
New South Wales Auditor-General's Report

Performance Audit

Managing IT services contracts

Department of Finance and Services

NSW Ministry of Health

NSW Police Force



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GPO Box 12
Sydney NSW 2001

The Legislative Assembly
Parliament House
Sydney NSW 2000

The Legislative Council
Parliament House
Sydney NSW 2000

In accordance with section 38E of the *Public Finance and Audit Act 1983*, I present a report titled **Managing IT services contracts: Department of Finance and Services, NSW Ministry of Health, NSW Police Force.**

A handwritten signature in black ink that reads 'Peter Achterstraat'.

Peter Achterstraat

Auditor-General

1 February 2012

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Executive summary

Background

NSW Government agencies spend around \$13 billion buying goods and services each year. In 2009-10 nearly \$1 billion was spent on Information Communication and Technology (ICT) goods and services.

The State Contracts Control Board (SCCB) through the Department of Finance and Services (DFS) establishes whole of government State contracts to streamline tendering and purchasing arrangements. It also provides guidance to agencies on making purchases through these contracts.

This audit focused on Information Technology (IT) services contracts as these can be complex to manage. We assessed whether agencies effectively manage IT services contracts post award. We also looked at whether the agencies had appropriate frameworks to effectively manage IT services contracts, and whether the SCCB and DFS guidance would assist agencies to effectively manage these contracts.

We examined two IT services contracts managed by the Ministry of Health (Health). These were consecutive contracts for essentially the same services awarded to the same supplier.

In the NSW Police Force (Police), we examined one IT services contract that was in its seventh year of operation and which had undergone six separate extensions or renewals.

The IT services contracts selected for review in Police and Health were established under State contracts. We used a case study approach to test whether the agencies' contract management framework, including policies and procedures, helped staff to effectively manage the contracts we reviewed.

An appropriate framework for managing IT services contracts assesses the contract risk and establishes appropriate governance arrangements, skills, roles and responsibilities, and policies and procedures. We describe the elements of a better practice framework for contract management in Appendix 1.

Conclusion

Neither agency demonstrated that they continued to get value for money over the life of these long term contracts or that they had effectively managed all critical elements of the three contracts we reviewed post award. This is because both agencies treated contract extensions or renewals as simply continuing previous contractual arrangements, rather than as establishing a new contract and financial commitment. Consequently, there was not a robust analysis of the continuing need for the mix and quantity of services being provided or an assessment of value for money in terms of the prices being paid.

While both agencies have frameworks for contract management in place, we found gaps in implementation which limited their effectiveness. The agencies had not developed all procedures needed to guide staff and to ensure contract conditions were met and contract management practices were consistent. Specifically, we found that no one was assigned the role of contract manager for the contracts we reviewed, and contract management plans were limited or not in place.

We found that the current SCCB and DFS guidance is not detailed enough to help agencies effectively manage IT services contracts. This has been addressed in the revised Agency Accreditation Scheme for Goods and Services (the Scheme). However, the Scheme does not apply to all agencies' procurement, including purchases through State contracts.

Our findings also reflect broader issues and risks in managing IT services and outsourcing arrangements. The three contracts that we reviewed were complex and high risk because the services being provided were long term arrangements that supported the agencies' core business systems. However, the agencies did not recognise these risks and manage the contracts accordingly. If these contracts were not being managed effectively, there is a risk that possibly other contracts are also not managed well.

Supporting findings

Agencies are required to achieve value for money from their procurement whilst being fair, ethical and transparent. Both agencies claimed they received satisfactory services from their suppliers, yet could not demonstrate value for money. Both agencies had exercised contract renewals or extensions without a performance review, business needs analysis or demonstration of continued value for money.

The SCCB and DFS advises agencies to issue a request for quotations to at least three suppliers when purchasing through IT services State contracts. However, we found this was not always happening. In only one of the three contracts we reviewed did the agency issue a request for quotations to multiple suppliers before the contract was executed. The other two contracts were let on the basis of a single quotation.

We found that contract performance was not being monitored effectively. For example:

- one agency did not collect independent data to judge if performance was in accordance with the contract requirements, relying instead on data from the supplier
- at the time of renewal for one contract, a clause containing rebates for the supplier's failure to meet service levels was removed without explanation
- neither agency had conducted regular performance reviews against contractual obligations, even when their contracts required it.

The most recent State contract for IT services has an obligation on the supplier to ensure the prices it charges customers represents good value for money, rather than an independent comparison of prices as was previously available. This may further weaken the ability of contract managers to compare prices and judge value with confidence.

Neither agency has effectively managed some critical parts of the IT services contracts we reviewed, including:

- one agency did not have all parts of its contract available to people managing the contract
- all contracts include payments in advance but none has safeguards such as bank guarantees as required in Treasurer's Direction 180.05
- no position was identified or accountable as the 'contract manager' for the individual contracts we reviewed
- some staff that are assigned to manage the contract do not have contract management skills or training, and there are no detailed procedures to guide them on how to manage the contract
- contract risks were not assessed and managed.

Implementing an appropriate framework for contract management, supported by SCCB and DFS guidance, will assist agencies to manage IT services contracts. But it is not a guarantee of effectiveness. Agencies should also regularly review their business needs and test value for money, particularly when contracts are renewed or extended.

As part of the audit we have identified better practice elements of contract management based on research and audit findings. These elements have been included in the better practice contract management framework we outline in Appendix 1.

