

THE AUDIT OFFICE
NEW SOUTH WALES



THE AUDIT OFFICE
OF NEW SOUTH WALES

New South Wales
Auditor-General's Report

Performance Audit

Prequalification Scheme:
Performance and
management services

Department of Premier and Cabinet
Department of Finance and Services



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In accordance with section 38E of the *Public Finance and Audit Act 1983*, I present a report titled **Prequalification Scheme: Performance and management services – Department of Premier and Cabinet, and Department of Finance and Services.**

Peter Achterstraat
Auditor-General
September 2011

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Executive summary

2

NSW Auditor-General's Report
Prequalification Scheme:
Performance and management
services

EXECUTIVE SUMMARY

Background

The NSW Government for many years has provided agencies with guidance on how best to procure services from consultants. Its current *Guidelines for the Engagement and Use of Consultants* require agencies to use selective invitations for procurement values over \$30,000 and open tenders for much higher values. The aim is to create competitive tension between potential service providers so as to achieve value for money for NSW agencies.

However, these tendering processes are time consuming and resource intensive for the consultants and the agencies involved. For smaller engagements, the cost of the process can be disproportionate to the total value of the service and the expected value for money may not be achieved.

In response to concerns about these costs and time, in February 2008, the Department of Premier and Cabinet (DPC), in conjunction with the Department of Finance and Services (DFS), introduced the *Prequalification Scheme: Performance and Management Services* (the Scheme).

The Scheme aims to improve agencies' procurement and use of these services. It has four key objectives:

- **high probity standards**, by third party assessment and selection of service providers
- **streamlined competitive tendering processes**, by prequalifying individuals and suppliers with a demonstrated track record, saving on tendering costs relative to open tender while maintaining appropriate levels of competition
- **quality assurance in the engagement of service providers**, poor performing service providers will have their performance monitored and can be suspended or removed from the Scheme
- **fee rates that represent value for money.**

Use of the Scheme is not mandatory. Agencies may continue to work under the pre-existing *Guidelines*. However, agencies choosing to use the Scheme must comply with its terms and conditions, including:

- inviting one quote for engagements estimated at less than or equal to \$150,000
- inviting at least three proposals for engagements estimated at over \$150,000
- the total value of the first and related flow on engagements not to exceed the lesser of three times the value of the initial engagement, or \$500,000
- using the Scheme standard agreement.

Three and a half years on from the Scheme's introduction, this audit examines how well the Scheme has been managed. We answered three questions:

1. Is the Scheme operated and used as intended?
2. Is the Scheme achieving its objectives?
3. Is the assessment of service providers efficient and transparent?

Conclusion

The Scheme has achieved some but not all of its objectives. In our view, the Scheme has simplified procurement practices and allowed a faster engagement of consultants with proven credentials. However, it has not yet delivered the planned quality assurance processes to demonstrate effective management or value for money.

The use of the Scheme has increased steadily since its introduction, and most agencies and service providers consulted regard it as more efficient than previous arrangements. However, some aspects of the Scheme are not operated and used as intended. Agencies are not complying with some of the rules, and some of the rules themselves do not fully support the Scheme's objectives of delivering appropriate levels of competition and quality assurance. There are no provisions under the Scheme for monitoring the compliance of agencies and service providers.

The majority of prequalified service providers were assessed consistently against set evaluation criteria. However, the assessment rules are not clear enough to make the process efficient and to assist compliance. Also, after the initial assessment, there is little monitoring of performance and fee rates to provide continued assurance of the quality of service providers.

Action is needed to ensure the Scheme achieves its potential. We identified a number of ways management of the Scheme can be improved to deliver the expected benefits, and generate more value to both agencies and service providers.

Supporting findings

Is the Scheme operated and used as intended?

Some aspects of the Scheme are not operated and used as intended.

The rules of the Scheme lack sufficient details to help agencies apply them as intended. Some of the existing rules need to be clarified and tightened, and additional rules are needed to strengthen competition. For example, there is confusion about whether the thresholds for the Scheme are inclusive or exclusive of GST and expenses, which impacts on the number of proposals required.

Also, the requirement to *invite* rather than *obtain* three proposals from service providers is not enough to create the necessary competitive tension to achieve value for money. We found that nearly 30 per cent of engagements reviewed with an estimated value over \$150,000 each proceeded with one or two proposals only.

Agencies are not provided with all the information needed on prequalified service providers, including agreed fee rates and previous engagement outcomes, to select the best shortlist. We also found gaps and inconsistencies in published information about the Scheme, which are a potential source of confusion.

There are no provisions under the Scheme for monitoring the compliance of agencies and service providers with the rules to ensure the Scheme is used as intended. There are also no periodic risk-based compliance audits of agencies and service providers.

We found poor compliance with the rules:

- only five per cent of the required reports on the performance of service providers were submitted to DFS since the start of the Scheme
- nearly 30 per cent of the total value of engagements reviewed was in flow on work that was not reported to DFS
- only 37 per cent of the engagements reviewed complied with disclosure requirements under the *Government Information (Public Access) Act 2009* (GIPA) for contracts valued at \$150,000 or more
- one service provider had secured work worth in total over \$13 million without any other bidders.

Is the Scheme achieving its objectives?

The Scheme has clear objectives, but it does not have key performance indicators and targets to assess whether it is achieving its objectives. Still, in our view, the Scheme has delivered a structured third party process for assessing and selecting consultants, and a more streamlined tendering process for agencies and service providers.

The Scheme has not delivered the planned quality assurance processes and demonstrated that it creates enough competition to achieve value for money. The Scheme conditions state that DPC and DFS will manage the performance of service providers by monitoring performance on tendering, financial capability, compliance with the NSW Government Code of Practice for Procurement, contract performance and project outputs and outcomes. Currently, no data is collected on these important aspects of performance.

There is no public reporting on any aspect of the Scheme's operations and performance. Some performance information is currently collected, but most of it is unreliable because of poor compliance with the rules. For example, DFS recorded the potential value of engagements under the Scheme at around \$146 million. We estimated that more than \$300 million worth of consultancy services were procured under the Scheme since 2008.

The Scheme was to be reviewed in February 2010 to determine if it was achieving its objectives. The Scheme was extended for another two years, but the review did not happen.

Is the assessment of service providers efficient and transparent?

The rules for assessing service providers are not sufficiently clear to make the process efficient and to assist compliance.

The majority of prequalified service providers were assessed consistently against set evaluation criteria. However, a small number of service providers were automatically transitioned from another scheme without being assessed against the Scheme criteria.

There is no time standard for finalising assessments and we found a wide variation in turnaround time - some service providers were fast tracked within two days and some waited more than three months.

Assessment decisions regarding individual service providers are documented and kept by DFS. However, at the time of the audit, there was no clear audit trail of the Scheme Assessment Committee's (SAC) out of session decisions and other relevant documents.

DFS records details provided by service providers and the SAC. Prequalified service providers should update their details, but some have not.

The Scheme has not been resourced adequately and does not have an online system to support it efficiently. It also does not have comprehensive procedures for its operation.

Recommendations

1. To create adequate levels of competition and to achieve value for money, we recommend that DPC and DFS:
 - develop and implement options that would ensure agencies obtain a minimum of three proposals for engagements over \$150,000, by December 2011 (page 17)
 - include GST and estimated expenses in the value of the thresholds, by December 2011 (page 17)
 - develop and implement options that would support greater levels of competition for high value engagements based on a review of engagement trends, by June 2012 (page 23)
 - merge additional agency specific panels into the Scheme where efficiency and value for money are justified, by December 2012 (page 23).
2. To ensure the Scheme is used as intended, we recommend that DPC and DFS:
 - develop compliance monitoring and reporting procedures, by December 2011 (page 17)
 - specify to agencies the recordkeeping requirements for using the Scheme, by December 2011 (page 17)
 - require agencies to establish a central point of reference for compliance monitoring and dissemination of information on the Scheme, by December 2011 (page 17)
 - undertake risk-based compliance audits of agencies and service providers, by June 2012 (page 17).

3. To ensure the Scheme objectives are being met and to enhance its transparency, we recommend that DPC and DFS:
 - require agencies to report on the performance of all engagements irrespective of value, by December 2011 (page 23)
 - monitor the tendering behaviour of agencies and service providers, by June 2012 (page 23)
 - develop key performance indicators (KPIs) and set targets for the Scheme, by December 2011 (page 23)
 - monitor performance against the KPIs and targets, by June 2012 (page 23)
 - introduce periodic independent reviews of the Scheme's operations and performance, by June 2012 (page 23)
 - implement a structured process for gathering regular feedback from agencies and service providers by June 2012, and monitor results over time (page 23)
 - report publicly on the performance of the Scheme, by December 2012 (page 23)
 - review the membership of prequalified service providers every three years (page 23).
4. To improve the governance of the Scheme, we recommend that DPC and DFS:
 - introduce an independent member on the SAC, by December 2011 (page 27)
 - develop terms of reference for the SAC, by December 2011 (page 27)
 - develop comprehensive procedures for the operation of the Scheme, by December 2011 (page 27).
5. To improve the transparency and efficiency of the assessment process and to promote compliance, we recommend that DPC and DFS:
 - introduce time standards for finalising the assessment of compliant applications, by December 2011 (page 27)
 - clarify to agencies the rules for using the Scheme, particularly around the thresholds, by December 2011 (page 17)
 - clarify the assessment rules to service providers, by December 2011 (page 27)
 - address gaps and inconsistencies in information published on the rules, by December 2011 (page 17)
 - set a minimum standard for the due diligence checks required of agencies, by December 2011 (page 17)
 - determine the resource requirements for the Scheme and implement, by June 2012 (page 27)
 - introduce, for agencies using the Scheme, an online system with effective search capability and functionality, by June 2013 (page 23)
 - introduce for prequalified service providers an online system that enables them to apply, update their details and view information provided to agencies about them, by June 2013 (page 27).

The audit findings and recommendations have been informed by advice from the Independent Commission Against Corruption (ICAC). In July 2011, ICAC published a report on *Corruption Risks in NSW Government Procurement*.

DPC advised that the Minister for Finance and Services has instigated a comprehensive review of the NSW Government's current arrangements for procuring goods and services.

We welcome this review. We also trust that our report will contribute to it and prompt specific improvements in the Scheme as described above.

Response from the Department of Premier and Cabinet, and the Department of Finance and Services



Ref: 11/00666

15 September 2011

Mr Peter Achterstraat
Auditor General
Audit Office of NSW
GPO Box 12
Sydney NSW 2001

Dear Mr Achterstraat

Performance Audit of the *Prequalification Scheme: Performance and Management Services*

Thank you for your letter providing the *Performance Audit Report of the Prequalification Scheme: Performance and Management Services* ('the Scheme').

The Department of Premier and Cabinet ('DPC') and the Department of Finance and Services ('DFS') welcome the opportunity provided by this Performance Audit Report ('audit') to consider the operation of the Scheme. This letter sets out the joint DPC and DFS comments on the audit pursuant to section 38C of the *Public Finance and Audit Act 1983*, which has been developed in consultation with other contributing agencies.

Achievements of the scheme

The Scheme was established by the State Contracts Control Board ('SCCB') as an exemption to the general purchasing delegation. It represents an innovative, efficient and effective approach to the procurement of performance and management services by NSW Government agencies and statutory corporations. As the inter-jurisdictional analysis contained in the audit confirms, no comparable whole-of-government scheme covering performance and management services was identified by the Audit Office in any other Australian or international jurisdiction.

The NSW Government has developed a whole-of-government approach to procurement of performance and management services, which had previously operated without an overarching framework. Some agencies have periodically established limited panels for their own use. Such agency panels have excluded many service providers and have increased costs to business through service providers having to apply for inclusion in multiple panels.

