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PARLIAMENT OF TASMANIA

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PARLIAMENTARY STANDING COMMITTEE OF PUBLIC ACCOUNTS

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# REPORT ON SUPPLY AND TENDER DEPARTMENT

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*Laid upon the Tables of both Houses of Parliament*

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The Committee was appointed under the provisions of section 2 of the Public Accounts Committee Act 1970 (No. 54).

## MEMBERS OF THE COMMITTEE

*Legislative Council*  
Mr Batt  
Mr Gregory  
Mr McKay

*House of Assembly*  
Mr Barnard (Chairman)  
Mr Davis  
Mr Lyons

By Authority:  
A. B. CAUDELL, Government Printer, Tasmania

## REPORT

### SUPPLY AND TENDER DEPARTMENT: STOCK VALUATION

The Committee noted the following comments by the Auditor-General in relation to the Supply and Tender Department at page ninety-six of his 1982 Report:—

My last Report indicated that the Statement for the year ended 30 June 1981 had still to be examined. The subsequent examination disclosed that the two stock revaluations referred to in my Report under 'extracts from Notes to the Accounts' of—

31 January 1981 — \$579 188 — Decrease;

30 June 1981 — \$282 671 — Increase.

had not been fully processed through the accounting system.

The net effect of this omission resulted in the previously reported loss of \$237 721 being converted to a profit of \$58 796, the financial statements being redrafted accordingly.

In his 1981 Report he had said that:—

During the year two revaluations of stock on hand took place. The first was to eliminate accumulated capital gains resulting from initial problems in the establishment of a system of stock costing and the second was to correct an earlier over-adjustment based on an untrue matching of costs and revenues.

In evidence from the Manager and the Chief Accountant of the Supply and Tender Department it was explained that the revaluations of stock referred to above were caused by the introduction of a computer in the Department, necessitating changes in the accounting system. The computer began operating from 1 July 1980 so that at that point there had to be a complete stocktake. The new accounting system measured profit at the point of sale rather than at the point of receipt of the goods.

A significant problem with the computer systems which the Department purchased was the lack of automatic averaging of stock values. As a result it was necessary to use a current cost method for valuation. After some five months it was seen that this method was not correct as surpluses had increased dramatically. In the words of the Chief Accountant —

We then attempted to value the incoming stock by a weighted average method, which was the method we had been using previously, although the method had to be introduced manually as there was no mechanism within the computer system to have it done automatically when goods were received. We used that method reasonably successfully until the end of June at which time I had another look at the margins and the fluctuation in margins. It was apparent to me then that there was some problem in the original revaluation inasmuch as an imbalance had occurred between the recording of the increases in price and the goods coming in so that they were not done concurrently. As a result of that a number of documents which should have been taken into account were not taken into account. I say they should have been — my staff were just acting under the normal methods of their costing as we had done in previous years and it was not apparent until that time that this problem of timing had occurred. I sought then to revalue the stock at the end of the year so that the imbalance which occurred at the end of January was corrected. As a result of the change the stock at the end of June should have been at its real value.

As I said, during the year we changed the accounting system. Of course it was dependant on the computer for basic information. During the year the computer gave information on stock on hand at any time but no ledger was available for stock because we had no means of providing details of stock exits at cost price. We finished the year by revaluing the stock and getting it on a basis which we felt was correct and in the following year we attempted to take up what we believe was a loss in our pricing.

I think, perhaps to answer your original question about the effect of it, I have seen no real effect on the system at all other than a mere academic effect in the pricing of stock. I have not noticed any problems in terms of the management of stock as a result of those changes in valuations. I saw it as purely an academic exercise in which I was solely involved.

The Committee accepts that the difficulties experienced by the Supply and Tender Department in introducing computer services in their operations were reasonable, reflecting the complexity of the problem rather than any shortcomings on the part of the staff.

The Committee was told that it is Departmental policy to reduce the number of items in stock and that they have a computer programme which allows them to increase efficiency and turn over stock more rapidly.