While the audit examined the management of IT services contracts, our findings around governance, skills, roles and responsibilities, policies and procedures are equally applicable to other services contracts being managed, such as for cleaning, training, catering, fleet, telecommunications and shared services.

DFS 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 contract management guidance and practices as outlined in this report.

Recommendations

State Contracts Control Board and Department of Finance and Services

1. By June 2012, the SCCB and DFS develop and implement options that would ensure that agencies reasonably seek enough quotations from suppliers to demonstrate they have created adequate levels of competition and achieved value for money for purchases over \$250,000 through the IT services State contract. (page 18)
2. By June 2012, the SCCB and DFS enhance the revised Agency Accreditation Scheme for Goods and Services procurement (the Scheme) by requiring accredited agencies to demonstrate that: (page 17)
 - 2.1. they conduct audits of individual contracts for compliance with their policies and procedures
 - 2.2. they prepare risk based contract management plans for all services contracts
 - 2.3. they have structures in place to effectively manage all services contracts, including purchases through State contracts.
3. By December 2012, the SCCB and DFS:
 - 3.1. develop guidance to agencies on managing IT services contracts post award, including advice that their contract management delegations should be consistent with their general financial delegations (page 16)
 - 3.2. consider extending contract management guidance to cover other services contracts (page 16)
 - 3.3. develop a benchmarking methodology and regularly benchmark the prices charged by suppliers on the IT services State contracts, and provide this data to agencies. (page 18).

Ministry of Health

4. The Ministry of Health:
 - 4.1. by June 2012, prepares a risk based contract management plan for all new services contracts entered into after June 2012 (page 20)
 - 4.2. by June 2012, ensures it has structures in place to effectively manage all services contracts, including purchases through State contracts (page 22)
 - 4.3. by December 2012, completes a risk assessment of existing services contracts and prepare contract management plans for those contracts identified as high risk. (page 20)

NSW Police Force

5. The NSW Police Force:
 - 5.1. by March 2012, revises its delegation structure and approval process to provide clear separation of financial and administrative approvals (page 26)
 - 5.2. by June 2012, requires all new contracts to be supported by a business needs analysis and value for money assessment that takes into consideration market rates (page 24)
 - 5.3. by June 2012, requires a risk based contract management plan for all services contracts (page 24)
 - 5.4. by December 2012, ensures it has structures in place to effectively manage all services contracts, including purchases through State contracts. (page 26)

Response from the Department of Finance and Services



**Finance
& Services**

McKell Building 2-24 Rawson Place
Sydney NSW 2000
Tel 02 9372 8877 Fax 02 9372 7070
TTY 1300 301 181 ABN 81 913 830 11
www.services.nsw.gov.au

Ref: DG/12/32

Mr Peter Achterstraat
Auditor-General
Audit Office of New South Wales
GPO Box 12
SYDNEY NSW 2001


Dear Mr Achterstraat

I refer to your letter of 21 December 2011, enclosing a copy of the final report of the Audit Office of New South Wales' Performance Audit, *Managing IT Services Contracts*, and inviting the Department of Finance and Services (DFS) to provide a formal response.

Effective contract management is essential to better government service delivery. I welcome the performance audit's findings that DFS and the State Contracts Control Board (SCCB) have taken positive steps to strengthen agencies' contract management competencies, particularly through the SCCB's revised *Agency Accreditation Scheme for Goods and Services Procurement*. Accordingly, I welcome your recommendations to enhance that scheme and note that further consideration will be given by the SCCB to incorporating the suggestions made in your audit recommendation.

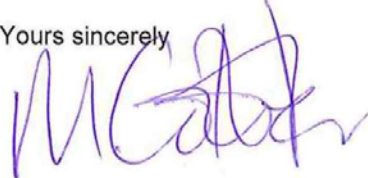
The audit report seeks to broaden the functions of the SCCB and DFS by giving it a greater role in contract management, primarily through the provision of additional guidance to agencies on good contract management practice. While I note your comments, principal responsibility for contract management must remain with the agencies, including establishing contract management delegations appropriate to an agency's particular circumstances.

The Government, however, is reviewing its system for procuring goods and services. A key work stream identified as part of that review is the need to adopt strategies to improve agency capability and competencies to manage procurement systems and processes. Your recommendations around the provision of guidance to agencies will be considered in that context.

I note the timetable to implement the audit recommendations is over the next eleven months. Implementing the Government review outcomes may impact on our delivery against that timetable.

Should you require further information regarding this matter, please contact Ms Anne Skewes, Deputy Director-General, Government Services on telephone 02 9372 8712 or email anne.skewes@services.nsw.gov.au.

Yours sincerely,



Michael Coutts-Trotter
Director-General

Response from the Ministry of Health



Health

Ref: H11/69443

Mr Peter Achterstraat
 Auditor-General
 Audit Office of New South Wales
 GPO Box 12
 SYDNEY NSW 2001

Dear Mr Achterstraat

Performance Audit: Managing IT Services Contracts

Thank you for your letter dated 21 December 2011 providing a copy of the final report of your performance audit on Managing IT Services Contracts. I note from your report that in addition to NSW Health, the NSW Police Force and the Department of Finance and Services and State Contracts Control Board have participated in this performance audit.

The Ministry of Health and specifically Health Support Services (HSS) welcomes the opportunity provided by the Performance Audit to consider the way the NSW public health system manages IT service contracts and welcomes the report findings as relevant and a timely contribution to the recent procurement accreditation evaluation of NSW Health undertaken by the State Contracts Control Board.