The audit confirmed that alternate arrangements for procuring consultancy services, such as engagements made under the *Guidelines for the Engagement and Use of Consultants*, are time consuming and resource intensive. For smaller engagements the cost of the process is disproportionate to the total value of the service, reducing value for money. The Scheme was established to directly address this issue. It is an open scheme, which enables additional categories to be added and new service providers to join, in order to address the changing needs of government and to optimise government access to private sector capability and resources.

We are pleased to further note that the audit found that the Scheme:

- simplifies procurement practices;
- provides for the structured third party assessment and selection of service providers;
- streamlines the tendering process without the need to go to open tender;
- allows for the faster engagement of service providers with proven credentials; and
- agency staff considered it beneficial, offering them flexibility and savings in tendering time and cost.

The Scheme operates within the context of the broader legislative and policy procurement framework. The function of the Scheme is to provide agencies with a list of accredited service providers who have demonstrated they meet the established criteria for inclusion in the Scheme.

Consistent with the procurement framework in which it operates, accountability for the procurement process for individual engagements is the responsibility of agencies. They are required to invite tenders, evaluate quotations and decide to engage a specific service provider who demonstrates they are best able to undertake the assignment and provide value for money in doing so. Agencies must comply with various statutory and policy requirements such as the *Scheme Guidelines for Agencies*, the *NSW Government Procurement Policy and Code of Practice*, the *Public Finance and Audit Act 1983*, relevant NSW Treasury policy, and a range of additional cross-sectoral legislative provisions in areas such as record keeping and public reporting.

The audit appears to confuse various aspects: the broader procurement framework, the role and management of the Scheme and the responsibilities of specific agencies in making an engagement under the Scheme.

Further, the audit lacks clarity about the application of *Scheme Guidelines* in one agency which had a series of engagements totalling \$13 million.

Five points are relevant:

- the agency invited proposals on several occasions from a total of four service providers;
- on one occasion, given the previous work successfully undertaken, the agency used the exceptional circumstances provisions as outlined on page six of the *Scheme Guidelines* to continue the engagement with the selected service provider. The *exceptional circumstances* provision provided under the Scheme is similar to the exemption given by the SCCB in the 2004 *Guidelines for the Engagement and Use of Consultants*;
- market rates were tested at the time to ensure value for money;
- the agency applied its own internal audit and review processes and management to the procurement, demonstrating an appropriate internal control and risk management response; and
- the provider is a reputable firm which continues to successfully win similar engagements on a competitive basis in other agencies.

Procurement reform

The recommendations made in this audit will be considered in the context of the Government's review of goods and services procurement, including operating models and governance framework.

The SCCB is implementing its revised Agency Accreditation for Goods and Services Procurement. This is essential to the reform process as it builds the capability of agencies to undertake their own procurement together with mechanisms for requiring all clusters and/or agencies to undertake detailed annual procurement planning and reporting. Improving procurement capability is widely recognised by both the public and private sectors, as a major enabler to better results.

These reforms will impact the operation and future design of the Scheme which is expected to place greater emphasis on agency delivery of their own procurement within a revised policy framework.

Recommendations and Findings

Many of the 27 recommendations made are supported in principle and will be considered in the context of the broader procurement policy and system reforms currently underway. Several audit findings and the corresponding recommendations are not supported as they are impractical to implement or cannot realistically be implemented within the suggested timeframes. The recommendations are grouped under five themes.

1. Competition and Value for Money

The Scheme was designed to achieve value for money by creating adequate levels of competition. As the scheme is open to new entrants and currently has over 300 pre-qualified providers it provides agencies with a pool of providers to draw upon for a specific engagement. Strong agency and industry feedback is that the previous open tender arrangements increased costs and delayed important projects being undertaken which reduced value for money. Guidelines will be clarified to ensure thresholds are inclusive of GST, as expenses cannot be accurately known at the time of engagement.

The specific suggestions will be considered in the procurement review.

2. Ensure the Scheme is Used as Intended (Compliance and Monitoring)

The audit makes several recommendations regarding DPC and DFS playing a stronger role to ensure agency compliance with the Scheme by actively monitoring the tendering behaviour of agencies and service providers; developing compliance monitoring and reporting procedures; and undertaking risk-based compliance audits of agencies and service providers.

The principle of gaining greater use and compliance of the Scheme is supported. However, the respective roles of the Scheme administrators and the agency procuring services need careful consideration. The primary responsibility for compliance with *NSW Government Procurement Policy* and *Code of Practice* and other governance requirements (e.g. Audit and Risk Policy) rests appropriately with the agency.

The specific suggestions will be considered in the procurement review.

3. Scheme Objectives and Enhanced Transparency

The Scheme was established to improve transparency in an area of procurement, which historically has been largely unregulated. Improving transparency will be enhanced with the application of improved procurement technology to the Scheme.

Increasing reporting burdens on agencies and providers as suggested by the audit, without an adequate assessment of risks, will only add red tape with little demonstrable benefit. The extent to which this can be automated in a cost effective way is supported. A consistent approach needs to be developed for the Scheme, consistent with other forms of NSW Government procurement.

4. Governance

The management of the Scheme has strong governance with decisions about entry of service providers made by the *Scheme Assessment Committee* comprised of representatives of the central agencies. The committee has a clear charter and operating procedures and is advised by subject matter experts from relevant areas of government who undertake capability and expertise assessments. DPC and DFS maintain the necessary records consistent with *NSW Government Procurement Policy* and the *State Records Act 1998*, including documentation of decisions made out of session.

5. Assessment Process & Promoting Compliance

As acknowledged in the audit, the Scheme has been administered without additional dedicated resources. The Scheme, while not mandatory, has grown significantly, which demonstrates its success. Many of the recommendations to strengthen the transparency and effectiveness of the Scheme are dependent on an online system with accessibility for both agencies and applicants. Such a system needs to be part of an integrated procurement system covering other categories of goods and services. While this proposal is supported in principle, it will be subject to a more detailed assessment.

The suggested timeframes are unrealistic given the review processes currently underway, the investment decisions that need to be made, and the system development and change management that would need to occur.

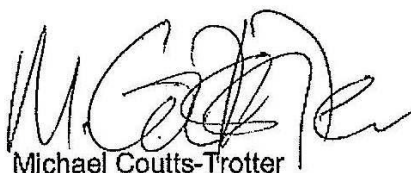
The specific suggestions will be considered in the procurement review.

We thank you for the opportunity to comment on the audit and its recommendations.

Yours sincerely



Chris Eccles
Director General
Department of Premier and Cabinet



Michael Coutts-Trotter
Director General
Department of Finance and Services

Introduction

1. The Prequalification Scheme

1.1 How does the Scheme operate?

Service providers, whether individuals or firms, can apply for prequalification at any time throughout the life of the Scheme.

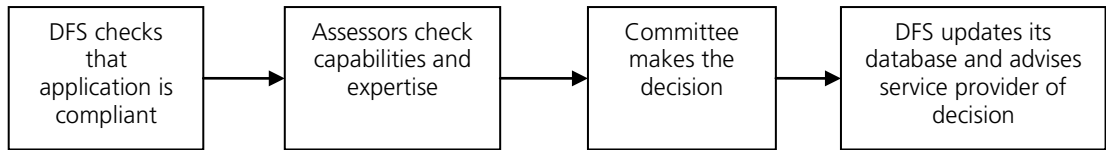
The Scheme offers service providers six broad categories (and 38 subcategories) of expertise in which they can nominate to prequalify:

- performance reviews
- infrastructure and major projects
- service delivery improvement
- organisational capability
- general technical expertise
- information and communication technology – capital investment services (ICT).

Service providers must submit to DFS a standard application form addressing nine mandatory requirements (see Appendix 1). They are assessed on their resources and demonstrated capability and experience in their nominated area of expertise.

Exhibit 1 outlines the assessment process and the involvement of DPC, DFS and the SAC which comprises officers from DPC, DFS and NSW Treasury.

Exhibit 1: Assessment process



Source: Audit Office research

Up to February 2011, DFS received 389 applications and 311 service providers had been prequalified. A service provider may be prequalified in all categories or some subcategories of expertise.

Exhibit 2: Number of service providers and subcategories in each category

Prequalification category	Performance reviews	Infrastructure and major projects	Service delivery improvement	Organisational capability	General technical expertise	ICT
Number of subcategories	7	6	4	10	9	2
Number of service providers	169	167	111	223	213	18

Source: DFS data as at February 2011

The Scheme does not guarantee any offer of work to prequalified service providers.

Agencies can engage service providers under the Scheme as either consultants or contractors on the following basis:

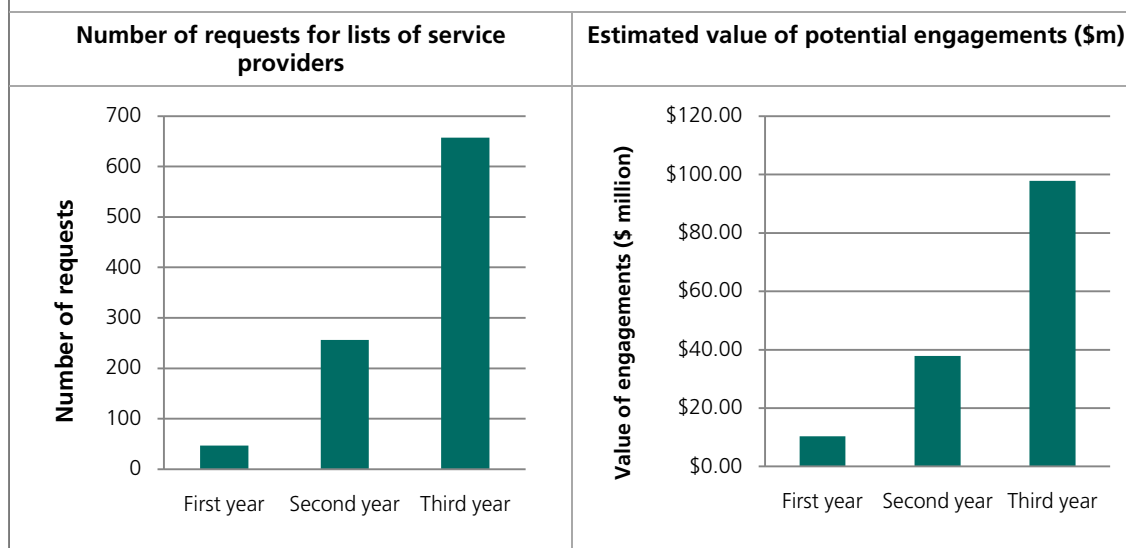
- for engagements estimated at less than or equal to \$150,000, one quote from the panel must be invited
- for engagements estimated at over \$150,000 (to no limit), at least three proposals must be invited from the panel
- the total value of the first and related flow on engagements must not exceed the lesser of three times the value of the initial engagement, or \$500,000
- using the Scheme standard agreement.

Agencies wishing to use the Scheme can request a list of prequalified service providers from DFS, citing the work types and specialties required. DFS emails a list to the agency. The agency makes its own selection from the list supplied, or may seek further assistance from DFS.

DFS advised that since the start of the Scheme to February 2011:

- 66 government agencies, six local councils and two universities have used the Scheme
- 960 requests for lists of service providers were made for around \$146 million of potential work.

Exhibit 3: Scheme usage from February 2008 to February 2011 as recorded by DFS



Source: DFS

The top ten agencies' usage of the Scheme represented 74 per cent of the total value of potential engagements as recorded by DFS up to February 2011.

