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Dear Ms Quirk

INQUIRY INTO PUBLIC SECTOR PROCUREMENT OF GOODS AND SERVICES

Thank you for your letter of 1 December 2017 requesting a submission to your current inquiry.

It is not my normal practice to prepare submissions to Parliamentary inquiries relating to the functioning of government agencies, as this can undermine my independence if I choose to audit agencies in relation to the inquiry topic.

In this case I have chosen to make an exception as the issue of public sector procurement of goods and services has featured in a number of my audit reports in recent years. I have attached a brief list of the audits that may be of interest to the inquiry.

The most common recommendations of my reports are for agencies to:

- ensure hands-on contract management, including active engagement from management and with contractors
- establish ongoing monitoring of the contract – milestones, deliverables and budget
- justify and be transparent about any expansions of the contract scale and price
- identify conflicts of interest for contractors as well as internally
- maintain gift registers
- ensure appropriate delegated purchasing authority
- verify services prior to authorising payment
- maintain corporate card registers
- maintain receipts to support credit card statements
- record justification for 'entertainment' expenditure
- publish contract details if >\$20k.

I am available on _____ if you would like to discuss this, or related, information.

Yours sincerely

COLIN MURPHY
AUDITOR GENERAL
2 March 2018

Attach

Report title and date	Conclusion / key findings
Local Content in Government Procurement (December 2017)	<p>Agency monitoring and reporting of local content in government procurement is not adequate for them to be able to demonstrate whether their contracts are creating employment and sustaining business activity. The lack of clear responsibility for Policy oversight, monitoring and compliance reporting, makes assessing its effectiveness more difficult.</p> <p>The Policy helps regional businesses compete for regional contracts against metropolitan suppliers, but does little to help WA companies win contracts against interstate and international competition. This is because constitutional protections of interstate trade and some free trade agreements override it.</p> <p>Although agencies seek to, and largely do, comply with the Policy, a lack of clarity in the Policy itself, and a lack of guidance in how to apply it in some circumstances, leads to mistakes and inconsistencies. The way the Policy determines if a business is 'local' is so broad that companies can qualify as local despite being geographically distant. There is little monitoring of, and no effective consequences for, companies failing to meet their local content tender commitments. This means using the Policy does not automatically ensure a positive impact for the local community.</p>
Financial Controls - Focus Area Audits 2016-17 – Agency Contract Registers (November 2017)	<p>Four agencies maintained comprehensive contract registers. The other 11 agencies need to ensure that their contract registers are accurate and up-to-date, and contain all key information required by Treasurer's Instruction 820. At Department of Commerce and Department of Lands, we found contract extensions that were approved in excess of officers' delegated limits. We also found that Department of Water did not always perform adequate reviews of contractor performance before approving contract extensions.</p>
Financial Controls - Focus Area Audits 2016-17 – Financial Delegations (November 2017)	<p>Agencies had suitable policies and practices and maintained registers of financial delegations which have been communicated to relevant staff. Most delegations have been approved by management and correctly implemented into relevant systems, and staff were complying with the delegations. However, management had not set delegations for the approving of accounting journal entries.</p>
Non-Clinical Services at Fiona Stanley Hospital (August 2017)	<p>Overall, non-clinical service delivery at FSH has met contractual requirements, and South Metropolitan Health Service (SMHS) has the resources and processes in place to manage the contract. However, SMHS is not tracking overall cost performance effectively. SMHS is not tracking overall cost against the original base estimate, and needs to monitor against an agreed baseline as facilities manager (FM) services are costing more than originally estimated. Actual costs over the last 2 years were \$24.6 million higher than base estimates when the contract was approved in 2011, and patient numbers have grown faster than planned, increasing service demand and costs.</p> <p>Current contract disputes are estimated at between \$6 and \$7 million and differences of interpretation could add significant costs to the contract. Resolving these disputes is proving to be a lengthy process. Although service</p>