Health Support Services delivers a diverse and complex range of services to the health system, including the provision of shared corporate and patient information technology and management support services to its customer health services across New South Wales.

Health Support Services (HSS) has a significant contract management capability and will use the report to strengthen this function; and has indicated in principle support for the recommendations and is pleased to advise that recommendations 4.1 and 4.2 have already been implemented for the appropriate IT contracts.

Additional context relating to the maintenance of custom-built legacy applications may have added value to the report. The impact of legacy systems is of particular importance to NSW Health and relates to the contracts reviewed in this audit. A number of NSW Health's IT legacy systems have been developed in response to identified and very specific needs in managing information and this purpose-built development has been undertaken by individual vendors, restricting support options. Unfortunately the report did not adequately consider this context.

Health's decision to directly re-negotiate a clinical systems maintenance contact with the vendor that originally built it and has supported it for more than 10 years was not only justified, but the most financially responsible approach. It is within NSW government procurement guidelines to directly negotiate with a single supplier when procuring under an existing contract. HSS carefully assessed the contract against historical vendor performance and determined it to be both our lowest risk option and value for money.

Fixed-price vendor maintenance agreements are industry standard and allows the vendor to establish a dedicated team to provide support over the period of the contract. In addition to the fixed price monthly rate to resolve issues, Health also negotiated the inclusion of a significant

NSW Ministry of Health

ABN 92 697 899 630

73 Miller St North Sydney NSW 2060

Locked Mail Bag 961 North Sydney NSW 2059

Tel (02) 9391 9000 Fax 9391 9101

Website www.health.nsw.gov.au

number of additional services to cater for user requested enhancements. These enhancements allow Health to improve systems for clinicians and to keep up with legislative and reporting requirements.

The report suggests that declining service demand should have resulted in a reduction in charges. Service demand in isolation is not an appropriate measure of value for money. The declining service demand reflects a more stable solution and has provided Health with the opportunity for further vendor-funded enhancements.

We consider our compliance with the elements of the better practice framework to be far greater than the report presents. A detailed contract management plan was included in the agreement reviewed. Health has a number of dedicated contract managers across our ICT portfolio who are responsible for regularly monitoring services contracts and outcomes in conjunction with the HSS staff that provide operational support to our customers on a daily basis.

Finally, please note that the recent procurement accreditation evaluation of NSW Health undertaken by the State Contract Control Board identified contract management as an area for capability development. This is reflected in the NSW Health 5 year Strategic Procurement Plan which addresses all the issues raised in the audit. These include a review of procurement governance arrangements, a review of procurement policy and process (which will include contract management and documentation) and the acquisition of a NSW Health wide contract lifecycle management system.

We welcome the opportunity presented by the Performance Audit to seek to achieve continuous improvement and value for money in the management of IT services contracts and acknowledge the Audit team for their professionalism and assistance during the conduct of this Performance Audit.

Yours sincerely



Dr Mary Foley
Director-General

NSW Ministry of Health
ABN 92 697 899 630
73 Miller St North Sydney NSW 2060
Locked Mail Bag 961 North Sydney NSW 2059
Tel (02) 9391 9000 Fax 9391 9101
Website www.health.nsw.gov.au

Response from NSW Police Force



NSW Police Force
 www.police.nsw.gov.au

OFFICE OF THE COMMISSIONER

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

Our Ref: D/2011/217878
 Your Ref: PA6501

Dear Sir,

Performance Audit Managing IT Services Contracts

I refer to your letter dated 21 December 2011, providing the NSW Police Force with a copy of your final Audit Report, along with the offer for the NSW Police Force to provide commentary.

This performance audit has involved three agencies, the Department of Finance and Services, the Department of Health and the NSW Police Force, with recommendations 5.1 to 5.4 relating to this organisation. Please find below the NSW Police Force response to each of the recommendations listed:

Recommendation 5.1

"By March 2012, review its delegation structure and approval process to provide clear separation of financial and administrative approvals".

The NSW Police Force understands the intent behind this recommendation and will ensure that a financial commitment from an appropriately delegated person is received prior to contract execution. However, the NSW Police Force does not agree to this recommendation based on the current wording.

Advice has been supplied to the Audit Office outlining how financial and contractual delegations operate within the NSW Police Force.



The NSW Police Force Financial Delegations authority separates out general financial delegations, special financial delegations and general procurement delegations and authorities including specific authorities to execute contractual agreements. Separation of a number of these delegations is needed to ensure good risk management occurs.

In relation to the contract that was audited by the Audit Office, separation of contractual and financial delegations occurred with the Chief Information Officer who is financially responsible for the contract endorsing and in turn committing to fund the extension of the agreement. The contract extension was then facilitated by another party which had contract delegation authority.

Recommendation 5.2

"By June 2012, require all new contracts to be supported by a business needs analysis and value for money assessment that takes into consideration market rates".

The NSW Police Force supports this view for new contracts which have been put out to the market through a competitive process or which are procured under SCCB panel contract. As a general note, (subject to drafting contained within each particular contract) the NSW Police Force distinguishes between contract extensions and contract renewals. On this basis where contract extensions are taken up, the NSW Police Force considers contract extensions to be a continuation of the term of the existing contract as expressed under the continued application of existing terms.

Recommendation 5.3

"By June 2012, require risk based contract management plan for all services contracts".

The NSW Police Force supports the principle behind this recommendation; however implementing the recommendation for "all" services contracts is not practical.