The Treasury determines what profit the Supply and Tender Department is to make each year and the target was around \$700 000 for 1982-83. This is a surplus on the cost of the actual goods bought and sold, not the cost of operating the Department. The witnesses explained that adjusting prices so that the required surplus is achieved is a complicated procedure. It was said that trading at cost would be much simpler. In justification of the present policy, the Manager pointed out that some non-government organisations like private schools and hospitals and local authorities use the service and this addition of a profit margin is a way of recovering some of the cost of the service. On the other hand, the extent of buying by these outside bodies through Supply and Tender is very small. For instance, sales to local government bodies account for less than one per cent of the Department's total sales and private schools less than one and a half per cent. In view of this it seems doubtful whether it is worth the trouble to adjust prices so as to produce a surplus and the Committee recommends that this policy be reviewed.

The Committee was very surprised to learn that outside bodies make so little use of the Supply and Tender Department. The reasons, it was said, are a desire for freedom of choice and inability to plan ahead. Purchasers using the government buying agency have to follow the same rules as economy is the all important thing. Thus a dearer brand has to be justified. Also there can be delays, for example three or four weeks when tenders have to be called. Government Departments have learnt to cope with this factor by planning and ordering their requirements in advance. What procedures private schools and hospitals adopt is up to them, but the Committee was quite unable to understand why local councils fail to use the services of the Supply and Tender Department. So far this aspect has not been investigated in any depth but it is proposed to commence an enquiry in the near future. Important questions to be answered are how the prices they pay compare with the Government price and to what extent are rates affected.

While it is recognised in retailing that 20 per cent of the stock represents 80 per cent of sales, one disability the Government buying agency has is that its role is to supply what is needed. The report of Consultants Touche-Ross indicated that 9.1 per cent of the stock represents 67.5 per cent of sales. Thus it tends to have slow moving stock which each year has to be disposed of at a special sale.

The Committee wishes to emphasise a significant problem in that some 60 per cent of orders are for goods valued at less than \$100. About 40 per cent of orders are for only one or two items, and most of these are valued at less than \$10. The Manager attributed this to lack of planning on the part of the Departments. Since it costs money to raise an order and to process accounts, the benefits of central purchasing are lost when small transactions take place. This problem has been recognised for some years, but because of preoccupation with the difficulties of getting their operations handled by the computer, nothing has been achieved in dealing with it:

Last year we had hoped — in fact we had planned — to have a seminar for the ordering officers of all the departments. Unfortunately that fell through and that was the time we would have put to them that they ought to plan their ordering much better so that instead of us getting requisitions for small amounts and for small quantities they got much larger and more meaningful requisitions. But it is certainly something we will take up now.

The Committee recommends that such seminars be held as often as changes in ordering staff or lowering of performance make it necessary. It is felt that this is the better way to deal with the problem of small orders, rather than allowing Departments a free rein, for example, power to buy retail goods costing less than \$100. The Committee agrees with the Manager that centralised purchasing, efficiently employed, rather than decentralisation, is needed. He illustrated this point by random references to prices of several small items, giving Supply and Tender and retail prices, respectively, of \$19.36 and \$28, 67 cents and \$2, \$9.40 and \$40.67, \$90 and \$200.

As mentioned above, the proportion of sales to outside bodies, including local councils, is insignificant. Roughly sales are divided into one-third each to Education, Health and other

Again because of preoccupation with the introduction of computer services, there has not been complete physical stock taking since 30 June 1980. This is a desirable control, as acknowledged by the Department's Chief Accountant, who said that he would like to see a complete stock take each year. Pressed on this point, the Manager later said 'I will give an undertaking now that we will count the stock . . . I do not say that I feel it is necessary but we will certainly count it. The Chief Accountant has stated that he would like it done and we will make every effort to do it.'

The Committee found no cause to criticise the management of the Supply and Tender Department. They have reduced their stock for better efficiency and staff levels have been reduced from 245 to about 195. The emphasis should now be on making the client organisations use the system as efficiently as possible. It is recommended that as well as holding regular seminars for ordering officers, including those from outside bodies entitled to buy through Supply and Tender the Department attempt to use their computerised accounting system to identify those who are guilty of purchasing inefficiently.

Committee Room No. 3,  
Parliament House, Hobart  
8 September 1983

M. T. C. BARNARD, Chairman