1.2 What is the focus of the audit?

The audit assessed how well the Scheme is being managed. We answered three questions:

1. Is the Scheme operated and used as intended?
2. Is the Scheme achieving its objectives?
3. Is the assessment of service providers efficient and transparent?

The audit focused on the role of DPC and DFS in managing the Scheme. The audit also reviewed practices in six of the top ten agencies that used the Scheme:

- NSW Treasury
- Department of Premier and Cabinet
- Department of Finance and Services
- Department of Education and Communities
- Transport NSW
- Ageing, Disability and Home Care.

We reviewed 36 separate engagements made by these agencies under the Scheme. We selected these engagements based on the criteria outlined in Appendix 2.

We also invited submissions from all the prequalified service providers and received 45 responses. See Appendix 3 for a summary of their feedback.

We focused on the first three years of the Scheme's operation i.e. from February 2008 to February 2011. Data used in this report reflects this timeframe.

Key findings

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KEY FINDINGS

Some of the
Scheme rules
are not clear to
agencies

2. Is the Scheme operated and used as intended?

2.1 Are the rules for operating and using the Scheme clear?

The Scheme rules lack sufficient details to help agencies apply them as intended. Some of the existing rules need to be clarified and tightened, and additional rules are needed to strengthen competition.

There are gaps and inconsistencies in published information about the Scheme, which are a potential source of confusion.

The Scheme conditions and guidelines include:

- inviting one quote for engagements estimated at less than or equal to \$150,000
- inviting at least three proposals for engagements estimated at over \$150,000
- the total value of the first and related flow on engagements not to exceed the lesser of three times the value of the initial engagement, or \$500,000
- using the Scheme standard agreement
- reporting to DFS details of engagements
- submitting to DFS performance reports on completed engagements
- complying with *the Government Information (Public Access) Act 2009* (GIPA) and the NSW Annual Reporting legislation requirements
- undertaking appropriate due diligence.

The Scheme rules are not clear for agencies to apply them as intended.

Consultation with users of the Scheme in the six selected agencies showed there is confusion about the rules, including:

- whether the thresholds are inclusive or exclusive of GST and expenses
- whether the threshold for the flow on engagements is inclusive or exclusive of GST and expenses
- the types of changes permissible in the standard agreement
- the recordkeeping requirements for the Scheme
- whether disclosure requirements are inclusive or exclusive of GST
- whether it is permissible to engage a prequalified service provider who would deliver a project through alliances with non-prequalified service providers
- the additional due diligence checks required.

Some agency staff were also not aware that DFS can, on request, provide information on the experience, fee rates and discounts specified in a service provider's application, and that fee rates generally should include expenses.

There is an expectation that users of the Scheme would refer to all relevant documents and web links about the Scheme, including the guidelines, conditions, circulars, code of practice, memoranda, legislation and other procurement policies. In practice, most users do not.

Given the turnover of staff and the decentralised nature of procurement in agencies, not all staff responsible for engaging service providers are procurement experts and familiar with the Scheme rules, nor are they targeted for training.

Gaps and inconsistencies in published information about the Scheme are a source of confusion. We identified, at the time of the audit, key documents referring to outdated information and inactive website links, as well as different descriptions of the thresholds.

Exhibit 4: Examples of inconsistencies in published documents at the time of the audit

The Scheme guidelines refer to the *Guidelines for the Engagement and Use of Consultants* which have not been updated.

The Scheme website states that the terms of the standard agreement should not be amended, but the Scheme guidelines give agencies the option of limiting or capping a service provider's liability.

NSWBUY website refers to old versions of the Scheme guidelines, conditions and prequalification categories.

The NSW Government Procurement website lists five categories of prequalification instead of six.

The website link to the Office of the Information Commissioner in the guidelines for agencies is inactive.

Premier's Circular 2008-34, and the Scheme guidelines require agencies to invite one written quote where the estimated cost of a project is *less than or equal to* \$150,000, which is consistent with the State Contract Control Board's (SCCB) approval of the Scheme. DPC's website refers to the threshold as being *less than* \$150,000.

Source: Audit Office research

Good practice suggests that the rules should be described consistently across all published information to minimise confusion and prevent non-compliance.

We sought advice from ICAC on the adequacy of existing information about the Scheme. ICAC noted its concern particularly that agencies may not be performing due diligence checks on the prequalified service providers. A reason for this concern is an apparent inconsistency in information about the Scheme. At the Scheme's webpage, the following is written:

Agencies are responsible for making their own assessment of service provider [sic] suitability for a particular engagement and are to undertake appropriate due diligence checks according to the size of the engagement and the risks involved.

However, this requirement to conduct due diligence checks is not present in either the guidelines for agencies or the Scheme conditions. Consequently, agencies that read these documents may believe that DPC and DFS are performing the relevant checks, even though the information on DPC's website suggests otherwise.

The level and type of due diligence required will vary across agencies, depending on the nature of the agency work, the type of engagement and the level of risk. However, there is no minimum standard of due diligence required of agencies using the Scheme.

In addition, requiring agencies to *invite* rather than *obtain* proposals from service providers raises some serious risks. Under the current rule, an agency can proceed with an engagement valued at several million dollars by inviting three proposals, but receiving only one. This is not enough to create the necessary competitive tension to achieve value for money.

ICAC also expressed concern that provisions surrounding flow on engagements may be misused to mask order splitting. For example, a \$250,000 engagement could be procured on the basis of one quotation by splitting it into a \$100,000 initial engagement and a \$150,000 flow on engagement (when three proposals would ordinarily need to be requested). It would be difficult in such cases for agencies to claim that they have achieved value for money or that competition was created.

Requiring agencies to invite rather than obtain proposals raises serious risks

DFS does not
have a
compliance
enforcement
role

2.2 Is compliance monitored and managed?

There are no provisions for monitoring the compliance of agencies and service providers with the rules to ensure the Scheme is working as intended. Our evidence shows poor compliance with the Scheme rules because compliance is not managed.

There are also no periodic risk-based compliance audits of agencies and service providers.

DFS administers the Scheme for DPC, but it does not have a compliance enforcement role. DFS issues automatic reminders to agencies about their obligations, and has introduced standard forms for agencies to report on key compliance requirements. It does not assess, manage or report on compliance with the Scheme rules to ensure it is working as intended.

We examined the level of compliance of the selected agencies with the following key requirements:

- requesting a list of service providers from DFS for each potential engagement
- reporting on details of engagements
- use of the thresholds, and flow on engagements
- reporting on the performance of service providers
- use of the Scheme standard agreement
- contract disclosure
- recordkeeping.

We selected 36 engagements undertaken under the Scheme by the six agencies:

- nine engagements were valued at less than or equal to \$150,000 each
- 27 engagements were valued at over \$150,000 each
- 19 prequalified service providers delivered these engagements.

We also examined one aspect of service providers' compliance; hourly fee rates and expense charges.

Requesting a list

Agencies are expected to request a list of service providers for each potential engagement by emailing to DFS a standard request form, referred to as a request for tender (RFT). DFS emails back a list of appropriate service providers in the category of expertise requested, and issues a reference number for the engagement. This is critical for tracking usage through the number of engagements and their estimated value.

We noted that the Scheme guidelines do not state that requesting a list is a rule, nor do they explain how agencies might use the list or the information contained in it.

An agency may request a list for a potential engagement but not advise DFS of some later changes which impact on the reliability of the DFS database. For example, for the sample of 36 engagements reviewed, DFS recorded 45 RFTs. This is because agencies did not advise DFS of:

- engagements that did not proceed
- engagements that were split using the same RFT
- repeat requests for the same engagement.

Details of engagements

Agencies must email (in a standard form) to DFS the following details for each engagement within six weeks of its effective date:

- the name of the service provider engaged
- the total value of the engagement
- any variations or flow on engagements
- a brief description of the outcome.

**\$14 million in
flow on
engagements
have not been
reported to DFS**

Despite agencies receiving automatic reminders from DFS, we found for the engagements reviewed that:

- only 17 per cent (six of 36) had their details reported to DFS
- the recorded value in the DFS database was understated by \$28 million (\$21 million in the database compared to the actual \$49 million), a 135 per cent difference.

Thresholds and flow on engagements

In 12 of the 36 engagements reviewed, we found that \$14 million in flow on engagements had not been reported to DFS i.e. 29 per cent of the total value of engagements reviewed. One engagement did not comply with the rule for flow on, exceeding the \$500,000 threshold by over \$11 million.

We mentioned in section 2.1 that the requirement to *invite* rather than *obtain* proposals from service providers is not enough to create the necessary competitive tension to achieve value for money.

Based on our file review, eight engagements, valued at over \$150,000 each, proceeded with less than three proposals:

- four engagements valued at around \$15 million proceeded with one quote, including one engagement valued at over \$13 million
- four engagements valued at around \$3 million proceeded with two quotes.

This is not consistent with the intent of the Scheme to maintain appropriate levels of competition. It is also worth noting that the SCCB General Purchasing Delegation requires agencies to *obtain* quotations and to include GST in the value of engagements. See Appendix 4.

The agency involved in the engagement valued at over \$13 million advised the following:

The Department's internal review processes identified an issue with the application of the Prequalification Scheme guidelines and while the Department believes exceptional circumstances were evident, systems have been put in place to ensure that all consultants engaged to work on the program are subject to competitive tendering.

There is merit in requiring agencies to *obtain* rather than *invite* three proposals, as nearly half of the invitations to service providers are likely to be declined. Based on the 36 engagements reviewed, of the 40 service providers invited to submit proposals:

- one declined five times
- one declined three times
- two declined twice
- 18 (45 per cent) declined at least once.

Reporting on the performance of service providers

An agency must submit to DFS reports on the performance of service providers (using a standard form):

- where the total value of the engagement is \$150,000 or more
- for all unsatisfactory performance for engagements below \$150,000.

Reports can be submitted at the completion of the relevant engagement, or when a critical aspect of performance is unsatisfactory. Agencies receive email reminders from DFS.

We found that DFS received for:

- the sample, five of 19 (26 per cent) performance reports due for completed engagements over \$150,000
- the Scheme as a whole, up to February 2011, a total of 26 performance reports (all were satisfactory).

The compliance
of service
providers is not
monitored

Projecting from the results of our sample, we estimated that the 26 performance reports submitted to DFS since the start of the Scheme represented only five per cent of the total number of reports due on completed engagements over \$150,000 (we estimated the total number of performance reports due to DFS at over 500).

Contracts and record keeping

Our review of the sample of engagements also showed:

- one agency proceeded with an engagement valued at over \$13 million on the terms and conditions set by the service provider rather than using the Scheme standard agreement, leaving the agency exposed to potential risks
- one agency used its own contract rather than the Scheme standard agreement for two engagements valued at nearly \$300,000 in total.

Agencies are required under GIPA to disclose details of all contracts valued at \$150,000 or more in their government contract register within 60 days after the effective date of the engagement, as well as on the Government tenders website. See Appendix 4.

Only 37 per cent (ten of 27) of the engagements reviewed of \$150,000 or more complied with this requirement.

Agencies are subject to the *State Records Act 1998* and should maintain whatever records they need to comply. However, our review of engagements showed that while agencies may have some or all of the records relating to their use of the Scheme, these records are not always kept in a way that allows efficient compliance checks.

Currently, there is no specific guidance to agencies on what records should be kept as proof of compliance with the Scheme rules. Examples of such records include, copies of requests for lists with the RFT numbers; the lists of service providers supplied by DFS; reports on engagement details and performance; copies of signed contracts; requests for proposals and proposals received; invoices paid; evaluations; decisions and due diligence regarding proposals; and the engagement deliverables.