	<p>delivery has not yet been affected, the longer the disputes are, the greater the risk to service continuity. While adhering to the contract, SMHS and the FM need to find more efficient ways to resolve the disputes.</p> <p>The extensive reporting under the contract is absorbing a lot of SMHS and FM resources, but has not always reliably captured performance. SMHS effort has mainly sought to ensure compliance with reporting requirements and contract specifications, but this balance of effort needs to shift to using the information to identify service improvements and efficiencies. As part of this, SMHS and the FM should look to reduce the reporting overhead on services which are relatively low cost, predictable and which have less direct impact on the delivery of patient care.</p>
Timely Payment of Suppliers (June 2017)	<p>Overall, we found that the agencies in this audit were more timely in paying suppliers within 30 days than the agencies in our similar audit of 2014. Approximately 8% of payments were made more than 30 days after the invoice date, with no valid reason for the delay, compared to 10% in 2014. However, in this audit, payments made after 30 days were later than the late payments we identified in our 2014 audit. Most agencies have appropriate policies and procedures for managing payments to suppliers, but need to improve their practices.</p>
Management of Medical Equipment (May 2017)	<p>We cannot provide assurance that hospitals are achieving value for money from their management of medical equipment. Health service providers, and hospitals, cannot answer key asset management questions, such as how much equipment is needed, the cost efficiency of maintaining or replacing existing equipment, or whether high value equipment is used to its full capacity. This is because hospitals and health service providers are not capturing or effectively using information on equipment and do not have a strategic asset management approach for medical equipment.</p> <p>This lack of a strategic asset management approach is impacting efficiency:</p> <ul style="list-style-type: none"> • leasing equipment is not routinely considered as an acquisition option • procurement is generally not aggregated to obtain lowest cost from a supplier • available funding determines equipment replacement priorities and decisions are not always based on robust information. <p>For the majority of hospitals and health service providers, no one has clear responsibility for managing medical equipment and its costs. Responsibility is dispersed across health service staff, biomedical engineers, hospital operations managers, heads of clinical service areas and central health department staff. This reduces accountability and efficiency.</p>
Tender Processes and Contract Extensions (11 April 2017)	<p>7 of 8 agencies needed to improve various aspects of their policies or practices. In particular, controls over contract extensions needed to be improved at most agencies.</p> <p><i>Key findings:</i></p> <ul style="list-style-type: none"> • agencies need to improve their procurement policies and procedures and contract recordkeeping

	<ul style="list-style-type: none"> • agencies generally had satisfactory tendering practices and were managing conflicts of interest • agencies did not perform adequate contractor performance reviews before extending or renewing contracts • agencies were effectively controlling the use of contract variations.
Controls Over Purchasing Cards (11 April 2017)	<p>All 9 agencies needed to improve some aspects of their policies and/or practices for managing purchasing cards:</p> <ul style="list-style-type: none"> • agencies needed to improve their policies and administrative systems • only Department of Education Services was adequately managing the use of purchasing cards • most agencies are monitoring purchasing card use.
Vocational Education and Training for Year 11 and 12 Students in Public Schools (Dec 2016)	<p>The Department of Education (DoE) has not set standard arrangements for auspicing with registered training providers (RTOs), such as common contract elements or clear guidelines on choosing suitable courses. While DoE gives some financial assistance to schools, it has limited oversight and no plan for how its teaching workforce will meet the growing need to maintain industry experience and VET delivery qualifications on top of teaching qualifications.</p> <p>DoE has produced guidelines for use by schools when choosing RTOs and coordinating VET but it has limited staff to support VET. It does not analyse outcomes in detail, and support has not grown to match effort in schools.</p> <p>Schools have sound basic governance for VET, and DoE has an improved and transparent funding system in place for schools. However, DoE and the Department of Training and Workforce Development (DTWD) have not worked out the best way to allocate training funded by DTWD.</p>
Ord East Kimberley Development (Sept 2016)	<ul style="list-style-type: none"> • Lack of detailed planning and underestimation of the work for irrigation expansion led to delays and budget overruns • There were no detailed costings to support the decision by the State to fund the project • Governance arrangements were not always effective, and were not adjusted for changing circumstances and risk
Agency Gift Registers (8 October 2015)	<p>All 8 agencies need to improve their practices in some way, with the overall result from this audit reflecting no significant improvement since our 2012 audit. In particular, we saw a need for more detailed guidance to employees through gifts policies, improved practices for declaring gifts and in approval and recording of gifts and better monitoring of trends and compliance with policies.</p>
Pilbara Underground Power Project (Aug 2015)	<p>A number of factors in the planning and management of PUPP combined to cause the cost growth and delays in the project. The original budget of \$130 million and completion date of December 2012 were unrealistic and did not reflect local conditions. The funding decision did not include a robust assessment of the feasibility of delivering the project as planned. External oversight was not effective in providing visibility of project progress and risks. Horizon</p>