We will create contract management plans for contracts that meet either of the two following criteria:

- the total value cost exceeds \$250k, or
- the engagement is for a period greater than 12 months.

Recommendation 5.4

"By December 2012, ensure it has structures in place to effectively manage all services contracts, including purchases from state contracts".

The NSW Police Force supports the principle behind this recommendation; however implementing the recommendation for "all" services contracts is not practical and impractical to resource.

The NSW Police Force has approximately 180 services contracts. These contracts vary in value from \$10k per annum to \$2m+ per annum, some are over extended periods and others are short term engagements only. The implementation of this recommendation would require significant investment in staff resourcing.

By December 2012 we will ensure that our organisation has structures in place to effectively manage our services contracts, including purchases from state contracts that have expenditure of at least \$250k per annum or over 12 months in engagement.

The NSW Police Force would also like to provide additional comments to the Audit Report. These are as follows:

- 1) Based on the report example provided in Exhibit 6 it appears that the NSW Police Force should have expected inflationary implications and other cost drivers which would typically increase cost, rather than the nil price increase previously enjoyed by the NSW Police Force.

Please note the following in terms of Exhibit 6:

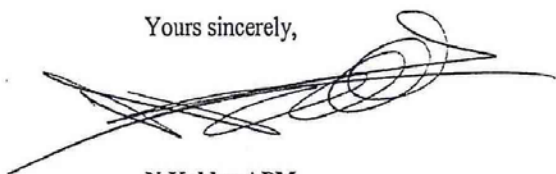
- The Audit Office indicate that the unit price for the contract did not change until the most recent contract renewal when the price increased by 3%. This is a CPI increase which is annually allowed for under the contract. No comment is supplied indicating that the NSW Police Force successfully negotiated the exclusion for CPI increases resulting in savings to the NSW Police Force.
- The Audit Office indicate that ageing equipment becomes less reliable. Based on this advice, this should have resulted in a significant contract price increase. This did not occur. The report does not note this.
- The Audit Office make some general comments regarding the increase or decrease in economies of scale. The tender specifications and the resulting contract, both of which were prepared by the then Department of Commerce (now Department of Finance and Services) have no such provisions.
- The Audit Office makes some unrelated comments about higher service levels and better response times. This is irrelevant and serves no purpose. There was never any business requirement for higher service levels or better response times. The implementation of this requirement would increase the contract price.
- The Audit Office indicates that newer equipment installed should be more reliable. The reality is that the NSW Police Force has a very aged fleet of network devices. The purpose of this contract is to monitor and maintain the hardware above and beyond the standard 9-5 back to base warranty that is offered by manufacturers.

- The Audit Office notes that changing business needs requiring different response times. Over the last several years, business requirements have been reviewed at the contract extension stage. The business has not had a requirement to modify response times.

The above information is forwarded for your consideration prior to the tabling of the Final Report in Parliament next month.

The NSW Police Force is committed to strengthening our practices and procedures and will continue to work co-operatively with your office to achieve these ongoing improvements.

Yours sincerely,



N Kaldas APM
Acting Commissioner of Police

19/~/12.

NSW
Government
agencies spend
nearly \$1 billion
annually on ICT
goods and
services

1. Agency use of Information and Communication Technology

1.1 What do NSW Government agencies spend on goods and services, including Information and Communication Technology (ICT)?

NSW Government agencies annually spend around \$13 billion buying goods and services. In 2009-10 around \$2 billion was spent on ICT, with nearly \$1 billion on ICT goods and services.

Government ICT expenditure is predicted to increase over the coming years due to:

- an increased uptake of new technologies such as cloud computing services
- an increase in outsourcing to external providers.

1.2 What is the State Contracts Control Board's role?

The State Contracts Control Board's (SCCB) role is to arrange the supply of all goods and services necessary for the operation of the public service, excluding building and construction related services. The SCCB is supported by the Department of Finance and Services (DFS) to implement most of its functions which include:

- determining the method of procurement
- inviting and accepting tenders
- determining contract conditions
- establishing State contracts and other contracts on behalf of agencies, including Information Technology (IT) services State contracts.

The SCCB may delegate any of these functions or activities to agencies but accountability remains with the SCCB and DFS.

The SCCB has accredited selected agencies to arrange for the supply of goods and services without input from the SCCB and DFS.

In 2011, the SCCB through DFS introduced a revised Agency Accreditation Scheme for Goods and Services (the Scheme) which includes a more detailed, structured and objective assessment of agencies' procurement capabilities.

All agencies, including those with accreditation, are required to purchase through State contracts.

1.3 What is the focus of the audit?

The focus of this audit is contract management. We chose IT services contracts as the subject of this audit as these can be complex to manage.

IT services contracts are for ongoing services rather than a specific product or system. IT services include ongoing maintenance, support and/or hosting of existing agency information technology infrastructure or systems.

We focused on IT services contracts that were high value (greater than \$5 million) and long term (three or more years duration).

The audit assessed whether the Ministry of Health (Health) and the NSW Police Force (Police) effectively manage IT services contracts post award. We answered the following questions:

- Does the agency have an appropriate framework to manage IT services contracts?
- Does the agency effectively manage individual IT services contracts?

By appropriate framework we mean that governance arrangements, guidance and policies comply with government policies and any SCCB conditions, and are based on good practice models.

By effectively manage, we mean that the day-to-day management of individual contracts meets specific contract requirements, agency guidance, policies and the governance framework, any SCCB conditions, as well as providing value for money.