Service providers' compliance with the Scheme rules

The compliance of service providers should also be monitored. The conditions of the Scheme outline the penalties that would apply to non-complying service providers, including, a downgrading or suspension of membership, or expulsion from the Scheme. Yet the compliance of service providers is not monitored.

The Scheme conditions state that the range of hourly rates specified in a service provider's application for prequalification shall remain firm for an initial 24 month period. The Scheme conditions also address the treatment of expenses.

Exhibit 5: Scheme conditions relating to hourly fee rates and expense charges

The rates shall include all costs of the applicant excluding subsistence and travel costs outside the Sydney metropolitan area and/or from interstate and including employee related costs, data processing, the provision of personal computers, any other tools or equipment required in the provision of services, and travel costs within the Sydney metropolitan area (except if the service provider is from interstate).

Subsistence and travel expenses outside the Sydney metropolitan area and/or where the service provider is from interstate are to be charged at actual cost, or at the rates specified under the *Crown Employees (Public Service Conditions of Employment) Reviewed Award 2006*, whichever is the lesser.

Agencies may take the hourly rates specified in an application into account when selecting a service provider for work.

The fees to be charged for each individual engagement for which the service provider is selected shall be agreed between the service provider and the agency.

Source: Scheme conditions

No process to ensure service providers' hourly rates remain firm, or are updated or quoted in proposals submitted to agencies

There is no process for ensuring service providers' hourly rates remain firm, or are updated or are quoted in proposals submitted to agencies. Also, agencies do not:

- have access to providers' rates when evaluating proposals, unless they know they can request them from DFS
- compare the quoted expense charges to the rates under the *Crown Employees Award 2006*.

We found that six of the 19 service providers engaged (nearly 32 per cent) charged expenses in a manner not consistent with the Scheme conditions. For example, one service provider charged expenses as a percentage of the engagement value, rather than as incurred.

We believe that both the GST and an estimate of expenses should be included in the value of the thresholds. DPC advised at the time of the audit that the Scheme thresholds are inclusive of expenses but exclusive of GST. This is not stated in any of the Scheme documents.

Based on this advice, nearly six per cent of the engagements reviewed would have exceeded the \$150,000 threshold and required three proposals instead of one, had expenses been included.

In addition to not having a compliance monitoring regime, the Scheme does not have periodic risk-based compliance audits of agencies and service providers.

Recommendations

To ensure the Scheme rules are used as intended, we recommend that DPC and DFS:

- clarify to agencies the rules for using the Scheme, particularly around the thresholds, by December 2011
- address gaps and inconsistencies in information published on the rules, by December 2011
- develop and implement options that would ensure agencies obtain the minimum of three proposals for engagements over \$150,000, by December 2011
- include GST and estimated expenses in the value of the thresholds, by December 2011
- set a minimum standard for the due diligence checks required of agencies, by December 2011.

To improve the governance of the Scheme and compliance with its rules, we recommend that DPC and DFS:

- develop compliance monitoring and reporting procedures, by December 2011
- specify to agencies the recordkeeping requirements for using the Scheme, by December 2011
- require agencies to establish a central point of reference for compliance monitoring and dissemination of information on the Scheme, by December 2011
- undertake risk-based compliance audits of agencies and service providers, by June 2012.

The Scheme
does not have
key performance
indicators and
targets

3. Is the Scheme achieving its objectives?

3.1 Does the Scheme have clear objectives and targets?

While the Scheme has clear objectives, it does not have key performance indicators and targets to measure progress.

The aim of the Scheme is to improve the use and the procurement of performance management services by government agencies. Its key objectives are to achieve:

- high probity standards, by third party assessment and selection of service providers
- streamlined competitive tendering processes, by prequalifying service providers with a demonstrated track record, saving on tendering costs relative to open tender while maintaining appropriate levels of competition
- quality assurance in the engagement of service providers - poor performing service providers will have their performance monitored and can be suspended or removed from the Scheme
- fee rates that represent value for money.

The Scheme does not have key performance indicators and targets.

3.2 Is performance against targets monitored and reported on?

The Scheme has no performance indicators and targets to assess whether it is achieving its objectives. Still, in our view, the Scheme has delivered a structured third party process for assessing and selecting consultants and a more streamlined tendering process.

Some performance information is collected, but most of it is unreliable because of agencies' poor compliance with reporting requirements. For example, DFS recorded the potential value of engagements under the Scheme at around \$146 million. We estimated that more than \$300 million worth of consultancy services were procured under the Scheme since 2008.

There is no public reporting on any aspect of the Scheme's operations and performance.

According to the Scheme conditions, DPC and DFS are responsible for monitoring the achievement of the Scheme objectives. However, given the lack of key performance indicators and targets, there has been no monitoring or assessment of progress in achieving these objectives.

The current reporting requirements on agencies using the Scheme would allow DFS to collect some useful performance information. The standard forms for requesting lists of service providers and for reporting engagement details have been designed to allow DFS to actively monitor panel usage. However, without an effective reporting and compliance monitoring regime, most of the information is either not collected or is unreliable, especially the value of engagements under the Scheme.

DFS database showed that as at February 2011, the total estimated value of engagements under the Scheme was nearly \$146 million.

We used two methods to estimate the value of engagements made under the Scheme:

- based on the results of the sample of 36 engagements reviewed, we estimated the Scheme usage at around \$343 million (nearly 135 per cent more than recorded)
- based on data provided by the six selected agencies for the total value of their engagements (327) under the Scheme, we estimated the Scheme usage at \$294 million.

**Exhibit 6: Estimated value of engagements under the Scheme -
February 2008 to February 2011**

Sample used	DFS data for the sample (\$ million)	Actual data for the sample (\$ million)	% difference between actual results and DFS data for the sample	DFS data for the Scheme (\$ million)	Estimated Scheme usage (\$ million)
36 engagements	\$21	\$49	135%	\$146	\$343
327 engagements by the six agencies	\$39	\$79	101%	\$146	\$294

Source: Audit Office research

In our view, the \$294 million estimate is less reliable for the following reasons:

- we did not verify the value of the engagements through file review
- agencies' data is likely to be understated when compared to actual data recorded on files
- over four per cent of engagements (14 of 327) were in progress and their value is likely to be higher on completion.

It is important to note that:

- both methods point to the unreliability of DFS data
- the Scheme usage is much higher than recorded by DFS
- the Scheme usage is likely to be well over \$300 million.

Quality assurance

The standard form for reporting on the performance of service providers would also enable DFS to actively monitor and possibly rate the performance of service providers. However, the poor level of agencies' compliance with this requirement (five per cent compliance rate) prevents this from occurring.

Agencies' failure to submit performance reports impacts on the quality assurance in the engagement of service providers - a key objective of the Scheme. It may also lead to loss of confidence in the Scheme's capacity to identify and deal with poor performing service providers.

Also, the requirement on agencies to report on the performance of all engagements over \$150,000 but only on unsatisfactory performance for engagements below \$150,000 is skewed to capturing poor performance. This would make it difficult to accurately rate the performance of service providers.

The SAC is the gatekeeper for the Scheme. It allows only those service providers with demonstrated capability and expertise to join the Scheme. However, unlike other prequalification schemes, there is no review mechanism to ensure service providers maintain a good track record.

There is no review mechanism to ensure service providers maintain a good track record

Exhibit 7: Schemes that review membership

- SA – Contractor Prequalification Scheme, General Training Services (annually)
- Commonwealth – ICT Management Consultants Multi Use List (annually)
- ACT - Government Prequalification Scheme (annually)
- WA – Builders Prequalification Scheme for Works Contracts (every two years)
- VicRoads - National Prequalification System for Civil Construction (Roads and Bridges) Contracts (every two years)
- NSW RTA – National Prequalification System for Civil Construction (Roads and Bridges) Contracts (every three years)
- Mainroads WA - National Prequalification System for Civil Construction (Roads and Bridges) Contracts (every three years).

Source: Audit Office research

No data is collected on important aspects of providers' performance

The Scheme conditions state that DPC and DFS will manage the performance of service providers by monitoring performance on tendering, financial capability, compliance with the NSW Government Code of Practice for Procurement, contract performance and project outputs and outcomes.

Currently, DPC and DFS do not collect any data on these important aspects of performance.

Value for money

A lack of available opportunities for work when only a select few service providers are repetitively invited to tender may limit competition, contrary to NSW procurement policy. This may also lead to service providers exiting the Scheme where they see no benefits from their membership.

Tracking agencies tendering behaviour is therefore crucial. We discussed in section 2.2 the behaviour of some providers that repeatedly decline invitations to submit proposals, which should also be monitored.

We found for the 36 engagements reviewed, that seven of the 19 service providers involved were awarded:

- 91 per cent of the total value of engagements (over \$44 million)
- 53 per cent of the total number of engagements (19).

These results are consistent with feedback received from prequalified service providers. Of the 45 service providers that responded to our invitation to comment on the Scheme, 39 provided details of engagements secured under the Scheme. Of the 39 service providers:

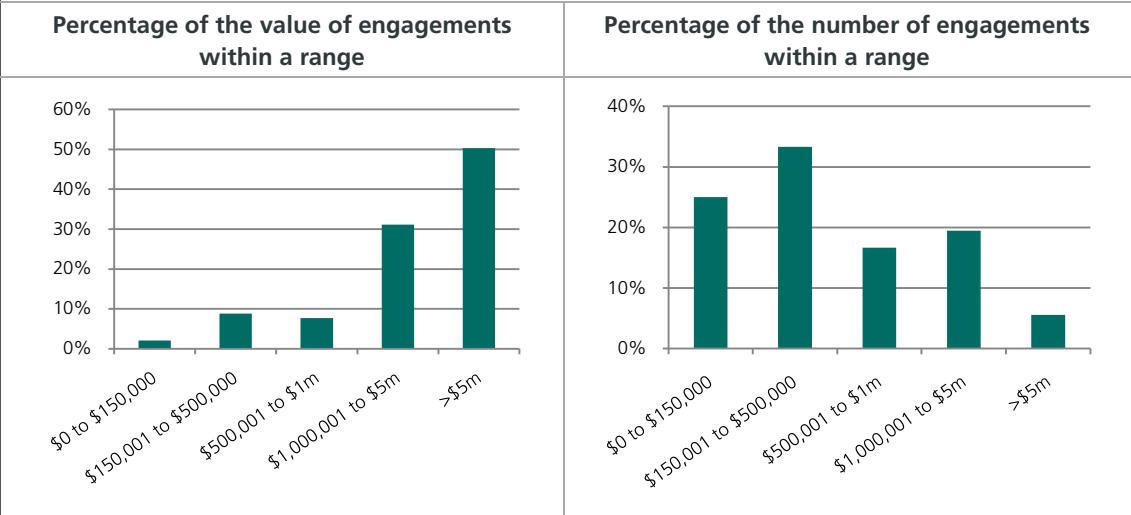
- 22 (56 per cent) received invitations to submit proposals
- 17 secured work totalling nearly \$35 million
- two secured about 93 per cent of the total value of work (nearly \$33 million).

Our review of the sample of 36 engagements also showed a wide variation in the value of engagements, with some as high as \$13 million.

While there is no requirement to invite more than three proposals for high value engagements e.g. over \$1 million, there is merit in exploring options to increase the level of competition. This would give more service providers some visibility, and possibly spread the work across the panel where value for money is justified.

Based on the results of the sample of engagements reviewed, a threshold over \$1 million would capture around 80 per cent of the total value of engagements, and around a quarter of their total number.

