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PARLIAMENT OF TASMANIA

**AUDITOR-GENERAL
SPECIAL REPORT NO. 34**

**PROCUREMENT IN TASMANIAN
GOVERNMENT DEPARTMENTS**

November 2000

*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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President
Legislative Council
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Speaker
House of Assembly
HOBART

Dear Mr President
Dear Mr Speaker

**PERFORMANCE AUDIT NO. 34
PROCUREMENT IN TASMANIAN 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.

Performance audits seek to provide Parliament with assessments of the effectiveness and efficiency of public sector programs and activities, thereby identifying opportunities for improved performance.

The information provided through this approach will, I am sure, assist Parliament in better evaluating agency performance and enhance Parliamentary decision making to the benefit of all Tasmanians.

Yours sincerely

A handwritten signature in black ink, appearing to read 'A J McHugh'.

A J McHugh
AUDITOR-GENERAL

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LIST OF ACRONYMS AND ABBREVIATIONS

ANZGPA	Australia New Zealand Government Procurement Agreement
BDB	Basslink Development Board
<i>Best Practice Guide</i>	<i>Best Practice Guide for the Administration of Grants in the Tasmanian Public Sector</i>
CEO	Chief Executive Officer
CRC	Contract Review Committee
DoE	Department of Education
DHHS	Department of Health and Human Services
DIER	Department of Infrastructure, Energy and Resources
DJIR	Department of Justice & Industrial Relations
DPPS	Department of Police and Public Safety
DPAC	Department of Premier and Cabinet
DPIWE	Department of Primary Industry, Water and Environment
DPP	Director of Public Prosecutions
DSD	Department of State Development
EOC	Electricity Oversight Committee
EOI	Expression of interest
GC/MS	Gas chromatograph / mass spectrophotometer
GPS	Global Positioning System
<i>Handbook</i>	<i>Handbook for Government Procurement</i>
ISO	Industrial Supplies Office
ITAB	Tasmanian Rural Industry Training Board Inc
JMA	Joint Marketing Agreement
LGH	Launceston General Hospital
NEM	National Electricity Market
OVET	Office of Vocational Education and Training
PAG	Procurement Advisory Group
SBPD	Small Business Professional Development
SME	Small Medium Enterprises
TFGA	Tasmanian Farmers and Graziers Association
Treasury	The Department of Treasury and Finance

INTRODUCTION

Under the provisions of section 44(b) of the *Financial Management and Audit Act 1990* the Auditor-General may

"carry out examinations of the economy, efficiency and effectiveness of Government departments, public bodies or parts of Government departments or public bodies".

The conduct of such audits is often referred to as performance auditing.

This report relates to a performance audit carried out by the Tasmanian Audit Office during the period May to October 2000.

The objective of this performance audit was to review Government departments' practices in procuring goods and services against the requirements of the *Handbook for Government Procurement* (the *Handbook*).

The approach taken in this audit was to examine the level of compliance by departments with the *Handbook* as well as determine the perceived adequacy of the *Handbook*.

Accordingly, a selection of six to eight acquisitions with a value between \$10 000 and \$50 000 and two to four with a value greater than \$50 000 were reviewed for each department.

Although partially reported on a department-by-department basis the findings and recommendations in this report are applicable to all departments in the procurement of goods and services in government.

AUDIT OPINION

Report Title	Procurement in Tasmanian Government Departments.
Nature of the Audit	The objective of this performance audit was to ascertain the degree of compliance of departmental procurement practices with policies and procedures required by the <i>Handbook for Government Procurement</i> (the <i>Handbook</i>) as well as having regard to the broader concepts of probity and accountability.
Responsible Party	Tasmanian Government Departments
Mandate	<p>This audit has been carried out under the provisions of Section 44(b) of the <i>Financial Management and Audit Act 1990</i> which provides that:</p> <p><i>"The Auditor-General may carry out examinations of the economy, efficiency and effectiveness of Government departments, public bodies or parts of Government department or public bodies."</i></p>
Applicable Standards	<p>This audit has been performed in accordance with Australian Auditing Standard AUS 806 "Performance Auditing" which states that:</p> <p><i>"The objective of a performance audit is to enable the auditor to express an opinion whether, in all material respects, all or part of an entity's activities have been carried out economically, and/or efficiently and/or effectively."</i></p>
Limitation on Audit Assurance	An unbiased sample was selected by Audit from payment transaction reports for each department. A checklist approach was then adopted to assess and record the compliance of tender processes with audit criteria. The shortcoming of this approach was that the unique issues associated with each tender may not have been explored in detail. Any general problems at the departmental level associated with compliance were however identifiable. The evidence provided by these means restricts the audit assurance to a moderate level.
Audit Criteria	<p>The assessment of compliance by departments was ascertained under criteria selected from the <i>Handbook</i>. These criteria were:</p> <ol style="list-style-type: none">1 <i>Value for money utilising open and effective competition</i><ul style="list-style-type: none">- Tenders should be sought for goods and services with a value greater than \$50 000;- For goods and services with a value between \$10 000 and \$50 000 a minimum of three quotations are to be obtained; and- Variability of tender prices was also investigated where evaluative criteria were comparable.2 <i>Enhancement of opportunities for local business</i><ul style="list-style-type: none">- The guidelines require departments to contact the ISO for all purchases over \$50 000 and to seek at least one quote from local business or through ISO for items in

the range of \$10 000 to \$50 000.

3 *Management*

- Consultants and contractors to be engaged at the Head of Department or Deputy Secretary level; and
- Authorisations and monetary limits should be set in writing and adhered to.

4 *Tender process*

- Tenders must be advertised;
 - Outcomes advised in writing;
 - Opportunity for a debriefing be provided; and
- Information on all tenders over \$50 000 be provided to Treasury.

5 *Communication and coordination of departmental procurement policies, practices and activity*

- How information on the *Handbook* is communicated to officers with purchasing responsibility; and
- How information on in-house purchasing requirements (for goods and services only) is communicated to officers with purchasing responsibilities.

6 *Training and educational standards of buyers*

- Training attended (forums etc);
- Degree of experience in procurement; and
- Knowledge of the *Handbook*.

7 *Administration of grants*

- How the department decides goods or services acquisitions should be administered as a 'purchase' (*Handbook for Government Procurement*) or a 'grant' (*Best Practice Guide for the Administration of Grants in the Tasmanian Public Sector*);
- Any uncertainty in deciding whether funding is a purchase or a grant; and
- Controls used to ensure that the most appropriate guidelines are applied.

In addition Audit examined the mechanisms in place within departments to identify the acquisition of communication and networking equipment

- Whether there is an audit trail in departments to identify purchases of these classes of equipment.

Opinion and Conclusions

1 *Value for money utilising open and effective competition*

- All but two departments had sought mandatory quotes and tenders in a majority of cases. Justification was provided where *Handbook* conditions had not been followed;
- Selective tenders or direct commissions were often

conducted without an exemption being obtained from Treasury; and

- In one department a majority of acquisitions had not been handled in accordance with the *Handbook*.

2 *Enhancement of opportunities for local business*

- Use of the ISO was quite limited. Just one department had used it on each occasion examined and one other had used it on a majority of cases. For the rest, however, it was seldom if ever contacted. This was either due to a lack of awareness of the need to do so or the view that the required goods or services were of a "specialised nature" with a restricted field of providers; and
- The lack of contact with ISO does not appear to have disadvantaged Tasmanian businesses however, as quotes and tenders from local businesses were usually sought.

3 *Management*

- Engagement of contractors was in accordance with the *Handbook* in all departments with one exception; and
- Adherence to financial delegations was confirmed in the majority of cases with only occasional exceptions.

4 *Tender process*

- In seven departments this criterion was met with only occasional departures (eg some direct purchases or contract extensions); and
- In two departments there were higher incidences of non-compliance with requirements of the *Handbook* (eg verbal quotations instead of written, more frequent direct purchasing).

5 *Communication and coordination of departmental procurement policies, practices and activity*

- Five departments made the *Handbook* accessible on their Intranets or had hotlinks to the Treasury web site and three had produced in-house procurement guides;
- Six departments had some form of central coordination of purchases over \$10 000; and
- Despite these mechanisms there were still responses that showed a lack of awareness of communications protocols in regard to procurement.

6 *Training and educational standards of buyers*

- Levels of staff experience varied. There were those who have worked in this field for years and who have acquired a wide knowledge. However, there is a need to train upcoming staff especially those who regularly take on procurements over \$10 000.

7 Administration of grants

- Not all departments are involved in grants administration. Those that are have their own guidelines derived from the *Best Practice Guide* that allow a distinction to be drawn between grants and other forms of acquisitions. It was considered that this individualised approach may lead to inconsistencies across departments and it was therefore recommended that Treasury more clearly define the difference between a 'grant' and a 'purchase' and that this be in line with the GST definition.

8 Identification of communication and networking equipment

- Four departments can track these purchases through their financial management systems;
- Two departments rely on stand-alone purchase recording practices in their IT areas; and
- Three departments would need to manually retrieve details of purchases.

Based on the evidence collected, I conclude that for the most part departments have demonstrated a satisfactory level of compliance with the requirements with the *Handbook* although distinct areas for improvement have been recommended.

SUMMARY OF AUDIT RECOMMENDATIONS

Treasurers' Instructions should include a requirement that all exemptions granted by the Secretary of Treasury, and the reasons for the granting of the exemption, be disclosed in the Treasury Annual Report thus ensuring transparency through integrated public scrutiny.

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Departments should increase awareness and the availability of the *Handbook for Government Procurement* and agency-specific guidance, and provide tools, systems and training to increase the competence of staff involved, or likely to be involved, in procurement activities.

The *Best Practice Guide for the Administration of Grants in the Tasmanian Public Service* should be updated with particular focus on the definition of the term 'grant'. The extent to which the term 'grant' is applicable in Government, especially in relation to fee for service payments, should then be established.

Page 16

Treasury should release a policy statement on the applicability of 'commercial-in-confidence' as it relates to procurement practices in departments.

Page 18

Departments should undertake regular administrative reviews of contract specifications in order to facilitate open and effective competition.

Full and detailed justifications must be recorded where restrictive tender specifications exclude a wide range of potential bidders.

For large and complex requirements, particularly where there is either a single supplier, or the number of suppliers is limited, departments should consult with Treasury to establish a framework for the purchase and contracting process.

Treasury should include guidelines to departments in the *Handbook for Government Procurement* on the process required for contract extensions.

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Specific departmental recommendations are detailed in the relevant departmental section of this report.

AUDIT OBJECTIVES, APPROACH AND COST

Audit Objective

The objective of this performance audit was to ascertain the degree of compliance of departmental procurement practices with policies and procedures as well as having regard to the broader concepts of probity and accountability.

Scope of the Audit

Entities examined included departments only - Government Business Enterprises, (GBEs) Statutory Authorities and state-owned companies are not subject to the *Handbook*, instead relying on entity-specific policies and procedures.

In the initial stage of the implementation phase, the effectiveness of the communicative mechanism of departmental procurement practices to officers with purchasing responsibilities was ascertained. The extent to which a centralised approach was undertaken for the coordination of information on procurement activity was also established. Taking this information into account the examination then focussed on compliance with key aspects of the *Handbook* including those requirements that aim to ensure value for money including open and effective competition, enhancement of opportunities for local business, management, the tender process and staff experience.

Further, due to the circular nature of the definitions used for a 'service' and a 'grant' respectively as per the *Handbook* and the *Best Practice Guide*, we sought to determine the framework for managing expenditure in each of these areas.

Finally, as a result of both communication and networking equipment purchases being excluded from the Treasury IT common use contract (C150), and difficulties encountered during the pilot exercise in identifying this equipment in transaction processing systems, we also sought to query the means by which these purchases were administered.

Audit Criteria

Audit criteria were established in line with the objectives underpinning the *Handbook*, these included:

1. *Value for money utilising open and effective competition* – Open and effective competition was examined according to the tender and quotation requirements of the *Handbook*. For goods and services greater than \$50 000 tenders should be sought, while for those with a value between \$10 000 and \$50 000 it is a requirement that a minimum of three quotations are obtained. Variability of tender prices was also investigated where evaluative criteria were comparable.
2. *Enhancement of opportunities for local business* - The *Handbook* was revised to reflect the Tasmanian Government's policy initiative to assist Tasmanian small to medium businesses increase their opportunity to obtain Government business. To this end the guidelines require departments to contact the ISO in respect of all purchases above \$50 000 and to seek at least one quote from local business or through ISO for items with a value between \$10 000 and \$50 000.
3. *Management* - A requirement of the *Handbook* is for consultants and contractors to be engaged at the Head of Agency or Deputy Secretary level and for authorizations and monetary limits to be in writing and observed.

4. *Tender process* - Primary requirements in terms of the tender process are for tenders to be advertised, outcomes to be advised in writing, opportunity to be provided for a debriefing if requested and information in respect of all tenders greater than \$50 000 to be provided to Treasury.

In addition the Audit Office examined:

- Communication and coordination of information on departmental procurement policies, practices and activity;
- Training and educational standards of buyers;
- Administration of grants; and
- Identification of communication and networking equipment.

Audit Methodology

This performance audit was limited to an examination of the procurement practices of goods and services as prescribed by the *Handbook*. Purchases in respect of public works, building, construction and land development contracts and items subject to common use contracts which are regulated according to other guidelines, were not investigated. Consequently, audit criteria derived from the *Handbook* were the primary terms of reference.

Early pilot audit exercises indicated that there may be other aspects of the procurement guidelines which could either be ambiguously interpreted or which may have been omitted altogether. In order to further establish the extent to which this was the case, survey instruments were provided to Government buyers and suppliers inquiring of procurement activity and perceptions of the usefulness of the *Handbook* as a guide to policies and procedures.

Approximately ten to fourteen purchase transactions were examined for each department according to the audit criteria. A minimum of two of this set were of a value within the \$10 000 to \$50 000 range, and these were examined according to the quotation requirements of the *Handbook*. The remaining transactions selected were of a value of in excess of \$50 000 and were examined according to the *Handbook's* tender requirements.

Report Format

The first section of this report covers those audit criteria that were aggregated to a State level due to the similarity in the responses received from auditees. The criteria amalgamated at this level are:

- Open and effective competition – Granting of exemptions;
- Utilisation of the Industrial Supplies Office;
- Staff experience;
- Administration of grants; and
- Networking equipment.

In addition, three issues were identified as a result of this audit that were considered to be pertinent to all departments. The first relating to the Australia New Zealand Government Procurement Agreement, the second to commercial-in-confidence restrictions and the third to limited sources of supply.

The next section outlines data received in response to our survey instruments, both the extended survey sent to sectional representatives and the briefer survey sent to key

procurement officers, again aggregated to a State level. It also presents results of a supplier survey that offers some useful insight into the level of awareness and acceptance of the *Handbook* by suppliers of goods and services.

The report's final section discusses the audit findings by department against the remaining audit criteria, namely:

- Open and effective competition;
- Local opportunity;
- Management;
- Tender process; and
- Departmental conclusion.

Tables in the appendices, reporting individually by departments, list the acquisitions that were examined during the audit and that form the basis of our findings and recommendations.

Audit Steering Committee

The steering committee comprised representatives from each department as well as from the Procurement Advisory Group (PAG), the Industrial Supplies Office (ISO) and the Tasmanian Chamber of Commerce and Industry. The committee met in May 2000 to provide guidance in relation to the terms of reference, the audit criteria and the survey instruments. It also convened in November 2000 to discuss and confirm this final report.

Audit Resources and Timing

Planning for the performance audit commenced in May 2000. Testing at departments occurred during May through October 2000. The report was finalised in November 2000.

The total cost of the audit, including the cost of Tasmanian Audit Office staff but excluding report production costs, is estimated at \$81 745.00

BACKGROUND

In May 1999 the Premier released the results of industry audits which revealed that there was substantial concern amongst Tasmanian firms that they were missing out on supplying government departments because of public sector policies and procedures¹. A range of initiatives to address this issue were therefore announced. These included the establishment of the PAG and a state-wide series of forums to inform small to medium-sized enterprises of procurement procedures and policies. Subsequent amendments were also made to the *Handbook*. The Premier also stated that in the past Tasmanian firms had won almost 70% of contracts but there was room for significant improvement.

The Handbook for Government Procurement

In May 1997 Treasury released the *Handbook* as a means of consolidating existing policies, practices and guidelines under an articulated framework. The *Handbook* was revised in June 1999 and again in September 2000.

With the release of the revised *Handbook* in June 1999 a new proactive approach was adopted and a more aggressive selling strategy pursued, both to the departments that administered the expenditure and to the private sector that were seeking business opportunities, particularly Small Medium Enterprises (SMEs). The PAG was established to keep in touch with business feedback as well as to ensure that the focus remained on giving Tasmanian businesses a full and fair opportunity to apply and tender for government expenditure.

An important change initiated by the PAG was that in the case of all projects above \$50 000 it was mandatory for at least one Tasmanian tender opportunity to be sought. Through the involvement of the ISO, Treasury sought enhanced opportunities for local businesses to ensure full and fair opportunity, including those tendering for under \$50 000. Through this approach the reasons that businesses do not tender or are not successful in tendering might be ascertained.

According to the Tasmanian ISO web site, the national ISO network has helped companies find Australian products and services worth over \$2 billion and in the process over 60 000 jobs have been created, exports have increased and foreign debt has been reduced. Nationally, independent evaluation has determined that \$1 million of new local business generates or retains 30 jobs, returns approximately \$280 000 in taxes to government, saves about \$231 000 in welfare payments and injects around \$280 000 in consumer spending. There are similar advantages of supporting Tasmanian business in the proposed manner.

The primary objective of government is to achieve value for money in the procurement process. There are many high risk aspects of procurement management which include instances of failure to call tenders when appropriate, failure to provide a reasonable opportunity to local suppliers to compete, and failure to implement mandated procedures (including the debriefing of failed tenders). Although details of time limits are not prescribed in the *Handbook* the allocation of sufficient time for the submission of tenders is also regarded as an important component of procurement practice.

¹ House of Assembly, Wednesday 26 May 1999, Part 1, page 1-54, *Public Sector Procurement Policy*, Hansard

The *Handbook* defines 'local' suppliers as:

'Tasmanian based suppliers, manufacturers and service providers. This includes all businesses operating in the State, which have a permanent office or present in Tasmania and employ Tasmanian workers'.

Departments have assumed that a small holding office in Tasmania for a multi-national company is a Tasmanian business, however, ISO considers that this type of holding does not really afford fiscal value to the community and inclusion in an analysis can result in distorted statistics.

Financial Management Reform Strategy

Progress with respect to Tasmania's Financial Management Reform Strategy has been summarised in annual reports produced by Treasury since 1997. Reform has been motivated by demands for additional services or reduced taxation whilst maintaining the existing level of goods and services that the Government currently makes available to the community. It is considered necessary to find ways to improve the efficiency of the public sector by enabling it to become more business-like. To this end, the PAG has met four times since its inception in July 1999. Minutes reveal the group's intention to:

'...provide advice on the strategic coordination of the various government funded groups established to assist SMEs'

as well as

'... the provision of advice on national policies and practices'.

Financial Management strategy for government departments reported in the Government Procurement Action Plan November 1999 as compiled by the PAG involves:

- Encouraging other Government organisations to assist Tasmanian SMEs;
- Organisation of a *Meet the Buyers* workshop in Hobart and Launceston for August/September 2000;
- Development of a Tasmanian Government Tenders Web site that provides a list of departmental procurement contacts and current tender advertisements;
- Organisation of seminars for Government buyers;
- Standardisation of placement of tender advertisements (in the Saturday edition of the *Mercury* and the Tasmanian Government Tenders Web site);
- The establishment by Treasury of a central register/database of past tenders let by Government departments and Government Business Enterprises (GBEs), commencing from the quarter ending 30 September 1999;
- Facilitation of the development of procurement competency standards and training for departmental staff involved in procurement activities by December 1999; and
- Identification of a range of initiatives by the PAG to further enhance opportunities for Tasmanian industry to be submitted to the Government for consideration by November 1999.

The Action Plan also proposes concrete recommendations for the PAG to facilitate:

- Review of other States' procurement policies;
- Increase of business opportunities for Tasmanian SMEs;
- Enhancement of electronic procurement;

- Provision of information on Government procurement to SMEs;
- Consideration of the impact of the Government's Policy Framework on Tasmanian SMEs;
- Establishment of a procurement complaints mechanism;
- Increase of the awareness of Government buyers; and
- Compliance to procurement practices.

Treasury's central register of past tenders has been produced primarily for the purpose of gauging the extent of local involvement, although it is intended that performance indicators and benchmarks will also be drawn from this register for the monitoring of procurement practices. As data had only been collected for three quarters at the time of conducting the audit it was not possible to draw firm conclusions about local involvement.

Reviews and Audits in other Jurisdictions

The Queensland Audit Office has conducted a performance management system audit titled *Competitive Procurement Practices within the State Budget Sector* as reported in *The Auditor-General's Report No. 1 1998-1999 on Audits performed for 1997-1998*. The audit was directed to establishing the level of adherence by public sector entities to the competitive procurement provisions of the State Purchasing Policy.

The audit found that in the majority (70%) of the areas examined the requirements of the State Purchasing Policy and local instructions were being followed.

