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Ms D Bird –

IN-CONFIDENCE

24 February 2017

Mr P Russo MP
Finance and Administration Committee
Parliament House
George Street
BRISBANE QLD 4000

Dear Mr Russo

Public briefing on report to parliament no. 1 of 2016–17: Strategic Procurement

Thank you for your letter dated 13 February and your invitation to brief the Finance and Administration Committee on our report to parliament no. 1 2016-17 *Strategic Procurement*. I welcome the opportunity to do so.

This written briefing for your committee's consideration provides key issues we identified in the audit, recent changes following our audit, and our perspectives relating to the government responses to our audit recommendations.

Key issues

The public sector is better positioned to undertake strategic procurement than it was four years ago, due to the foundational elements it has built. However, the Procurement Transformation Division (PTD) and departments have not delivered on the significant financial benefits they expected.

What's needed is:

- better leadership, data, systems and people capability—most managers do not have the data or the tools they need to inform their strategic procurement decisions
- more mature procurement category management discipline
- organisational authority and capacity to set policies for procurement processes, monitoring and compliance, to support better whole of government procurement outcomes.

Benefits realisation and governance:

- PTD was expected to achieve a minimum of \$417 million in procurement benefits within two years. However, it reported only \$190.5 million.
- The new whole-of-government procurement function is limited in its ability to influence, as it has been set up as an advisor.
- Queensland is the only state where the responsibility for whole-of-government procurement does not sit with a treasury or finance department.

- There is no whole-of-government benefits realisation process to ensure agencies measure and report benefits consistently.
 - Only two departments, Department of Education and Training and Department of Transport and Main Roads, set benefits targets in their agency procurement plan and monitor their progress. Department of Housing and Public Works (DHPW) reported benefits as part of the Procurement Transformation Program (PTP), but, it did not validate the figures it published in its annual report.
- From results PTD achieved in the first phase of the program, departments' budgets were reduced based on savings that were mostly not real cash savings. Departments are now reluctant to set targets because their budgets were cut in the past.

Procurement data:

- The lack of good quality procurement data is limiting the potential for government departments to realise significant financial benefits. This means they are unable to conduct meaningful spend analysis to develop specific strategies to realise financial benefits from procurement.
- PTD (formerly QGCPO) developed a tool to analyse procurement spend data in 2010 to collate and analyse expenditure data from all departments. PTD used this data to develop category plans and provided a summary of this data to other agencies upon request. But we found that PTD's data is materially inaccurate, incomplete and unreliable for informing whole-of-government strategic procurement decisions.
- Because there is no accurate procurement analysis tool for the Queensland Government, we developed a low-cost interim solution leveraging our own financial data collection approach that allows departments to analyse their procurement spend with the private sector.

Procurement capability:

- There is no formal agreement at a whole-of-government level on what skills the public sector needs to deliver effective procurement services.
- PTD's method for assessing procurement capability was too narrowly focused on its training provider's offerings and on short-term training needs.
- The public sector lacks a professional accreditation framework for procurement staff to ensure their skills remain current and address emerging issues.
- The Queensland Government procurement certifications have no ongoing professional development requirements.

Procurement planning:

- Sixteen out of 21 departments did not have a current agency procurement plan, which the Queensland Procurement Policy (QPP) requires.
- The State Procurement Plan and the Queensland Procurement Policy do not reflect the way public sector procurement operates in practice. Most departments cannot demonstrate that they are procuring using strategic principles.
- The PTP introduced category management as a procurement discipline in the public sector, but for it to mature its needs better quality data, capable staff, agency collaboration, and commitment to benefits targets.

Recent changes following our audit

Since I tabled my report in September 2016, I have received formal requests from three departments to access their own data which we extract for financial audit purposes and map to procurement categories. My team are working with these departments to provide them access to their portion of our whole-of-government dataset that is updated monthly.

We have provided them with access to our dataset remotely rather than giving them our tool and historical data at a point in time. By giving agencies remote access into our system, they can obtain current data and monthly trends. Our monthly reconciliation process, undertaken as part of our financial audit process, gives us assurance that our dataset is complete and accurate. I consider this to be a value-adding process; providing their own data sets back to them, reconciled by our audit analytics team, has no impact to my independence or creates a self-review threat. I also consider this an interim solution as I describe in my report.

In addition, DHPW has requested access to our entire whole-of-government dataset so it can analyse procurement expenditure across Queensland government. Unfortunately, under current legislation, I am not able to provide DHPW with access to our entire dataset due to confidentiality provisions relating to data we collect as part of an audit. If legislation permitted, I do not see any impediments to my independence or self review threat of providing whole-of-government data, that we collect for the purposes of conducting our financial audits, to a central agency.

I continue to collaborate with DSITIA to determine other potential data collection and sharing arrangements, that are efficient, effective and provide value-for-money.

Our view regarding the government departments' responses to our audit recommendations

We support the government departments' responses to our audit recommendations and we note the following with respect to the 'agree in principle' responses to recommendations one and six:

- Recommendation 1—the response indicates that DHPW will lead the activity in assessing the merits of retaining the Office of the Chief-Advisor – Procurement (OCAP) role within DHPW versus a central agency. We felt it was important for central agencies to lead this assessment as there was no evidence DHPW conducted this assessment when it chaired the inter-departmental committee review into whole-of-government procurement. However, they have indicated that the CEO leadership board will consider the recommendation.
- Recommendation 6— the 'agree in principle' response and our discussions with staff from OCAP indicates that OCAP is concerned about agencies developing plans that are not consistent with its category plans. We note this concern needs to be balanced against the fact that each accountable officer is responsible for carrying out their operations efficiently, effectively and economically which encompasses economy in procurement. The response does not commit each department to developing an agency procurement plan which is still a requirement of the Queensland Procurement Policy.

If you would like to discuss this further, please contact me or have one of your officers contact Ms Daniele Bird, Assistant Auditor-General,

Yours sincerely

Anthony Close
Auditor-General (acting)