



Tasmanian Audit Office



Report of the Auditor-General No. 1 of 2017-18

Investigation into procurement of goods and
services from CT Management Group Pty Ltd
by Glenorchy City Council

October 2017

INTRODUCTION

A referral was received by the Tasmania Audit Office relating to Glenorchy City Council's (Council) procurement of goods and services from CT Management Group Pty Ltd (CT Management).

Following an initial review, the referral was accepted for assessment by the Auditor-General and an assessor appointed on 7 December 2016. The assessment was conducted between 7 December 2016 and 30 June 2017.

The assessment did not identify any material to warrant dismissal of the matters raised in the referral, and the assessor noted that further investigation was necessary in order to fully examine the matters raised. On that basis the assessor recommended that the referral be investigated in accordance with section 23(d) of the *Audit Act 2008*.

The Auditor-General decided to conduct an investigation, pursuant to section 23(d) of the *Audit Act 2008*, into the procurement of goods and services from CT Management by Council.

All amounts referred to in this summary report are GST inclusive unless otherwise stated.

PURPOSE OF THE INVESTIGATION

The purpose of the investigation was to determine whether procurement of goods and services from CT Management was undertaken in accordance with the:

- *Local Government Act 1993* (the Act)
- *Local Government (General) Regulations 2005 and 2015*
- Council's Code for Tenders and Contracts 2009 and 2016 (the 2009 Code and 2016 Code respectively, and collectively referred to as the procurement Codes)
- Council's internal policies, procedures and manuals.

Specifically, the investigation assessed whether:

1. Council complied with the procurement methods detailed in section 5 of the 2009 Code and section 6 of the 2016 Code.
2. Council had intentionally split procurement from a single procurement activity into two or more separate contracts/projects for the primary purpose of avoiding the requirement to seek three written quotations (in accordance with applicable threshold) or publicly invite tenders (in accordance with applicable threshold).
3. Council had erroneously interpreted a single procurement activity as being separate contracts/projects.
4. Any of the procurements from CT Management met the exemptions from the tender or quotation process identified in Regulation 27 of the *Local Government (General) Regulations 2005 and 2015* or section 6 of 2009 Code and section 10.2 of 2016 Code.
5. Council had, pursuant to Regulation 28(j) of the *Local Government (General) Regulations 2005 and 2015*, established and maintained procedures for reporting by the General Manager to the Council in relation to the purchase of goods or services in circumstances where a public tender or quotation process is not used.
6. Council had complied with the annual reporting requirements in relation to tenders and contracts specified in:
 - a. Regulation 23(5) of the *Local Government (General) Regulations 2005*
 - b. Regulation 29 of the *Local Government (General) Regulations 2015*.
7. Council had complied with the Procurement Principles outlined in the procurement Codes, and specifically whether Council:
 - a. adequately tested the market through seeking quotations or by tender as appropriate (Open and effective competition)
 - b. where local capacity existed to provide the services, engaged the local market and encouraged participation in tender and quotation processes (Enhancement of the capabilities of local business and industry).
8. Council had appropriately documented the decisions to engage CT Management to enable those decisions to be reviewed to ensure compliance with the *Local Government (General) Regulations 2005 and 2015*, Regulations 23 – 29 inclusive, and the procurement Codes.

INVESTIGATION APPROACH

Our approach to the investigation included:

- examination of documents pertaining to the procurement of goods and services from CT Management, including Council minutes
- interviews with Council management (management) into the procurement and delivery of goods and services from CT Management
- addressing matters specifically identified as detailed in the purpose of the investigation.

PROCUREMENT FROM CT MANAGEMENT

CT Management, based in Geelong Victoria, describes itself as one of Australia's most trusted providers of Local Government professional services. They:

- provide consultancy services and technology-driven products
- provide asset management, service planning, organisation development, contract and project management, and financial management services
- provide experts (associates) with diverse skills and senior management experience
- deliver sector-wide programs for local government associations, including the Municipal Association of Victoria and Local Government Association of Queensland.