Purchasing knowledge was found to be deficient in 30% of departments as a result of either a high staff turnover or a high proportion of temporary staff. Further, there appeared to be considerable uncertainty across departments as to the practical application of exceptions, particularly in regard to the level of quotes required from Government business units. Finally, in view of the current climate in which there is considerable staff movement in and out of the public sector, Audit considered that sound review mechanisms should be introduced to identify any areas where conflict of interest issue could arise.

Most recently, the Queensland Audit Office has produced a leaflet titled *Considerations for Better Management of General Procurement Practices*. A Performance Management System audit was conducted to establish the level of adherence by public sector entities to the competitive procurement provisions of the State Purchasing Policy. As an outcome of the review the guide was produced to provide assistance to administrators in the general procurement of goods and services.

A number of reviews have also been carried out by other Audit Offices in relation to outsourcing:

- The Victorian Auditor-General's Office, conducted three reviews: *Office of the Valuer-General* in 1993; *Privatisation: An Audit Framework for the Future* in 1995; and *Metropolitan Ambulance Service: Contractual and Outsourcing Practices* in 1997. The first report concerns the commercialisation of valuation services; the second report, while addressing privatisation rather than competitive tendering and contracting, was useful in its best practice recommendations for procedures and contractual clauses; and the last report concerns accountability and transparency matters relating to the consultancy and outsourcing contracts entered into by the Service;
- The Australian Capital Territory Government Audit Office produced a report in 1995 titled *Contract for Collection of Domestic Garbage*. The audit examined a particular tender process in depth, especially in regard to accountability and transparency issues;

- The Western Australian Office of the Auditor-General issued its report *Contracting for Services*, also in 1995, which reviewed four case studies where CTC was adopted;
- Three of the Australian National Audit Office's reports were referred to during this audit: *Commercial Support Program* in 1998, *Management of IT Outsourcing*, tabled in 1996, and *Defence Contracting* in 1995. All of these audits raised the importance of setting out statements of requirements in detail at the earlier stages of the process, as well as monitoring the service level provided by the contractor;
- The Auditor-General for the Northern Territory's August 1998 and February 1999 reports to the Legislative Assembly included a discussion of accountability and public law implications of contracting out services, particularly in regard to commercial-in-confidence arrangements, and the need for staff with appropriate skills to actively manage these contracts; and
- The Audit Office of New South Wales' 1998 report, *Department of State and Regional Development – Provision of Industry Assistance* also examined the effect of invoking commerciality-in-confidence on monitoring performance and overall accountability of departments to Parliament.

COMBINED STATE FINDINGS: AMALGAMATED CRITERIA

Open and Effective Competition – Granting of Exemptions

Open and effective competition was examined according to the tender and quotation requirements of the *Handbook*. The only avenue available to discharge departments from the responsibility to adhere to the *Handbook* is to request an exemption from Treasury. Of the acquisitions sampled in this audit Treasury had requested a higher percentage of exemptions than had other departments. Audit found that on many occasions departments should have requested exemptions as the correct tender or quotation process was not applied.

Further, the *Handbook* does not cover the situation where the Secretary of Treasury is involved in the procurement process and therefore holds dual responsibilities. On seeking the opinion of the Secretary of Treasury his subsequent response was as follows:

‘...there is a well-established process in Treasury for the assessment of applications for tender exemptions whether for Treasury procurement or procurement by other agencies. This process, involving independent assessment by the Director, Procurement and Property and a formal recommendation to me, applies to applications from all agencies, including any applications from units within Treasury. The assessment process involves rigorous evaluation of the arguments supporting the application, detailed consideration of the value for money implications of a closed or selective tender, and an assessment of any other risks and benefits for the Government. In many cases, agencies are required to provide additional detailed information in support of such applications. My choice is to accept or reject the recommendation of the Director, Procurement and Property. I have not overturned a recommendation not to approve an application for a variation.’

Recommendation

Treasurers’ Instructions should include a requirement that all exemptions granted by the Secretary of Treasury, and the reasons for the granting of the exemption, be disclosed in the Treasury Annual Report thus ensuring transparency through integrated public scrutiny.

Industrial Supplies Office

The *Handbook* requires departments to contact ISO in respect of all purchases above \$50 000 and to seek at least one quote from local business, or through ISO, for items with a value between \$10 000 and \$50 000. Not one department was able to demonstrate that they rigorously applied this requirement, particularly for purchases in excess of \$50 000. Very few departments initiated contact with the ISO at the time of preparing tender documentation.

The ISO is a national organisation with offices in all states and territories and should be utilised as a resource by departments to source suppliers of goods and services.

Staff Experience

The *Handbook* stipulates that staff involved in procurement should have appropriate training and educational standards. In keeping with this principle, we investigated knowledge of the guidelines as well as the level of experience of staff engaged in acquisitions.

Levels of experience with procurement varied among departments. Staff in larger departments who had undertaken dedicated purchase and contract management functions over a period of years had gained high degrees of expertise. Likewise, in some departments the procurement function is largely centralised. Other examples of procurement that we reviewed involved staff

operating in specialised environments where specific procedures were sometimes applied that were not covered by the *Handbook*, as was the case with Joint Marketing Agreements at the Department of State Development.

A high percentage of staff involved in the coordination of, or who had ultimate responsibility for, the acquisition of goods and services with a value greater than \$10 000 had not received any formal procurement training. Some acquisitions involved managers or staff in the oversight or preparation of their first tender proposal. Where it is likely that staff will be called on regularly to undertake procurement activities, especially those over \$10 000, some formal training in the requirements of the *Handbook* needs to be given.

Recommendation

Departments should increase awareness and the availability of the *Handbook* and agency specific guidance, and provide tools, systems and training to increase the competence of staff involved, or likely to be involved, in procurement activities.

Administration of Grants

Under the 'Interpretation' section of the *Handbook* the following exclusion is made from the definition of the term 'services':

'...payments made directly to employees, superannuation and pension payments, statutory and involuntary payments, and grants, subsidies and transfer payments.'

Thus, grants should not be administered under the provisions of the *Handbook*. Establishment of the conditions under which a grant should be administered, however, is not straightforward due to the definition of 'grant' encompassing the same function as that for purchasing a service or a product. A 'grant' is defined in the *Best Practice Guide* as:

'Funding provided to the non-government sector for a service or product' (p1).

Given the apparent ambiguity, departments were queried as to how they differentiated between these apparently overlapping categories.

Responses indicated that not all departments administer grants. Those that do stated that they have their own guidelines derived from the *Best Practice Guide* that enable further distinctions to be made between purchases and grants. Alternatively, some departments administer grant schemes that have their own administrative guidelines and internal controls (eg the First Home Owner's Grant Scheme administered by Treasury).

Where they do exist, in-house guidelines are used in managing all aspects of funding of services to grant recipients. Generally, they stipulate the requirements to which applicants must adhere in seeking grants and describe the criteria that administrators use in assessing them.

One respondent made the point that the *Best Practice Guide* may need updating and that it would be advantageous to place it on Treasury's tender web site.

Recommendation

The *Best Practice Guide for the Administration of Grants in the Tasmanian Public Service* should be updated with particular focus on the definition of the term 'grant'. The extent to which the term 'grant' is applicable in Government, especially in relation to fee for service payments, should then be established.

Networking Equipment

As a result of the exclusion from the scope of the C150 common use contract of communication and networking equipment², and consequential difficulties that may have been encountered in identifying such equipment through accounting systems, information was requested on the means by which an audit trail might be established for these classes of equipment.

The extent to which departments were able to track these purchases and distinguish between the respective classes of equipment varied. In some, there was differentiation along budget lines within financial reporting systems where purchases are classified as under or over a particular financial threshold. The capture of purchase data for communication and networking equipment is possible through a more sophisticated chart of accounts and several departments operated in this way. More frequently though, respondents did not view this level of detail as especially useful and regarded the further breakdown of expenditure coding as unmanageable. Also, it was reported that these acquisitions were usually made through centralised organisational units (eg Information Management Branch) where separate recording mechanisms, such as spreadsheets, were employed obviating the need for identification in financial management systems.

Australia New Zealand Government Procurement Agreement

The Australia New Zealand Government Procurement Agreement (ANZGPA) aims to eliminate discrimination between Australian states and territories and New Zealand based on state of origin. Under the ANZGPA the Tasmanian Government agreed to give equal consideration to all Australian and New Zealand suppliers of goods and services. Within the context of the Agreement, the Tasmanian Government has in place a policy to seek out and provide opportunities to local suppliers to submit bids for State contracts. The *Handbook* encourages departments to give preference to locally sourced goods where evaluation criteria are comparable.

Also in the context of the Agreement, the Tasmanian Government, while giving equal consideration to all Australian and New Zealand suppliers, will apply a 10 per cent preference margin to the imported content of overseas (ie non Australian or New Zealand) goods and services.

The *Handbook* clearly outlines the requirements of the ANZGPA as it applies to Australian and New Zealand content and overseas suppliers. Departments need to raise awareness and provide access to the *Handbook* and its relevant information on this issue to avoid misinterpretation by uninformed officers.

Commercial-In-Confidence

Our investigation into the meaning and extent of coverage of the term 'commercial-in-confidence' has revealed some ambiguity surrounding the use of the term. Treasury has advised that the term 'commercial-in-confidence' generally relates to the specific terms and conditions of individual contracts and that the successful supplier's name, and the full contract price, should be publicly available in order to ensure full transparency of Government procurement activities. The *Handbook* states that unsuccessful tenderers should be advised of the successful tenderer, although it does not specifically extend this requirement to include the contract price.

² This contract lists suppliers who have been chosen through a tender process to supply Information Technology requirements to all Tasmanian State Service Agencies operating under the *Financial Management and Audit Act 1990*.

Currently the Victorian, Western Australian and New South Wales State Governments publish details of government tenders, which include the successful supplier's name, address and the total contract price.

The Victorian Public Accounts Committee published a report entitled *Inquiry into Commercial in Confidence Material and the Public Interest* in March 2000 that discussed the issue of 'commercial-in-confidence' at length. This report stated:

'...open and accountable government can be undermined by the overuse of commercial confidentiality reasons to deny the Parliament and the public access to information.'

The Committee also considered that:

'...the decision as to whether or not to disclose commercially sensitive information should be made according to the general principle that information should be made public unless there is a justifiable reason for withholding access to it.'

Concern was raised by one department regarding the publishing of contract prices and contractor details and it is considered that this issue will need to be addressed by Treasury.

Recommendation

Treasury should release a policy statement on the applicability of 'commercial-in-confidence' as it relates to procurement practices in departments.

Limited Sources of Supply

Of cause for concern to Audit were two common departmental explanations for non-compliance with the *Handbook*; the first related to earlier purchasing decisions resulting in the department being tied to the original supplier for future upgrades or expansions; and the second related to the development of specialised expertise through the ongoing engagement of a particular supplier.

Acquisition decisions that subsequently restrict future purchase options

This issue is relevant to many departments and was particularly noticeable in relation to technological fields where the decision had been made to prefer one type of equipment or operating system instead of others. Such situations underscore the importance of complying with the requirements of the *Handbook* when entering into the initial contract, which includes making contact with the ISO. Moreover, it highlights the need to ensure that departments assess their potential future demand for the product or service at the time of the original procurement. In this way it may be possible to forecast the level of future reliance on a specific product or service and to recognise the risks and limitations that may accompany purchase decisions.

The *Handbook* should contain warnings to departments of the potential risks and provide guidance for future market testing when departments have committed themselves to this type of monopolistic situation.

An individual or firm develops a unique level of expertise through ongoing engagement

During the examination of departments' acquisitions that were selected for our sample, a tendency came to light that could lead to criticism of procurement practices used in the engagement of technical experts, consultants and contracted internal auditors. Often as a result of small-scale involvement a relationship developed between the contractor and the department that was aided by the contractor's opportunity to expand their knowledge of the client's operating processes or business environment. While these circumstances may, to some extent,

be inescapable there is still a risk that undue advantages can arise for certain parties to the detriment and even exclusion of others. Later, when larger tasks emerged or when smaller projects evolved into larger ones the contractor was in an advantageous position vis-à-vis other potential bidders. Similarly, we also observed cases where original contract periods had been extended – sometimes substantially – without re-tendering.

Although the development of expertise from a zero base can be costly and time consuming for departments, the conditions of the *Handbook* still apply. Where departments believe it is not cost effective or efficient to comply with tendering or quotation provisions they are required to seek an exemption from Treasury. Section 1.3 of the *Handbook* deals with open and effective competition (which is one of the four fundamental principles enshrined in the *Handbook*) and states that this objective can be achieved through *inter alia*:

- 'Procurement policies, practices and procedures being visible to the suppliers, the Government and the community; and
- Buyers accepting their accountability to the Head of Agency and to the Minister.'

To support these objectives it is necessary to justify decisions made in respect of procurement and to review specifications that may give rise to situations that could subsequently bestow an unfair advantage on certain bidders.

The *Handbook* does not provide direction to departments on the acceptable practice for contract extensions in these circumstances, or generally in relation to exercising contract extension options.

Audit recommendations made to the departments concerned have included the need for administrative reviews of specifications, and the full recording of justifications for the development of restrictive specifications. It has been further recommended that they should consult with Treasury to establish a framework for the purchase and contracting process where there are large and complex requirements.

Recommendation

Departments should undertake regular administrative reviews of contract specifications to facilitate open and effective competition.

Full and detailed justifications must be recorded where restrictive specifications exclude a wide range of potential bidders.

For large and complex requirements, particularly where there is either a single supplier, or the number of suppliers is limited, departments should consult with Treasury to establish a framework for the purchase and contracting process.

Treasury should include guidelines to departments in the *Handbook* on the process required for contract extensions.

Survey Results: Suppliers

A survey instrument was distributed to a sample of 138 suppliers of goods and services. The purpose was to gauge the level of user awareness and acceptance of the *Handbook* as it applied to goods and services acquired by government departments since 1 July 1999. The random sample was selected from the ISO database with some additional suppliers being identified by Treasury. Building, construction, land development and common use contract items were excluded from the scope of the survey. The industries surveyed included: cleaning and waste management; medical supplies; IT and communications; courier services; security; clothing; printing; laundry; consulting; food services; and prison services.

Procurement Activity

Twenty-seven of the 138 surveys distributed were returned, giving a 19.6% response rate. Of the respondents who had bid for government tenders with a value greater than \$50 000 since 1 July 1999, ten (37%) had been successful in obtaining the contract. Of those who had submitted quotations for goods and services with a value greater than \$10 000 and less than \$50 000, fifteen (57%) had been successful.

Survey responses indicated that communication of government tender opportunities was mainly achieved through local newspapers. Other sources mentioned included direct contact by departments, word of mouth and Treasury's tender web site.

Awareness of the Handbook for Government Procurement

The majority of survey respondents were unaware of the *Handbook* with only 7 (26%) aware of its existence. Of the minority, only 3 (11%) considered its coverage to be adequate. Two respondents (7%) did not consider that it adequately covered the issue of dealing with potential conflicts of interest in government procurement. Other inadequacies identified included the coverage of contract splitting and expressions of interest as well as the issue of State versus local purchasing preferences and the scope of common use contracts.

Two respondents cited instances where they believed there had been a breach of the requirements of the *Handbook*. The first instance was where the previous contractor had been conducting site visits for the principal and then tendered for the work. The second case related to printing contracts with a value less than \$10 000. It was stated that printing contracts with a value less than \$10 000 automatically went to the Tasmanian Government Printing Authority without the need for departments to obtain quotations from other suppliers.

Given the limited amount of detail provided, it does not appear that these examples were in direct breach of the requirements of the *Handbook* although they do provide some insight into the public perception of a breach.

General Comments

Two respondents from the medical supply industry had strongly held views that the use of a major Victorian supplier of medical products was impacting on Tasmanian competitors.

Other comments and suggestions from survey respondents included:

- All government work should go out to tender;
- The difficulty in being recognised as a government supplier;
- The requirement for debriefing was strongly supported;
- The misconception that national companies do not contribute to the local economy needs to be addressed; and
- A flowchart for the purchase of goods and services would make the tender process easier to follow.

The low response rate to this survey makes it difficult to draw a robust conclusion in regard to business' level of awareness and acceptance of the *Handbook*. It is clear from the replies received that the level of awareness of the *Handbook* is extremely low as is awareness and understanding of the role of the ISO, although this may not be representative of the whole. The comments and suggestions provided, as well as the limited communication mechanisms relied upon by survey respondents, indicates a need for improvements in the promotion of tender and quotation opportunities.

Survey Results: Buyers

Two sets of survey instruments were distributed across departments. The first was an extended survey sent to sectional representatives that covered procurement activity and sought opinions on the adequacy of coverage of the *Handbook*. The second survey targeted key procurement officers and sought their views on the adequacy of coverage of the *Handbook*.

Departmental Procurement Activity

From responses received to the first of the surveys (that sent to the sectional representatives) the scale of departmental procurement activity was revealed. Details are given in Table 1 in which the relative levels of procurement can be gauged.

Table 1: Survey Response: Buyers – Departmental Procurement Activity

Department	Number of staff with full-time procurement responsibilities	Knowledge of communication mechanism for the department's procurement policies	Number of times that assistance was sought from the ISO since 1 July 1999
DoE	0	Majority † (28)*	5
DHHS	21	Majority (13)*	21
DIER	0	Majority (4)*	1
DJIR	2	Majority (4)*	2
DPAC	2	Limited (4)*	3
DPIWE	10	Majority (19)*	2
DPPS	4	Majority (7)*	22
DSD	0	Limited (3)*	0
Treasury	3	Limited (8)*	0

†Refers to proportion of responses received

*Number of survey forms returned from employees with some procurement responsibilities

Adequacy of Handbook coverage

As indicated above, two sets of opinions were sought on the adequacy of coverage of the *Handbook* – one from key procurement officers and the other from representatives at the section level. A frequently raised point related to the definitions used in the *Handbook* and limitations or difficulties associated with them. Table 2, lists these problems cited by both groups of respondents together with other views on the *Handbook's* adequacy.

Table 2: Survey response: Buyers – Adequacy of Handbook Coverage

Dept	Procurement staff concerned about aspects of the Handbook	Clear definitions needed for particular terms?	More accessible source of advice	Specific suggestions?
DoE	All	Item, sufficient time, comparable, locally sourced, building – construction and land development contracts, conflict of interest, renewal and variation of contracts, expressions of interest, common use contracts	Ambiguous to non-expert users Training for general users	Yes *
DHHS	50%	Sufficient time, conflict of interest, splitting, renewal and variation of contracts, expressions of interest and common use contracts, Goods and services, contract period	Consulting advice during tender processes, perhaps via a 1 800 phone service	Yes *
DIER	75%	Item, sufficient time, locally sourced construction and land development contracts, conflict of interest, renewal and variation of contracts, expressions of interest, State versus local purchasing, splitting	No	No
DJIR	Nil	No	No	No
DPAC	Nil	No	No	No
DPIWE	11%	Locally sourced, renewal and variation of contracts, splitting	No	No
DPPS	Nil	No	No	Yes *
DSD	Nil	Leasing Briefing u/s Negotiating terms	No	No
Treasury	Nil	Item, expressions of interest, splitting	No	Yes *

* Refer to Appendix 10 for details of these suggestions.

Examples of the definitional problems referred to in Table 2 are as follows:

- 'Item' particularly unclear for Roads and Transport Division of DIER. Approximately \$30 000 was spent on globes while \$20 000 was spent on lanterns for traffic signals. Should the procurement should have been treated as two separate items or one item with a value of \$50 000?
- 'Construction' DIER's Roads and Transport Division deemed that roads program expenditure was 'construction' as it was funded from the Capital Investment Program while traffic signal construction and maintenance was not classified as 'construction'.

The need to have definitions that encompass all situations that officers involved in procurement could foreseeably encounter has to be balanced against the requirement to keep it reasonably succinct and easy to use. As an alternative, the *Handbook* should have contact officer details so that departmental staff could readily query aspects of procedures that were not clear.

Audit Office Conclusion

Adherence to the principles upon which the Government's procurement is based relies on buyers being adequately trained to perform their duties. Since the decentralisation and devolvement of the procurement function to, and within departments, the responsibilities of staff performing project, financial and program management frequently involves procurement and contracting activities. It is important that Heads of Agencies recognise this shift and implement appropriate systems and training to maintain a competent level of knowledge and skills to support departmental procurement activities.

As a result of reviewing the sample of acquisitions across departments, and from an analysis of the buyer survey feedback, there seems to be a need for more direction to be given by Treasury to various facets of procurement. First, the issue of commercial-in-confidence should be addressed so that there are guidelines that enable departments to more easily approach the matter consistently. Secondly, departments must appreciate the ramifications of the tendering process, particularly when drafting contract specifications, so that open and effective competition is encouraged. Finally, a majority of departments signalled definitional problems with some of the key terms used in the *Handbook*. Either these terms need to be more fully explained or contact staff made available to support departmental staff when they have difficulty with matters of interpretation.

DEPARTMENT OF EDUCATION (DoE): PROCUREMENT PRACTICE

The following section details the audit findings for the Department of Education against the following audit criteria:

- Local opportunity;
- Open and effective competition;
- Management;
- Tender process; and
- Audit Office conclusion.