We examined two IT services contracts managed by Health. These were consecutive contracts for essentially the same services awarded to the same supplier.

In Police, we examined one IT services contract that was in its seventh year of operation and which had undergone six separate extensions.

The IT services contracts selected for review in Police and Health were established under State contracts.

Key findings

14

NSW Auditor-General's Report
Managing IT services contracts
KEY FINDINGS

IT services
contracts are
complex to
manage

2. Do the SCCB and DFS provide an appropriate framework for agencies to manage IT services contracts?

An appropriate framework for managing IT services contracts assesses the contract risk and establishes appropriate governance arrangements, skills, roles and responsibilities, and policies and procedures.

We found that while the current SCCB and DFS framework requires agencies to address these issues, there is not enough detailed guidance to help agencies apply the framework to effectively manage IT services contracts.

This has been addressed in the revised Agency Accreditation Scheme for Goods and Services. However, the Scheme will not apply to all agencies' procurement, including purchases through State contracts. The SCCB and DFS must develop more detailed guidance to assist agencies to apply an appropriate framework to effectively manage IT services contracts.

What is an appropriate framework for managing IT services contracts?

Contracts for IT services can result in long term relationships with suppliers beyond the initial contract period. Agencies must be prepared to effectively manage the arrangement and be in a position to sever it at the appropriate time if they are no longer getting value for money.

As with project management, contract management requires skills and capabilities beyond technical knowledge. Agencies that enter into complex and/or long term IT services contracts and other outsourcing arrangements should invest in appropriate contract management capabilities.

Exhibit 1: Complexity in buying IT services from State contracts

The contracts we reviewed were established under State contracts for IT services involving a head agreement between the SCCB and suppliers consisting of around 100 clauses and sub-clauses. Some clauses relate to obligations between the SCCB and suppliers. Some relate to obligations between the agency and supplier. The remaining clauses contain obligations on all three parties.

Agencies using IT services State contracts are required to issue a request for quotations from selected suppliers for their specific business needs. They then must establish a purchase contract with the supplier under the head agreement.

To manage these contracts effectively, agencies need to understand the operation of the clauses in the head agreement that affect them, as well as the specific obligations and performance requirements under their purchase contracts.

The latest version of the IT services State contract has sought to remove some of these complexities.

Source: Audit Office research 2011

Effective contract management requires a combination of well drafted contract provisions, skilled and pro-active management of the contract, well structured guidance material which emphasises regular testing of business needs and value for money, and a governance system which provides effective oversight at key decision points.

To achieve this outcome, an appropriate contract management framework should address governance arrangements, skills, roles and responsibilities, and policies and procedures. It should promote accountability for decision making and expenditure of public funds. Our research has identified nine key elements.

Exhibit 2: Better practice contract management framework**GOVERNANCE**

- Agencies' contract management delegations are clear and consistent with their general financial delegations
- Appropriate reporting and oversight for contract management is in place
- The capability required to manage contracts is established
- The framework is regularly reviewed
- There is independent monitoring of contracts to check compliance and identify weaknesses.

ROLES AND RESPONSIBILITIES

- Roles and responsibilities are clear
- People managing contracts have the appropriate skills and experience.

POLICIES AND PROCEDURES

- Policies and procedures are in place to guide staff
- A contract management plan is in place for each contract.

Source: Audit Office research 2011

See Appendix 1 for a detailed explanation of each element of the better practice contract management framework.

SCCB and DFS framework

Agencies are required to achieve value for money from their procurement whilst being fair, ethical and transparent. In support of this, the SCCB and DFS framework addresses specific requirements for goods and services contained in various instructions to agencies, including:

- mandatory purchasing from State contracts
- an accreditation scheme for goods and services.

The SCCB and DFS framework incorporates most of the better practice elements for managing contracts. The framework advises agencies that once a contract is awarded, they should appoint a contract manager to manage the implementation of the contract, and actions and decisions need to be justified and recorded. Agencies are also required to develop a governance framework and contract management plan with key performance indicators.

However, there is only limited guidance provided to assist agencies to effectively manage IT services contracts. For example, there are no details provided on how an agency should structure its governance framework, such as ensuring that its contract management delegations are consistent with its general financial delegations, or what should be in the contract management plan.

This is in contrast to more detailed guidance provided to agencies in other jurisdictions, as well as the comprehensive guidance that is provided to agencies by DFS for managing construction contracts.

Further guidance is also required to deal with transition arrangements in State contracts where an agency's purchase contract with a supplier extends beyond the life of the head agreement. This would include the actions agencies need to take to ensure the appropriate risk mitigation measures are maintained which were in the head agreement, such as insurances, performance undertakings and other supplier obligations.

The SCCB and DFS refine State contracts by releasing new versions to better reflect performance and value for money, as well as to reflect any government legislative or policy changes. The SCCB and DFS advised that agencies should use the latest version of the IT services State contract when renewing or entering into contracts with suppliers. However, one of the contracts we reviewed was extended and renewed several times under an out of date

The SCCB and DFS provide limited guidance to agencies on managing IT services contracts


IT services State contract. This requirement should be clarified in SCCB/DFS guidance to agencies to ensure that the latest version of the State contract is used for renewing and extending service arrangements, as well as establishing new contracts.

Recommendation




By December 2012, the SCCB and DFS:

- develop guidance to agencies on managing IT services contracts post award, including advice that their contract management delegations should be consistent with their general financial delegations
- consider extending contract management guidance to cover other services contracts.