Exhibit 8: Distribution of the sample of engagements by number and value



Source: Audit Office analysis

In our discussion with ICAC, they expressed concern as to whether a genuine competitive process is occurring and whether value for money is being achieved with different thresholds across different government schemes. The Scheme requires inviting one written quotation for engagements less than \$150,000 and three proposals for engagements of \$150,000 and more. By contrast, according to the NSW Government Procurement Guidelines: Tendering Guidelines, prequalified construction-related consultancies require three quotations for work of \$50,000 or more.

This suggests that potential savings in tendering time and cost relative to open tender can be achieved, but at the expense of limiting competition and diminished value for money. A review of the different thresholds across existing schemes would be of benefit.

Exhibit 9 lists schemes in NSW and elsewhere that require open *panel* and some that also require open *tender* for certain value engagements.

Exhibit 9: Schemes requiring open panel and/or open tender

- VicRoads - National Prequalification System for Civil Construction (Roads and Bridges) Contracts (jobs are advertised in the press and on the website, but only prequalified service providers are considered)
- NSW RTA – National Prequalification System for Civil Construction (Roads and Bridges) Contracts (jobs are advertised in the press and on the e-Tender website, but only prequalified service providers are considered)
- SA – Contractor Prequalification Scheme, General Training Services (open panel required for engagements over \$55,000)
- Whole-of-Queensland Government Prequalification (PQC) for Building Industry Contractors and Consultants (open panel required for engagements over \$250,000)
- WA – Builders Prequalification Scheme for Works Contracts (open panel required for engagements between \$300,000 and \$50 million, and open tender over \$50 million)
- ACT – Government Prequalification Scheme (open tender required for engagements over \$200,000).

Source: Audit Office research

Streamlined tendering process

The Scheme has simplified procurement practices and allowed a faster engagement of service providers with proven credentials.

Agency staff considered the standard agreement and the Scheme to be beneficial, offering them flexibility and savings in tendering cost and time. They also complimented DFS staff on their responsiveness to requests for lists and their help in narrowing the lists. Areas highlighted by agencies for improvement, include:

- making the lists of prequalified service providers more informative and user-friendly with an online search facility
- improving the granularity of information on service providers' expertise and performance
- introducing a standard form for requests for proposals and project briefs.

Some of the feedback received from prequalified service providers about their experience with the Scheme is outlined in Appendix 3.

An online system with improved functionality and adequate resources would improve the efficiency of the Scheme's operations and users' satisfaction.

There is also significant scope for further expansion of the Scheme into additional prequalification areas e.g. media and legal services, and by collapsing more of the existing agency specific panels into this Scheme. This would contribute to further potential savings in tendering cost and time – a key objective of the Scheme.

The Scheme has simplified procurement practices and allowed a faster engagement of service providers

There is no reporting on any aspect of the Scheme's performance

A large number of agency specific panels operate in NSW, including those operated by NSW Treasury, Housing NSW, Ageing, Disability and Home Care, RTA, NSW Health, and Transport NSW. These panels have different accreditation arrangements, thresholds, membership numbers and conditions. This may create confusion:

- in the market place as some service providers are prequalified in multiple panels
- for agencies in keeping track of the different rules.

All this can also translate into higher costs to service providers that would be passed on to government agencies.

In 2009, two panels were merged into the Scheme resulting in a new category of prequalification and several subcategories. DPC also advised that a number of agencies have either collapsed their schemes into this Scheme, or abolished their own altogether.

Public reporting

There is no reporting on any aspect of the scheme's performance, including the agencies using the Scheme and service providers engaged through it. Public reporting would improve accountability and probity.

Stakeholders' input

DFS obtains informal feedback on the Scheme through its interaction with agencies and service providers.

In December 2009, briefings were conducted for 200 participants from industry and agencies to update them on developments with the Scheme and gain feedback on its operations. However, a more structured approach to seeking stakeholders' feedback is necessary to improve the Scheme.

3.3 Was the Scheme reviewed before it was extended?

The Scheme was not reviewed before it was extended in February 2010 for two years.

The Scheme was to be reviewed after two years of operation (February 2010). It was extended for a further two years (to February 2012), but without a review.

In our view, this was a missed opportunity. A review may have addressed some of the key weaknesses and possibly justified more resources. Periodic independent reviews would be beneficial to assess progress.

Despite its growth and potential for further growth, the Scheme clearly cannot continue to operate as it is currently without the risk of undermining its key objectives. The Scheme does not have:

- the systems and the resources needed to support its ongoing operation and expansion in an efficient and effective manner
- set KPIs and targets to assess and monitor the achievement of its key objectives
- a compliance monitoring regime to ensure it is operated and used as intended
- clearly defined roles, responsibilities and accountabilities for managing its performance
- public reporting on any aspect of its operations, performance and membership to enhance its transparency.

Recommendations

To ensure the Scheme's objectives are being met, and to enhance its efficiency and transparency, we recommend that DPC and DFS:

- require agencies to report on the performance of all engagements irrespective of value, by December 2011
- develop KPIs and set targets for the Scheme, by December 2011
- monitor performance against the KPIs and targets, by June 2012
- introduce periodic independent reviews of the Scheme's operation and performance, by June 2012
- monitor the tendering behaviour of agencies and service providers, by June 2012
- implement a structured process for gathering regular feedback from agencies and service providers by June 2012, and monitor results over time
- report publicly on the performance of the Scheme, by December 2012
- introduce, for agencies using the Scheme, an online system with effective search capability and functionality, by June 2013
- review the membership of prequalified service providers every three years.

To ensure adequate levels of competition and achieve value for money, we recommend that DPC and DFS:

- develop and implement options that would support greater levels of competition for high value engagements based on a review of engagement trends, by June 2012
- merge additional agency specific panels into the Scheme, where efficiency and value for money are justified, by December 2012.

Conditions apply
to service
providers
wishing to join
the Scheme

4. Is the assessment of service providers efficient and transparent?

4.1 Are the rules for assessing service providers clear?

The rules for assessing service providers are not sufficiently clear to make the process efficient and to assist compliance.

Clear information to service providers on the requirements for prequalification, and how information they provide will be used, is important to ensure transparency and assist compliance.

The Scheme conditions and guidelines outline the key requirements for prequalification and the criteria that must be addressed in an application, including the provision of:

- evidence of expertise and capability in the relevant policy areas with referee reports
- a breakdown of proposed charges and/or fee structuring.

The key conditions that apply to service providers wishing to join the Scheme include:

- using a standard application form posted on the website
- compliance with the NSW Code of Practice for Procurement and other procurement policies
- recordkeeping requirements
- using the Scheme standard agreement
- performance management
- keeping hourly fee rates firm for two years
- not to advertise, promote or publicise prequalification without DPC's written consent.

Some of the Scheme conditions and how information provided by a service provider is used are not sufficiently clear, particularly:

- whether and how information about the expertise and performance of a service provider will be presented to agencies
- whether the proposed fee rates count toward the assessment of a service provider
- whether and how agencies will access the proposed fee rates and at what stage of the engagement process.

Appendix 3 outlines some of the concerns service providers expressed about the Scheme in their submissions to the Audit Office.

4.2 Are service providers assessed consistently and in a timely manner?

The majority of prequalified service providers were assessed consistently against set evaluation criteria. However, a small number of service providers were automatically transitioned from another scheme and have not been assessed against the Scheme criteria.

There is no time standard for finalising assessments and we found a wide variation in turnaround time - some service providers were fast tracked within two days and some waited for more than three months.

The Scheme has not been resourced adequately and does not have an online system to support it efficiently.

DFS uses a standard checklist to screen applications and only compliant applications are referred to DPC for assessment. At least two officers from DPC and/or NSW Treasury with relevant skills assess applications against four evaluation criteria before referring them to the SAC for determination. The SAC can either accept or reject the recommendations of the assessors. A service provider may be deemed suitable in some areas of expertise, but excluded from others.

The SAC comprises officers from DFS, DPC and NSW Treasury, and members declare any conflict of interest at the start of each meeting. This is a commendable practice, especially that some members may have had prior involvement with a service provider.

Compliant applications are assessed periodically at the discretion of the SAC, but there is no set time standard for finalising assessments

It would be useful to also have an independent member on the SAC to avoid any perception of a conflict of interest.

Compliant applications are assessed periodically at the discretion of the SAC. They are expected to be finalised within three months, but there is no set time standard. The time taken to finalise an assessment will depend on when an application is submitted in the assessment cycle and the availability of assessors.

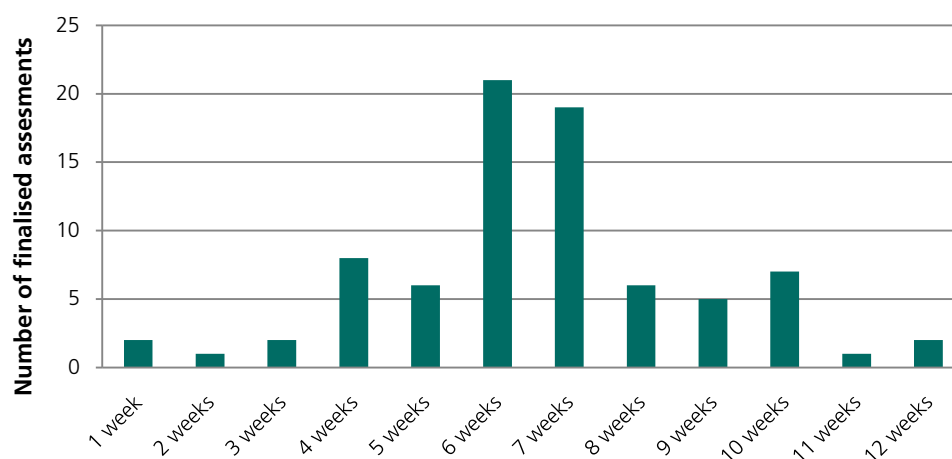
In the three years to February 2011, the SAC met 16 times, averaging a meeting every ten weeks, and it has:

- considered 325 applications - 300 were accepted and 25 were rejected
- made at least 11 out of session decisions in response to agencies' requests.

Between February 2010 and February 2011, 80 compliant applications referred to DPC for assessment and the SAC for determination took on average over six weeks to finalise.

This average is consistent with what is expected and may be appropriate given the level and nature of resources assigned to this process and the detailed assessment undertaken prior to prequalification. However, we found a wide variation in finalising assessments - some service providers were fast tracked within two days and some waited for more than three months.

Exhibit 10: Assessment turnaround times for 80 compliant applications



Source: DFS data

Good practice suggests that a time standard and/or inviting applications at set regular intervals would improve resource planning and service providers' satisfaction. See Appendix 5 for practices in other schemes.

The turnaround time for finalising an assessment is:

- 10 days for the ACT Government Prequalification Scheme
- four to six weeks for the Whole-of-Queensland Government Prequalification (PQC) for Building Industry Contractors and Consultants
- six weeks for the NSW RTA and VicRoads National Prequalification Systems for Civil Construction (Roads and Bridges) Contracts.

We found that while the majority of service providers were assessed using the normal Scheme processes:

- 18 service providers (nearly six per cent) were automatically transitioned across to the Scheme from the previous ICT prequalification scheme without assessment
- 10 service providers (three per cent) were fast tracked through out of session SAC decisions.

It is entirely at the discretion of the SAC whether it will consider an application out of session and how service providers are transitioned from other panels.

DFS has not been resourced to administer the Scheme and does not have an online system to carry out its work efficiently

No comprehensive procedures for operating the Scheme

DPC considers that the SAC needs certain discretion to give it flexibility to respond to urgent government priorities and requests without raising unrealistic expectations on the part of service providers and agencies. However, developing terms of reference for the SAC and documenting the types of discretion allowed would assist scrutiny of decisions and avoid any perception of favouritism, or lack of fairness. This is particularly important as:

- not all agencies are aware that they can request fast tracking a decision
- some service providers are fast tracked while others wait months in the queue to prequalify.