Excluded from this section are the recommendations aggregated at State level which commence on page 15 of this report and address:

- Open and effective competition – Granting of Exemptions;
- Staff experience;
- Administration of grants;
- Networking equipment;
- Australian New Zealand Purchasing Agreement;
- Commercial-in-confidence; and
- Limited or single sources of supply.

Appendix 1 lists the acquisitions that were examined during the audit and that form the basis of our findings and recommendations and Appendix 10 details the specific suggestions made in regard to the *Handbook*.

General

Initially, we intended to examine purchases undertaken within DoE by both Head Office and schools. Given that the bulk of school purchases over the \$10 000 and \$50 000 thresholds was for IT equipment which is covered by the C150 common use contract, and an investigation of network related purchases not covered by the C150 was not straightforward, we did not consider it appropriate to conduct a full examination of school purchases.

Communication and coordination of information on departmental procurement policies, practices and activity were examined in the first instance to establish the context within which procurement was managed. The implementation of additional in-house procurement guidelines that were designed to serve specific departmental needs was also investigated.

Identified procurement requirements that are additional to the *Handbook* within DoE were as follows:

- Draft *DoE Handbook for Procurement* – DoE;
- Competitive Bids Guidelines - Office of Vocational Education and Training (OVET);
- Commonwealth Department of Education, Employment and Training for Youth Affairs (DEETYA); Funding Contract for the Small Business Professional Development (SBPD) Best Practice Programme – OVET; and
- In-house Probity Document - Office of Education (Open IT).

In DoE, the provision of policy advice and assistance in relation to procurement and disposal of goods and services is carried out by the Finance and Procurement Services (FPS) section. At the time of audit, FPS were in the process of preparing a matrix of requirements from the *Handbook* to assist DoE purchasers. The matrix was to consist of a summary of important points to direct purchasers to the correct section of the guidelines as well as to ensure that all aspects of procurement are covered and form part of a *DoE Handbook for Procurement (DoE Handbook)*.

Following approval, the *DoE Handbook* was to be distributed in the same manner as the Treasury handbook, ie in both hard copy form and on the Intranet. In addition, procurement seminars were to be conducted for procurement officers throughout the department and preparations had begun for a program of seminars across the State. DoE was also producing a Delegations Manual that was to include all delegations and administrative authorities. The requirements of the *DoE Handbook* were to be disseminated to the relevant sections.

Contracts within FPS are advertised and awarded in two very specific areas – works, and goods and services. All works contracts let with a value greater than \$50 000 are recorded on a database within the section and this is easily accessible when required. Goods and services contracting is mostly coordinated through the Procurement Officer and relevant details recorded as they occur. This data was used to compile a quarterly report and forwarded to Treasury as required by both Treasurers Instructions and the *Handbook* guidelines. Information outside FPS (namely from schools and non-school budget centres), however, was far more difficult to access and there were considerable delays in receiving responses to requests for tender details.

An internal audit group is operational within the department to both audit and report on schools and non-school budget centres for the purpose of examining compliance with departmental and Government policies and guidelines. Advice on procurement was also available to all DoE staff from a FPS Procurement and Disposals officer.

Despite these measures, however, we found that approximately half of the officers interviewed were not aware of a mechanism by which departmental procurement policies and practices were communicated, although most were aware of the need to report procurement activity over the \$50 000 threshold to both the Finance and FPS sections so they can prepare the return to Treasury on a quarterly basis.

Recommendation

A mechanism should be put in place to ensure that officers undertaking a 'one off' purchase over either the \$10 000 or \$50 000 thresholds are aware of the importance and accessibility of the guidelines.

Open and Effective Competition

Open and effective competition was examined according to the tender and quotation requirements of the *Handbook*. For goods and services greater than \$50 000 tenders must be sought, while for those with a value between \$10 000 and \$50 000 it is a requirement that a minimum of three quotations are obtained. Variability of tender prices was also investigated where evaluative criteria were comparable.

For the most part adherence to open and effective competition requirements was apparent. While some examples of non-compliance were identified, practical justification was offered for the procurement approach adopted in the majority of cases.

One example of non-compliance was that demonstrated by the renewal of the department's contract for the Employee Assistance Program. It was suggested that previous favourable performance was justification for the continued provision of service by the existing supplier and

for this reason tenders had not been sought. While practical in a sense, this approach represented a breach of the tender requirements that aim to ensure value for money.

The purchase by OVET of training providers according to the competitive bids guidelines was also examined. In one case, value for money requirements had been met through the calling of tenders and as all submissions met the selection criteria, the deciding factor was price. In another case, however, a direct allocation had been made to a provider without adherence to the prescribed competitive process.

Funding for this training provision was originally allocated under an agreement between the Tasmanian Farmers and Graziers Association (TFGA) and the Deputy Secretary of the former Department of Vocational Education and Training for an initial period of two years. This agreement applied in 1998 and 1999 and, at the request of the Tasmanian Rural Industry Training Board Inc (ITAB) the arrangement was extended to the 2000 Competitive Bids Program.

The training was originally funded as part of a national initiative to improve the quality of the preparation of Australia's wool clip. Advice from the ITAB was that for the program to be successful it needed to be managed by a training provider that had an extensive network and a high degree of credibility within the industry. The TFGA as the industry peak body met this criterion and it was therefore decided that the previous agreement would be extended to 2000.

Nevertheless OVET intends to include shearer and shedhand training as part of the Competitive Bids schedule for 2001 with bidding open to all providers. The ITAB has been advised of this intention and feedback has been sought especially with regard to any special conditions to be included as part of the selection criteria for this program.

Three other acquisitions examined formed part of the SBPD that was also managed by OVET. Owing to the external conditions of the Commonwealth contract requiring selected tenders to be sought for several projects within SBPD, adherence to the *Handbook* was not entirely appropriate. Nevertheless, in the case of the two contracts examined that were subject to Commonwealth requirements, value for money considerations had been applied to the fullest extent. Where there was uncertainty as to whether the open tender requirements of the *Handbook* might apply, an exemption had been sought and granted by Treasury.

Information Technology services in the form of the Webpass and Managed Network Pilot projects had each been purchased in accordance with open and effective competition requirements by the Information Management Branch. The latter purchase was unusual in that submissions were requested for the maintenance of school networks for a fixed price of \$40 000 per provider. A rigorous selection process however ensured that best value was obtained.

The procurement of on-line course materials for the Open IT Project was unusual in that sub-projects listed in the contracts comprised the first batch of work to be completed. Attachment B of the contracts listed the first but not the only batch of materials that were to be developed. On verbal advice from the Crown Solicitor's Office, the contracts were to be amended from time to time to show the additional work that the contractors had agreed to undertake and which had been approved by the Open IT Manager.

Subsequent units have been allocated as work had been finished and a number of variables determined the nature and extent of the specific allocations. For instance decisions about the work to go to a developer depended upon their capacity to undertake it at any given time as well as on their particular expertise. Determining hundreds of possible units in advance, uncertainty of further funding, the actual performance of the contractors, and the Commonwealth requirement for ongoing determination of needs in rural and isolated schools

were some of the main reasons that all the work to be completed in the project could not be identified in advance.

While it could be that value for money requirements had been met in management of the Open IT contracts, the complexity associated with the allocation of the sub-projects and the difficulties encountered in establishing compliance and transparency may indicate a need for the management of contracts with more open-ended fee specifications to be reviewed.

Recommendation

Consideration should be given to improving accountability for the management of contracts with open-ended fee specifications, through the development of a generic set of guidelines that ensure transparency and compliance to the *Handbook*. Such guidelines should be negotiated with the Crown Solicitor's Office and Treasury.

Local Opportunity

The *Handbook* was revised to reflect the Tasmanian Government's policy initiative to assist Tasmanian small to medium businesses increase their share of Government business. To this end the guidelines require departments to contact ISO in respect of all purchases above \$50 000 and to seek at least one quote from local business or through ISO for items with a value between \$10 000 and \$50 000.

For all acquisitions examined within DoE, goods and services had been sought from local companies according to value for money considerations where possible. In all but two cases however, ISO had not been contacted and reference had not been made to ISO in tender documentation. With the exception of Commonwealth requirements, reasons cited for non-contact related to lack of awareness of the *Handbook* requirements and a view that ISO would not be able to assist with engagement of the specialised services sought.

Recommendation

The requirement to contact ISO for purchases over \$50 000 regardless of the specialised nature of contracts should be promoted within DoE in order to optimise the opportunity for local suppliers to engage in government business.

Management

A requirement of the *Handbook* is for consultants and contractors to be engaged at the Head of Agency or Deputy Secretary level and for authorisations and monetary limits to be in writing and observed.

Apart from one instance where a payment exceeded a delegation, all authorisations were observed. Further, for all acquisitions an explanation was provided for the sourcing of procurement from external rather than internal suppliers.

In the majority of cases subject to the *Handbook*, consultants and contractors were engaged at the executive level. The purchase of training provision is undertaken on a regular basis by OVET according to the *Competitive Bids Guidelines* and the requirement for approval to be obtained at the executive level is considered time consuming to implement. Similarly, the obtaining of sign-off at the executive level for SBPD contracts that are subject to strict Commonwealth schedules is not regarded as practical.

Consequently DoE has developed a set of draft procurement guidelines in the form of the *DoE Handbook* mentioned previously that propose minimal requirements in relation to the authorisation of consultancies and contracts at this level. The endorsement of the DoE

guidelines will be pursued further with Treasury to achieve an outcome appropriate to the department's needs.

Recommendation

The level and means by which contractors and consultants are engaged should be resolved in a timely manner with Treasury in order to ensure that a consistent approach to procurement is promoted and adopted across the department.

Tender Process

Primary requirements in terms of the tender process are for tenders to be advertised, outcomes to be advised in writing, opportunity to be provided for a debriefing if requested and information in respect of all tenders greater than \$50 000 to be provided to Treasury.

Apart from the contracts that were subject to Commonwealth selected tender constraints, an open approach was adopted for all but two acquisitions. For the most part also, records of tender documentation and outcomes had been well maintained with tenderers being advised in writing of outcomes as well as being offered an opportunity for a debriefing on request.

Audit Office Conclusion

The intent of DoE purchasing officers to observe the principles of the *Handbook* has been evident despite a lack of observance of certain requirements. Although the provision of opportunity to engage in government business has been apparent this could be maximised through promotion of the obligation for purchasing officers to contact ISO when purchasing goods or services with a value greater than \$50 000. In addition, concerted effort should be made to resolve issues of ambiguity associated with the coverage of the guidelines as well as the practicality of implementation, so that an effective quality framework can be developed and applied in a timely manner.

Departmental Response

Thank you for the draft report detailing the findings and recommendations from the audit of this department. In response, the following points are made:

General

The distribution and awareness of the *Handbook* and the *DoE Handbook* will be a major objective for the procurement seminars currently being planned.

Local Opportunity

DoE supports and promotes the Industrial supplies Office (ISO) through written advice to all schools and budget centres and by verbal advice whenever officers seek procurement advice. DoE proposes further steps to improve awareness by inviting the ISO to participate in the intended procurement seminars and the establishment of links to the ISO web site from DoE's procurement web site.

Knowledge

Investigation will be undertaken to establish the most efficient method of training officers with procurement responsibilities. In the interim, measures being utilised or considered are:

- Including your recommendation ['knowledge and experience of staff in procurement should be established prior to the allocation of responsibility for the acquisition of purchases over \$10 000'] in the *DoE Handbook*;
- Including your recommendation in the *DoE Delegations Manual*;
- Addressing meetings of groups, eg. Principals, school administrators etc, on procurement issues; and
- Conducting procurement seminars.

Your report has provided invaluable material upon which to structure the procurement seminars being planned by DoE and for the refinement of the draft *DoE Handbook*.

DEPARTMENT OF HEALTH AND HUMAN SERVICES (DHHS): PROCUREMENT PRACTICE

The following section details the audit findings for the Department of Health and Human Services against the following audit criteria:

- Local opportunity;
- Open and effective competition;
- Management;
- Tender process; and
- Audit Office conclusion.

Excluded from this section are the recommendations aggregated at State level which commence on page 15 of this report and address:

- Open and effective competition – Granting of exemptions;
- Staff experience;
- Administration of grants;
- Networking equipment;
- Australian New Zealand Purchasing Agreement;
- Commercial-in-confidence; and
- Limited or single sources of supply.

Appendix 2 lists the acquisitions that were examined during the audit and that form the basis of our findings and recommendations and Appendix 10 details the specific suggestions made in regard to the *Handbook*.

General

Communication and coordination of information on departmental procurement policies, practices and activity were examined initially to establish the context within which procurement was undertaken. The implementation of additional in-house procurement guidelines that were designed to serve specific departmental needs was also investigated.

An important procurement procedure within DHHS involves endorsement by the Contract Review Committee (CRC) of the acquisition of general items with a value exceeding \$10 000 and medical and surgical items with a value exceeding \$20 000. This committee consists of the Secretary, the Deputy Secretary and the Director of Finance and Facilities.

The Committee was convened in August 1999 as a result of perceived inadequacies in the nature and application of delegations within the department. It was considered that delegations had not been properly established in some cases and that there were circumstances where staff did not understand the application of delegations or the obligations and responsibilities associated with these powers.

Instruments to be referred to the CRC include a contract summary and authorisation sheet together with tender documents outlining the process and Tasmanian content where applicable. In addition, details on the specific nature of savings that may be achieved are to be provided together with a tender evaluation report that is signed by the individuals conducting the evaluation. It is also expected that matters will not be referred to the CRC for endorsement

unless the relevant Director has been closely involved in negotiations, approved the draft documents and ensured conformance to the *Handbook*.

The Committee meets weekly but arrangements are in place to enable out of session meetings to accommodate urgent contracts. The need to apply adequate consideration of the approval process in determining time lines had been brought to the attention of all Directors. Further the occurrence of instances where formal contract documentation had been signed and goods had been ordered or delivered prior to CRC approval had been highlighted.

The Purchasing and Contract Unit coordinate the collection of data requested by Treasury. On a quarterly basis each division of DHHS responds to the Unit with details on procurement activities greater than \$50 000. The information is collated and prepared then forwarded to the Deputy Secretary for endorsement prior to dispatch to Treasury.

Open and Effective Competition

Open and effective competition was examined according to the tender and quotation requirements of the *Handbook*. For goods and services greater than \$50 000 tenders should be sought, while for those with a value between \$10 000 and \$50 000 it is a requirement that a minimum of three quotations are obtained. Variability of tender prices was also investigated where evaluative criteria were comparable.

For the most part adherence to open and effective competition requirements was apparent. In all cases a selection committee had presided over the evaluative process that made use of pre-determined criteria. In particular an evaluative process incorporating pre-weighted selection criteria had been employed for the four larger contracts managed by the Statewide Purchasing and Contracts Unit.

While methods of evaluation were consistently implemented, the means of procurement for the blood gas monitors and the bronchoscopes at the Launceston General Hospital (LGH) was questionable. Although each contract was valued at greater than \$50 000 a selected tender process was adopted without an exemption being granted from Treasury. An exemption was sought retrospectively for the purchase of the bronchoscopes three months after the order was placed however this was not granted on the grounds that Treasury was not satisfied that DHHS had adequately tested the market and could be assured that it was receiving value for money.

DHHS has stated that the CRC approved in principle the purchase of the three bronchoscopes for LGH on 15 October 1999. Approval however was subject to the department obtaining from Treasury an exemption from the requirement for open tenders to be called for purchases with a value in excess of \$50 000. The LGH Chief Executive Officer (CEO) was informed verbally that the CRC had endorsed the submission, but that this was subject to receiving an exemption from Treasury. A copy of the signed submission was then forwarded to the CEO whilst Finance Branch prepared a submission to Treasury seeking an exemption. At no time according to DHHS was approval given to order or purchase the equipment.

Finance Branch later informed the CEO of LGH that although Treasury did not support the department's request for an exemption, if further information was provided by the LGH, Finance would be prepared to resubmit the request. It was also highlighted that in the absence of an exemption the department would be required to proceed with an open tender process for the procurement of the bronchoscopes. DHHS has indicated that at no time was the Finance Branch or the CRC aware that an order of the bronchoscopes had been made on 18 October 1999.

According to DHHS it is apparent that because of a lack of clear documented communication between the LGH and Finance, a misunderstanding has occurred regarding the significance of

the signed CRC submission. This has been rectified by the requirement that all decisions made by the CRC are now communicated via a phone call and written memo to the parties involved.

Recommendation

Audit endorses the requirement for all decisions made by the CRC to be communicated by a written memo to all parties involved. Sections likely to contemplate a selected tender process for goods and services with a value greater than \$50 000 should also be made aware of the requirement for an exemption to be sought from Treasury.

Regarding comparability of Tasmanian tenderers, reference was made to the definition of Tasmanian tenderer in the *Handbook* by a respondent from the Statewide Purchasing and Contracts Unit. Tasmanian businesses are defined in the guidelines as including:

‘... all businesses operating in the State, which have a permanent office or presence in Tasmania and employ Tasmanian workers.’ (Interpretation.)

For the major contracts handled by this unit, reliance had been placed on this definition for the provision of an opinion that comparable Tasmanian tenderers had been selected where possible. This definition was considered to be inadequate for this purpose however according to the respondent for the Disposable Meal Containers contract.

Local Opportunity

The *Handbook* was revised to reflect the Tasmanian Government’s policy initiative to assist Tasmanian small to medium businesses increase their share of Government business. To this end the guidelines require departments to contact the ISO in respect of all purchases above \$50 000 and to seek at least one quote from local business or through ISO for items with a value between \$10 000 and \$50 000.

For all tenders except those for the blood gas monitors and the bronchoscopes, the ISO was provided with sufficient notification to increase opportunity for Tasmanian businesses to tender. Although an exemption was sought from Treasury for the purchase of the bronchoscopes on the grounds that there were only two Tasmanian suppliers, a response from the contact officer within LGH indicated that there were none. Another response from this officer also indicated that there were no Tasmanian suppliers of blood gas monitors. Reference to the ISO was not made in the tender documentation for any of the acquisitions but this was to be included in tender documents from June 2000.

Concern has been expressed by two providers of medical suppliers surveyed, about the ordering of goods from the supplier Hospital Supplies Australia which has a branch in Hobart but which is owned by a cooperative of Victorian Government hospitals. It has been suggested that through their Victorian warehouse this supplier may have access to medical and other goods that could be on Victorian contracts and should be for supply to Victorian hospitals only. Consequently it could be that profits made from such transactions leave the State and pass directly to the Victorian Government to the disadvantage of locally owned suppliers.

Recommendation

Ambiguities in the definition of ‘locally-sourced goods and services’ should be resolved in conjunction with Treasury.

All respondents indicated preparedness to provide a debriefing upon request, although reference to an opportunity for a debriefing was not included in tender documentation for any of the contracts examined.

Management

A requirement of the *Handbook* is for consultants and contractors to be engaged at the Head of Agency or Deputy Secretary level and for authorisations and monetary limits to be in writing and observed.

This was met in all cases for DHHS owing to the obligation for the acquisition of all general items with a value exceeding \$10 000 and medical and surgical items with a value exceeding \$20 000 to be approved by the CRC.

Tender Process

Primary requirements in terms of the tender process are for tenders to be advertised, outcomes to be advised in writing, opportunity to be provided for a debriefing if requested and information in respect of all tenders greater than \$50 000 to be provided to Treasury.

For the most part records of the tender process were well maintained. As well all tenders, apart from those for the acquisition of the blood gas monitors and the bronchoscopes by the LGH, were advertised. Examination of the Treasury database also showed that information on these acquisitions had not been forwarded.

Recommendation

For the purpose of confirming the accuracy of tender information provided to Treasury, a review should be conducted of the means by which procurement data is collected. In particular, this should focus on the collation of data on purchases of specialised equipment for hospitals.

Audit Office Conclusion

For the most part procurement within DHHS has been well managed. Quality assurance provided by the CRC aims to ensure compliance with the procurement guidelines as does the existence of the Purchasing and Contract Unit that is dedicated to this purpose. It is anticipated that existing pockets of non-compliance can be managed through minor improvements in the level of rigour of the quality systems in place. Enhancement of local opportunity is evident within the boundaries of the guidelines although concerns related to the definition of 'locally-sourced goods' should be addressed. Issues associated with the adequacy of coverage of the *Handbook* should also be raised and worked through with Treasury.

Departmental Response

The department advised that the processes and procedures for managing procurement can be improved and there is support, in principle, for the recommendations outlined in the report. In particular:

- A review will be undertaken with respect to the collation of procurement data to ensure that all necessary tender documentation is provided to Treasury;
- Options will be examined to enable separate identification of purchases relating to communication and networking expenditure;
- The department will seek to obtain clarification from Treasury with regard to areas of ambiguity within *The Handbook*; and

It is agreed that the provision of a more accurate, authoritative source of advice and support with regard to procurement would improve procurement practices within Government

departments. The development, by Treasury, of an on-line tool would greatly assist in this area.

Currently, the department is addressing, or has addressed, several of the recommendations outlined in this report, for instance:

The process undertaken by the Contracts Review Committee ensures that officers requesting approval to purchase goods or services above \$50 000 are aware of tender requirements. If a selected tender process is requested, officers are advised of the requirement for the department to obtain an exemption from the tender process from Treasury; and

Treasury conducted an extensive training course for key officers of the department with procurement responsibilities. This course encompassed Government procurement, the role of the Industrial Supplies Office and probity. It is intended that access to further training programs be organised regularly to ensure that relevant officers of the department are aware of procurement policies and procedures.

