



## Joint Committee of Public Accounts and Audit

### Commonwealth Procurement

#### [Inquiry based on Auditor-General's Reports Nos. 61 (2016-17) and 12 (2017-18)]

#### Opening Statement by Mr Grant Hehir, Auditor-General for Australia

14 February 2018

1. Good morning Chair and committee members. Thank you for the opportunity to give evidence today.
2. As I noted in my statement to the committee on 25 November 2016, procurement is an integral part of the way the Australian Government conducts business and provides services. The Commonwealth Procurement Rules represent the Government Policy Framework under which most entities govern and undertake their own procurement. They combine Australia's international obligations and good practice to enable agencies to design processes that are robust, transparent and instil confidence in the Australian Government's procurement activities.
3. Today's hearings will consider two audit reports tabled in 2016–17 and 2017–18 that examined procurement and contract management matters:
  - a. Audit Report No.61 of 2016–17, *Procurement of the National Cancer Screening Register*;  
and
  - b. Audit Report No.12 2017–18, *Management of the Contract for Telephone Universal Service Obligations*.
4. The objective of the *Procurement of the National Cancer Screening Register* was to assess whether the Department of Health effectively procured services to operate a National Cancer Screening Register.
5. I concluded that the Department of Health complied with the Commonwealth Procurement Rules, effectively managing an open tender process and considering value for money. However, the

effectiveness of the procurement was reduced due to inadequate consideration of risk during planning and poor management of probity and conflicts of interest. I also noted that the objectives sought by the Government were not achieved in the agreed timeframe and additional costs were incurred as a result.

6. The objective of the *Management of the Contract for Telephone Universal Service Obligations* audit was to assess the effectiveness of the Department of Communications and the Arts' contract management of selected telephone universal service obligations, specifically standard telephone and payphone services.
7. I concluded that the telephone universal service obligations support the achievement of the stated policy objective of providing reasonable access to standard telephone services and payphones on an equitable basis to all Australians.
8. I also concluded that key aspects of the performance agreement with Telstra do not reflect value for money principles. In particular, the contract's term of 20 years with a fixed annual fee based on 2009–10 costs does not reflect the demonstrated decline in demand for standard telephone and payphone services over the relevant period and the agreement limits flexibility in relation to how standard telephone services can be delivered in areas outside the National Broadband Network fixed line network.
9. Further, the department has been a relatively passive contract manager and has not actively managed the contract towards achieving value for money. For example, at the time of tabling, the department had not reviewed the scope of services or used flexibility mechanisms within the contract, which had the potential achieve cost savings.
10. The report acknowledges the importance of the agreement between the Government and Telstra —it became the means through which the Government was able to deliver sufficient financial benefit to Telstra to ultimately secure its involvement in the rollout of the National Broadband Network. Advice provided to the Government from the department and NBN Co indicated that such involvement would significantly reduce the overall risks associated with the rollout and improve the financial returns generated by NBN Co.

11. The two audits highlighted the importance of effective and proactive management when entities procure the services of, and contract with, third party providers.
12. We would be happy to answer any questions the Committee may have.