Service providers can apply at any time to prequalify, upgrade their prequalification, or resubmit an application as often as they want. This generates considerable paperwork and manual data entry. Over the three years since the Scheme started, DFS processed over 389 applications and dealt with a constant flow of work, responding to agencies and service providers.

DFS has not been resourced to administer the Scheme and does not have an online system to carry out its work efficiently. DPC also does not have dedicated full time resources to complete the assessment of applications. Officers undertake these tasks in addition to their substantive duties.

When the Scheme was established, there was inadequate information on the potential demand for the Scheme. Therefore, it was not possible to predict the optimal number of resources and the systems needed. The Scheme has been operating for well over three years. There should be enough information now to determine the resources required to operate the Scheme efficiently.

4.3 Are decisions and service providers' details documented and updated?

There are no comprehensive procedures for the operation of the Scheme.

Assessment decisions regarding individual service providers are documented and kept by DFS. However, at the time of the audit, there was no clear audit trail of the SAC's out of session decisions and other relevant documents.

DFS records all details provided by service providers and the SAC. Prequalified service providers should update their details, but some have not.

The Scheme does not have comprehensive procedures, covering the roles and responsibilities of DPC and DFS to strengthen accountability and improve the transparency of the process.

DFS has a workflow diagram depicting its role with a brief reference to that of DPC and NSW Treasury. DPC also has procedures for its assessors and the SAC, but these do not address the role of DFS. In fact, the role of DFS, and what this role might entail as administrator of the Scheme, is not addressed in any document.

DFS maintains a database of the SAC's decisions and advises service providers in writing of the results of their application.

The SAC meetings are documented. However, at the time of our audit, there was no clear audit trail of the SAC's out of session decisions and other relevant documents. Current procedures do not address adequately the recordkeeping requirements of the Scheme.

Service providers are required to inform DFS in writing of any significant change in their financial capacity, capability, ownership status, contact details or address. We found the details were not always up to date.

Giving service providers access to online services would help them update their details and remove this burden from DFS staff.

The Commonwealth ICT Management Consultants Multi Use List provides an online system for submitting applications for prequalification and updating details.

Recommendations

To improve the governance of the Scheme, we recommend that DPC and DFS:

- clarify the assessment rules to service providers, by December 2011
- introduce an independent member on the SAC, by December 2011
- develop terms of reference for the SAC, by December 2011
- develop comprehensive procedures for the operation of the Scheme, by December 2011.

To improve the transparency and efficiency of the assessment process, we recommend that DPC and DFS:

- introduce time standards for finalising the assessment of compliant applications, by December 2011
- determine the resource requirements for the Scheme and implement, by June 2012
- introduce for prequalified service providers an online system that enables them to apply, update their details and view information provided to agencies about them, by June 2013.

Appendices

Appendix 1: The requirements for prequalification

Service providers wishing to join the Scheme must provide information outlined in the table below:

Requirements	Description
Organisation details	Contact details, details of the organisation's status, management and key personnel, including professional qualifications, registrations and accreditations.
Expertise	Areas of substantial expertise in which the applicant is seeking prequalification, and policy or government portfolio areas in which the applicant claims to have substantial expertise.
Capabilities	A brief statement demonstrating the applicant's capability.
Membership in other NSW Government procurement panels	The applicant's membership.
Insurance	Public Liability, Workers' Compensation and Professional Indemnity.
Experience	A list of at least three consultancies undertaken in the last three years in the areas nominated by the applicant for prequalification.
Rates/cost of services	A detailed breakdown of proposed charges and flexible fees.
Applicant referee reports	At least three referee reports of client satisfaction based on engagements completed in the last three years in types of services relevant to those offered under this application.
Statement	Signed and dated statement to verify the completeness and authenticity of the information provided in the application.

Appendix 2: About the audit

Audit objective

This performance audit assessed how well the Prequalification Scheme for Performance and Management Services is being managed.

Lines of inquiry

We sought to answer the following questions:

- Is the Scheme operated and used as intended?
- Is the Scheme achieving its objectives?
- Is the assessment of applicants efficient and transparent?

In the report, applicants are referred to as service providers.

Audit scope

The audit focused on the Department of Premier and Cabinet (DPC) and the Department of Finance and Services (DFS), and their role in managing the Scheme. The audit also reviewed practices in a sample of agencies that have used the scheme and invited submissions from all prequalified service providers.

Audit criteria

In answering the lines of inquiry, we used the following audit criteria (the 'what should be') to judge performance. We based these standards on our research of current thinking and guidance on better practice. They have been discussed, and wherever possible, agreed with those we are auditing.

For line of inquiry 1, we assessed whether:

- there are clear rules for operating and using the Scheme
- compliance is monitored and managed.

For line of inquiry 2, we assessed whether:

- the Scheme has clear objectives and targets
- performance against targets is monitored and reported on
- the Scheme was reviewed/evaluated before it was extended.

For line of inquiry 3, we assessed whether:

- there are clear rules for assessing applicants
- applicants are assessed consistently and in a timely manner
- decisions and applicants details are documented and up to date.

Audit exclusions

The audit excluded:

- verifying the accuracy of information provided by applicants seeking prequalification
- reviewing or challenging the decisions of the Scheme Assessment Committee
- challenging agencies' choice of prequalified service providers
- surveying all agencies that have used the Scheme
- assessing the adequacy of the skills of staff managing/administering the Scheme
- addressing agencies' use of e-tendering
- questioning the merit of government policy.

Audit approach

The audit team acquired subject matter expertise through:

- interviews with relevant staff in DFS, DPC and a sample of agencies that used the Scheme
- examination of relevant data and documents, including legislation, policies, guidelines, reports, strategies and reviews of the Scheme

- discussions with representatives of key stakeholders, including the Scheme Assessment Committee, prequalified service providers, ICAC, the Information Commissioner and owners of other prequalification schemes
- file review
- research into other practices
- comparisons with other schemes and/or approaches in NSW and other jurisdictions, where relevant and appropriate.

Audit sample

We selected six agencies that have used the Scheme for detailed review of practices and consultation:

- Department of Finance and Services
- Department of Premier and Cabinet
- Ageing, Disability and Home Care
- Department of Education and Communities
- NSW Treasury
- Transport NSW.

The mix included:

- different portfolios
- frequent and high users of the Scheme.

We reviewed a total of 36 engagements undertaken by these agencies. These included:

- engagements below \$150,000, above \$150,000, and flow on engagements, where relevant
- engagements of consultants and contractors.

We also invited submissions from all the prequalified service providers.

Audit selection

We use a strategic approach to selecting performance audits which balances our performance audit program to reflect issues of interest to Parliament and the community. Details of our approach to selecting topics and our forward program are available on our website.

Audit methodology

Our performance audit methodology is designed to satisfy Australian Audit Standards ASAE 3500 on performance auditing, and to reflect current thinking on performance auditing practices. We produce our audits under a quality management system certified to International Standard ISO 9001. Our processes have also been designed to comply with the auditing requirements specified in the *Public Finance and Audit Act 1983*.

Acknowledgements

We gratefully acknowledge the co-operation and assistance provided by DFS, DPC and the six agencies whose staff participated in interviews and provided information relevant to the audit.

We also appreciate the input of the prequalified service providers into this audit.

Audit team

Our team for the performance audit was Henriette Zeitoun and Bettina Ocias. Rob Mathie and Giulia Vitetta provided direction and quality assurance.

Audit cost

Including staff costs, printing costs and overheads, the estimated cost of the audit is \$265,000.

Appendix 3: Feedback from submissions received

We invited submissions from all prequalified service providers. We received 45 responses. The following summary highlights some of the issues raised, which are grouped by topic for ease of read.

The prequalification assessment process

- The application process required considerable effort to compile the required information.
- An understanding of the assessment criteria would be useful.
- The assessment is efficient. Can be confusing, but handled reasonably well. Transparency is hard to judge.
- I found the application process for prequalification thorough and it took substantial time to put the application together.
- I've found the process has worked very well from my perspective, and I'm hoping it will continue.
- The process by which we were vetted was streamlined and cost effective for us to participate.
- Application to the Scheme in January 2010, acceptance to the Scheme on September 2010. An eight-month process.
- The first priority would be to shorten the accreditation timeframe.
- Subjectivity must be removed from the evaluation decisions and replaced with criteria and scoring where the specifications and results will be available to suppliers to address in subsequent re-submissions.
- Assessments seem to be rather slow.
- The assessment of applicants for the Scheme is robust, efficient and transparent.
- The prequalification requirements should be reviewed.
- The initial submission for prequalification focused on specific criteria, and these criteria somewhat limited us in providing a full description of at least some of our services.
- The application process for assessment for inclusion in the Scheme was not especially efficient.
- Whilst there was ample information available via the internet on the Scheme it was difficult to follow the requirements in relation to application to the Scheme and necessitated a number of telephone calls to DFS.
- Unfortunately the generic nature of the forms that are required to be completed, we do not believe adequately reflect the value that an organisation such as ours can provide the Government.
- The amount of paperwork that is required to be completed to qualify for a panel we wonder whether if it is actually used.
- The Scheme changed last year to allow for a limitation of liability (from unlimited) – this was a positive move but still needs to be negotiated with each agency – it may be useful to provide guidelines to agencies saying what sort of 'multiples' of fees are reasonable in different types of assignments.
- We certainly experienced an inconsistency in the interpretation of the requirements for referees stated on the application. Two of the three referees' reports that we provided were treated as one because they originated from the same department. If this is not permissible, it should be specified in the form.

Ability to promote prequalification status

- Our significant concern about this advertising restriction is that we are excluded from telling our current clients that we can work for them under the new Scheme.
- There are minimal opportunities for consultants to promote their services.
- This panel process has simply not allowed me access to decisions makers.
- The consultant is required to invest significant amounts of time in applying to be part of that panel with no guarantee of work and no ability to raise their profile with decision makers.
- Despite the prequalified panel appointment, the government agencies in NSW are unaware of us.
- There is no introduction or engagement channel to promote our capabilities to various agencies.
- When compared to other panel arrangements we felt this process lacked the ability to generate relationships with key decision makers, we felt it was very mechanical (tick and flick process) and we were not clear on what the panel actually does or what we get out of it.
- The process is very impersonal, we are not dealing with key stakeholders at any point in the process and we get concerned that we will not receive the appropriate visibility that would lead to the request for a proposal.

Selecting service providers from the lists

- I'm not sure how the filters are working.
- On this list, the agency cannot differentiate other than the name of the vendor and the 'high level' skills they can provide (e.g. procurement).
- A system that is based on a list being provided on request is not in line with the high standard of technology and rapid access to information people now expect and take for granted.
- We suggest it would be beneficial for the departments to receive detailed information about each consultant in the relevant field, to assist them with their selection process.
- The departments are not provided with sufficient detailed information about consultants to enable them to make the most informed decision about which consultants to approach for direct or select invitations.
- The Scheme would also be enhanced by linking companies to a government representative who could help with providing information and clarifying or resolving issues.

Transparency of the Scheme

- Given the paucity of opportunities provided to us over the past three years, I may be inclined to suspect that the process may be biased or unfair or, at least, is not operating effectively.
- The system is not sufficiently transparent for us to feel that we fully understand the reasons for selection or otherwise.
- Clarify who administers the Scheme. We have found it difficult to contact the relevant person.
- Transparency and monitoring agency feedback on what firms win what roles (not fees necessarily) to avoid preference going to one or two firms only and the market being locked out by default.
- Consultants are not able to ascertain:
 - what agencies are told about us
 - whether and how often we are included as suitable candidates in lists provided to agencies
 - how the central body decides which consultants are suitable for agency requests.
- Need greater transparency as to the distribution of tender opportunities and appointments procured through this Scheme. This will assist in measuring our performance against our competitors.

