public housing: Meeting the need?
2005	58	FBT, Payment of Accounts and Bridges
2006	59	Delegations in government agencies, Local government delegations, Overseas travel
2006	60	Building security and Contracts appointing Global Value Management
2006	61	Elective surgery in public hospitals
2006	62	Training and development
2006	63	Environmental management and pollution control by local government
2006	64	Implementation of aspects of the <i>Building Act 2000</i>
2007	65	Management of an award breach and Selected allowances and nurses' overtime
2007	66	Follow-up audits June 2007
2007	67	Corporate credit cards
2007	68	Risdon Prison: business case
2007	69	Public building security

## 4 Future projects

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## 4 Future projects

Details of performance and compliance audits that the Auditor-General is considering are:

<b>Portable and attractive items</b>	Examines asset control activities at government departments with respect to items that are portable and attractive.
<b>Property in police possession</b>	Reviews management of confiscated and forfeited property by Tasmania Police.
<b>Key performance indicators in government departments</b>	Reviews the effectiveness of key performance indicators used in Annual Reports and budget papers.
<b>Court waiting times</b>	This audit will examine effectiveness and efficiency in the way that waiting times are managed in magistrates courts.

**Appendix**

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## Appendix: Goods and service exemption statistics

The following table has details of exemptions under TI 1114 approved by Treasury in the financial years 2005–06 and 2006–07.

Department	2005–06		2006–07	
	<\$50 000 / \$100 000 <sup>11</sup>	>\$50 000 / \$100 000 <sup>12</sup>	<\$100 000	>\$100 000
	No.	No.	No.	No.
Economic Development	-	-	2	1
Education	-	2	-	1
Health and Human Services	14	19	15	23
Infrastructure, Energy and Resources	1	3	2	5
Justice	3	-	-	4
Police and Emergency Management			1	5
Police and Public Safety	-	3		
Premier and Cabinet	3	4	5	4
Primary Industries and Water			5	-
Primary Industries, Water and the Environment	3	-		
Tourism, Arts, and the Environment			2	7
Tourism, Parks, Heritage and the Arts	5	5		
Treasury and Finance	2	5	5	1
<b>Total</b>	<b>31</b>	<b>41</b>	<b>37</b>	<b>51</b>

<sup>11</sup> Relates to purchases valued at more than \$10 000 but less than \$50 000 (from 1 July 2005 to 20 November 2005) and purchases valued at more than \$10 000 but less than \$100 000 (21 November 2005 to 30 June 2006).

<sup>12</sup> Relates to purchases valued at \$50 000 and over (1 July 2005 to 20 November 2005) and purchases valued at \$100 000 and over (21 November 2005 to 30 June 2006).