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 PARLIAMENT OF TASMANIA.

REPORT OF THE STANDING COMMITTEE OF PUBLIC ACCOUNTS
ON
SUPPLY AND TENDER DEPARTMENT

Brought up by Mr. Fraser on Wednesday September 2, 1964, and ordered by the House of Assembly to be Printed.

REPORT.

1. The Public Accounts Committee has the honour to report that it has conducted an inquiry into the methods of operation of the Supply and Tender Department.
2. The Auditor-General, in his Report for the financial year 1962-63 (*vide* page 23), made the following comments:—

Supply and Tender Department

This Department is responsible for the purchase of stores for Government departments, institutions, and hospitals. The Department's facilities have also been made available to State and private schools, orphanages, homes for the aged, school hostels and similar bodies. Some of these non-public bodies receive Government grants, whilst others do not. The present policy appears to be that the services of the Department may be used by any body or organisation in receipt of a Government subsidy or by any other organisation approved by the Minister.

The Stationery and Stores Suspense Account which finances the purchases and sales of the Department operates in accordance with the provisions of the Audit Act and Regulation No. 19 of the Third Schedule.

It is considered that this provision does not afford sufficient information or directions to accord with the scope of the Department's present scale of operation. The sales of books and equipment to schools registered under Part IV of the Education Act is authorised by Section 46G of that Act.

I am also somewhat concerned with the Department's accounting methods, not from the point of view that inadequate controls exist but rather as regards the methods in relation to the vastly increased magnitude of its operations. This latter aspect will be further examined when the next audit is undertaken.

In view of these comments, the Committee felt it desirable to investigate further the points raised.

3. As stated by the Auditor-General, the Supply and Tender Department's facilities are available to non-public bodies which receive subsidies, as well as to State instrumentalities, private schools and municipalities. The Supply and Tender Department is authorised to supply to departments under Public Service Regulation 119, and to private schools under the Education Act. These are the only two specific authorities made by legislation. Over the years the practice has arisen of supplying hospitals, municipalities, and non-public bodies which receive subsidies. This has been done on the authority of the Treasurer but without direct legislative provision. The Auditor-General made the following statement in evidence:—"In view of the fact that the Supply and Tender Department adds nothing to prices to cover overheads other than direct charges such as freight, &c., all departments and authorities purchasing through the Department are receiving a hidden subsidy from the Consolidated Revenue Fund. In the case of Government Departments this perhaps is of little moment provided one is satisfied that actual savings in purchases offset the cost of running the Department. However, in the case of organisations and institutions outside the Public Service Act a hidden subsidy is being obtained from Government funds and therefore the Department should have some specific authority which enables such bodies to buy through it. It would perhaps be preferable for the Parliament to provide such an authority by way of legislation which would lay down the framework within which the Department should operate." The Committee does not seek to place an undue restraint on the activities of the Supply and Tender Department, but bearing in mind the increasing burden which has been imposed in recent years, its operation should now be regularised.

4. Your Committee has been concerned with the manner in which the Department is carrying out the extended duties for which it has been made responsible. Evidence on the methods of purchase and supply was heard from the Manager, Mr. E. Poulson, the Assistant Manager, Mr. J. D. Patterson, and the Accountant, Mr. M. B. Morrisby, of the Supply and Tender Department, and the Public Service Commissioner, Mr. B. O. Plummer.

5. The Committee suggested to these witnesses that a considerable improvement in efficiency might be gained by allowing Government departments to purchase requirements not stocked by the Supply and Tender Department by direct dealing with suppliers. This proposal for direct purchasing of small orders, to a value of say £20 or less, was expected by the Committee to have the advantage of eliminating the paper work involved in the present system. At present, a department issues a requisition order to the Supply and Tender Department, which in turn places an order with an appropriate business firm. The department which receives the goods then pays the firm.

6. The Committee in suggesting its proposal for the partial decentralisation of purchasing responsibility, felt that it might reduce considerably the work of the Supply and Tender Department, which would be responsible only for circulating to departments a list of firms which supply on the best terms. However, all witnesses expressed opposition to the idea. The Public Service Commissioner made the following comments:—

It is suggested there is no good point to be served in permitting departments to purchase direct other than as described even within the limit extended to £20. In fact, there are some very firm objections.

The whole purpose of, and the degree of control exercised by, the Supply and Tender Department would be lost. Salesmen could exert pressures upon inexperienced purchasing personnel and particular firms could be favoured unduly. Again, the monetary limit could be abused in that orders could be split into fragments, each within the maximum amount fixed, but in cases where one full order would easily exceed that figure.

With one central agency, purchasing responsibility is fixed as at present. Another point is that individual departments could require increased staffs to do this purchasing work. More work would be required in the Supply and Tender Department if it were required to distribute guides to purchasing and ever-changing prices.