	underestimated the scope of works, and in the early stages of the project did not monitor progress closely enough and did not adapt its management to the project risks.
Health Department's Procurement and Management of its Centralised Computing Services Contract (17 February 2016 and 8 June 2016)	<p>The audit identified numerous and fundamental weaknesses in Health's management of the then \$175m contract, including:</p> <ul style="list-style-type: none"> • lack of identified need for the multi-million dollar variations • failure in delegation and authorisation procedures • guidance on contract variations and contract management was unclear and fragmented • absence of performance monitoring • inadequate checking of the accuracy of invoices.
Delivering Essential Services to Remote Aboriginal Communities (May 2015)	<ul style="list-style-type: none"> • Poor contracting means Housing is not getting full value from the Program Manager and its \$1 million a year fee. • Poor oversight means there is a risk that Housing may have overpaid for services. • Housing does not have an up-to-date view of the condition of Program assets which have an estimated value of \$765 million. This severely limits its ability to plan effectively for asset maintenance and replacement. • The remoteness of communities directly affects the cost of supporting them but better coordination of maintenance and repair for Program assets and public housing could reduce these costs.
Southern Inland Health Initiative (April 2015)	<p>The WA Country Health Service (WACHS) has established a financial and accounting framework to manage and monitor the SIHI investment but there are weaknesses in contract administration and processes to confirm the delivery of medical services.</p> <p>Improvements to data capture, monitoring and evaluation would provide evidence of Program achievements and inform future planning. This is important given that Royalties for Regions funding of the Program is scheduled to cease in 2016-17. WACHS needs to be planning now how it will sustain these services beyond then. Key to WACHS making informed decisions will be the capture and evaluation of the right performance data to establish what has and has not worked.</p>
Purchasing Through Common Use Arrangements (12 November 2014)	<p>Overall, agencies had well established policies for the use of CUAs and they were generally following satisfactory procedures and complying with requirements. Where purchases were not from an approved supplier under the CUA, the reasons were adequately justified in advance. However, for four of the eight agencies audited, there was a lack of formal monitoring of the outcome of non-CUA purchases to assess whether the agency received value for money.</p>

Purchasing cards, Debtor management and Timely payments to suppliers (1 April 2014)	<p><i>Purchasing cards</i> - Overall, no significant improvement in the management of purchasing cards was evident since our similar audit in 2009. Four out of ten agencies were rated as 'Good', but the other six agencies need to improve their policies and/or practices for managing purchasing cards. We found no instances of cards being used inappropriately.</p>
Public Trustee: Administration of the Financial Affairs of Vulnerable People (18 September 2013)	<p>We found areas of governance that the Public Trustee needed to improve, including:</p> <ul style="list-style-type: none"> • the need for greater rigour in checking payments for client carer services • improved controls over systems used to manage client information and payments • better identification and management of potential conflicts of interest.
Fraud Prevention and Detection in the Public Sector (19 June, 2013)	<p>Of the 9 agencies audited, 7 had experienced incidents of fraud or corruption in recent years.</p> <p>Most agencies lacked a coordinated approach to managing fraud and corruption risks. While all the agencies had well-established risk management processes, only 2 had specifically considered the risk of fraud and corruption through this process. We noted that none of the agencies had a fraud and corruption control plan, although 2 of the agencies had started to develop a plan.</p> <p>All of the agencies could strengthen their prevention and detection programs. Where incidents of fraud or corruption had occurred, agencies had responded appropriately, but could do more to strengthen controls based on lessons learnt.</p>
Major Capital Projects (October 2012)	<p>Significant weaknesses in accountability and transparency meant that funding and procurement decisions were made without a full understanding of original project requirements, risk and cost benefit analysis.</p> <p><i>Key procurement-related recommendation</i> - The Department of Treasury, the Department of Finance and client agencies should ensure that where there are changes to project scope, costs and/or schedules, project definition plans should include sufficient evidence to confirm that the chosen investment option, as detailed in the business case, remains valid. If the original investment option is no longer valid because of major scope change, then a new business case should be written as a matter of urgency.</p>
Public Sector Performance Report 2012 - Regional Procurement (28 June 2012)	<p>No agency fully complied with procurement policies and guidelines. Common weaknesses included:</p> <ul style="list-style-type: none"> • not sufficiently testing the market to ensure value for money • lack of documentation of purchasing decisions • not publishing awarded contracts when required • insufficient guidance to purchasing staff on how and when to apply Buy Local and Value for Money policies, and when to seek assistance from the Department of Finance procurement office.