Source of invitations

- It is sometimes difficult to know whether an agency has sourced company details/areas of expertise from the prequalification panel if it does not disclose the origin of the request or the panel basis of the contract.
- This lack of clarity about whether invitations have come through the Scheme makes it difficult (and indeed impossible) for us to accurately track and assess the impact and benefit of the Scheme, both in terms of invitations and associated engagements.

Agencies awareness of the Scheme

- Need to raise awareness of the existence of the Scheme and what it can provide for agencies.
- It would appear that some agencies have limited awareness of the Scheme and therefore run additional prequalification or tender processes to form agency specific panels. Greater consistency in implementation would be helpful to the industry.

Securing work under the Scheme

- I have not undertaken any consultancies under the Scheme.
- Our company has had little success in attracting work.
- We have not been invited to submit quotes/proposals since our prequalification.
- We have been invited to submit quotes/proposals since our prequalification.
- We are becoming frustrated with the process.
- We have neither been invited to submit quotes or proposals, nor have we secured any engagements.
- I have been stunned that I have not received a single invitation to quote for any project.
- Since prequalification in 2009, we have received six opportunities to submit quotes/proposals and have been unsuccessful in each of these.
- Over the last three years, we have been invited on numerous occasions to submit proposals or quotes to most government agencies.

- In most NSW government departments there is such an emphasis in only using the Big 4 consulting groups that it becomes difficult to get a look in.
- We have found the Scheme to be unproductive for us and have been frustrated.
- In the 18 months or so we have been registered, we have received one enquiry. We were un-successful. Most of our work comes from inter-state and other governments.
- The Scheme appears to have provided disbenefits rather than benefits.
- Lesser-known suppliers are disadvantaged against common and larger known brands.
- My experience indicated that preference was often provided to the Big 4 and medium-sized firms.
- Since joining we have been invited once to submit an expression of interest.
- Since 2009, I have not received one phone call or communication of any kind via the Scheme. I do not know how the system operates.
- I continue to receive the majority of my contracts via word of mouth.
- Overall, we have been somewhat disappointed with our experiences of this Scheme, in terms of the number of select invitations and/or direct appointments we have received.
- We would find being prequalified more useful if, at least, we were asked to provide a quote.
- If you don't get a job how can you be evaluated?
- If 60 per cent or more of the preferred tender company's get none or few roles – then you are not achieving the procurement goal.
- Need to raise awareness of the existence of the Scheme and what it can provide for agencies.
- It would appear that some agencies have limited awareness of the Scheme and therefore run additional prequalification or tender processes to form agency specific panels. Greater consistency in implementation would be helpful to the industry.

Feedback to prequalified service providers

- Feedback would be useful in deciding whether or not it is worth investing the time in renewing my application when the current panel expires.
- There is no feedback loop as to how we are going at all.
- We would like to know if we are selected for tender based on our prequalification or some other reason.
- Until your letter we have not had an offer to provide feedback to NSW Government and have not received any ourselves.
- Improved formal feedback sessions on our unsuccessful tenders, will provide invaluable feedback in terms of improving our future tender submissions.
- Consultants provide their information by way of an application and are informed of their inclusion in the Scheme but no further information is provided.

Overall impressions of and experience with the Scheme

- I believe that the panels are beneficial and well worthwhile having and being a member of.
- My limited experience is that the process is efficient and transparent.
- The Scheme is an excellent way to manage multiple consultants wishing to work with the NSW Government.
- The tender submission process appears to be thorough and professionally managed.
- We believe it is a sound Scheme that can be used more widely.
- Is the Scheme operated and used as intended? Not as I would have imagined.
- Is the Scheme achieving its objectives? From a consultant point of view I would have to say definitely not.
- The Scheme provided improved efficiency in the procurement of professional services, with agreed hourly rates; a standard form of agreement; greater understanding of capability in the marketplace; and increased speed to engagement of service providers.
- The scheme has not reached the commercial expectation levels, and the commercial and efficiency benefits that could be delivered.
- There is no maintenance of the process.
- The Scheme provides a framework by which suppliers are short-listed but could be improved.
- We are supportive of the intent of the Scheme. We do however have some concerns about its implementation.

- The Scheme provides the most rigorous process for assessing applicants, thus enhancing the quality assurance processes for the engagement of consultants.
- If the Scheme is being used infrequently or inconsistently, it is questionable whether it is achieving its aims.
- We believe that the introduction of the Scheme has been an outstanding achievement for the NSW Government, and has significantly improved the use of professional services in NSW Government.
- While the assessment process is effective, the prequalification Scheme itself is not.
- The Scheme has allowed for the contracting process to be significantly improved and simplified.
- The NSW Scheme compares very favourably to similar schemes in other jurisdictions.
- The Scheme has significantly improved the NSW Government's access to professional service firms. It is very well managed.

Views on how to improve the Scheme

Governance and transparency

- Improve the governance of the Scheme.
- Make the Scheme far more transparent.
- Greater transparency in the implementation of the Scheme, including publicly available information (where appropriate) on the agencies using the Scheme and consultants engaged through it would, we believe, improve accountability and probity in the sector.
- Providing consultants with access to all information contained on the list.
- The best way to achieve a higher level of transparency would be by providing a secure online database that can be accessed by government departments and agencies, as well as by the companies approved for the Scheme.
- We would like to see how our company and services are described in the database and have the capacity to edit, update and enhance our entry to maximise our potential to be considered for work.
- Implement a system that allows tracking centrally which consultants are awarded select invitations and/or direct appointments (if such a system does not exist). This may help monitor the efficiency of the Scheme on an ongoing basis.

Promoting visibility of prequalified service providers

- Provide visibility of the list of prequalified contractors to departments.
- Promote the fact that we are a prequalified service provider. Conditions of appointment are that we are not allowed to mention this outside NSW Government departments. We consider it an honour to qualify for the NSW panel and would like to be able to mention it in our marketing material.
- List our prequalification publicly on the Scheme website. This would assist both NSW Government agencies in finding us and also gives us a profile and exposure.

Notice of upcoming work and communication

- Establish a communication framework by which we attend special supplier sessions based on upcoming projects.
- Create visibility on upcoming requirements by agencies.
- NSW Government agencies to notify us if a tender is distributed that requires services in our field of expertise.
- Keep us on a mailing list and inform us of the latest policies and directions e.g. premier memoranda.
- This audit is important and should help to identify the views of stakeholders on how to improve the Scheme.
- Following the audit there may be value in inviting stakeholders to participate in a teleconference, forum or webcast to discuss the results and seek further input on how to improve the Scheme.

Alignment between agencies' requirements and suppliers' capabilities

- Establish a value-added communication channel between agencies and suppliers.
- Provide agencies with the complete list for them to make the selection.
- Make suppliers 'complete' information available to agencies via an online portal. Agencies should be able to have multiple search criteria including supplier names, capabilities, testimonials from suppliers' clients, sample project etc.

- If departments received more information about each consultant during their initial inquiry process when determining which consultants to invite, this might potentially lead to an increase in the use of the Scheme.
- Provide details of our experience as it relates to specific areas of expertise and also by target audience, using keywords. In this way, the NSW Government departments would be able to better match the areas of our experience with the expertise they are seeking, matched to their target audiences.
- Review the current category structure of the Scheme to include a better allocation of business functions and granularity of expertise within each function.
- Invite quotation by rotation and award work according to pre-decided selection criteria.

Encouraging use of the Scheme

- Encourage this Scheme to be the primary mechanism for NSW Government agencies to engage consultants.
- Develop communication materials and training sessions to ensure that all relevant staff of all NSW Government agencies are aware of the existence of this Scheme, are clear about how it works, and understand the benefits to them and their department of using this Scheme.
- Determine (e.g. through an online survey or other mechanism) the level of awareness of the Panel (and how/when to use it) by NSW Government agencies and their relevant staff members. We feel it is important that all NSW Government staff have a clear understanding of how the Panel process works, and are proactively encouraged to use it (unless there is a specific reason why not).
- There would be real benefits if there was only one panel across NSW Government. This would provide a better consolidated knowledge of what services are being used and reduce the overhead to both agencies and consultants in the running of schemes.
- Make the Scheme mandatory for NSW Government agencies to use, unless there is some specific reason why this would be inappropriate in a particular instance.
- Encourage NSW Government departments to utilise this Scheme as their primary mechanism for selecting consultants for work. This will help the Scheme achieve its objectives.

Work source

- Make it clear that direct and select invitations have come through the panel.
- Letters accompanying all select and direct invitations to consultants under the Scheme should clearly state that the consultant is being approached as a result of their participation in the Scheme.

Scheme renewal

- Communicate to the market as soon as possible the likely scenario for Scheme renewal/roll over next year.

Appendix 4: Minimum level of competition and reporting requirements

Minimum level of competition requirements

Document	Minimum levels of competition
<i>State Contracts Control Board (SCCB) - General Purchasing Delegation</i>	<p>Where a SCCB contract exists, departments/agencies are required to purchase from these contracts.</p> <p>In the absence of a SCCB contract, the SCCB granted departments/agencies a delegation to undertake their own procurement in accordance with this delegation. For goods and services:</p> <ul style="list-style-type: none"> up to \$3,000 inclusive of GST, no quotation is required over \$3,001 and up to \$30,000 inclusive of GST, obtain one written quotation over \$30,001 and up to \$250,000 inclusive of GST, obtain a minimum of three written quotations over \$250,001, submit details and specifications to NSW Procurement for the invitation of tenders. <p>The requirements should not be split into components or succession of orders for the same goods or services.</p>
<i>Guidelines for the Engagement and Use of Consultants July 2004, and Premier's Circular 2004-17</i>	<p>For agencies not using the prequalification scheme, the following minimum levels of competition are required where the estimated cost of the consultancy, inclusive of GST, is:</p> <ul style="list-style-type: none"> less than \$30,000, one written proposal is acceptable between \$30,000 and \$150,000, at least three written bids should be sought over \$150,000, an open invitation should be advertised in the press. <p>The Guidelines state that at the time of issue of this document, these thresholds mirror the levels contained in the SCCB General Purchasing Delegation relating to the procurement of 'not in contract' goods and services.</p>
<i>Prequalification Scheme: Performance and Management Services</i>	<p>The Scheme does not guarantee any offer of work to prequalified service providers.</p> <p>Agencies can engage consultants and contractors under the Scheme on the following basis:</p> <ul style="list-style-type: none"> for engagements estimated at less than or equal to \$150,000, one quote from the panel must be invited for engagements estimated at over \$150,000 (to no limit), at least three proposals must be invited from the panel the total value of the first and related flow on engagements should not exceed the lesser of three times the value of the initial engagement, or \$500,000.

