

Direct Source Procurement

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ANAO Opening Statement

JCPAA Inquiries 2 March 2011

1. In 2009 the Government purchased over \$23.5 billion in property and services, which underlines the importance of good procurement practices and ensuring value for money.
2. The Commonwealth Procurement Guidelines (CPGs) establish government policy for procurement, including principles which apply to all procurement. Value for money is the core principle for Australian Government procurement. The other principles which support the achievement of value for money are encouraging competition, efficient, effective and ethical use of resources, and accountability and transparency.
3. To enhance the delivery of value for money and meet international obligations in government procurement, the CPGs also include Mandatory Procurement Procedures that apply to covered procurements, which are higher valued procurements (generally greater than \$80 000 for FMA Act agencies). The Mandatory Procurement Procedures limit the use of non-open approaches to the market for these higher valued procurements.
4. Direct Source procurement is one of three procurement methods used by government agencies, and was the focus of this audit. The other two methods are Open Tender and Select Tender. Direct Source procurement is a process by which an agency may invite a potential supplier, or suppliers, of its choice to make submissions such as quotes or

tenders. By its nature, Direct Sourcing is less competitive than Open and Select Tendering.

5. For non-covered procurement (generally \$80 000 or less), agencies should conduct an appropriately competitive procurement process commensurate with the scale, scope and relative risk of the procurement. In many cases, Direct Source procurement will be the most efficient and effective procurement method for non-covered procurement. For covered procurement, the CPGs provide that Direct Sourcing can only be used when one of a limited number of specified conditions outlined in the Mandatory Procurement Procedures applies, such as after an approach to the market has failed.
6. In the 2009 calendar year, 48 per cent of all contracts entered into by the Government and reported on AusTender were Direct Sourced. In addition, Direct Source procurement accounted for 43 per cent (or \$10.2 billion) of the total reported value of all of these contracts. These results are comparable to those of prior periods and, when considered in conjunction with other audit findings, suggest greater emphasis should be given to encouraging more open competition and access in Australian Government procurement, in balancing the range of requirements agencies are required to meet under the CPGs.
7. The audit highlighted a range of important issues in relation to agencies' application of the CPGs for Direct Source procurement:
 - All four audited agencies had Chief Executive Instructions (CEIs) and operational guidance for procurement that covered the requirements of the requisite legal and policy framework. Nevertheless, these need to more clearly address Direct Sourcing arrangements and achieving competitive procurement processes.

- Irrespective of the value or type of Direct Source procurements, there was often limited evidence to demonstrate that agencies' practices for individual procurements provided value for money. This does not necessarily mean that value for money was not achieved; rather that, in many cases, procurement practices applied to the particular circumstances, including the supporting documentation, did not engender confidence that value for money requirements of the CPGs were satisfied.
- Examination of Direct Source procurements across all four agencies provided evidence that, in 85 per cent of instances, agencies approached only one supplier and either did not seek, or only sought one quote prior to procurement.
- For covered Direct Source procurements, agencies could not consistently assure that their procurements complied with the Mandatory Procurement Procedures. That is, from the circumstances of the procurement and/or procurement documentation, it was not evident that a valid condition for Direct Sourcing had applied to their higher valued procurements (covered procurements), as required by the CPGs.
- In general, to improve the alignment of agency procurement practices with the requirements of the CPGs, agencies should give more consideration to the procurement need and risk level, how it may be met through an appropriately competitive procurement process (one that has regard to the current procurement market) and be able to clearly demonstrate that these considerations have taken place.

8. Having regard to the underpinning expectations of the CPGs and the scale of Australian Government procurement, the audit encouraged agencies to better balance

the broader benefit of competitive tendering and streamlined procurement practices. Such a balance would see agencies giving greater consideration to the scope of the potential procurement need at the outset of a procurement; more often seeking opportunities to approach the market to enhance the potential to achieve value for money; and adopting more strategic approaches to procurement, such as greater use of panels and other standing offer arrangements. In general, a greater emphasis on earlier planning for procurement activities would improve the procurement outcomes.

9. The ANAO made four recommendations aimed at:

- Finance reviewing the clarity of the CPGs, including classification of procurement methods;
- strengthening agencies' procurement guidance and templates;
- improving agencies' compliance with the CPGs; and
- enhancing agencies' annual procurement planning and providing a basis for the adoption of more strategic and efficient procurement practices.