DEPARTMENT OF INFRASTRUCTURE, ENERGY AND RESOURCES (DIER): PROCUREMENT PRACTICE

The following section details the audit findings for the Department of Infrastructure, Energy and Resources against the following audit criteria:

- Local opportunity;
- Open and effective competition;
- Management;
- Tender process; and
- Audit Office conclusion.

Excluded from this section are the recommendations aggregated at State level which commence on page 15 of this report and address:

- Open and effective competition – Granting of exemptions;
- Staff experience;
- Administration of grants;
- Networking equipment;
- Australian New Zealand Purchasing Agreement;
- Commercial-in-confidence; and
- Limited or single sources of supply.

Appendix 3 lists the acquisitions that were examined during the audit and that form the basis of our findings and recommendations.

Due to the Department of Infrastructure Energy and Resources' inability to provide a 1999-2000 payment transaction report at the commencement of this audit, eight pre 1 July 1999 acquisitions were examined which were tested for compliance against the May 1997 edition of the *Handbook*. Six post 1 July 1999 acquisitions were examined which related to the revised *Handbook*. This section gives a general account of the procurement practices and procedures within DIER based on the specific procurement details.

General

Communication and coordination of information on departmental procurement policies, practices and activity were examined initially to establish the context within which procurement was undertaken. The implementation of additional in-house procurement guidelines that were designed to serve specific departmental needs was also investigated.

According to the Manager of Financial Services, information concerning the *Handbook* had generally been advised to key personnel in each division by hardcopy mail that were then responsible for further disseminating the guidelines to personnel within their respective divisions. In addition when Treasury recently provided laminated brochures concerning procurement one copy was distributed to the Executive Officer in each division and it was then the responsibility of Executive Officers to further disseminate copies.

With the recent launch of the widely available Corporate Services Division Intranet a hot link to the Treasury Procurement and Contracting Site was provided. Officers of the Finance and

Facilities section were also aware of the *Handbook* and provided advice to any staff making enquiries concerning the proper management of procurement activities.

The Manager of Financial Services has indicated that the only general departmental policy which augmented the Government Procurement policy was related to delegations. Each officer with a delegation was aware of his or her purchasing authority and expenditure was further managed by the integration of purchasing limits into the Financial Management Information System.

The Roads and Transport Division also made use of the Australian Standards - *AS 4120 – 1994 Code of Tendering, AS 4121 – 1994 Code of Ethics and Procedures for the Selection of Consultants, AS 4122 (Int) – 1995 General Conditions for the Engagement of Consultants* as well as the *National Public Works Council General Conditions for Engagement of Consultants*. These documents are mainly related to the building industry and are approved by the Public Works Tender Board as part of contract procedures.

Coordination of the information required by Treasury to report tenders over \$50 000 was performed through the General Manager, Corporate Services Office. The Executive Assistant to the General Manager sought this information from the Executive Officers of all divisions and collated the information for quarterly reporting to Treasury. According to the Manager of Financial Services this process had worked efficiently and effectively for the department.

The department also had key personnel who were aware of the processes for managing procurement. DIER had not seen the need to perform compliance checks on the use of the *Handbook* but was interested in adopting any processes that would assist the efficiency and effectiveness of implementation.

Open and Effective Competition

Open and effective competition was examined according to the tender and quotation requirements of the *Handbook*. For goods and services greater than \$50 000 tenders should be sought, while for those with a value between \$10 000 and \$50 000 it is a requirement that a minimum of three quotations are obtained. Variability of tender prices was also investigated where evaluative criteria were comparable.

For five of the seven acquisitions examined with a value greater than \$50 000, both pre and post 1 July 1999, the tender process was followed. Tenders were advertised and were evaluated against predetermined selection criteria. The engagement of KPMG to chair the review of the *Shop Trading Hours Act 1984* did not comply with the *Handbook*. This contract was entered into following a Cabinet decision accepting the recommendation that a Senior Partner of KPMG be engaged to perform the role of chairperson for the review group. The initial contract quotation was of a value less than \$50 000 although subsequent additions and extensions to the contract saw the cost of the contract exceed \$50 000. The process for engaging Networking Tasmania over a three-year term also did not comply with the requirements of the *Handbook*. A quotation process was undertaken for this contract and yet the contract value was greater than \$50 000. An exemption from conducting a tender process or to seek selective tenders should have been gained from Treasury.

Recommendation

In order to ensure openness and effectiveness of competition the requirements to undertake a tender process for goods and services with a value greater than \$50 000 should be endorsed.

Two acquisitions with a value greater than \$10 000 and less than \$50 000 were examined post 1 July 1999. These related to the engagement of internal audit services and the provision of audit services for the review of Workers' Compensation Insurers. The services of KPMG were commissioned for the former and PricewaterhouseCoopers for the latter.

The engagement of PricewaterhouseCoopers was an extension of an existing contract that expired in September 1999. A clause within the contract stated that there would be an opportunity to extend the contract to enable the contracted services to be completed. The initial contract was the outcome of a full tender process. The engagement of KPMG for the provision of internal audit services was not as a result of a direct tender process although the Manager Financial Services stated that KPMG's existing knowledge of the department was a critical factor in their engagement given the short period available to conduct the internal audit program that year. KPMG were previously engaged as a result of a tender process for services of a similar nature that were provided over a three-year period.

Three or more written quotations were obtained for four of the five pre 1 July 1999 acquisitions examined with a value between \$10 000 and \$50 000. The single exception was the engagement of Frees Courier Service that appears to have commenced as a direct commission in June 1993. The survey response states,

[The contractor] was employed as a courier with Transport Tasmania, accepted a redundancy package and put in a quote to continue with the courier work which was accepted he commenced on 28/6/1993.'

The Deputy Secretary Corporate Services approved the initial contract.

The respondent noted that while the file makes mention of three quotations it appears that these were not followed up. The documentation provided indicates that a comparison was made between the fee quoted by Frees Courier Service and the cost of courier services provided by Australia Post. In July 1994 the contract was reviewed with the fee quoted by Frees Courier Service being compared to another courier service and renegotiated, a letter was then forwarded to Frees Courier Service accepting the quotation although no contract period was specified. The service fee was again revised in April 1996 and a six-month contract was negotiated although the service continued without review for six months after the contract had expired. In April 1997 the service fee was again revised and a six-month contract was negotiated, there has been no further action since this contract expired although the service continues to be provided by Frees Courier Service. The respondent also commented that the courier run had evolved over the years and the service provided by Frees Courier Service was considered to provide good value for money.

Recommendation

The requirement for three written quotations to be sought for the purchase of goods and services with a value of more than \$10 000 per item but less than \$50 000 per item should be reinforced to officers with procurement responsibilities within DIER.

Quotations should be sought for the provision of courier services and the contract period clearly specified.

Local Opportunity

The *Handbook* was revised to reflect the Tasmanian Government's policy initiative to assist Tasmanian small to medium businesses increase their share of Government business. To this end the guidelines require departments to contact the ISO in respect of all purchases above \$50 000 and to seek at least one quote from local business or through ISO for items with a value between \$10 000 and \$50 000.

The May 1997 edition of the *Handbook* did not require departments to contact the ISO. Of the four post July 1999 acquisitions examined with a value greater than \$50 000 tender documentation was not provided to the ISO. One respondent, responsible for two of these procurements stated that he was not aware of the ISO requirement. Tasmanian tenderers were selected for two of the four acquisitions.

No contact was made with the ISO for either of the post July 1999 procurements with a value greater than \$10 000 but less than \$50 000 examined. The two procurements in this category related to contract extensions, both firms contracted had Tasmanian offices but are international firms.

Of the eight pre 1 July 1999 procurements examined in both price ranges four suppliers were local firms and a further two of the successful tenderers had Tasmanian offices. One exception was the Booz Allen and Hamilton consultancy for passenger transport services. The survey response stated that no Tasmanian consultants had sufficient subject expertise and therefore expressions of interest (EOIs) were sought from suitably informed consultants. The New Zealand office of Booz Allen and Hamilton won the contract. The second exception was the Sullivans Cove land use and traffic study where one quotation was submitted from a firm with a Tasmanian office but this firm was unsuccessful.

Recommendation

All tender documentation for tenders greater than \$50 000 should include reference to the ISO and the importance of local content. The services of the ISO should be availed to assist with the local opportunity requirement for acquisitions with a value less than \$50 000.

Management

A requirement of the *Handbook* is for consultants and contractors to be engaged at the Head of Agency or Deputy Secretary level and for authorisations and monetary limits to be in writing and observed.

For the most part appropriate authorisations had been obtained and monetary limits observed. In the case of the advice, design and implementation of the Workplace Safe campaign the Workplace Safety Board granted approval for the contract and the Chairman of the Board signed the contract. The Manager Financial Services confirmed that the Chairman of the Workplace Safety Board had the delegation to authorise this contract under Section 10 Part K of the *Workers' Rehabilitation and Compensation Act 1988*.

Following the tender process for the provision of advertising services for the Road Safety Task Force the Minister approved the Coo'ee Tasmania contract on behalf of the Task Force with its chairman signing the Service Level Agreement.

It is unclear from the documentation provided whether or not the appropriate approval process was undertaken for the numerous extensions of the Frees Courier Service contract, particularly given the continuing nature of the contract. The Deputy Secretary Corporate Services approved the initial contract and several file notes were made by the Deputy Secretary in regard to

subsequent contract extensions. No further approvals had been obtained since the expiry of the contract in October 1997 although the service continues to be provided by Frees Courier Service.

No exemption was obtained from the Treasury from conducting a full tender process for the Local Area Network communication equipment replacement project. A quotation process was undertaken although the contract total exceeded \$50 000.

Recommendation

Exemptions from complying with the *Handbook for Government Procurement* should be sought from the Secretary of the Department of Treasury and Finance when it is considered that a selective tendering process is more appropriate.

Tender Process

Primary requirements in terms of the tender process are for tenders to be advertised, outcomes to be advised in writing, opportunity to be provided for a debriefing if requested and information in respect of all tenders greater than \$50 000 to be provided to Treasury.

Four of the seven procurements examined, both pre and post 1 July 1999, with a value greater than \$10 000 but less than \$50 000 complied with the guidelines. One exception related to direct extension of an existing contract where the initial contract directly stated that the contract could be extended to allow for the services to be completed. A further exception relates to the engagement of KPMG to provide similar services to those previously provided and the third exception related to the continual extension of the Frees Courier Service contract where there has been minimal market testing since the direct commission was granted in 1993. All of these exceptions have been discussed previously.

The three of the four post 1 July 1999 acquisitions with a value greater than \$50 000 went to tender, were advertised and written advice of the tender outcomes was provided to successful and unsuccessful tenderers. The tender process undertaken in the case of Admiral Computing included the tender being advertised as a Registration of Capacity, a short list was then established and selective tenders obtained from the short listed firms. The one acquisition where the tender process was not followed was the contract for the engagement of KPMG to chair the review of *Shop Trading Hours Act 1984*. This did not go to tender as a Cabinet Direction was issued that KPMG be engaged.

Audit Office Conclusion

From the sample examined a high level of compliance was demonstrated. Only five of the fourteen acquisitions examined did not comply with the requirements of the *Handbook*, one of which was the result of a Cabinet Direction and another an extension of an existing contract for which the contract renewal for 2000/2001 is currently going to tender. On three other occasions the requirements of the *Handbook* were not met and suppliers were engaged as a result of a direct commission or quotation process when a tender process was required.

Although the majority of staff considered that they had a working knowledge of the *Handbook* and appropriate experience in Government procurement, three survey respondents did not. These people identified a lack of knowledge and experience in the area of procurement that will need to be addressed given their level of involvement in procurement activities.

Departmental Response

Whilst this [report] is pleasing, the Department is concerned about the instances where there was not full compliance with the *Handbook*. The Department reaffirms its commitment to seeking tenders for purchases above \$50,000 and written quotations for purchases between \$10,000 and \$50,000, the seeking of approval from the Secretary of the Department of Treasury and Finance for exemptions from these process in appropriate circumstances and the use of the services of the ISO.

Since September when departments were required to implement a procurement complaints mechanism, the Department has been considering the best way to bring together the various elements of procurement management and reporting. A decision has been made to employ a person for approximately two months to bring together the procurement policy framework and to develop an education package which can be delivered widely throughout the Department. The Department will also consider including this education package in induction programs for new staff.

The report also highlighted the courier contract with Frees Courier Service. Recently, the Department requested written quotes for the provision of these services from three service providers. Two responses were received with Frees Courier Service providing the best quote. A contract for the provision of these services for a period of two years is currently being prepared. The contract price is between \$10,000 and \$50,000.

I appreciate the opportunity to comment on the report.

DEPARTMENT OF JUSTICE AND INDUSTRIAL RELATIONS (DJIR): PROCUREMENT PRACTICE

The following section details the audit findings for the Department of Justice and Industrial Relations against the following audit criteria:

- Local opportunity;
- Open and effective competition;
- Management;
- Tender process; and
- Audit Office conclusion.

Excluded from this section are the recommendations aggregated at State level which commence on page 15 of this report and address:

- Open and effective competition – Granting of exemptions;
- Staff experience;
- Administration of grants;
- Networking equipment;
- Australian New Zealand Purchasing Agreement;
- Commercial-in-confidence; and
- Limited or single sources of supply.

Appendix 4 lists the acquisitions that were examined during the audit and that form the basis of our findings and recommendations

General

Communication and coordination of information on departmental procurement policies, practices and activity were examined in relation to this criterion. The implementation of additional in-house procurement guidelines that were designed to serve specific departmental needs was also investigated.

Acquisitions examined for DJIR included goods and services sourced by the Prison Service and the Courts. Responses were also sought from the Office of the Solicitor-General regarding the engagement of specialised legal services. Rather than completing the audit form a lengthy letter was returned in one case and in the other there was uncertainty as to whether Treasury or DJIR should assume responsibility for an explanation of the procurement process undertaken.

All officers within DJIR with purchasing responsibilities (other than those for minor purchases such as stationery) were provided with a copy of the *Handbook*. These guidelines were also available on the Finance Branch web site as was the departmental contracting and tendering policy which provided reference to the guidelines. Output managers were required to advise Finance on a quarterly basis of any purchases greater than \$50 000 to enable preparation of the report to Treasury. Despite these measures some officers indicated that they were not aware of a protocol for the communication of procurement policy or the coordination of information on procurement activity.

Recommendation

All officers in DJIR should be regularly provided with information on procurement policy, procedures and developments. Accessibility to such information should be maximised through the implementation of a full range of communicative mechanisms.

The departmental contracting and tendering policy provided varying monetary limits for office holders, depending on their roles within the department. This represented the only additional in-house instructions in place for DJIR. The sole office holder with a delegation in excess of \$50 000 in the department was the Secretary and the policy required that any contracts exceeding this amount were to be referred to the Secretary and any in excess of \$100 000 were to be referred to the Minister.

Open and Effective Competition

Open and effective competition was examined according to the tender and quotation requirements of the *Handbook*. For goods and services greater than \$50 000 tenders should be sought, while for those with a value between \$10 000 and \$50 000 it is a requirement that a minimum of three quotations are obtained. Variability of tender prices was also investigated where evaluative criteria were comparable.

Compliance with the open and effective competition requirements of the guidelines was not convincingly demonstrated for the majority of acquisitions investigated. For the four acquisitions examined with a value over \$50 000 only one, involving the installation of videoconference facilities, appeared to be managed in accordance with the guidelines.

The provision of security services to the Magistrate's Courts was originally formalised after a tender process with a two-year contract signed in March 1997. A preference to modify the arrangements was implemented in the form of a pilot operation in August 1999. According to a letter from the Administrator of Courts this was intended to be in operation for a 'couple of months' until tenders were called in late 1999 however it is still in effect.

Ongoing periodic payments have been made for the provision of security services to the Magistrate's Courts outside the terms of both the original agreement and letters from the Administrator of courts informing of subsequent changes. The revised arrangements were intended to improve the effectiveness of security operations and apparently the level of security required by the Magistrates and the court staff was recently being delivered. Consequently, a revised specification is to be prepared and the calling of tenders will occur in December 2000.

The exact amount expended outside of formal terms of agreement remains unclear. Regardless of this however the lack of rigour surrounding the current arrangements appeared to be in conflict with the requirements of guidelines related to open and effective competition and value for money. The guidelines do not outline a protocol for managing the issues surrounding the renewal of contracts and it may be appropriate for DJIR to negotiate suitable procedures for this aspect of contract management with Treasury.

Recommendation

Where extenuating circumstances exist which may justify the implementation of informal arrangements or require limitations to be clearly identified for such arrangements, DJIR should consult with Treasury.

For four of the six acquisitions made under the \$50 000 threshold, most of which had been undertaken by the Prison Service, either a direct commission or a verbal quotation had been sought. This approach was incompatible with the guidelines and it was evident that there was a need for greater endorsement of the quotation requirements of the *Handbook* within the department.

Recommendation

The requirement for three written quotations to be sought for the purchase of goods and services with a value of more than \$10 000 per item but less than \$50 000 per item should be reinforced to officers with procurement responsibilities within DJIR.

The circumstances surrounding the engagement of the legal adviser Freehills Hollingdale and Page and senior counsel John C Kelly SC for defence of the Crown against a claim lodged by HECEC Australia Pty Ltd were of interest because of the specialised nature of the legal services sought. Section 2.5 of the *Handbook* requires all proposals to engage legal advice to be referred to the Crown Solicitor in the first instance. Where it is determined by the Crown Solicitor that external advice is required, the matter is to be briefed-out by the Crown Solicitor in consultation with the department.

On the advice of the former Director of Public Prosecutions (DPP) the Deputy Secretary of Treasury was contacted in relation to the engagement of Freehills Hollingdale and Page. When requested to complete a response form that addressed audit criteria as well as to provide supporting documentation Audit was advised by the Deputy Secretary of Treasury that DJIR should respond because responsibility for representing the Crown in the court proceedings was transferred from Treasury to the DPP. Further investigation of the matter was then not undertaken.

Regarding the appointment of John C Kelly SC the Solicitor-General made it clear that the DPP's Office was acting upon instructions from Treasury in relation to this matter. As a matter of course the Head of DJIR was informed of the developments, as was the Attorney-General. According to the Solicitor-General the cost of retaining counsel was a cost of Freehills Hollingdale and Page as solicitors for Tasmania and as such was within the scope of written authority from the Treasurer. The Secretary of Justice was requested to review the work undertaken to ensure the retention of Freehills Hollingdale and Page remained cost effective.

Recommendation

DJIR should ensure delineation of responsibility for the negotiation of the procurement of legal services is clear when other departments have an interest or involvement in the engagement.

Upon advice from the DPP the Solicitor-General was requested to complete the response form in relation to the appointment of John C Kelly SC but instead provided a written reply detailing the background to the engagement. There were considerable concerns expressed by the Government in recent times at the cost and quality of the legal services provided by a number of mainland legal firms where charging rates had been found to be very high, significant over-servicing of files appeared to have taken place and the end product had not consistently been of the quality expected.

The Solicitor-General has indicated in the reply that it was a misconception to talk in terms of 'tendering' for the appointment of counsel as no competent counsel would tender for the supply of their services just as for example successful medical specialists would not submit a tender. The reply also indicated that on the rare occasions when the DPP found it necessary to appoint outside counsel, it was normally for the reason that he did not have the physical capacity to undertake the particular work in question or because the expertise did not reside within the

office. In the latter circumstance, it was considered that the requisite skills would not be able to be sensibly reduced to writing by the potential selector. Rather, potential counsel had to be identified and assessed by reference to those who knew the individual's abilities based on their own experience.

The Secretary of DJIR provided further comment in regard to the applicability of tender requirements to the appointment of external counsel on 7 September 2000, stating:

'As the Solicitor-General and Director of Public Prosecutions are independent statutory office holders and not agencies or within agency structures this protocol does not appear to relate to them. It also does not seem sensible, practical or the intention of the protocol that they should be referring matters to a more "junior" legal officer (Crown Solicitor) to brief out.'

The written advice provided by Treasury to Audit stated that any procurement activity undertaken by the Office of the Solicitor-General, the Office of the DPP and the Office of the Crown Solicitor is subject to the Procurement Guidelines. This advice did not address the applicability of the *Handbook* to statutory office holders.

Audit contacted the ACT and NSW Audit Offices in order to ascertain the procedures in place for the appointment of external counsel elsewhere.

The ACT Audit Office advised that within the ACT Government Solicitors Office and DPP there is currently no requirement to call for EOIs or undertake a public tendering process when the services of external counsel are required. Barristers are selected based on their speciality in Law and a list of fees paid is published in the Department of Justice and Community Safety's annual report.

The NSW Audit Office informed that within the NSW Government there is a requirement that the General Purchasing Delegation relating to the procurement of 'not in contract' goods and services applies to the services of external counsel. This requires that for services provided with a value greater than \$1 000 but less than \$20 000 at least one written quotation must be obtained. For services in excess of \$20 000 but less than \$100 000 a minimum of three written quotations are required, and for services in excess of \$100 000 invitations to tender are called through the Department of Public Works and Services.