Disclosure obligations	
Document	Disclosure requirements
<i>Government Information (Public Access) Act 2009</i>	<p>An agency must keep a register of its government contracts that records information about each contract with an estimated value of \$150,000 or more (known as a 'Class 1 contract'), including:</p> <ul style="list-style-type: none"> entering in the register, within 60 days after the contract becomes effective, the contractor details; the contract effective date and duration; particulars of the project; and the estimated amount payable to the contractor keeping the information publicly available for 30 days, or until the completion of the contract, whichever is the longer period amending the register to reflect any material variation to the contract within 60 days after the variation becomes effective. <p>A copy of the contract register must also be published on the government tenders website.</p> <p>Additional information is required to be disclosed for Class 2 and Class 3 contracts:</p> <ul style="list-style-type: none"> Class 2 contracts are Class 1 contracts that may have involved direct negotiation, maintenance or operation of infrastructure/assets for ten years or more, a privately financed project, a transfer of assets, no tendering process, and/or made public Class 3 contracts have (or is likely to have) a value of \$5 million or more.
<i>Annual Reports (Departments) Regulation 2010</i>	<p>Agencies/departments should provide the following details in their annual reports for engagements of consultants during the reporting year:</p> <ul style="list-style-type: none"> engagements costing \$50,000 or more, the name of the consultant, the title of the project and the actual cost of each engagement engagements costing less than \$50,000, the total number and the total cost of all such engagements.

Appendix 5: Features of other schemes in NSW and elsewhere

Name of the scheme	Number of service providers	Value of engagements	Online application facility	Standard assessment timeframe	Periodic review of membership	List of providers online	Required level of competition	Open tender required	Information on upcoming work published	Public reporting against KPIs	External evaluations
NSW Prequalification Scheme: Performance and Management Services	311	Over \$300 million over three years (estimate)	x	x	x	x	For engagements: up to \$150,000, one quote over \$150,000, three proposals	x	x	x	x
NSW Contractor Prequalification and Best Practice Accreditation Scheme for Construction and Related Work	148	Around \$1 billion annually	x	x	Every 3 years – Best Practice Accreditation	x	Selective tendering	x	x	x	Last evaluation completed in 2010
NSW RTA National Prequalification System for Civil (Roads and Bridges) Construction Contracts	93	\$1.5 to \$2 billion annually	x	6 weeks	Every 3 years	✓	Open panel	x	✓	x	It is a new scheme
VicRoads National Prequalification System for Civil (Roads and Bridges) Construction Contracts	535	Up to \$1 billion annually	x	6 weeks	Every 2 years	✓	For engagements: up to \$22,000, one quote \$22,000 to \$180,000, three proposals over \$180,000, open panel	x	✓	x	It is a new scheme
Mainroads WA National Prequalification System for Civil (Roads and Bridges) Construction Contracts	38	Around \$300 million annually	x	4-8 weeks	Every 3 years	✓	Open panel	x	✓	x	It is a new scheme
Commonwealth ICT Management Consultants Multi Use List	162	Not monitored	✓	30 days	Annually	✓	Selective tendering	x	✓	x	x

Appendix 5: Features of other schemes in NSW and elsewhere

Name of the scheme	Number of service providers	Value of engagements	Online application facility	Standard assessment timeframe	Periodic review of membership	List of providers online	Required level of competition	Open tender required	Information on upcoming work published	Public reporting against KPIs	External evaluations
Whole-of-Queensland Government Prequalification (PQC) Contractors	Over 1000	Not monitored	x	4-6 weeks	x	x	For engagements: up to \$250,000, 3 to 5 quotes Over \$250,000, open panel	x	✓	x	x
ACT Government Prequalification Scheme	317	Not monitored	x	10 days	Annually	✓	Competition levels do not apply	Engagements over \$200,000	✓	x	Last evaluation completed in 2009
SA Contractor Prequalification Scheme, General Training Services	Information not available	Information not available	x	5 weeks	Annually	x	For engagements: up to \$11,000, one quote \$11,000 to \$55,000, three quotes Over \$55,000 open panel	x	Information not available	Information not available	Information not available
WA Builders Prequalification Scheme for Works Contracts	150 to 200	Not monitored	x	30 days	Every 2 years	x	Open panel up to \$50 million	Engagements over \$50 million	✓	x	x
UK ProCure21+	6 principal supply chain partners	£4 billion (2010 data)	N/A	N/A	x	✓	Open panel	x	x	✓	✓

Notes: x denotes feature is not used
N/A denotes feature is not applicable

Performance Auditing

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NSW Auditor-General's Report
Prequalification Scheme:
Performance and management
services

PERFORMANCE AUDITING

What are performance audits?

Performance audits determine whether an agency is carrying out its activities effectively, and doing so economically and efficiently and in compliance with all relevant laws.

The activities examined by a performance audit may include a government program, all or part of a government agency or consider particular issues which affect the whole public sector. They cannot question the merits of Government policy objectives.

The Auditor-General's mandate to undertake performance audits is set out in the *Public Finance and Audit Act 1983*.

Why do we conduct performance audits?

Performance audits provide independent assurance to Parliament and the public that government funds are being spent efficiently, economically or effectively and in accordance with the law.

Through their recommendations, performance audits seek to improve the efficiency and effectiveness of government agencies so that the community receives value for money from government services.

Performance audits also focus on assisting accountability processes by holding managers to account for agency performance.

Performance audits are selected at the discretion of the Auditor-General who seeks input from Parliamentarians, the public, agencies and Audit Office research.

What happens during the phases of a performance audit?

Performance audits have three key phases: planning, fieldwork and report writing. They can take up to nine months to complete, depending on the audit's scope.

During the planning phase the audit team develops an understanding of agency activities and defines the objective and scope of the audit.

The planning phase also identifies the audit criteria. These are standards of performance against which the agency or program activities are assessed. Criteria may be based on best practice, government targets, benchmarks or published guidelines.

At the completion of fieldwork the audit team meets with agency management to discuss all significant matters arising out of the audit. Following this, a draft performance audit report is prepared.

The audit team then meets with agency management to check that facts presented in the draft report are accurate and that recommendations are practical and appropriate.

A final report is then provided to the CEO for comment. The relevant Minister and the Treasurer are also provided with a copy of the final report. The report tabled in Parliament includes a response from the CEO on the report's conclusion and recommendations. In multiple agency performance audits there may be responses from more than one agency or from a nominated coordinating agency.

Do we check to see if recommendations have been implemented?

Following the tabling of the report in Parliament, agencies are requested to advise the Audit Office on action taken, or proposed, against each of the report's recommendations. It is usual for agency audit committees to monitor progress with the implementation of recommendations.

In addition, it is the practice of Parliament's Public Accounts Committee (PAC) to conduct reviews or hold inquiries into matters raised in performance audit reports. The reviews and inquiries are usually held 12 months after the report is tabled. These reports are available on the Parliamentary website.

Who audits the auditors?

Our performance audits are subject to internal and external quality reviews against relevant Australian and international standards.

Internal quality control review of each audit ensures compliance with Australian assurance standards. Periodic review by other Audit Offices tests our activities against best practice. We are also subject to independent audits of our quality management system to maintain certification under ISO 9001.

The PAC is also responsible for overseeing the performance of the Audit Office and conducts a review of our operations every three years. The review's report is tabled in Parliament and available on its website.

Who pays for performance audits?

No fee is charged for performance audits. Our performance audit services are funded by the NSW Parliament.

Further information and copies of reports

For further information, including copies of performance audit reports and a list of audits currently in-progress, please see our website www.audit.nsw.gov.au or contact us on 9275 7100.

Performance audit reports

No	Agency or Issues Examined	Title of Performance Audit Report or Publication	Date Tabled in Parliament or Published
216	Department of Premier and Cabinet Department of Finance and Services	<i>Prequalification Scheme: Performance and Management Services</i>	September 2011
215	Roads and Traffic Authority	<i>Improving Road Safety: Speed Cameras</i>	27 July 2011
214	Barangaroo Delivery Authority Department of Transport NSW Treasury	<i>Government Expenditure and Transport Planning in relation to implementing Barangaroo</i>	15 June 2011
213	Aboriginal Affairs NSW Department of Premier and Cabinet	<i>Two Ways Together – NSW Aboriginal Affairs Plan</i>	18 May 2011
212	Office of Environment & Heritage WorkCover NSW	<i>Transport of Dangerous Goods</i>	10 May 2011
211	NSW Police Force NSW Health	<i>The Effectiveness of Cautioning for Minor Cannabis Offences</i>	7 April 2011
210	NSW Health	<i>Mental Health Workforce</i>	16 December 2010
209	Department of Premier and Cabinet	<i>Sick Leave</i>	8 December 2010
208	Department of Industry and Investment	<i>Coal Mining Royalties</i>	30 November 2010
207	Whole of Government electronic information security	<i>Electronic Information Security</i>	20 October 2010
206	NSW Health NSW Ambulance Service	<i>Helicopter Emergency Medical Service Contract</i>	22 September 2010
205	Department of Environment, Climate Change and Water	<i>Protecting the Environment: Pollution Incidents</i>	15 September 2010
204	Corrective Services NSW	<i>Home Detention</i>	8 September 2010
203	Australian Museum	<i>Knowing the Collections</i>	1 September 2010
202	Industry & Investment NSW Homebush Motor Racing Authority Events NSW	<i>Government Investment in V8 Supercar Races at Sydney Olympic Park</i>	23 June 2010
201	Department of Premier and Cabinet	<i>Severance Payments to Special Temporary Employees</i>	16 June 2010
200	Department of Human Services - Ageing, Disability and Home Care	<i>Access to Overnight Centre-Based Disability Respite</i>	5 May 2010
199	Department of Premier and Cabinet NSW Treasury WorkCover NSW	<i>Injury Management in the NSW Public Sector</i>	31 March 2010
198	NSW Transport and Infrastructure	<i>Improving the Performance of Metropolitan Bus Services</i>	10 March 2010
197	Roads and Traffic Authority of NSW	<i>Improving Road Safety: School Zones</i>	25 February 2010
196	NSW Commission for Children and Young People	<i>Working with Children Check</i>	24 February 2010
195	NSW Police Force NSW Department of Health	<i>Managing Forensic Analysis – Fingerprints and DNA</i>	10 February 2010

PERFORMANCE AUDITING

No	Agency or Issues Examined	Title of Performance Audit Report or Publication	Date Tabled in Parliament or Published
194	Department of Premier and Cabinet Department of Services, Technology and Administration NSW Treasury	<i>Government Advertising</i>	10 December 2009
193	Roads and Traffic Authority of NSW	<i>Handback of the M4 Tollway</i>	27 October 2009
192	Department of Services, Technology and Administration	<i>Government Licensing Project</i>	7 October 2009
191	Land and Property Management Authority Maritime Authority of NSW	<i>Administering Domestic Waterfront Tenancies</i>	23 September 2009
190	Department of Environment, Climate Change and Water NSW Environmental Trust	<i>Environmental Grants Administration</i>	26 August 2009
189	NSW Attorney General's Department NSW Department of Health NSW Police Force	<i>Helping Aboriginal Defendants through MERIT</i>	5 August 2009
187	Roads and Traffic Authority of NSW	<i>Improving Road Safety – Heavy Vehicles</i>	13 May 2009
186	Grants	<i>Grants Administration</i>	6 May 2009
185	Forests NSW	<i>Sustaining Native Forest Operations</i>	29 April 2009
184	NSW Police Force	<i>Managing Injured Police</i>	10 December 2008
183	Department of Education and Training	<i>Improving Literacy and Numeracy in NSW Public Schools</i>	22 October 2008
182	Department of Health	<i>Delivering Health Care out of Hospitals</i>	24 September 2008
181	Department of Environment and Climate Change	<i>Recycling and Reuse of Waste in the NSW Public Sector</i>	11 June 2008
180	Follow-up of 2003 Performance Audit	<i>Protecting Our Rivers</i>	21 May 2008
179	NSW Office of Liquor, Gaming and Racing; NSW Police Force	<i>Working with Hotels and Clubs to reduce alcohol-related crime</i>	23 April 2008

Performance audits on our website

A list of performance audits tabled or published since March 1997, as well as those currently in progress, can be found on our website www.audit.nsw.gov.au.