Exhibit 3: Findings against the better practice contract management framework

Better practice contract management framework elements	SCCB and DFS framework	2011 Agency Accreditation Scheme
Contract management delegations are clear		
Appropriate reporting and oversight practices are in place		
The capability required to manage contracts is established		
The framework is regularly reviewed		
There is independent monitoring of contracts to check compliance and identify weaknesses		
Roles and responsibilities are clear		
People managing contracts have the appropriate skills and experience		
There is procurement guidance that includes policies and procedures		
Each contract has a contract management plan		

Source: Audit Office research 2011

Key:  In place
 Partially addressed
 Not in place

Agency Accreditation Scheme for Goods and Services procurement (the Scheme)

Another part of the SCCB and DFS framework is an agency accreditation scheme.

Agencies that are accredited by the SCCB can establish and manage contracts for supply of goods and services without SCCB and DFS involvement. At December 2011, five agencies held interim accreditation under the old scheme given by the SCCB without assessment, including Police and Health. At the time of our fieldwork, both were applying for accreditation from 1 January 2012 under the revised Scheme. The SCCB confirmed that Health has been accredited from 1 January 2012 and Police's interim accreditation under the old scheme has been extended to 30 June 2012.

The Scheme includes a more detailed, structured and objective assessment of agencies' capability. The Scheme has six of the nine elements of the better practice contract management framework in place and three others partially addressed. It also provides agencies with detailed guidance on the capability they must demonstrate to be accredited. Based on their assessed capability, agencies receive one of three levels of accreditation, starting at level one for limited capability and a maximum contract value of \$250,000.

This is a positive step and an improvement on the old scheme where there was very limited guidance on what was expected to effectively manage contracts.

Nevertheless, there are aspects of the Scheme that we think should be strengthened. The SCCB and DFS should require accredited agencies to demonstrate that:

- they conduct audits of individual contracts for compliance with policies and procedures, and to identify weaknesses
- they prepare risk based contract management plans for all services contracts, including purchases through State contracts.

Accredited agencies must apply the Scheme framework to manage contracts they establish. However, accredited agencies are not required to apply the framework to other contracts they manage, such as for purchases through State contracts or other contracts established by the SCCB and DFS on their behalf. Agencies that have invested time and resources to achieve accreditation would benefit from using this capability to manage all their goods and services contracts.

We recognise that current legislation limits the SCCB and DFS control over all agency goods and services procurement. However, we think that good contract management practices, such as those required under the Scheme framework, should be used regardless of how agencies establish goods and services contracts.

Recommendation:

By June 2012, the SCCB and DFS enhance the revised Agency Accreditation Scheme for Goods and Services procurement (the Scheme) by requiring accredited agencies to demonstrate that:

- they conduct audits of individual contracts for compliance with policies and procedures
- they prepare risk based contract management plans for all services contracts
- they have structures in place to effectively manage all services contracts, including purchases through State contracts.

Value for money

The SCCB and DFS have a role in promoting value for money across government through State contracts. One of the objectives of establishing State contracts is to harness the buying power of government by aggregating demand and using this buying power to get the best prices from suppliers. In most State contracts, the SCCB and DFS publish the prices negotiated with suppliers for the goods and services under contract. This streamlines government processes by not requiring every agency to obtain competitive quotes for each purchase.

However, there is a different arrangement for the IT services State contract. The SCCB and DFS pre-qualify suppliers for different types of IT services and assess suppliers' daily rates. However, these rates are not provided to agencies using the contracts. The SCCB and DFS advise agencies to issue a request for quotations to at least three suppliers. However, we found this was not always happening.

In two of the three contracts we reviewed the agency only requested one quotation before the contract was signed. Agencies rely on the SCCB and DFS to ensure value for money in IT services State contracts and may be confused as this process is different to most other State contracts with published prices where quotes are not required.

The Scheme does not apply to all contracts that agencies manage

Neither the agencies or SCCB or DFS ensure suppliers provide value for money in IT services State contracts

Until recently, the SCCB and DFS could initiate an independent comparison of market prices for IT services and what State contract suppliers charge agencies. Now, there is an obligation on the supplier to ensure the prices it charges customers represents good value for money. The SCCB and DFS can request a report on how the supplier has fulfilled this obligation, however this is yet to occur.

Recommendation:

The SCCB and DFS should:

- by June 2012, develop and implement options that would ensure that agencies reasonably seek enough quotations from suppliers to demonstrate they have created adequate levels of competition and achieved value for money for purchases over \$250,000 through the IT services State contract
- by December 2012, develop a benchmarking methodology and regularly benchmark the prices charged by suppliers on the IT services State contracts, and provide this data to agencies.

3. Do agencies have appropriate frameworks and effectively manage IT services contracts?

3.1 Did Health effectively manage the contracts we reviewed?

Not all critical elements of the contracts were effectively managed, even though Health may claim that it was receiving satisfactory services from its supplier. It could not demonstrate that it continued to get value for money when the contract was renewed. This is because it negotiated with a single supplier without approval and could not demonstrate that the price being paid for the services was reasonable.

HSS did not follow Health protocols for direct supplier negotiations

We selected two IT services contracts for application support services being managed by Health Support Services (HSS), a unit of the Ministry of Health (Health). Both contracts were established under IT services State contracts. The first contract commenced in January 2008. It was renewed in January 2011. We estimate that HSS spent around \$7 million on these contracts up until the end of December 2011.