Neither the ACT nor the NSW advice specifically covered the applicability of requirements to statutory office holders.

Recommendation

The applicability of the *Handbook* to the appointment of external counsel by statutory office holders and the Offices of the Solicitor-General, Director of Public Prosecutions and Crown Solicitor should be resolved with Treasury.

If negotiations with Treasury reveal that the *Handbook* is applicable to statutory office holders and the Offices of the Solicitor-General, DPP and Crown Solicitor then exemptions from undertaking a full tender process should be sought from Treasury.

Local Opportunity

The *Handbook* was revised to reflect the Tasmanian Government's policy initiative to assist Tasmanian small to medium businesses increase their share of Government business. To this end the guidelines require departments to contact the ISO in respect of all purchases above \$50 000 and to seek at least one quote from local business or through ISO for items with a value between \$10 000 and \$50 000.

Local opportunity could have been enhanced for several of the acquisitions examined including the goods and services procured by the Prison Service through implementation of the quotation requirements of the guidelines. The ISO had not been contacted for any procurement activity

investigated and consequently there was a clear need for the profile of this organisation to be raised within DJIR.

Recommendation

Endorsement of the requirement to obtain at least one quotation out of three from a local business for purchases between \$10 000 and \$50 000 should be ensured within DJIR. The services of the ISO should be availed to assist with compliance in this respect.

Management

A requirement of the *Handbook* is for consultants and contractors to be engaged at the Head of Agency or Deputy Secretary level and for authorisations and monetary limits to be in writing and observed.

While the majority of respondents indicated that the requirement to engage contractors at the executive level had been observed, documentary evidence of this condition having been met was only provided for the supply and installation of videoconference facilities. Compliance with prescribed delegations was also not well demonstrated and it was evident that an internal review focussing on observance of authorisation processes and monetary limits may be needed.

Consideration should therefore be given to the implementation of an internal review of authorisation processes. Such a review should establish compliance with the current delegation structure as well as to the requirement for consultants and contractors to be engaged at the executive level.

Tender Process

Primary requirements in terms of the tender process are for tenders to be advertised, outcomes to be advised in writing, opportunity to be provided for a debriefing if requested and information in respect of all tenders greater than \$50 000 to be provided to Treasury.

As previously discussed compliance to the tender and quotation requirements of the *Handbook* was only demonstrated for three out of the ten acquisitions investigated. The commissioning of services directly, without an exemption from Treasury for the obtaining of three written quotations for acquisitions valued between \$10 000 and \$50 000 or the calling of tenders for acquisitions over \$50 000 was not in accordance with the quotation or tender requirements of Sections 2.7 or 2.8 respectively.

Recommendation

The requirements for tenders to be advertised and for quotations to be sought unless otherwise authorised by Treasury should be endorsed within DJIR.

Documentation in support of the revised security arrangements for the Magistrate's Courts from July 1999 as well as the quotation processes implemented for the procurement of goods and services by the Prison Service was lacking. In the case of the security services for the Courts, Audit presumed that the current arrangements were supposed to be covered by the letter to the provider dated July 1999 that indicated that there would be a review of operations in a 'couple of months'. Given that total expenditure for the period April 1999 to June 2000 amounted to \$439 821 it would seem that a more formal agreement should have been devised. Obtaining of verbal quotations for purchases between \$10 000 and \$50 000 had been normal practice by the Prison Service. A response to an Audit query in relation to this matter has indicated that written quotations would be required for all further purchases over \$10 000.

Recommendation

Documentation with respect to informal ongoing arrangements subsequent to the lapsing of a contract should be well maintained. Audit endorses the decision on the part of the Prison Service to seek written quotations for all purchases over \$10 000.

In the case of the engagement of consultants to provide a range of services related to the feasibility, design, acquisition and supervision of the installation of videoconference facilities additional quotations were not obtained. It was considered that the selected consultant's experience and independence was a necessary element of their engagement. No exemption was obtained from Treasury.

The acquisition of 'White Ox' tobacco was made directly from the supplier to the four Tasmanian wholesalers of this product. It was therefore considered inappropriate to obtain three competitive quotations. Approval not to adhere to the requirement to obtain three written quotation was sought from Treasury.

Recommendation

DJIR should consult with Treasury to establish guidelines for the purchase of items where the number of suppliers is limited or of a single source or where the service supplier has specialist expertise.

Audit Office Conclusion

There was a clear need for procurement practices within DJIR to be refined in order for compliance to the *Handbook* to be ensured. While familiarity with the guidelines appeared to be in place the absence of an effective quality framework may have contributed to the low levels of compliance. Engagement of external legal providers with specialist expertise was another issue that required attention. Acceptance of the requirement for an exemption to be sought from Treasury for the calling of selective tenders should be acknowledged or alternative arrangements to those proposed in the guidelines should be negotiated with Treasury.

Departmental Response

The Solicitor-General provided a response to the issues raised in the report relating to the Office of the Solicitor-General. The response specifically addressed audit comments made in regard to the appointment of John C Kelly SC and stated:

'I have discussed all of the foregoing with officers of the Department of Treasury and Finance, and my understanding is that a recommendation has gone or is about to go to the Under Treasurer that he provide a blanket exemption to Crown Law in relation to the retention of counsel. The provision of that exemption will plainly satisfy the Auditor-General ... without having to address the question of whether the procurement policy applies in any event to independent statutory office holders such as the Solicitor-General and DPP. In terms, I suspect that it does not, but I have not been asked to address the issue in detail and have not done so.

I should finally note that, where counsel are retained in major matters (which is the circumstance which has attracted the Auditor-General's interest here) we brief counsel upon the instructions of the client Agency, and the client Agency is responsible for the payment of counsel's fee. Thus in truth it is not a matter of the DPP undertaking a briefing in his own right, but rather a case of his doing so as agent for the Agency in question.'

DEPARTMENT OF POLICE AND PUBLIC SAFETY (DPPS): PROCUREMENT PRACTICE

The following section details the audit findings for the Department of Police and Public Safety against the following audit criteria:

- Local opportunity;
- Open and effective competition;
- Management;
- Tender process; and
- Audit Office conclusion.

Excluded from this section are the recommendations aggregated at State level which commence on page 15 of this report and address:

- Open and effective competition – Granting of exemptions;
- Staff experience;
- Administration of grants;
- Networking equipment;
- Australian New Zealand Purchasing Agreement;
- Commercial-in-confidence; and
- Limited or single sources of supply.

Appendix 5 lists the acquisitions that were examined during the audit and that form the basis of our findings and recommendations and Appendix 10 details the specific suggestions made in regard to the *Handbook*.

General

Communication and coordination of information on departmental procurement policies, practices and activity were examined initially to establish the context within which procurement was undertaken. The implementation of additional in-house procurement guidelines that were designed to serve specific departmental needs was also investigated.

The DPPS has issued a Financial Management Manual that is distributed to all officers responsible for procurement activities. The acting Manager Procurement and Contracts within the Commissioner's Office now controls all major and strategic purchases. Strict delegation limits apply in the field and field personnel cannot make large purchases. The acting Manager Procurement and Contracts coordinates the collection of quarterly procurement data provided to Treasury.

The acting Manager, Procurement and Contracts has recently developed a package called 'Tasmania Police Procurement – Now and Into the Future' which outlines government procurement guidelines and gives tangible examples of efficient procurement processes which will be presented at various managerial and operational levels.

Open and Effective Competition

Open and effective competition was examined according to the tender and quotation requirements of the *Handbook*. For goods and services greater than \$50 000 tenders should be sought, while for those with a value between \$10 000 and \$50 000 it is a requirement that a

minimum of three quotations are obtained. Variability of tender prices was also investigated where evaluative criteria were comparable.

For eight out of thirteen acquisitions examined in the sample the tender process described in the *Handbook* had not been followed by officers of the DPPS. This was largely due to the complexity of the product required, the existence of maintenance agreements for a specific type or brand of product, or because the purchase was made to increase the existing number of units of a specific type or brand of product already used within DPPS.

The procurement of the Drager breath testing instruments serves as an example. DPPS already operate a number of Drager breath testing instruments. In increasing the number of existing units DPPS acquired these directly from the previous supplier, Drager. This was considered to be the most efficient means of purchasing the instruments due to the complexity of the units, the maintenance agreements in operation, the peripherals used and the acceptance by the Courts of the testing results. DPPS considered that Drager was the only suitable supplier of these instruments because alternate suppliers had not fully tested their product in Australia and these products were more expensive.

Similar examples and reasons for not adhering to the *Handbook* requirements exist for the acquisition of a 9mm ammunition-reloading machine, body armour and uniform fabric. The documentation provided does not indicate that exemptions from undertaking the tender process or from obtaining three quotations were sought from Treasury.

In addition, negotiations have been undertaken between the DPPS and suppliers of products to other Australian Police forces. On several occasions the DPPS has been able to achieve economy and efficiency through 'piggybacking' arrangements made with other Australian Police forces, particularly where the other force has larger scale operations and therefore yield more influence in the negotiation process. The following examples demonstrate instances where economies were achieved through these types of arrangements; breath testing instruments were purchased directly from the supplier of the NSW Police, the DPPS was able to achieve equal unit prices and features to those negotiated by the NSW Police; and uniform fabric was purchased from the supplier of the Victorian Police to achieve consistency in fabric quality and dye colour. The information provided by DPPS indicated that NSW Police had undertaken a transparent evaluation and tender process for the Drager instruments that satisfied the NSW Supply Unit and NSW procurement policy.

The engagement of contractors to design and install a Memorial Garden at the Police Academy did not comply with the requirements of the *Handbook*. One written quotation was sought from a landscaping company owned by an ex-Police officer. This contractor was chosen because it was considered that the owner would understand the Police environment and have a flexible approach to staging the design and installation phases of the project. No market testing was conducted to compare the quotation received with competitor estimates. In addition, there was a breach of the Treasurer's Instructions made under the *Financial Management and Audit Act 1990* in as much as a cheque for payment was drawn prior to the end of the financial year on the basis of the quote rather than an invoice and held until the project was completed in August 2000.

Five out of the thirteen acquisitions examined in the sample went to tender. The tender and evaluation process undertaken for the major tender projects examined incorporated pre-weighted selection criteria by which tenders were evaluated. The tender documentation examined in this audit was well maintained and complete.

Recommendation

DPPS should consult with Treasury to establish guidelines for the purchase of items where the number of suppliers is limited or of a single source.

'Piggybacking' arrangements with other Australian Police forces in order to take advantage of economy of scale benefits should be pre-approved by Treasury.

DPPS fully apply the requirements of the *Financial Management and Audit Act 1990*, Treasurer's Instructions and subsequent policies and procedures for the payment of accounts.

Local Opportunity

The *Handbook* was revised to reflect the Tasmanian Government's policy initiative to assist Tasmanian small to medium businesses increase their share of Government business. To this end the guidelines require departments to contact the ISO in respect of all purchases above \$50 000 and to seek at least one quote from local business or through ISO for items with a value between \$10 000 and \$50 000.

Reference to the ISO was only made in the tender documentation for one of the acquisitions examined. Advice was sought from the ISO for two out of thirteen purchases examined and tender documentation was provided to the ISO on one occasion. The ISO is viewed by DPPS as a valuable resource and assistance is currently being sought on the procurement of expandable tactical batons, vessel replacement, red-light speed cameras and vehicle interception devices.

The acting Manager, Procurement and Contracts, has commented that when applicable and available, preference is given to locally sourced goods where performance against the evaluative criteria is comparable.

The provision of consultancy services for the Natural Hazards and Land Use project demonstrates one occasion where the only local tenderer was successful in obtaining the contract due to the competitive tender submitted.

In the case of the procurement of leather patrol jackets an Australian manufacturer was selected although the leather was sourced and supplied from Pakistan. The contract value was \$235 000 over a five year period. The tender evaluation states that consideration was given to local suppliers although the large dollar variance, \$12 000 per year, between the closest Australian supplier and the selected tenderer could not be justified. The Commissioner of Police approved this recommendation.

All survey respondents indicated preparedness to provide a debriefing upon request, although reference to an opportunity for a debriefing was only evident in the tender documentation for the Rotor Lift and Leather Patrol Jacket tenders. Unsuccessful tenderers were provided with contact details if they wished to discuss the tender process further.

Recommendation

The requirement for tender documentation to include reference to the ISO and the opportunity for debriefing should be endorsed by DPPS.

Management

A requirement of the *Handbook* is for consultants and contractors to be engaged at the Head of Agency or Deputy Secretary level and for authorisations and monetary limits to be in writing and observed.

From the documentation examined it appears that authorisations occurred at the appropriate levels although where the tender process or requirement to obtain a minimum of three written quotations had not been followed, no evidence was provided to demonstrate that exemptions had been sought from Treasury.

Instances where the requirements of the Handbook were not adhered to, some of which have previously been discussed, include the acquisitions of: reloading machine; breath testing instrument; outboard motors; body armour; digital recorder; uniform fabric; lighting bar; and landscaping. Given the previous discussion regarding single or limited sources of supply and 'piggybacking' arrangements, it is considered that of the acquisitions listed above the requirements of the *Handbook* should have been followed for the purchase of outboard motors, digital recorder, lighting bar and landscaping services.

Examination of the Treasury database identified one acquisition where the details had not been provided at the end of the quarter. This acquisition was made in June 1999 for a value greater than \$50 000 although it appears that the details of subsequent procurements have been provided.

Tender Process

Primary requirements in terms of the tender process are for tenders to be advertised, outcomes to be advised in writing, opportunity to be provided for a debriefing if requested and information in respect of all tenders greater than \$50 000 to be provided to Treasury.

For those purchases examined where the tender process was followed records of the tender process and outcome were well maintained. Two of the four procurements with a value greater than \$50 000 were advertised in the press.

As previously mentioned, on many occasions the tender process, as described in the *Handbook*, had not been followed. The specialised nature of purchases often results in a limited number of capable suppliers. Opportunities to reap the benefits of negotiations conducted by other Australian Police forces also reduced the perceived need to conduct a full tender process.

The *Handbook* direction for items with a value of less than \$50 000, that states:

'Where possible, at least three written quotations should be obtained...'

was often not adhered to by DPPS officers. Of the nine purchases with a value greater than \$10 000 and less than \$50 000 examined this was the case on six occasions. In the case of the acquisition of outboard motors in June 2000, the Manager Finance and Fleet Services had obtained three verbal quotations although these were from the same supplier but for different models.

Three quotations were not sought for the purchase of lighting bars for mini 'booze buses' in June 2000. Quotations were invited from two suppliers in late 1996 and it appears that verbal quotations were received. The supporting documentation provided acknowledges that the process undertaken in 1996 was not in accordance with departmental guidelines, although it appears that additional lighting bars to the value of \$18 307 were purchased in June 2000 directly from the previous 1996 supplier.

In the case of the engagement of landscaping contractors to design and install a Memorial Garden at the Police Academy only one written quotation was sought. The process undertaken for this engagement did not comply with the requirements of the Handbook. The project was approved through the DPPS Corporate Management Group as part of the Police Academy refurbishment and the DPPS Strategic Asset Management Plan. Given the potential for this contract to exceed \$50 000 in value a full tender process should have been undertaken.

Recommendation

DPPS fully endorse the requirement to undertake a tender process for goods and services with a value greater than \$50 000 and a quotation process for goods and services valued between \$10 000 and \$50 000.

Audit Office Conclusion

For the most part adherence to effective and economic procurement practices in DPPS was evident. Although these practices were not entirely in accordance with the *Handbook* the procurement practices undertaken achieved substantial savings and benefits for DPPS. The major issues identified in this audit related to the procurement practices undertaken when there are single, or limited sources of supply or benefits to be achieved through contract negotiations undertaken by other Australian Police forces.

The quotation and tendering requirement of the *Handbook* should be fully endorsed by the DPPS, particularly for readily available goods and services.

The establishment of the position of Manager Procurement and Contracts appears to provide an effective quality framework for ensuring appropriate practices are adopted and there has been a noticeable improvement in the procurement practices adopted within DPPS since this appointment.

Departmental Response

Following is the response to the recommendations made by the Auditor-General arising from the procurement performance audit of the Department of Police and Public Safety (DPPS) conducted by the Tasmanian Audit Office.

Audit Recommendation

DPPS should consult with Treasury to establish guidelines for the purchase of items where the number of suppliers is limited or of a single source.

Our department is often required to purchase complex, highly specialised goods and services that, realistically, are only available from a single or limited number of suppliers. Apart from the exemption procedure, the *Handbook For Government Procurement* does not adequately cover single or limited sources of supply and we would welcome the opportunity for input into the establishment of appropriate guidelines.

Audit Recommendation

'Piggybacking' arrangements with other Australian Police forces in order to take advantage of economy of scale benefits should be pre-approved by Treasury.

DPPS only employs 'piggybacking' arrangements when it is feasible and sensible to do so. In such circumstances, we will first identify suitable sources of supply worldwide, including any possible local suppliers. We now have a close working relationship with the Industrial Supplies Office (ISO) which has been fostered by the A/Manager (Procurements and Contracts). The ISO have been invaluable in identifying possible Tasmanian and other Australian suppliers for a variety of goods and services. We will also ensure that correct procurement processes have been followed by the relevant force prior to purchasing any goods or services using a 'piggybacking' arrangement.

These processes were followed when we purchased the Drager breath testing equipment (one of the thirteen procurements audited by your Office) using a 'piggybacking' arrangement. As advised and noted in the report, NSW Police had undertaken a transparent evaluation and tender process for this equipment which satisfied the NSW Supply Unit and NSW Government

procurement policy. As acknowledged in the report, DPPS was able to achieve considerable economies and efficiencies through this 'piggybacking' arrangement with another Australian Police Force.

Audit Recommendation

DPPS fully apply the requirements of the *Financial Management and Audit Act 1990*, Treasurer's Instructions and subsequent policies and procedures for the payment of accounts.

This issue has been addressed in my letter to the Auditor-General, dated 16 October 2000, in response to a complaint about the establishment of a Memorial Garden at the Police Academy.[Refer below]

Audit Recommendation

The requirement for tender documentation to include reference to the ISO and the opportunity for debriefing should be endorsed by DPPS.

Reference to the ISO and the opportunity for debriefing has been included in all tender documentation since appointment of the A/Manager (Procurements and Contracts) in November 1999. Upon appointment, he progressively revised and updated relevant documentation in line with government procurement guidelines. The documentation was ratified by the Crown Solicitor's Office. We are also in the process of revising tender documentation to include reference to the procurement complaints process, as per a recent amendment to the *Handbook For Government Procurement*.

Audit Recommendation

DPPS fully endorse the requirement to undertake a tender process for goods and services with a value greater than \$50 000 and a quotation process for goods and services valued between \$10 000 and \$50 000.

DPPS does and will continue to endorse the above procurement processes, however, there are instances where a separate tender process is unnecessary because a transparent evaluation and tender process has already occurred. One such instance was the purchase of the Drager breath testing equipment referred to earlier. We believe it was efficient and effective procurement practice to 'piggyback' with NSW Police. Our investigations revealed there were only three possible suppliers worldwide, no local supplier and that our requirements were identical to NSW Police (except for the number of instruments) who had undertaken a full and transparent tender process. We were able to achieve identical value for money outcomes despite the smaller scale of our operations. Conducting a tender would have been an unnecessary duplication of effort and an inefficient use of resources.

The *Handbook For Government Procurement* should acknowledge that there are valid exceptions to tender/quotation requirements which can still result in efficient and effective procurement practices which are also open and transparent.

Audit Recommendation

Knowledge and experience of staff in procurement should be established prior to the allocation of responsibility for the acquisition of purchases over \$10 000. Staff unfamiliar with the fundamental principles of the *Handbook for Government Procurement* should be required to undertake appropriate training before assuming a procurement role.

I endorse the need for personnel to undertake appropriate training before assuming a procurement role and that personnel should have appropriate knowledge and experience before being given responsibility for acquisitions over \$10 000. The A/Manager (Procurements and

Contracts) is a member of Parliament committees established by the Department of Treasury and Finance. One such committee is addressing a number of procurement issues across government, including training initiatives. As noted in your report, the A/Manager (Procurements and Contracts) has developed a simple, practical internal training package for presentation to DPPS personnel with procurement responsibilities and other interested parties. I believe this will lead to a better understanding of government procurement guidelines and further improve our procurement practices.

Staff with procurement responsibilities have a copy of the *Handbook For Government Procurement* and are advised of any revisions.

A separate response was received from the Commissioner of Police in relation to the Academy Grounds Beautification Project:

'The internal review into Stage 2 of the Memorial Garden indicates the processes fell short of the high procurement and accounting standards now established in the Department. It is accepted that written quotes and a formal contract should have been developed and signed or an exemption obtained. In addition, drawing a cheque and paying before completion of the Memorial Garden was not in line with accounting procedures, albeit that a reasonable price was negotiated. I am satisfied that value for money has occurred, the product will significantly improve the Academy Grounds and, importantly, the Garden will be a deserving tribute to police officers killed on duty. However, I have conveyed the view that adherence to tendering and accounting processes are as important as the end result. A direction has been issued accordingly with specific reports on major procurement and tendering now required as part of the quarterly performance reporting to CMG [Corporate Management Group] by the Director, Corporate Services.'