It is probably true to say that firms now quote better prices direct to Government agencies simply because they know these agencies have access to Supply and Tender purchasing at their contract rates and discounts. If the Supply and Tender control and steadying influence were interfered with to any extent, there is little doubt that prices would rise.

The Manager of the Supply and Tender Department said that—

. . . his Department frowned on any traveller visiting any department except the Supply and Tender Department because they believed in a centralised buying authority, and it could not be expected that a man in all these departments would know the prices and the source because he was not trained. Who was going to say whether the prices were right? The Government would lose thousands of pounds and there was no certainty that any firm was going to get a fair share of the business. The modern trend was for centralised buying. Another thing was that all accounts went through the Treasury and the Audit Department and they must have his Department's official order affixed so that the accounts could be checked. The procedure after the travellers assembled their orders daily was that his officer went through and collated them, then purchased at the lowest price. His officers get to know prices. They were trained. The reason the departments weren't given this information was that the prices varied every day, and his Department would have tons of paper work. He agreed that with an item such as nails there would not be much variation in price. If the quotations from various firms were the same the Department drew lots. Quotations were sought from the various firms every day. The list was brought back next day.

A number of points emerged from the discussion with these witnesses. Since prices quoted by firms change from day to day, a great deal of work would be involved in keeping the lists of firms circulated to departments up to date. Some departments would find it necessary to appoint purchasing officers to handle these new responsibilities. It would be difficult for the Government to purchase at prices as favourable as those now paid, with this fragmented approach. Control would be divided, and as a result some firms could be favoured and the competitive aspect of Government supplies weakened.

7. Your Committee discussed with witnesses the accounting methods of the Supply and Tender Department and made a tour of inspection of the accounting, clerical and stores sections. The impression which was gained was that with the recent expansion of the Department's activities, some difficulty was encountered in coping with the increased work load. The accounts and clerical sections in particular were not adequate to this increase. However, the following passage from the evidence given by the Department shows that improved methods have been evolved progressively, so that at the present time the work is being carried out satisfactorily:—

The problem they had faced was the increase in accounts they had to pay because of the Medical Store and the Education Department coming in. For example, creditors' accounts in 1956-57 totalled 1,565. That had increased gradually over the years until in 1960-61 5,760 and last year 9,758 creditors' accounts were paid. They had managed to do that with little increase in staff by changing their methods of payment. There was a lot of hand-work being done. They switched that to typing. They had taken the detailed work away from the clerk engaged on it and given that to typing and left the man on the payment of the accounts to be more concerned with the preparation of the stuff in the difficult stage. By reviewing their approach to this sort of thing they had managed to restrict the increases in staff which would have been required if they had not thought up new ways of getting rid of the detailed work. They were continually trying to change systems to meet the increase in work without increase in staff. It was much better to employ a typist on £400 a year than a man on £1,300 preparing vouchers which the Treasury required with each payment . . . in essence it meant that by varying the system or improving it they had contained the staff in the Accounts Branch. Over the last couple of years they had only had one junior clerk put on. If they had not reviewed procedures they would have had to put more staff on. They had achieved two objectives—they had not increased their staff and they had more efficiency.

In his discussion with the Committee, the Auditor-General said:—"Over the past 12 months accounting methods within the Department have been substantially improved. A further accounting machine has been installed and steps have been taken to tighten up controls in respect of

sundry debtors, particularly in respect of schools and hospitals. However, the existing system which combines manual and mechanical processes does not provide ledger accounts in conventional form and proof of the year's transactions and accounts is thereby a protracted and difficult problem. The unorthodox system that is in use fails to provide certain basic controls, notably over sales and stock. In a memorandum under date 21st April, 1964, the Manager informed me that he was anxious to introduce a new and fully mechanised system to meet the requirements outlined in my last Report on the accounts of the Supply and Tender Department, and that he has already had some preliminary discussions in that respect."

8. The Public Service Commissioner confirmed that the Department is now working efficiently and your Committee feels that the officers of the Supply and Tender Department are to be congratulated on the manner in which they are improving accounting procedures to absorb a great deal of extra work without appreciably enlarging the staff. It is obvious that no advantage could be gained by decentralizing purchasing duties. It is estimated conservatively that the Department is able to buy on average at least 15% below retail prices. (In 1962-63, the turnover was estimated at £6,000,000, and the saving at 15%—£900,000.) The annual overhead costs of the Department have been estimated at £132,000 for 1962-63, and at £144,000 for 1963-64. It seems that in the modern business world, centralization of purchasing activities, with responsibility in the hands of trained men, is essential.

W. H. FRASER, Chairman.

Ministerial Party Room,
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