However, we are concerned that there has not been any market testing of the prices that HSS is paying for the services it receives, as it has negotiated with a single supplier for both contracts. Health has put safeguards in place to allow such direct negotiations to take place where there is a demonstrated business need. The first contract allowed HSS to implement a new service model that was expected to be cheaper and more effective than the previous arrangement with the supplier. However, we found that HSS proceeded with direct negotiations for both contracts without approval, and without a business needs analysis and value for money assessment for the contract renewal.

HSS advised that in its view, there was no need to review the business needs for the January 2011 contract as these needs remained unchanged.

HSS advised that it is currently reviewing its delegation manual to address ambiguities around the need to obtain quotes when renewing service contracts entered into under State contracts.

Exhibit 4: A missed opportunity to review value for money at contract renewal

The HSS IT services contracts we reviewed are fixed rate contracts. That is, HSS pays a fixed rate per month regardless of the number of service activities.

Between December 2009 and November 2010, there was an average of 36 service activities per month at an average cost of \$4,200 each. Between September 2010 and August 2011, demand for service activities declined to an average of 23 per month, costing around \$6,500 each.

Although this contract was renewed at the end of 2010, the 36 per cent decline in service demand was not used to negotiate a reduction in the fixed monthly rate.

In addition, both contracts have an allowance of approximately 20 business days per month to complete user requested enhancements. HSS must pay for this allowance, whether or not work is needed. Arguably, this allowance was justified in the first few years of the contract as new systems were bedded down, however, the continuing need for this allowance was not assessed when the contract was renewed.

Contract renewal at same fixed rate despite a 36 % decline in service demand

Source: Audit Office research 2011

HSS was able to produce a complete contract and has a contract data base and records management system where contract records are stored. Most of the contract history was available, however, we found that some key decisions were not recorded. For example, at the time of contract renewal, a clause containing rebates for the supplier's failure to meet service levels was removed. There was no record of why this amendment was made.

Penalty clause removed without reason

No contract
specific risk
assessment

HSS' delegations manual sets appropriate financial limits on contract management activities. However, we found that these delegations had been exceeded. The reason given for this was that HSS' approval process is linked to its annual budget cycle. The officer approved a three year contract renewal as part of the annual budget process. While the value of the contract for one year was within the officer's financial delegation, the three year contract value exceeded the officer's authority.

HSS advised us that it has revised its approval process to address this issue.

Other key findings from our review of both contracts were:

- monthly payments were made in advance without corresponding safeguards
- no contract specific roles and responsibilities for key agency personnel were documented, and there was no assessment of whether assigned agency personnel had the skills and experience to manage the risks in the contracts
- no contract specific risk assessment was undertaken
- limited contract management plans were in place
- no supplier performance or contract performance reports were prepared for management.

HSS claims that it is receiving the services required under the contract at appropriate levels of quality. Yet receiving satisfactory services does not guarantee value for money. In particular the contract renewal negotiations did not reflect changes in service demand, nor did HSS compare the rates it was being charged with market rates.

HSS advised that it faces a number of challenges in managing this services contract for the legacy applications which support critical clinical systems. HSS considers its main challenge is that this supplier has developed detailed knowledge of the systems over a long period which means that to engage an alternate supplier may involve added costs and a risk to service delivery.

Regardless of these challenges, HSS still needs to be able to demonstrate it has achieved value for money when renewing these types of services contracts.

Recommendation:

Health:

- by June 2012, prepares a risk-based contract management plan for all new services contracts entered into after June 2012
- by December 2012, completes a risk assessment of existing services contracts and prepare contract management plans for those contracts identified as high risk.

3.2 Does Health have an appropriate framework to manage IT services contracts?

Health has a framework for contract management with one of the nine elements of better practice in place, and seven others partially implemented. The framework is not regularly reviewed, and there were some gaps in HSS' implementation of the framework.

We have summarised Health and HSS' contract management policy and practices against the better practice contract management framework.

Exhibit 5: Summary of Health and HSS' contract management approach

Better practice contract management framework elements	Health and HSS
Contract management delegations are clear	●
Appropriate reporting and oversight practices are in place	●
The capability required to manage contracts is established	●
The framework is regularly reviewed	○
There is independent monitoring of contracts to check compliance and identify weaknesses	●
Roles and responsibilities are clear	●
People managing contracts have the appropriate skills and experience	●
There is procurement guidance that includes policies and procedures	●
Each contract has a contract management plan	●

Source: Audit Office research 2011

Key: ● In place
● Partially implemented (for example, a policy or procedure is in place but was not seen in our sample)
○ Not in place

Health has invested in contract management capabilities by establishing its Strategic Procurement and Business Development Group (SPBDG). SPBDG develops purchasing and supply guidance (policies and procedures) used across Health, including by HSS. HSS has used these as the basis of its own policy on procurement of goods and services, and guidelines for record management.

In 2011-12, HSS estimates that it will spend around \$60 million in IT goods and services, with IT services contracts valued at over \$30 million. HSS has enhanced its IT contract management capabilities by establishing an ICT Commercial Management and Contract Services group.

HSS has also recently established an internal audit function. This should provide some degree of independent monitoring of the contracts and their management.

The contract management policies and guidance provided by SPBDG were not comprehensive, and HSS had not developed the procedures needed to guide its staff and to ensure minimum standards are met and practices are consistent. Specifically, we found that no one was assigned the role of contract manager for the contracts we reviewed, and a limited contract management plan was in place.