DEPARTMENT OF PREMIER AND CABINET (DPAC): PROCUREMENT PRACTICE

The following section details the audit findings for the Department of Premier and Cabinet against the following audit criteria:

- Local opportunity;
- Open and effective competition;
- Management;
- Tender process; and
- Audit Office conclusion.

Excluded from this section are the recommendations aggregated at State level which commence on page 15 of this report and address:

- Open and effective competition – Granting of exemptions;
- Staff experience;
- Administration of grants;
- Networking equipment;
- Australian New Zealand Purchasing Agreement;
- Commercial-in-confidence; and
- Limited or single sources of supply.

Appendix 6 lists the acquisitions that were examined during the audit and that form the basis of our findings and recommendations.

General

Communication and coordination of information on departmental procurement policies, practices and activity were examined initially to establish the context within which procurement was undertaken. The implementation of additional in-house procurement guidelines that were designed to serve specific departmental needs was also investigated.

Other than the *Handbook* there are no additional procurement guidelines in place within DPAC. The purchasing function is predominantly centralised and performed by relatively few staff, therefore DPAC considered that an internal mechanism for monitoring compliance with the *Handbook* was unnecessary. Purchasing staff have appropriate procurement experience and knowledge of government purchasing protocols which was evidenced by the majority of survey respondents having a working knowledge of the *Handbook*. Purchasing personnel have access to the *Handbook* and additional purchasing requirements are usually communicated directly.

When other divisions are arranging consultancy services, advice is usually provided by Corporate Services although it appears that on at least one occasion the officer responsible for managing the procurement process was unaware of the requirements under the revised *Handbook*. Divisional managers are generally aware of these guidelines as are the Secretary and Deputy Secretary who sign consultancy contracts.

Recommendation

Consideration should be given to increasing the dissemination of the *Handbook for Government Procurement* and any internal procurement policies and procedures, particularly to those officers who are involved in one-off purchases or the engagement of consultants.

Open and Effective Competition

Open and effective competition was examined according to the tender and quotation requirements of the *Handbook*. For goods and services greater than \$50 000 tenders should be sought, while for those with a value between \$10 000 and \$50 000 it is a requirement that a minimum of three quotations are obtained. Variability of tender prices was also investigated where evaluative criteria were comparable.

In the majority of cases examined procurement practices observed within DPAC were in accordance with the *Handbook*. Two procurements with a value greater than \$50 000 were examined, one of which had been advertised in the press, pre-determined evaluation criteria had been set and an evaluation conducted by an evaluation committee. A recommendation was then made to the Secretary of DPAC which was approved. The second purchase did not follow the same process as Treasury had granted an exemption. This purchase was for the design and purchase of carpet for Government House.

Of the purchases examined with a value less than \$50 000 but greater than \$10 000 the majority had followed the direction that a minimum of three quotations be sought, although on occasions more than three suppliers had been invited to submit quotations with less than three suppliers choosing to provide written quotations. One extreme example was in the case of the development of a whole of government approach to email policy, protocol and guidelines. Nine firms were approached to submit quotations for the provision of this service with only two written quotations being lodged.

For the design and production of the *Our Vision, Our Future* brochure only two quotations were sought. Both quotations were sought from local firms perceived to have the capacity to complete a project of this size, within the tight timeframe and with the number of colour separations required.

Where Whole-of-Government contracts existed only one quotation was obtained from the contract holder. In particular, this related to the purchase of media planning and buying services where the local Whole-of-Government contractor was selected. The value of this project was \$30 940.

Recommendation

Endorsement of the requirement to obtain three written quotations for the purchase of goods and services with a value of more than \$10 000 per item but less than \$50 000 per item should be endorsed within DPAC.

Clarification should be sought from Treasury as to the meaning of the term 'where possible' as it relates to obtaining three written quotations for goods and services with a value of greater than \$10 000 and less than \$50 000 in the *Handbook for Government Procurement*.

In regard to comparability of Tasmanian tenderers, in all except one case Tasmanian tenders were sought and were competitive. Nine out of the ten procurement contracts examined were awarded to Tasmanian firms.

Local Opportunity

The *Handbook* was revised to reflect the Tasmanian Government's policy initiative to assist Tasmanian small to medium businesses increase their share of Government business. To this end the guidelines require departments to contact the ISO in respect of all purchases above \$50 000 and to seek at least one quote from local business or through ISO for items with a value between \$10 000 and \$50 000.

Reference to the ISO was not made in the tender documentation for the acquisitions examined. For the two procurements over \$50 000 advice was sought from the ISO on local suppliers and in one case the suggested Tasmanian supplier successfully obtained the contract. Advice was not sought from the ISO for any of the purchases with a value under \$50 000, although it appears that as a matter of practice DPAC seeks Tasmanian tenders and quotations in the first instance.

Recommendation

All tender documentation for tenders greater than \$50 000 should include reference to the ISO and the importance of local content.

DPAC, as a Government buyer is giving preference to locally sourced goods where evaluative criteria are comparable, this is demonstrated by nine out of the ten contracts being awarded to Tasmanian firms.

Management

A requirement of the *Handbook* is for consultants and contractors to be engaged at the Head of Agency or Deputy Secretary level and for authorisations and monetary limits to be in writing and observed.

Six acquisitions from the sample of ten involved the engagement of consultants. On all occasions the correct authorisation process had been observed with the Secretary of DPAC approving five consultancy engagements and the Deputy Secretary approving the other (value of \$18 900). From the documentation provided it appears that appropriate records were kept and maintained.

The implementation of the Purchasing module in Finance One during 2000-2001 will allow business rules to be built into the system which will allow better monitoring of purchases and compliance with approved delegations.

Tender Process

Primary requirements in terms of the tender process are for tenders to be advertised, outcomes to be advised in writing, opportunity to be provided for a debriefing if requested and information in respect of all tenders greater than \$50 000 to be provided to Treasury.

The correct tender process was followed for both acquisitions with a value greater than \$50 000 examined.

All tenderers were advised in writing of the outcome of the tender process and provided with contact details for further discussions. The opportunity for a debrief was not explicitly set out in the tender documentation or notification of the outcome.

Data on purchases that are greater than \$50 000 is collated centrally in Corporate Services and forwarded to Treasury quarterly. The Corporate Services Division also records details of consultancies and contractors which are also used as a data source for quarterly returns to Treasury. Inspection of the Treasury database revealed that the details of purchases with a value greater than \$50 000 were provided and recorded appropriately.

For acquisitions over \$10 000 but less than \$50 000, quotations were sought from a number of suppliers but because not all submitted quotes, there were cases where less than the required 3 quotes were obtained.

Audit Office Conclusion

For the most part procurement within DPAC has been well managed. One recurring issue was the difficulty in obtaining three written quotations. This difficulty in each case examined was documented with supporting evidence that either more than three quotations had been invited or that there were only a limited number of local suppliers.

The large number of officers with part-time procurement responsibilities raises the question of the appropriate level of knowledge and experience required before assuming a procurement role, which includes the engagement of consultants. Of the sample examined and where the officer responsible did not have an appreciation for the *Handbook*, a common sense approach to the tender process was followed and documentation well maintained. Increased promotion of the Corporate Services Division's central coordination function would assist officers outside of this unit implement procurement practices in accordance with the *Handbook*.

Departmental Response

The department generally agreed with the recommendations contained in the draft audit report and planned to implement those still outstanding as soon as possible.

DEPARTMENT OF PRIMARY INDUSTRY, WATER AND ENVIRONMENT (DPIWE): PROCUREMENT PRACTICE

The following section details the audit findings for the Department of Primary Industry, Water and Environment against the following audit criteria:

- Local opportunity;
- Open and effective competition;
- Management;
- Tender process; and
- Audit Office conclusion.

Excluded from this section are the recommendations aggregated at State level which commence on page 15 of this report and address:

- Open and effective competition – Granting of exemptions;
- Staff experience;
- Administration of grants;
- Networking equipment;
- Australian New Zealand Purchasing Agreement;
- Commercial-in-confidence; and
- Limited or single sources of supply.

Appendix 7 lists the acquisitions that were examined during the audit and that form the basis of our findings and recommendations.

General

Communication and coordination of information on departmental procurement policies, practices and activity were examined initially to establish the context within which procurement was undertaken. The implementation of additional in-house procurement guidelines that were designed to serve specific departmental needs was also investigated.

Advice from the department was that the Business Services Unit in each division keeps copies of the *Handbook* and that General Managers are responsible for ensuring their staff are familiar with provisions of the manual. Further, the Finance Branch gives advice on a needs basis. Often the Finance Manager has a role on major tenders in either developing specifications or as a committee member during evaluation and selection.

So far as departmental directives on procurement are concerned, we were advised that, following amalgamation of two former departments, work is continuing on revising policy and procedures documentation (including procurement). The target is to have the first draft completed by the end of 2000.

The Budget Management Section of Finance Branch provides procurement data from the department to Treasury. A consolidated return is prepared each quarter based on information supplied by business managers.

Open and Effective Competition

Open and effective competition was examined in the light of tender and quotation requirements of the *Handbook*. For goods and services greater than \$50 000 tenders should be sought, while for those with a value between \$10 000 and \$50 000 a minimum of three quotations are to be obtained. Variability of tender prices was also investigated where evaluative criteria were comparable.

Generally, there was evidence of adherence to open and effective competition requirements. For instance, methodical assessments were made of EOIs supplied by tenderers and in the case of the gas chromatograph / mass spectrophotometer (GC/MS) approval had been sought and obtained from Treasury to proceed to closed tenders.

In the case of helicopter hire, however, it appears that there is regular use of purchase orders rather than contractual arrangements. The reason given by the department is that no service was greater than \$50 000. Table 3 indicates that cumulatively the value of these transactions exceeds that threshold and individual purchase orders could be viewed as being a way of circumventing tendering processes.

Table 3: DPIWE - Summary of transactions with 'Helicopter Resources' in 99/00

Details	Time Frame	No of payments	Cost
Eastern Arthurs / Southern Ranges	Nov 1999 – Mar 2000	10	\$53 055.60
Hartz Mountain	Mar – Apr 2000	3	\$16 039.50
Maatsuyker Is	Sep 1999 – May 2000	8	\$48 075.90
Total		21	\$117 171

Also, acquisition of the Global Positioning System (GPS) equipment appeared to involve splitting orders. Three separate purchase orders worth a combined total of \$90 700 were issued to the one company on the same day. The use of the particular company was justified by the need to acquire further equipment that would be compatible with items purchased previously and still in operation in the department. Nonetheless, the pattern of ordering does suggest that the need to gain an exemption from Treasury was deliberately side stepped.

Recommendation

Provision of services on a regular or ongoing basis should be formalised through a contract with tendering processes stipulated by the *Handbook for Government Procurement*.

Local Opportunity

The *Handbook* was revised in June 1999 to reflect a Government policy initiative to assist Tasmanian small to medium businesses increase their share of Government business. To this end, the guidelines require departments to contact the ISO for all purchases over \$50 000 and to seek at least one quote from local business or through ISO for items in the range of \$10 000 to \$50 000. This requirement cannot be applied retrospectively and examples reviewed that pre-dated this obligation were treated accordingly.

Of the nine cases that we selected for review only a small proportion could be evaluated against this criterion. Two had been arranged after 1 July 1999 but were less than \$50 000 and

thus beneath the threshold. Four were arranged prior to June 1999 so that altogether six out of the nine fell outside of the requirement to contact the ISO.

Of the examples remaining, only the Mt Lyell sludge treatment study had gone to open tender. It had been advertised locally but no Tasmanian companies had submitted EOIs. The purchasing officer advised that the ISO had not been contacted because there were no firms in the state with the necessary expertise in that highly specialised field.

The previously mentioned GPS equipment was obtained from an interstate supplier without reference to local firms since departmental papers indicate that it was the only source of supply. However, no exemption appeared to have been obtained from Treasury beforehand.

The last example was that of helicopter hire and as stated previously this need has so far been met by individual purchase orders. Advice from the department was that ISO had not been approached because these purchases were less than \$50 000 and also because there was a very limited number of suppliers in the state.

Respondents indicated preparedness to provide a debriefing upon request and reference to an opportunity for a debriefing was included in tender documentation for the contracts examined.

Management

A requirement of the *Handbook* is for consultants and contractors to be engaged at the Head of Agency or Deputy Secretary level and for authorisations and monetary limits to be set in writing and adhered to. This appeared to be met in DPIWE.

In three of the cases that we examined normal tendering or quotation practices were not applied, namely:

- Helicopter hire,
- GC/MS, GPS equipment, and
- The orange-bellied parrot recovery program.

The first case was not subject to tendering despite the regularity of the work and the high costs involved. In the second case earlier acquisition decisions had meant that upgrades or expansions would be restricted to items only available from the original supplier. In the third case an individual had developed a unique level of expertise through ongoing engagement by the department. Although these circumstances may to some extent be inescapable there is still a risk that undue advantages can arise for certain parties to the detriment and even exclusion of others.

Section 1.3 of the *Handbook* deals with open and effective competition and mentions that this objective can be achieved by:

- 'Procurement policies, practices and procedures being visible to the suppliers, the Government and the community; and
- Buyers accepting their accountability to the Head of Agency and to the Minister.'

To support these objectives it is necessary to justify decisions made in respect of procurement and to review specifications that may give rise to situations that could subsequently bestow an unfair advantage on certain bidders.

Recommendation

Administrative reviews of specifications should be undertaken regularly to facilitate open and effective competition. Full and detailed justifications must be recorded where restrictive specifications exclude a wide range of potential bidders.

Tender Process

Primary requirements of the tendering process are that:

- Tenders be advertised;
- Outcomes be advised in writing;
- Opportunity be provided for a debriefing if requested; and
- Information on all tenders over \$50 000 be provided to Treasury.

Records of the tender process, as they were supplied to the Audit Office, indicate that these obligations were met, with the exception of the GPS and GC/MS equipment as mentioned previously.

Audit Office Conclusion

For the most part procurement within DPIWE has been adequately managed. It is an activity that has impacted on a relatively narrow band of staff within the department and they seem to have gained practical experience and have knowledge of the requirements of the *Handbook*. Authorisations and delegations have been observed and it appears that engagement of consultants or contractors has been properly approved. Issues associated with the adequacy of coverage of the *Handbook* should also be raised and worked through with Treasury.

Departmental Response

In addition to the comments already provided to Audit and incorporated in the draft report the following comments are made:

Helicopter hire

At the time purchase orders were issued for helicopter hire as detailed in the draft report no other service provider had helicopters capable of lifting the loads required.

An alternate supplier, Coastal Helicopters, was not licensed to carry passengers over water which precluded them from most Maatsuyker Island work, however they were used for non-passenger work in the period covered by the audit.

Now that there are alternative suppliers capable of providing the lift capacity required, quotations are being sought for the forthcoming season.

GPS equipment

Future purchases of GPS equipment, where there is a single supplier will be referred to Treasury for an exemption. It should be noted that GPS equipment of any manufactured brand is not compatible with another brand.

Networking equipment

There appears to be some confusion as to the department's response on this issue. The department's response was that there was little or no networking equipment purchased in the target year but that the biggest item of expenditure was for communications network costs. Differentiation between networking equipment and network communication costs was not a problem.

The chart of accounts is currently under review and the recommendation in the draft report will be incorporated in the review to enable improved trading and reporting of networking purchases.

DEPARTMENT OF STATE DEVELOPMENT (DSD): PROCUREMENT PRACTICE

The following section details the audit findings for the Department of State Development against the following audit criteria:

- Local opportunity;
- Open and effective competition;
- Management;
- Tender process; and
- Audit Office conclusion.

Excluded from this section are the recommendations aggregated at State level which commence on page 15 of this report and address:

- Open and effective competition – Granting of exemptions;
- Staff experience;
- Administration of grants;
- Networking equipment;
- Australian New Zealand Purchasing Agreement;
- Commercial-in-confidence; and
- Limited or single sources of supply.

Appendix 8 lists the acquisitions that were examined during the audit and that form the basis of our findings and recommendations.

General

Communication and coordination of information on departmental procurement policies, practices and activity were examined initially to establish the context within which procurement was undertaken. The implementation of additional in-house procurement guidelines that were designed to serve specific departmental needs was also investigated. In response to an audit observation schedule on these matters the department advised that:

- 'The *Handbook for Government Procurement* is available to all personnel within DSD. The Manual is available on the DSD Intranet and elements of the procurement guidelines are included in certain consultancy agreements entered into by DSD.
- Procurement requirements are communicated to employees within DSD via training sessions and during DSD's formalised induction procedure.'

Open and Effective Competition

Open and effective competition was examined in the light of tender and quotation requirements of the *Handbook*. For goods and services greater than \$50 000 tenders should be sought, while for those with a value between \$10 000 and \$50 000 a minimum of three quotations are to be obtained. Variability of tender prices was also investigated where evaluative criteria were comparable.

There was evidence of adherence to open and effective competition requirements. Methodical assessments were made of EOIs supplied by tenderers and in one case examined approval had

been sought and obtained from State Purchasing and Sales to proceed to closed tenders. The department has advised that expenditure in excess of \$50 000 must be signed off by project managers and that all project managers are aware of the Government procurement requirements.

Local Opportunity

The *Handbook* was revised in June 1999 to reflect a Government policy initiative to assist Tasmanian small to medium businesses increase their share of Government business. To this end, the guidelines require departments to contact the ISO for all purchases over \$50 000 and to seek at least one quote from local business or through ISO for items in the range of \$10 000 to \$50 000. This requirement cannot be applied retrospectively and examples reviewed that pre-dated this obligation were treated accordingly.

Of the ten cases that we selected for review only a small proportion could be evaluated against this criterion. Three were less than \$50 000 and had been arranged after 1 July 1999. Each of these examples did have quotes from Tasmanian firms. Four were arranged prior to June 1999 so that altogether seven out of the ten fell outside of the requirement to contact the ISO.

Of the three remaining examples two came from Tourism Tasmania and by their very nature did not lend themselves to input from local firms. Of this two, one was a Joint Marketing Agreement (JMA) with an airline company and the second was with an interstate market research company. Tourism has a procedure for administering JMAs and it stipulates that arrangements can only be made with advertising wholesalers outside Tasmania. With respect to the market research company, the work commissioned necessarily involves a focus that is external to the State thus precluding local involvement. The final example chosen by the Audit Office was a grant rather than an acquisition.

Respondents indicated preparedness to provide a debriefing upon request and reference to an opportunity for a debriefing was included in tender documentation for some of the contracts examined.

Management

A requirement of the *Handbook* is for consultants and contractors to be engaged at the Head of Agency or Deputy Secretary level and for authorisations and monetary limits to be set in writing and adhered to. This appeared to be met in all cases for DSD.

The department obtains internal audit services under a contract with KPMG (valued at approximately \$45 000). Initially, this work was put to tender in 1995 for a three-year period to June 1998. At the conclusion of this period, it appears that the contract was extended by Board approval but without re-tendering. Although there is provision for contracts to be extended under the General Conditions of Supplies Contracts this is intended to cover circumstances where work is incomplete rather than prolonging the period of engagement. Moreover, extending a contract without re-tendering does not give other companies the opportunity to compete for the work.

Tender Process

Primary requirements of the tendering process are that:

- Tenders be advertised;
- Outcomes be advised in writing;
- Opportunity be provided for a debriefing if requested; and
- Information on all tenders over \$50 000 be provided to Treasury.

For the most part records of the tender process, where they were supplied to the Audit Office, were well maintained.

Audit Office Conclusion

For the most part procurement within DSD has been well managed. It is an activity that has impacted on a relatively narrow band of staff within the department and they seem to have gained adequate experience and have knowledge of the requirements of the *Handbook*. Authorisations and delegations have been observed and it appears that engagement of consultants or contractors has been properly approved. Issues associated with the adequacy of coverage of the *Handbook* should also be raised and worked through with Treasury.

Departmental Response

DSD offered no comments on the draft report.

DEPARTMENT OF TREASURY AND FINANCE (TREASURY): PROCUREMENT PRACTICE

The following section details the audit findings for the Department of Treasury and Finance against the following audit criteria:

- Local opportunity;
- Open and effective competition;
- Management;
- Tender process; and
- Audit Office conclusion.

Excluded from this section are the recommendations aggregated at State level which commence on page 15 of this report and address:

- Open and effective competition – Granting of exemptions;
- Staff experience;
- Administration of grants;
- Networking equipment;
- Australian New Zealand Purchasing Agreement;
- Commercial-in-confidence; and
- Limited or single sources of supply.

Appendix 9 lists the acquisitions that were examined during the audit and that form the basis of our findings and recommendations and Appendix 10 details the specific suggestions made in regard to the *Handbook*.

General

Communication and coordination of information on departmental procurement policies, practices and activity were examined initially to establish the context within which procurement was undertaken. The implementation of additional in-house procurement guidelines that were designed to serve specific departmental needs was also investigated.

Consultancy was a major area of procurement in the department given its policy focus and these services were the most frequently sought by Treasury in the last financial year. A number of consultants had been engaged to provide advisory and legal services to the Basslink Development Board (BDB) as well as to the Electricity Project Team that was responsible for the National Electricity Market (NEM) Entry Project. The engagement of several of these consultancies was examined as part of the audit.