Pharmaceuticals: Purchase and Management of Pharmaceuticals in Public Hospitals (13 June 2012)	<p>There were weak controls over pharmaceutical purchasing, which mean that we could not give assurance that purchases always represented value for money, were transparent and accountable and demonstrated open and effective competition.</p> <p>Potential conflicts of interest related to pharmaceutical purchasing were not managed well. This meant there was a real risk that purchasing decisions could be, or could be perceived to be, inappropriately influenced, however we found no evidence that this had occurred.</p>
Second Public Sector Performance Report 2011 (September 2011)	<p>Use of ICT contractors in Government:</p> <p>One agency planned, procured and managed ICT contractors well. The other agencies need to strengthen their processes to ensure they are managing strategically and promoting open and effective competition to achieve value for money. Specifically:</p> <ul style="list-style-type: none"> • 4 agencies lacked either comprehensive or up-to-date strategic ICT plans • 3 agencies did not fully comply with procurement policy for some of their contracting arrangements • potential conflicts of interest were not effectively recognised and managed at 3 agencies. <p>The Department of Finance had a robust pre-qualification process to list suppliers on CUAs 14008 and 22008 and administered it well overall. However, it could improve its ongoing monitoring of suppliers through the life of the CUAs to ensure they remain appropriately qualified to deliver services.</p> <p>Acceptance of Gifts and benefits by public officers in the Department of Health</p> <ul style="list-style-type: none"> • Free travel and accommodation was properly approved and the anticipated benefits were documented, but the conflict of interest risks were not well recognised or managed. • Testing did not find any instances of officers who accepted free travel and accommodation being involved in evaluating contract bids by the companies that supplied them with the free travel. • Non-travel gifts were accepted in breach of Department policy. • The Department did not have a program in place to monitor staff compliance with its travel and gift policy. • The Department has revised its approach to managing gifts and sponsored travel and is implementing policy and process improvements to address concerns.
Public Sector Performance Report 2011 – Agency Compliance with Procurement Requirements	<ul style="list-style-type: none"> • Compliance with government policy and good practice was inconsistent • Agencies frequently used methods of procurement that did not adequately demonstrate they were seeking value for money • 5/9 agencies used the correct methods of procurement • 3/7 agencies consistently reported procurement contracts valued at over \$20 000 publicly

(June 2011)	<ul style="list-style-type: none"> • Combined lack of process and transparency has high corruption risk
ICT Procurement in Health and Training (13 October 2010)	<p>Health's procurement of a new Patient Administration System (PAS) has not been done well. It has been 10 years since a PAS replacement was first identified as a priority by Health, and 6 years since Parliament provided the necessary funds, subject to Health first satisfying certain conditions. However, the funds are largely unspent, the State still does not have a PAS replacement and it is unlikely to get one until at least 2014.</p> <p>Weaknesses in the planning and governance of the PAS procurement, the negotiation of PAS related contracts and the monitoring of contract performance have all contributed to the delay. There has also been poor recordkeeping of all milestone activities – including financial.</p> <p>At Training the procurement of ICT services was generally sound. However, we found aspects of contractor monitoring were poor.</p>