

Government Response to

**Joint Committee of Public Accounts
and Audit**

**Report 369: Australian Government
Procurement**

November 1999

Recommendation 1 (paragraph 2.62)

That the Department of Finance and Administration develop and administer an accreditation system for assessing the purchasing performance of individual agencies.

Not Agreed.

Agencies are currently able to internally accredit and assess their own purchasing performance based on individual requirements. With the introduction of the *Financial Management and Accountability (FMA) Act 1997*, Chief Executive Officers (CEOs) have been provided with greater flexibility and autonomy in their purchasing framework to allow them to tailor purchasing policy to their individual agency's needs. This devolved environment has not removed the obligation for purchasing officers to promote efficient, effective and ethical use of Commonwealth resources. CEOs are accountable for the purchasing performance of their agency.

Centralising an accreditation system within the Department of Finance and Administration (DOFA) is inconsistent with the devolved environment currently operating within the Australian Public Service.

The role of the Australian National Audit Office, and other bodies to review a range of Whole-of-Government policies and their application is noted. Some agencies also apply the continuous improvement model to policy development and practice.

There are costs and resource implications to DOFA and agencies for any changes to the current system.

Recommendation 2 (paragraph 3.19)

That Financial Management and Accountability Regulation 8 be amended to read that 'An Official performing duties in relation to the procurement of property or services must act in accordance with the Commonwealth Procurement Guidelines'.

Not Agreed.

The introduction of a mandatory requirement would add a level of inflexibility to an agency's purchasing framework which may impact on the ability of CEOs to tailor purchasing policy to the needs of their agency in a devolved environment. The inflexibility may result in some agencies being unable to negotiate effectively.

The introduction of the FMA Act to provide CEOs with greater flexibility and autonomy in their purchasing framework does not remove the obligation for officers to promote efficient, effective and ethical use of Commonwealth resources. CEOs and agency purchasing staff are accountable for their procurement decisions within the existing *Commonwealth Procurement Guidelines: Core Policies and Principles* (CPGs).

To assist purchasing officials to understand their obligations as purchasing officers the CPGs are currently being reviewed. This review is considering issuing a new version of the CPGs that would highlight the mandatory requirements in a stand-alone section. This would enable officials to clearly identify their obligations when purchasing either goods or services. A separate best practice component is also being considered which may be added to the CPGs to provide officers with further information on their duties as purchasing officers.

Recommendation 3 (paragraph 3.31)

Measurement of the performance of the senior management, including Chief Executive Officers, of Commonwealth agencies should include reference to how efficiently and effectively the purchasing function is administered, and whether agreed objectives are being met, such as ANZ content and the commitment to maximising opportunities for SMEs.

Noted.

The Committee's view that the cultural change necessary for systematic and sustained improvement in procurement management in agencies needs strong leadership at the level of Chief Executive Officer, Board and senior management generally, is supported. For Chief Executives, accountability of performance in managing procurement, and resources generally, is exercised through the relationship with responsible Ministers and the Parliament.

Agency heads are responsible for determining the style and content of their staff's performance agreements to achieve their agency's organisational and business requirements. Therefore including a reference to how efficiently and effectively the purchasing function is administered, particularly in circumstances where the latter is critical to the efficient and effective delivery of outputs and outcomes, will be at the discretion of individual CEOs. It is noted that some CEOs require their staff to reflect efficient and effective purchasing functions as part of their performance agreements.

Recommendation 4 (paragraph 3.63)

The decision made in Commonwealth Procurement Circular 98/3 to change from mandatory to best practice the requirement that all persons undertaking procurement functions meet appropriate Commonwealth Procurement Competency Standards should be reversed immediately.

Noted.

The training of staff and the level of competency required of purchasing officers in any given agency is the responsibility of the CEO. It is noted that some CEOs have mandated that staff who undertake procurement functions meet appropriate Commonwealth Procurement Competency Standards. Removing the responsibility from the CEO by reversing *Commonwealth Procurement Circular 98/3* would be inconsistent with the devolved environment currently operating within the Australian Public Service.

Recommendation 5 (paragraph 4.35)

The Department of Finance and Administration and the Office of Small Business develop and agree on appropriate definitions to cover small and medium enterprises, and circulate this information across government for universal application. The agreed definitions should be included in the next edition of the Commonwealth Procurement Guidelines.

Agreed.

The adoption of a simplified definition of small and medium enterprises (SMEs) to ensure a consistent application in procurement would be beneficial. Care needs to be exercised to ensure that an additional reporting burden and extra cost is not placed on suppliers. DOFA, the Office of Small Business and other relevant Commonwealth agencies are working together to establish an appropriate SME definition which may be included in the next edition of the CPGs. To ensure an appropriate and workable definition is achieved, discussions are currently underway on whether the definition should be based on the number of employees and/or annual turnover.

These discussions have highlighted the need to consider differences between industry sectors. For example, when classifying organisations in the information technology and telecommunications sector it may be necessary to consider annual turnover. As indicated above, the Department of Communications, Information Technology and the Arts and other relevant stakeholders will be consulted as part of the process for identifying an appropriate definition. The Australian Bureau of Statistics is currently undertaking a review of defining business by size.

Recommendation 6 (paragraph 4.59)

That the Government upgrade its commitment so that Commonwealth departments and agencies will source at least 20 per cent of their purchases from SME.