The *Handbook* was located on the Treasury web site which for most officers was the homepage of their browser and was therefore easily accessible. The majority of survey respondents were aware of the mechanisms for the dissemination and coordination of procurement information. An additional procurement procedure used within Treasury is the *Guidelines for Commissioning and Engaging Consultants, July 1999* that is also available on the department's Intranet to which all staff had access.

On a quarterly basis the Procurement and Property Branch requests quarterly returns for all tenders with a value greater than \$50 000. On receipt of this request an email is sent to all

Branch Heads requesting completion of a pro-forma, or advice of a nil return. This information is then collated and forwarded to the Procurement and Property Branch who also prepares a return on the whole of government contracts awarded during the quarter.

Treasury senior managers were aware of the procurement requirements of the *Handbook*, as the department was ultimately responsible for the development and implementation of procurement policy for Government. In order to monitor compliance within the department, audits on particular types of purchases were to be included in the internal audit program and a tender for a risk assessment together with a three-year program was also being developed for this purpose. The Finance and Administration Branch was also intending to include a section on purchasing policies and procedures with links to the *Handbook*, the *Guidelines for Commissioning and Engaging Consultants*, current delegation levels and details of suppliers of various commonly used items on the Intranet. When completed, the existence of this Intranet site is to be publicised throughout the department electronically. This will then be used as an opportunity to raise awareness of the department's procurement policies.

Open and Effective Competition

Open and effective competition was examined according to the tender and quotation requirements of the *Handbook*. For goods and services greater than \$50 000 tenders should be sought, while for those with a value between \$10 000 and \$50 000 it is a requirement that a minimum of three quotations are obtained.

For the most part adherence to open and effective competition requirements was apparent. Apart from the direct commissioning of two providers, selection criteria and evaluation groups had been employed to evaluate all tender and quotation submissions. In all but one of the six cases where Tasmanian submissions had been received, comparable Tasmanian tenders had been awarded contracts.

Due to the specialised nature of services sought by Treasury a selective tender approach had been approved for some engagements over the \$50 000 threshold. There were however unusual circumstances surrounding the adoption of a selective tender process for the procurement of consultants for the NEM Entry Project. The Electricity Oversight Committee (EOC) which presided over this project was chaired by the Secretary of Treasury and ordinarily there is a requirement for tenders to be advertised unless the Treasury determines it to be more appropriate to seek offers from selected tenderers. Guidance is not provided however in a situation where the Secretary is involved in the procurement process.

In the case of the engagement of the legal adviser for the NEM project, a minute was submitted to the Minister seeking approval to engage the recommended legal adviser (contract value \$350 000) but this was not sought for the engagement of the risk advisor (contract value \$112 000). In addition given that the EOC, consisting of the Secretary and the Deputy Secretary of Treasury as well as a representative from DPAC, oversaw the tender process it would appear that the decision to adopt a selective tender process was not unilateral. Although an independent assessment committee was established to assess tender proposals and submit a recommendation to the EOC, the EOC developed the tender selection criteria and nominated firms to participate in the selective tender process. While seemingly reasonable this practice is not covered in the *Handbook*.

The engagement of Perry Partners Pty Ltd as Financial Adviser was originally undertaken in January 1998 by the then Basslink Steering Committee. The appointee was to provide specialist financial advice in the form of several discussion papers on a tender strategy for the Government for Basslink as well as terms of reference for a financial feasibility study and the supervision of selected consultants. Perry Partners Pty Ltd was engaged on the basis of past advisory work completed for Treasury in relation to matters other than Basslink. As the original

engagement was for a value between \$10 000 and \$50 000 the quotation requirements of the guidelines should have been applied at the early stages of negotiation. Instead however, the services of Perry Partners Pty Ltd were directly commissioned and approval was only granted from the Treasury for subsequent extensions without tendering. Given that total payments to Perry Partners Pty Ltd have since amounted to \$471 189 it is arguable that opportunity should have been provided for other businesses to tender or quote for the required services prior to the original appointment. The report of the Probity Auditor for the BDB stated that he had provided advice throughout the process to the BDB on issues of probity and conflict of interest and reported that there were no unresolved probity issues.

Recommendation

The quotation requirements of Section 2.7 of the *Handbook for Government Procurement* should be adopted by Treasury when acquiring consultancy services with a value between \$10 000 and \$50 000. In order to ensure openness and effectiveness of competition these requirements should be rigorously applied when several extensions to a contract amounting to a value well in excess of \$50 000 are anticipated.

A selective tender process was undertaken for two of the consultancies engaged by the BDB. For a third, involving the engagement of a consultant for advisory services, quotations were sought even though the total cost was \$62 458. This approach was adopted because originally it was intended that three separate consultants be engaged, each engagement estimated as costing less than \$50 000. The appointed consultant was the only one however requested to provide submissions for all three consultancies. Advantages to be gained from the viewpoint of coordination in sourcing from one organisation as well as the discount offered for allocation of all three consultancies were determinants in the decision to seek the three consultancy services from the one provider.

While consistent with the guidelines, the seeking of separate quotations at the same time from a consultant that has capability to meet the requirements of a similar set of consultancies may afford an advantage to that consultant. It may also be arguable that if a criterion for the engagement of a consultant is to provide more than one service then all services should be sought as one tender or quote.

Recommendation

Clarification of the guidelines should be sought to address the procurement process when engagement of a single consultant is preferred to provide a range of similar services around the same time.

The process undertaken to determine that selective tenders should be sought for the engagement of legal services for the BDB was of interest because of the requirement under the Government's Protocol for the Engagement of Consultants and Contractors for the BDB to seek confirmation from the Crown Solicitor that the services could not be provided by Crown Law and to involve the Crown Solicitor or his nominee in the engagement/selection of the external party. These requirements arose because of an awareness of concerns that had been expressed within Government in 1999 at the cost and quality of the legal services provided by a number of mainland legal firms.

According to the guidelines the relevant quotation and tendering processes specified in the Treasurer's Instructions should apply in these cases. The Solicitor-General advised however that if there were to be an open public tender then it would be likely that many of the larger mainland legal firms would seek to have one of their partners/practitioners appointed and a selection committee would have to wade through a large pile of applications in order to identify a manageable short list for interview. This was considered to be an unnecessarily time-

consuming exercise that was wasteful of resources both from the point of view of Treasury and from that of those who might bid without having any realistic prospect of success. It was on these grounds that an exemption from the calling of open tenders was sought and granted by Treasury.

Local Opportunity

The *Handbook* was revised to reflect the Tasmanian Government's policy initiative to assist Tasmanian small to medium businesses increase their share of Government business. To this end the guidelines require departments to contact the ISO in respect of all purchases above \$50 000 and to seek at least one quote from local business or through ISO for items with a value between \$10 000 and \$50 000.

Although it was apparent that the services of Tasmanian providers had been procured where possible, five acquisitions were examined for which the ISO had not been contacted. In each case the responding officers indicated that it was not appropriate to contact the ISO due to the specialised nature of the services being sought.

Recommendation

The requirement to contact the ISO for purchases over \$50 000 regardless of the specialised nature of contracts should be promoted within Treasury in order to optimise the opportunity for local suppliers to engage in Government business.

Management

A requirement of the *Handbook* is for consultants and contractors to be engaged at the Head of Agency or Deputy Secretary level and for authorisations and monetary limits to be in writing and observed.

These requirements had been met for all acquisitions examined. Only one variation occurred in the case of the procurement of advisory and legal services for the BDB, where the Executive Chairman of the BDB and not the Secretary of Treasury signed the contracts. On 23 July 1998 Treasury imposed a requirement that approval for the engagement of consultants and contractors could only be given at the BDB executive level. In addition the Secretary had granted exemptions from the requirement to call open tenders.

One issue of interest in relation to the management of the procurement process arose from the seeking of an EOI from a provider, the principal of which was also the Finance Adviser to the BDB. According to Treasury, a probity auditor attended all BDB meetings during the proponent selection period and probity arrangements required members to declare any conflicts of interest and absent themselves from any BDB discussions involving those matters.

Tender Process

Primary requirements in terms of the tender process are for tenders to be advertised, outcomes to be advised in writing, opportunity to be provided for a debriefing if requested and information in respect of all tenders greater than \$50 000 to be provided to Treasury.

Either selective tenders or quotations had been sought for all acquisitions examined and as a result no tenders had been advertised. Records of tender documentation and outcomes had been well maintained with tenderers being advised in writing of outcomes as well as being verbally offered an opportunity for a debriefing on request.

Audit Office Conclusion

Despite the higher level of approvals sought and granted for the adoption of a selective tender process in the test sample, compliance to the principles of the *Handbook* was evident throughout the examination of the procurement practices of Treasury. As the overseer and developer of policy initiatives for procurement, Treasury has been able to avail the expertise of staff with considerable knowledge and experience in this area.

Departmental Response

The departmental response indicated satisfaction with the overall conclusion of the report in relation to Treasury's adherence to the principles of the *Handbook for Government Procurement*.

It was also advised that Treasury, as the lead agency for the development of procurement policy, had a number of projects in progress which would make it easier for all agencies to follow the requirements of the *Handbook*. These included the development of on-line purchasing, contracting information and guidance system (*Purchasing Tasmania*) and investigation into a training program designed for Tasmanian Government buyers.

Appendix 1 - Department of Education

Acquisitions examined

Acquisition	Purpose of Acquisition	Reference Date	Funding Details	Provider State/Territory	Procurement Process	Comments
1. Employee assistance	Provision of independent and confidential counselling to all staff members for personal or work related issues that could affect work performance with a view to reducing workers compensation costs and instilling more positive attitudes among staff.	March 1999 – Approval granted by Deputy Secretary.	\$120 000 Recurrent services transaction for consultancy from Vicki Martin and Associates	Tasmania	Renewal of Contract (without tender)	Tenders were not sought.
2. SBPD-E Commerce Project	A research and development project designed to examine, develop and trial suitable training processes, projects and products to assist small business' utilisation of electronic commerce.	July 1999 – Sign off for Funding Agreement.	\$71 500 – Commonwealth Grant to Council of Small Business of Australia	ACT	Selected Tender (as required by the Commonwealth)	Procurement requirements were imposed by the Commonwealth DEETYA Funding Contract.
3. Shearing and shedhand training	Provision of shearing and shedhand training to reduce the attrition of shearers from the industry and overcome Occupational and Health and Safety Issues reflected by increased workers compensation rates.	January 2000 – Offer of direct funding allocation made by the Director of OVET despite classification indicating requirement for competitive bids to be sought.	\$75 000 – Tasmanian Farmers and Graziers Association	Tasmania	Direct Allocation (although classified as subject to the Competitive Bids Guidelines)	No tender process undertaken.
4. Selected competencies for advanced diploma	Delivery of this program provides for skills recognition opportunities for existing employees.	May 2000 – Sign off for payment of invoice.	\$44 000 – Northern Joblink Inc	Tasmania	Tender	
5. Webpass project	WebPass is a system that provides a unified approach to the issues of user access control to departmental resource and the maintenance of user details.	September 1999 – Quote assessment.	\$48 812 – Dytech	Tasmania	Quotation	
6. Managed networks pilot project	The Managed Network program will provide professional technical support to government schools to manage data cabling, networking equipment and servers. The Pilot Project for this major program commenced late in 1999.	October 1999 – Evaluation of support providers.	\$400 000 10 local providers received a fixed amount of \$40 000 each	Tasmania	Tender	
7. Open-IT Project - online course material development	The purpose of the project is to obtain the services of one or more providers for the production of curriculum materials for K-12 including both pupil and teacher resources.	August 1999 - Sign off of agreement.	\$779 000 Allocated among 6 providers	Two Mainland Four Tasmanian	Tender/Subsequent Allocation of Sub-Projects Between the Providers	
8.SBPD - indigenous evaluation	An services of an evaluator were required to determine the value to indigenous small business of the learning models and strategies used by four projects.	November 1999 - Sign off by Director of OVET for payment of invoice.	\$59 000 – Research Australia	Queensland	Selected Tender/Exemption Obtained from Treasury	
9. SBPD - research project	The research project was to further explore and consolidate the findings of the SBPD through the development of six practical resources.	June 1999 – Timeline for submission of final brief	\$146 000 – Kirkwood and Associates	One Mainland Two Tasmanian	Selected Tender (as required by the Commonwealth)	Procurement requirements were imposed by the Commonwealth DEETYA Funding Contract.
10.Open It - ten icons	Twenty seven museums across the State are contributing to the development of a web site which explores 10 important icons from each collection.	March 2000 – Sign off of order	\$12 400 – Tasmanian Digital Publishing	Tasmania	Quotation	

Appendix 2 - Department of Health and Human Services

Acquisitions examined

Acquisition	Purpose of Acquisition	Reference Date	Funding Details	Provider Base State/Territory	Procurement Process	Comments
1. Gloves medical and general	The provision of gloves for medical cleaning, food handling and general use to the divisions of Hospital and Ambulance Service, Community and Rural Health and Health Advancement.	March 2000 - CRC approval granted.	\$1 139 722 - Ansell International	- 2 Mainland - 1 Tasmanian Public Company	Tender	
2. Pharmaceutical miscellaneous M to Z items	Provision of Pharmaceutical Miscellaneous M-Z items for the three Tasmanian public pharmacies at the Royal Hobart Hospital, Launceston General Hospital and the North West Regional Hospital.	May 2000 - CRC approval granted.	\$8 258 069 (see Appendix for list of successful tenderers)	- No tenders from Tasmanian owned suppliers. - Three tenders from suppliers operating wholesale and distribution centres in Tasmania. - 29 suppliers based in other states.	Tender	Reference was not made to either ISO or an opportunity for a debriefing in tender documentation.
3. Needles and syringes	Supply of needles and syringes to the divisions of Hospital and Ambulance Service, Community and Rural Health and Health Advancement for the <i>Needle Exchange Program</i> .	March 2000 - CRC approval granted.	\$700 119 - Terumo Corp Aust and Tasmanian Medical Supplies	Tasmania	Tender	
4. Surgical sutures and associated products	Supply of sutures, skin staplers and extractors for use in the three major public hospitals in Tasmania for a period of three years.	June 2000 - CRC approval granted.	\$2 691 838 - Johnson & Johnson Medical P/L	NSW	Tender	
5. Frozen fish statewide	Supply of frozen fish products to DHHS, state government agencies and authorised private sector health care organisations.	December 1999 - CRC approval granted.	\$315 329 with \$170 922 apportioned to DHHS - Allfood Distribution	Tasmania	Tender	
6. Disposable meal containers	Supply of disposable meal containers to DHHS, state government agencies and authorised private sector health care organisations.	April 2000 - CRC approval granted.	\$141 046 - MPM Marketing Services	- Two Tasmanian based distributors. - One mainland based provider.	Tender	
7. Tender blood gas monitors	Expiry of the current contract for Launceston General Hospital blood glucose monitors has prompted the invitation of tenders for a new four year contract.	January 2000 - CRC approval deferred	\$140 000 - Abbott Diagnostics	Mainland	Selected Tender	Selected tender process was not approved by Treasury.
8. Phacoemulsifier	Delivery and installation of a phacoemulsifier to aid cataract surgery in the Day Procedure Unit at the Royal Hobart Hospital.	December 1999 - CRC approval granted.	\$95 789 - Alcon Laboratories Pty Ltd	NSW	Tender	
9. Three bronchoscopes	Three bronchoscopes are required in the Department of Emergency Medicine, the Operating Theatre and the Intensive Care Unit within the Launceston General Hospital.	October 1999 - CRC approval granted.	\$62 825 - Olympus Australia Pty Ltd	Mainland	Quotation (exemption sought after CRC approval but not granted)	Exemption sought but not granted since Treasury was not satisfied that the market had been adequately tested.
10. Senior card directory	Twenty seven museums across the State are contributing to the development of a web site which explores 10 important icons from each collection.	March 2000 - CRC approval granted.	\$47 168 - Information Solution Works	Tasmanian	Quotation	

Appendix 3 - Department of Infrastructure, Energy and Resources

Acquisitions examined

Acquisition	Purpose of Acquisition	Reference Date	Funding Details	Provider Base State/Territory	Procurement Process	Comments
Post 1 July 1999:						
1. Advice, design and implementation of the Workplace Safe Campaign	A public relations campaign making use of a range of communications strategies was to be devised to promote the work place safety. .	December 1999 - Sign off of the agreement.	\$533 655 - Clemenger Tasmania Pty Ltd	Tasmania	Tender	Lack of awareness of requirement to contact ISO.
2. Internal Audit	A contractor was required to perform a minimal internal audit function of up to 90 days for Core Compliance audit activity.	February 2000 – verbal advice from Manager Financial Services as to date of recommendation.	\$40 000 to \$50 000 - KPMG	Tasmania	Direct Commission	Tender requirements not observed, timeframe and specific Departmental knowledge were seen as critical to this engagement.
3. Cleaning services	Provision of cleaning service, Workplace Standards Tasmania, Rosny Park.	September 1999.	\$50 940 - Cleaners Tasmania	Tasmania	Tender	Unaware of ISO requirement.
4. Audit services	The provision of audit services for the review of Workers' Compensation Insurers.	Initial contract 1996 Extension September 1999	\$45 750 - PriceWaterhouseCoopers	Mainland	Direct Extension of previous tender	Contract extension to complete current round of audits.
5. Advertising	The provision of Public Education advertising services on behalf of the Road Safety Task Force: Jun 2000 – December 2002.	April 2000	\$500 000 - Coo'ee Tasmania Pty Ltd	Tasmania	Tender	No reference to ISO, inexperienced and lack of knowledge of acquisition procedures.
6. Review of shop trading hours	The formulation of a review group to review the <i>Shop Trading Hours Act 1984</i> . Cabinet Direction 458 directed that the Senior Partner of KPMG chair the review group.	August 1999	\$18,000 - Chair Review Group \$19,250 additional services \$13,000 contract extension	Tasmanian office	Cabinet Direction No 458	
Pre 1 July 1999:						
7. Electronic ticket project and model contract project	Expressions of interest were sought from a suitably informed consultant to provide a report on current or emergent ticketing technologies. EOIs were also sought (separately) for the development of a model contract and evaluation framework to cover the regular provision of government funded regular passenger transport services .	May 1999 – Claim for payment. May 1999 – Claim for payment.	\$15 000 - Booz – Allen and Hamilton \$20 000 - Booz – Allen and Hamilton	New Zealand	Written Quotations	
8. Local Area Network communication equipment replacement	Network infrastructure upgrade.	July 1999 – Order Forms.	\$6 500 per month (3 year contract) - Networking Tasmania	Tasmania	Quotation	Exemption from Treasury was not obtained to conduct quotation process instead of tender process.
9. Courier service	Provision of door-to-door courier services.	June 1999 – Annual report.	\$20 280 - Frees Courier Service	Tasmania	Direct Commission (Contract expired in October 1997)	No contract currently in place however the contractor continues to provide the service, never tendered out.
10. Forest policy review	Consultancy to review the legislative and policy framework for the provision of forest policy advice to the Minister and Government.	May 1999 – Exemption granted.	\$18 000 - Abel Consulting	Tasmania	Direct Commission (Exemption granted)	
11. CASA prologic	Consultancy service for provision of maintenance	September 1998.	\$25 000	Tasmania	Written Quotation	

	and support of the CASA System.		- Prologic Pty Ltd			
12. Registration and licensing reform	Application development of the Motor Registry System to implement National Road Transport Commission Reforms and changes arising from the new Vehicle and Traffic Act 1999.	June 1999.	\$400 000 Consultancy agreement \$641 405 GITC Contract - Admiral Computing	Tasmanian office	Registration of Capacity (advertised) & then Selective Tender	
13. Maintenance for the MRS	The provision of maintenance for the Motor Registry System and Y2K initiative	June 1999	\$116 000 maintenance \$20 000 Y2K - Devil Computing	Tasmanian based subsidiary of AMS Pty Ltd.	Tender	
14. Land use & traffic study	Consultancy services for Sullivans Cove land use and traffic study	May 1998	\$23 000 - PPK Environment & Infrastructure Pty Ltd	Victorian	Written quotations	

Appendix 4 - Department of Justice & Industrial Relations

Acquisitions examined

Acquisition	Purpose of Acquisition	Reference Date	Funding Details	Provider State/Territory	Procurement Process	Comments
1. Security services	The provision of security and orderly functions were required in the precincts of Magistrate's Courts in Tasmania, the Courts of Petty Sessions, the Children's Courts and at other hearings or inquiries as needed.	March 2000 – Contract lapsed.	\$414 300 – Chubb Protective Service	Tasmania	Tender Originally (Informal trial arrangement since contract lapsed)	Contract expired in 1999, to be re-tendered when trial completed.
2. Cotton sheets	Material was required by the Prison Tailor Shop for the making of sheets.	September 1999 – Payment.	\$16 383 – Oakley Agencies	Tasmania	Verbal Quotation	Three verbal quotations obtained, <i>Handbook</i> requires at least three written quotations.
3. Negotiation skills workshop	A workshop was held for the development of negotiation skills on 15-17 November 1999. Sixteen staff participated and handbooks were distributed.	October 1999 - Payment	\$10 500 – Effective Negotiation Services	NSW	Written Quotation	
4. Frontline management training	Workplace trainer coaching and frontline management training was required for staff.	July 1999 – Payment	\$11 813 – Pelion Consulting	Tasmania	Direct Commission	A minimum of three written quotations or an exemption from Treasury was not sought.
5. Tobacco	Tobacco was required for the prison canteen.	March 2000 – Payment	\$10 379 – Imperial Tobacco Australia Limited	Tasmania	Direct Commission	Quotations were not sought, purchased directly from supplier.
6. Consulting services for video conference facilities	Consulting services were engaged to provide a range of services related to the feasibility, design, acquisition and supervision of the installation of Video Conference Facilities.	February 1999 – Acknowledgement of receipt of project brief.	\$37 000 – Stage 1 \$16 000 – Stage 2 – IPP Consulting Pty Ltd	Victoria	Direct Commission	Considered that this system was specialised and selected consultants had appropriate experience.
7. Supply and installation of video conference facilities	Supply and installation of and protected witness facilities in Tasmanian Courts and Prisons.	June 1999 – Approval by Attorney General.	\$258 377 – Stage 1 \$432 900 – Stage 2 – Rutledge Engineering (Aust) Pty Ltd	Victoria	Registration of Interest followed by Selective Tender (Exemption Granted)	
8. Offender tracking system	The services of a company were required to develop and assist in the implementation of a new computer system to manage the preparation of reports on offenders and the supervision of orders.	October 1999 – Evaluation of Quotations.	\$48 295 – Prologic	Tasmania	Quotation	Six companies approached, with only two submitting quotations.
9. Legal adviser	HECEC Australia Pty Ltd lodged a claim against the Tasmanian Government for \$50 million dollars. A legal adviser was engaged to defend the Government against the claim.	October 1999 – Payment.	\$600 000 – Freehill Hollingdale and Page	NSW	Direct Commission	No survey form completed.
10. Senior counsel	Senior counsel was required to represent the State at the directions hearing and thereafter be involved in preparation for hearing of the claim lodged by HECEC Australia Pty Ltd..	October 1999 – Payment.	A number of amounts in excess of \$50 000 – John C Kelly SC	NSW	Direct Commission	No survey form completed.