Between 24 October 2012 and 30 April 2017, Council received 105 invoices from CT Management totalling \$1 051 909. Expenditure totalling \$942 117 was incurred under 25 separate purchase orders, with the remaining \$109 792 not similarly supported in their records system. The expenditure also included \$142 139 in travel costs, reimbursements and administration fees. A summary of goods and services procured from CT Management is provided on the following page. The description and numbering of Stages One to Three and Projects 1 to 8 are as presented by the General Manager to Council on 3 August 2015. Similar numbering was adopted for subsequent Projects 9 to 13.

Summary of goods and services procured from CT Management between 24 October 2012 and 30 April 2017

Project	GST Inclusive \$	GST Exclusive \$
Stage One		
Project 1 - Initial review	67 262	61 148
Project 3 - Information, communication and technology (ICT) review	22 381	20 346
Project 2 - Improvement plan project manager	76 240	69 309
Project 4 - Service review - Operations & Maintenance	5 583	5 075
Stage One total	171 466	155 878
Stage Two		
Project 5 - Roles, relationships and responsibilities programme	89 699	81 544
Stage Three		
Project 6 - Update of the strategic and operational review	89 270	81 154
Project 7 - Management restructure	23 464	21 331
Project 8 - Service review - Works & Services	115 670	105 154
Project 9 - Service review scoping - Finance, Governance and Operations	6 932	6 301
Project 10 - Service review - Operations	75 854	68 958
Project 11 - Service review - Finance	47 677	43 343
Project 12 - Service review - Governance	59 653	54 230
Project 13 - Organisation structure and cultural change support	110 985	100 897
Stage Three total	529 505	481 368
Human Resources (HR) project officer	113 606	103 277
Asset and financial management review	12 944	11 767
Long-term financial plan software package		
Product purchase	14 850	13 500
Annual upgrade program	4 400	4 000
Long -term financial plan software package total	19 250	17 500
Professional placements and other support		
Operations	36 228	32 934
Finance support consultant	57 082	51 892
HR support	7 734	7 031
Technical support	10 748	9 771
Professional placements and other support total	111 792	101 628
Unallocated	3 647	3 317
Total procurement	1 051 909	956 281

We understand that in respect of each proposal received from CT Management and purchase order issued:

- Council did not go to public tender
- Council did not seek quotations from other providers
- No exemptions (under regulation 27 of the *Local Government (General) Regulations 2005 and 2015*) were resolved by Council to apply to the public tender process under the Act, or the 2009 Code, or 2016 Code, to any one or more engagements of CT Management.

RECOMMENDATIONS

We recommend Council:

- review its internal processes and procedures to ensure future compliance with:
 - the Act
 - the *Local Government (General) Regulations and 2015*
 - the 2016 Code
 - Council's internal policies, procedures and manuals.
- ensure appropriate documentation is maintained to evidence procurement decisions and compliance with relevant requirements.

CONCLUSION

Based on the evidence obtained during the course of our investigation, we concluded:

- Council incorrectly treated each project with CT Management as a separate and individual project. This resulted in commitments to expend Council monies in excess of quotation and tendering thresholds. As a result, Council failed to comply with the Act and its own procurement Codes.
- In failing to comply with the Act and its own procurement Codes, Council did not adequately test the market. Council failed to meet its procurement principles of open and effective competition, value for money and enhancement of the capabilities of local business and industry.
- There was evidence to indicate an intentional splitting of procurement from a single procurement activity into two or more separate contracts/projects for the purpose of avoiding the requirement to publicly invite tenders.
- Council failed to adequately document its assessment and decision not to follow its quotation process or seek tenders. Both the Act and the procurement Codes provide specific and detailed requirements in the application of exemptions. The completion of a Deviation from Purchasing Policy form with an explanation of 'Approved to exempt requirement for 3 quote – specialised work', is considered inadequate and indicates a management override of purchasing controls and breakdown in governance practice.
- Council also breached the 2016 Code in that there were instances where purchase orders were not evidenced for services provided.
- Overall the process adopted in expending \$1 051 909 lacked transparency, independent review, reporting and good governance.

Details of the findings can be found in the full report, available on our website www.audit.tas.gov.au

For the full report go to:
<http://www.audit.tas.gov.au/publications/reports-to-parliament/>



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