Noted.

The government is fully committed to ensuring the existing 10% target for SME participation continues to be met. Future achievement against the existing target will require monitoring of agency performance over time and consideration of the impact of changing purchasing patterns.

An increase in the target without considering the changing buying patterns of individual agencies, and with a potential increase in reporting requirements for government and SMEs and the associated potential resource impacts is not supported.

Recommendation 7 (paragraph 4.60)

That where Australian-New Zealand (ANZ) products are equal to overseas items in terms of value for money and other principles in the Commonwealth Procurement Guidelines, then the ANZ products must be purchased.

Agreed in-principle.

Commonwealth agencies are presently required to apply a range of policies aimed at ensuring a competitive ANZ industry. The CPGs promote value for money based decisions on whole of life costs and benefits, as well as recognising the commercial and practical advantages of doing business with ANZ industry. However, introducing a mandatory requirement to purchase ANZ products would remove some of the responsibility of achieving value for money away from agencies and this is inconsistent with the devolved environment currently operating within the Australian Public Service. In addition, the Model Industry Development Criteria also require agencies to identify capable ANZ suppliers, especially SMEs, that can provide products and services to enhance Australia's export potential and import replacement.

Recommendation 8 (paragraph 4.83)

That, for agencies under the *Financial Management and Accountability Act 1997*, *Model Industry Development Criteria for Major Products* should apply to procurement projects of \$5m or more.

Agreed in-principle.

Commonwealth agencies are currently able to apply the Model Industry Development Criteria for Major Projects to projects less than \$10 million on a discretionary basis.

The current \$10 million threshold for Model Industry Development Criteria for Major Projects and the associated Guidance Notes has been in place since February 1999. The current threshold will be assessed at the time of a review of these criteria, to allow the Commonwealth to fully gauge the effectiveness, and cost to agencies and suppliers, of these criteria.

Recommendation 10 (paragraph 4.101)

That all Commonwealth agencies, if they have not already done so, sign a memorandum of understanding (MOU) with ISONET. This MOU, amongst other things, must:

- **Guarantee lines of communication between agencies and ISONET; and**
- **Include commitments to maximising the involvement of ISONET in the purchasing process.**

An agency will be expected to include, in its Annual Report, confirmation of its MOU, initiatives that it will take to increase the involvement of ISONET in its procurement, and an appraisal by ISONET of the agency's performance against key purchasing objectives set out in the MOU.

Noted.

In 1996 the mandated requirement for MOUs to be signed between Commonwealth agencies and ISONET was no longer binding.

The education of agencies about the role and services available from ISONET should achieve the desired outcome of maximising local business participation in the Commonwealth market and this reflects ISONET's desired outcome.

To raise the profile of ISONET and ANZ industry capability, ISONET and DOFA will consult on the preparation of an electronic toolkit that will be available to purchasing officers to outline the role and function of ISONET and the various Industrial Supplies Offices. The toolkit will include a checklist to guide purchasing officers through the information requirements and decision processes necessary to fully achieve a value for money outcome. This toolkit will be placed on both DOFA's Competitive Tendering and Contracting website and ISONET's website. It is not proposed to mandate reporting in Annual Reports of MOUs with ISONET, however, any future revision of the CPGs will highlight the capability of ISONET and the benefits available to agencies.

Recommendation 11 (paragraph 4.112)

To improve access by SMEs to smaller purchases, all Commonwealth departments and agencies will publish electronically all the reasons why officers have gone offshore for goods and services for all purchases worth \$100 000 or more.

Noted.

Existing mandatory (electronic) reporting requirements, published on Telstra Transigo™, are already in place for all contracts including all off shore purchases valued at \$2000 or more. Agencies are presently required to provide details about the contract and the successful provider. Changes to this system may have resource implications for agencies.

Electronic reporting on all offshore purchases would, in part, cover information captured by existing reporting requirements. Agencies are currently required to encourage competition, particularly from ANZ suppliers and to ensure that they provide opportunities for ANZ industry, especially small to medium enterprises, to provide a competitive offer or proposal.

Furthermore, the CPGs state that CEOs are responsible for ensuring that adequate systems for the recording of decisions, and the reasons for making them, are maintained and that agencies offer unsuccessful bidders a written or oral debriefing on why their bid was unsuccessful.

Recommendation 12 (paragraph 5.37)

That all Commonwealth agencies under the *Financial Management and Accountability Act 1997*, and government business enterprises report, on an annual basis in their Annual Reports, their performance against key purchasing objectives. This information should also be made available on agency internet websites and be linked to purchasing electronic commerce systems.

Noted.

Agencies already report on strategic objectives in the accrual framework and are responsible for the use of resources under the FMA Act. These strategic objectives are also reported by some agencies in their annual reports and on their web sites.

Existing mandatory (electronic) reporting requirements published on Telstra Transigo™ provide information on contracts valued at \$2000 or more. Agencies are required to provide details of the contract and the successful provider. The CPGs also state that CEOs are responsible for ensuring that adequate systems for the recording of decisions and the reasons for making them are maintained.

Government business enterprises (GBEs) are currently required to prepare annual reports in accordance with the *Commonwealth Authorities and Companies Act 1997*, and for those GBEs which are companies, the Corporations Law.