Appendix 5 - Department of Police and Public Safety

Acquisitions examined

Acquisition	Purpose of Acquisition	Reference Date	Funding Details	Provider Base State/Territory	Procurement Process	Comments
1. Reloading machine	The provision of a 9mm ammunition reloading machine, Ammo Loader Mark IV 9mm.	May 1999	\$46 255 - Malcolm Bone	Mainland supplier of North American product	Single written quotation	Three quotations not obtained, considered that there was no comparable suppliers
2. Breath testing instrument	Provision of ten additional Breath testing instruments.	May 2000	\$147 020 - Drager Australia	Mainland supplier	Single written quotation Initial tender process conducted by NSW Police	'Piggybacked' onto NSW Police tender process. No local tender process conducted.
3. Outboard motors	Purchase of 250 hp Yamaha outboard motors.	June 2000	\$24 200 - Baily Marine & Automotive	One quote obtained from Tasmanian supplier	Single verbal quotation	Three written quotations not obtained. Three verbal quotes obtained from same supplier but for different models.
4. Body armour	Purchase of tactical body armour, hard plates and carry bags for vests.	June 1999	\$82 610 - Tote Systems	One quote from mainland supplier	Single quotation (unknown if written or verbal)	Tender process should have been conducted however it was considered that the number of suppliers was limited.
5. Digital recorder	Provision of Wordnet Multi Channel digital voice logging recorder.	June 1999	\$39 380 - Racal Australia Ltd	One quote from a supplier in NSW	Single quotation (unknown if written or verbal)	Three quotations should have been obtained although it was considered that the number of suppliers was limited
6. Inflatable raft	Provision of 6 meter rigid hulled inflatable runabout.	March 2000	\$42 848 - Swift Marine	Six tenderers responded to the advertisement in the Mercury 9/10/99	Tender	
7. Leather jackets	The provision of leather patrol jackets over a period of 5 years.	May 2000	\$235 000 - Stagg Leather	One Tasmanian tender was received. Initially four Tasmanian firms registered an expression of interest.	Tender	
8. Uniform fabric	Provision of uniform fabric for store.	March 1999	\$16 000 - Yarra Falls Pty Ltd	One mainland quotation	Single quotation (unknown if written or verbal)	Three written quotations not obtained, 'piggybacked' onto Vic Police contract.
9. Video interview unit	Purchase of a standalone video interview unit.	March 1999	\$20 552 - McCulloch Pty Ltd	Tender documentation not provided, successful tenderer was a Tasmanian firm	Tender	
10. Lighting bars	Provision of lighting bars with message display to	June 2000	\$18 307	Tasmanian	Single written quotation	Three written quotations

	fit mini 'Booze buses'.		- Hazard Systems			or an exemption from Treasury should have been obtained.
11. Natural hazards and land use consultancy	50% payment of contracted amount to RJ Graham and Assoc for consultancy work as part of the Natural Hazards and Land Use Planning Project.	July 1999	\$12 500 - TASQUE & Natural Hazards Research Centre	One Tasmanian tender	Selective tender	
12. Helicopter service	The provision of Statewide emergency helicopter services, service and equipment costs.	28 March 2000	\$1 628 560 - Rotor-Lift Helicopters	One Tasmanian tender	Tender	
13. Landscaping	Landscaping services as part of the Academy Grounds Beautification Project.	23 June 2000 (cheque payment)	\$29 975 - Landscaping Solutions	Tasmanian	Direct Commission	Three written quotations or exemption from Treasury should have been obtained.

Appendix 6 - Department of Premier and Cabinet

Acquisitions examined

Acquisition	Purpose of Acquisition	Reference Date	Funding Details	Provider Base State/Territory	Procurement Process	Comments
1. IT and telecommunications consultancy services	The provision of retainer consultancy services regarding best practice in information technology and telecommunications and information management.	December 2000	\$100 000 – Meta Group Australia	All three tenderers have global reach, Meta group's Australian office is based in NSW	Tender	
2. Cleaning Services	Provision of cleaning services for the St. John Street public buildings, Launceston.	27 February 1998	\$25 504.50 – Kol's Cleaning Service	Three quotations from Tasmanian owned suppliers were received.	Quotation	
3. Web site design	Develop a web sit for Tasmania Together, the States long term social, environmental and economic plan.	September 1999	\$20 000 – Murchison Productions	Four quotes received from Tasmanian based IT companies	Quotation	
4. Brochure design and production services	Design, layout and produce Our Vision Our Future brochure.	November 1999	\$21 322 – Clemengers	Both quotations from Tasmanian companies	Quotation	Quotations obtained from the two local suppliers considered to have the capacity.
5. E-mail policy development	Develop a Whole of Government approach to e mail policy, protocol and guidelines.	January 2000	\$19 950 – Human Solutions Pty Ltd	Two quotations from Tasmanian owned suppliers	Quotation	
6. Review of help files	Review of Service Tasmania Help Files.	November 1999	\$15 750 – Human Solutions Pty Ltd	Three Tasmanian firms	Quotation	
7. Consultancy on transaction costing	Engagement of consultants to design and test an agency transaction-costing template.	March 1999	\$18 900 – Wise Lord and Ferguson	One Tasmanian quotation and one mainland firm with a presence in Tasmania	Quotation	Four firms invited to quote, two submissions received. Officer responsible unaware of the revised <i>Handbook</i> .
8. Promotional advertising	Promotional advertising, planning & placement.	May - June 2000	\$30 940 – Target Media SE	One Tasmanian agency	No tenders obtained Whole of Government advertising contract	Considered that there was only one local supplier of media planning and buying services.
9. Carpet supply	Purchase of replacement carpet for Government House	March 2000	\$150 000 – Tascot Tempelton	One Tasmanian tender	Tender Exemption	
10. Evaluation of ATSI Employment and Career Development Strategy	Under the Strategy Agreement between the State and the Commonwealth, an independent consultant was sought to conduct a qualitative and quantitative evaluation of the Strategy.	August 1999	\$16 875 – Farley Consulting Group	Four Tasmanian based tenderers	Tender	Unaware of <i>Handbook</i> and no experience in acquisition.

Appendix 7 - Department of Primary Industry, Water and Environment

Acquisitions examined

Acquisition	Purpose of Acquisition	Reference Date	Funding Details	Provider Base State/Territory	Procurement Process	Comments
1. Gas chromatograph / mass spectrophotometer	To replace an outdated device with a modern and more reliable machine.	Acquisition process approved by Secretary March 1999.	\$117 635 - Hewlett Packard Australia	One mainland company	Quotation	
2. Helicopter hire	Hire of helicopter for transport services related to track maintenance supplies and equipment.	No contract appears to exist for this service.	\$122 027 (See purchase orders in work papers for individual amounts) - Helicopter Resources P/L	Tasmanian firms used.	Purchase orders	Regular and ongoing service but no tender sought.
3. Aerial photography	Hire (and standby charges) of aircraft for aerial photography.	October 1998	\$80k - \$160k pa - Aerotechnology Pty Ltd	One Tasmanian firm used.	Tenders	
4. GPS equipment	New GPS equipment required by Office of Surveyor-General ³	July 1999	\$90 700 - Leica Geosystems Pty Ltd	One mainland company	Purchase order	Split across three orders, < \$50 000 issued on the same day to the same firm. No authorisation from Treasury.
5. Orange-bellied parrot recovery program	Winter coordination of the orange-bellied parrot recovery program.	August 2000	\$45 800 - Birds Australia	One mainland company	Selective tender	Tenders not called as work done previously had formed a close relationship with the one party who had become uniquely expert.
6. Laboratory information management system	Laboratory information management system	June 1999	\$125 000 - Corporate IT - Geographic Business Systems	One Tasmanian firm	Selective tender	
7. Supply and fit outboard engines	Boat engines for glass eel harvesting by Inland Fisheries	August 1999	\$20 006 - Baily Marine and Automotive	One Tasmanian firm	Quotes	
8. Design of PWS uniforms	Design and supply of new PWS uniforms.	March 1999	\$71 500 - Collections Design group	One mainland company	Tenders	
9. Sludge neutralisation project – pre-feasibility study	Work in relation to the Mt Lyell acid Drainage Remediation Program - Pre-feasibility/test work.	September 1999	\$104 668 - Canadian Environmental & Metallurgical Inc	One overseas company	Tenders	

Appendix 8 - Department of State Development

Acquisitions examined

Acquisition	Purpose of Acquisition	Reference Date	Funding Details	Provider Base State/Territory	Procurement Process	Comments
1. IT Industry Web site	Development of a web site intended to showcase Tasmanian high quality web design.	July 2000	\$35 302 – Human Solutions Pty Ltd – Tasmanian IT&T Industry Development Association	Tasmania	Tender	
2. Market research and Ad screening	Provision of market research, advertisement screening and equity research services.	December 1999 – April 2000	\$82 501 – Leading Edge	– No tender material supplied – Correspondence and payment authorisations to NSW firm, Leading Edge	Unclear	Response not received to these survey questions
3. Holiday book project management	Provide guidance in the pre-production, production and printing of Tourism Tasmania's 2000/2001 Holiday Book.	December 1999	\$35 850 – Clemenger Tasmania	Tasmania	Quotes	No written agreement or order due to blurred roles of external project manager and DSD staff
4. Media services	Sketchy details supplied – 'Humpfile Web site re-development'	October 1999	\$24 750 – ICS Multimedia	Tasmania	Quotes	Insufficient detail provided to gauge process of management
5. Joint marketing agreements (JMA)	Program to promote the <i>More than you imagine</i> campaign in 1999/2000.	September 1999 (?)	\$130 000 – Kendell Airlines	Victoria	Selective Tender	
6. Advertising services	Provide strategic, creative, media, client management and technical services that deliver communications programs to meet Tourism Tasmania's marketing objectives.	July 1998	\$40 504 – Singleton Ogilvy and Mather	NSW	Selective Tender	Probity audit of process of selecting preferred supplier conducted by KPMG
7. Publishing services	Manage the publishing of the 'official' guide to Tasmanian holiday experiences.	June 1998	\$88 480 payment (not full amount) – Artemis Publishing Consultants	Tasmania	Selective Tender	
8. Internal audit services	Provide DSD with internal audit service.	June 1995	\$39 600 (at least) – KPMG	Tasmania	Quotes in 1995	Contract was extended by Board without re-tendering
9. Consulting Services	Grant to enable company to engage QA consultants to protect export contracts.	November 1999	\$10 000 – Field Fresh Tasmania	Tasmania	Grant	
10. Consulting Services	Energy issues around magnesium metal and natural gas projects.	June 1999	\$27 041 – McLennan, Magasanik and Associates	Victoria	Selective Tender	

Appendix 9 - Department of Treasury and Finance

Acquisitions examined

Acquisition	Purpose of Acquisition	Reference Date	Funding Details	Provider State/Territory	Procurement Process	Comments
1. Legal Advisor National Electricity Market (NEM) Entry Project	Development of Basslink proposed underwater DC interconnector between Tas and Vic) necessitated appointment of a legal adviser with NEM issues.	February 2000 – Date of signing of contract.	\$350 000 – Capped plus reasonable expenses. – Mallesons Stephen Jaques	Victoria	Selective Tender	Committee chaired by Secretary of Treasury, approval from Treasurer sought and granted.
2. Risk Advisor National Electricity Market Entry Project	A risk adviser with experience in NEM issues was also considered essential for the development of the Basslink interconnector.	February 2000 – Date of undertaking assignment.	\$112 000 – Capped plus reasonable expenses. – Oakvale Capital Limited	NSW	Selective Tender	Committee chaired by Secretary of Treasury, approval from Treasurer not sought or granted.
3. Software Development for the State Taxation Revenue Project	The objective of the project is to deliver an integrated taxation revenue system that provides access to management statistics in the form of the general statistic report to be automatically generated monthly.	May 1999 – Signing of order.	\$336 523. – Prologic	Tasmania	Quotation Sought from Prologic for Phase 2 Subject to Review from Pricewaterhouse	Exemption from the calling of open tenders was granted.
4. Printing Services	Services were procured for the design and printing of the department's annual report.	August 1999 – Acceptance of quotation.	\$30 000 – The Creative Department	Tasmania	Written Quotation	
5. Consultancy for the Accrual Budgeting Project	A suitably qualified adviser was required to assist the Department with the development of accrual budgeting for government advisers.	September 1999 – recommendation to execute Consultancy Agreement.	\$30 000 - Includes out of pocket expenditure. – KPMG	Tasmania	Written Quotation	Four firms approached to provide written quotations two quotations submitted.
6. Advisory Services BDB	There was a combination of three separate consultant quotations regarding an Inspection Agency Adviser, a Transmission Line Engineer adviser and a Technical Evaluation Team Leader.	December 1999 – Signing of contract.	\$62 458 – each consultancy less than \$50 000. – Sinclair Knight Merz	Victoria	Written Quotation	Expressions of interest were sought for three separate consultancies which were all offered to the one firm.
7. Legal Services BDB	Legal services were required in the form of a lead negotiator for the State in the finalisation of legal documentation between Government and the preferred Basslink.	August 1999 - Sign off of agreement.	\$402 672 – Finlay Consulting	NSW	Selective Tender (Exemption Granted)	
8. Negotiation of BDB Commercial Arrangements	Advisory services were sought to facilitate negotiation of potential Basslink commercial arrangements between the three short-listed Basslink proponents and Hydro and Aurora.	April 1999 – E-mail indicating intention to appoint the successful tenderer.	\$206 683 – Trinitas Pty Ltd	Tasmania	Selective Tender (Exemption Granted)	
9. Year 2000 Compliance Investigations	Consultancy services were sought for Year 2000 compliance investigations for building services and embedded system in government buildings.	May 1999 – Approval to appoint SEMF Holdings Pty Ltd.	\$26 000 - Investigations \$7 000 - Remedial works. – SEMF Holdings Pty Ltd	Tasmania	Direct Commission (Approved by Secretary)	
10. Financial Adviser BDB	A Financial Adviser was required by the BDB to assess the financial and commercial viability of proponents and their proposals.	2000 Financial Year – Payment Creditor's Report	\$252 114 – 99/00 Financial Year – Perry Partners Pty Ltd	Tasmania	Direct Commission (extensions approved by Secretary)	Tender process should have been conducted initially or exemption gained. Conflict of interest matters addressed by Probity Auditor.

Appendix 10 – Specific suggestions made in regard to the *Handbook for Government Procurement*

Department of Education

- The guidelines assume only standard purchases are made (eg a 'widget') and therefore do not address products and services that fall outside this category;
- Section 2.5.5 could describe a contractor;
- The document listed in 2.5.6 is not available;
- *The Probity Guidelines* should apply to all documents (under these guidelines no Government department should have a trainee through a Group Training Company as they should be labour hire contractors);
- Section 2.7 on quotations should apply to items below \$10 000 as well;
- Continued reference to ISO assumes this body is the only one with knowledge of specific need markets. OVET has other QA processes to provide benchmarks for purchasing based on a standard price per unit purchased;
- Guidelines should be developed in consultation with outer agencies and especially with those individuals who do the buying;
- The use of the term 'non-standard' in dot point 4 under Section 1.5 *At The Procurement Planning Stage* – all educational service could be said to be non-standard;
- Participation in the 'Meet the Buyers Forums' is not considered appropriate for staff who operate in a specific industry area and have their own forums;
- The manual should be set out in a logical order that reads for Sections 1.0 and 1.4 in levels of procurement 0-10k, 10k-50k and above 50k;
- After Section 1.4 all aspects of Government policy relating to local purchasing, protocols for contractors and consultancies should be included;
- Sometimes in the VET sector there is only one provider of a single service in Tasmania and often only a few in Australia. Sometimes the total value is greater than \$50 000 but more often it is between \$10 000 and \$50 000. The guidelines are silent on this issue but if the competitive rules were applied the funds would flow outside Tasmania breaching Section 1.5;
- The section relating to the delegation of consultants and contractors is confusing. In particular it is unclear as to whether the Deputy Secretary should have to approve a consultancy contract with a value less than \$10 000;
- The distinction between the definition of 'grantee' and a 'contractor/consultant/contracted organisation' needs to be clearly differentiated;
- The relationship between the procurement guidelines and the full cost attribution guidelines is not addressed;
- The guidelines should be simplified. For example there are seven pages addressing 'quality assurance';
- There still appears to be confusion between procurement of general goods and services and building related goods and services as some requirements are the same (eg tender thresholds) but clarifying information is not consistently presented in various documents;

-
- There is a degree of repetition in the guidelines (eg Sections 2.7 Quotations and 2.8 Tenders). A simple summary table with reference to detailed coverage would be useful;
 - The guidelines for the appointment of contractors/consultants is not practical for implementation in DoE. This has been unsuccessfully pursued with Treasury and will now be addressed at Ministerial level;
 - The guidelines in some areas must be applied by low-level administrative staff who work on a part time basis. A simpler and less technical handbook would be of use in these staffing circumstances;
 - A web site and contact for common use contracts would be useful;
 - A list of all common use contracts should be included as an Appendix to the *Handbook for Government Procurement*;
 - There is confusion between the *Handbook for Government Procurement* and the *Procurement Practices Manual*. Although it is recognised that these two documents may never be successfully merged, a greater degree of cross-referencing is seen as advantageous. Continual reminders will alleviate confusion and will direct users to the correct area;
 - Applicable Treasurer's Instructions should be duplicated in the *Handbook for Government Procurement*;
 - The requirements of the GST should be included in each of the *Handbook for Government Procurement* and the *Procurement Practices Manual*;
 - It should be emphasised that the *Handbook for Government Procurement* and the *Procurement Practices Manual* are the minimum requirements for Government Procurement. Where Agencies provide their own internal procurement guidelines they must be nothing less than the Government's minimum requirements;
 - For tenders less than \$50 000 suggestions could be made to ensure that at least one local tender is received. Open public tenders invites all comers and there is no direction provided if no local tenderer submits; and
 - Index topics that are not immediately obvious should be highlighted in the section titles.

Department of Health and Human Services

- Provision of more advice, or nomination of a source of advice regarding Government Information Technology Contracts (GITC) and sensible business practice. This has a strong link to IT Project Management;
- Clarification of the processes for, and appropriateness of Request for Tender (RFI), Expressions of Interest (EOI), tenders and options for selection; and
- Options for refinement of order details following selection or short-listing of the preferred tenderer(s) – to what extent do tender specifications limit the scope of an order (especially for complex IT system acquisitions).

Department of Police and Public Safety

- The establishment of service-wide professional educational programs for procurement officers;
- The continuation of procurement working parties;
- The *Handbook* incorporate guidelines on single or limited sources of supply; and

- Contact details for Agency procurement personnel and relevant Professional Bodies (ie. AIPMM) be included in the Handbook.

Department of Treasury and Finance

- The guidelines for building and construction contracts should be included in the *Handbook for Government Procurement* rather than being compiled separately in the *Procurement Practices Manual*;
- It may be more user friendly for Section 2.2 on common use contracts to be linked to an appendix listing the current common use contracts;
- Section 2.11 on GITC needs to be expanded to include a means for establishing a GITC agreement with a supplier, official ordering procedure and crown law involvement; and
- A new section covering debriefing procedures for unsuccessful parties would be helpful as would a new section to cover the complete tender process.

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