Quarterly performance reviews not conducted

Other gaps we found in the implementation of the framework included:

- although SPBDG requires a project steering committee to monitor procurements between \$1 million and \$10 million, we did not find a project steering committee in place for the contracts we reviewed
- the current contract requires HSS to conduct quarterly performance reviews. At the time of our fieldwork there had been no quarterly reviews although two should have been conducted
- the supplier produced monthly reports with key performance information, including failure to meet performance levels. However, there were no HSS comments on the reports and the reports were not reviewed by senior managers.

Health has been accredited under the revised Scheme from 1 January 2012. In doing so, it has invested time and resources towards enhancing its contract management framework which should address the gaps we found.

Health, and particularly HSS, would benefit from using its enhanced procurement accreditation capability to manage all services contracts, particularly for purchases through State contracts such as the contracts we reviewed.

Recommendation:

By June 2012, Health ensures it has structures in place to effectively manage all services contracts, including purchases through State contracts.

3.3 Did Police effectively manage the contract we reviewed?

We found that the contract we reviewed was not effectively managed. Various contract documents, including approvals and agreed contractual obligations, were missing. The supplier's performance was not formally reviewed against the service level agreement, and some contract extensions were not properly approved. We found that while Police claims that it is receiving satisfactory services from its supplier, it could not demonstrate that it continued to receive value for money. This is because the contract had been extended or renewed six times without Police reviewing whether the price being paid for the services was reasonable.

We selected an IT services contract for infrastructure maintenance services being managed by the Business Technology Services (BTS) branch in Police. The contract was established under an IT services State contract following a competitive process, and has been in place since March 2005.

This contract has been extended or renewed six times: three times under the initial contract option provisions, and when these were exhausted, three further times by negotiation and agreement. We estimate that Police has spent over \$8 million on this contract from March 2005 to December 2011.

Police advised us that it considered that the services delivered by the supplier have been satisfactory.

However, we found inadequate oversight of key aspects of the contract. For example, the initial estimated contract value was \$450,000 per year. After around 18 months, this had risen to over \$1.3 million per year, a 200 per cent increase. A contract extension was approved at the end of the second year without an explanation of the increase or evidence that the increase was warranted. Police advised us that the increase was due to the implementation of a second data centre. However, Police was not able to provide any documentation to support this, or that the significant scope change and additional financial commitment was approved at the time.

We found that, while Police claims that it is receiving satisfactory services from the supplier, it cannot demonstrate that it is receiving value for money. This is because the contract has been extended or renewed six times through direct negotiations with the same supplier, but without any re-assessment of business needs and value for money.

Exhibit 6: Missed opportunities to review value for money

The Police IT services contract we reviewed has a fixed unit price per device installed per year. The unit price takes into account the location of the device and the time allowed to respond to faults. The contract value can vary from month to month as Police add or remove devices.

The unit prices for this contract did not change until a recent extension when unit prices increased by three per cent across the board.

Over a six year period, we may expect unit prices to change due to:

- ageing equipment becoming less reliable
- CPI increases in material costs and wages
- Increase or decrease in economies of scale due to changes in the number of devices
- higher service levels and better response times
- newer equipment installed being more reliable
- changing business needs requiring different response times.

Yet despite six opportunities, Police did not test any of these cost drivers to review value for money.

Police's contract value increased by 200% without approval

Police extended or renewed the contract six times without any re-assessment of business needs and value for money

Police relied on
the supplier to
report any
failure to meet
contract
obligations

Police was unable to locate all records for the contract. In fact there were two approvals for contract extensions missing, as was correspondence from the supplier documenting agreed changes to contract conditions. One contract renewal submission was on file without signatures showing that it had been approved.

We found that the three contract extensions or renewals for which signed documents were available were supported by a financial delegate and approved under special contract delegations. However we are concerned that none of the submissions stated the value of the financial commitment being recommended for approval.

We also found that Police did not effectively monitor performance, but relied on the supplier to report any failure to meet contract obligations. For example, in a sample of recent reports the supplier reported the number of outages and reasons for those outages, some extending to several days. We did not find that Police routinely verified this data or assessed whether any outages were not resolved within the required response times.

Other key findings from our review of the contract were:

- key personnel did not demonstrate necessary skills or experience to effectively manage the contract
- monthly payments were made in advance without corresponding safeguards
- no contract specific roles and responsibilities for key agency personnel were documented and there was no assessment of whether assigned agency personnel had the skills and experience to manage the risks in the contract
- no contract specific risk assessment was undertaken
- no contract management plan was prepared
- no data was collected to judge if performance was in accordance with the contract requirements, and no supplier performance or contract performance reports were submitted to management.

Recommendation:

By June 2012 Police requires:

- all new contracts to be supported by a business needs analysis and value for money assessment that takes into consideration market rates
- a risk based contract management plan for all services contracts.

3.4 Does Police have an appropriate framework to manage IT services contracts?

Police has a framework for contract management with seven out of the nine better practice elements partially implemented. However, we found only limited requirements for reporting and oversight of contracts being managed, and the framework is not regularly reviewed. We also found some gaps in BTS' implementation of the framework and ambiguities in Police's delegations structure which may lead to unintended outcomes.

We have summarised Police and BTS contract management policy and practices against the better practice contract management framework.

Exhibit 7: Summary of Police and BTS contract management approach

Better practice contract management framework elements	Police and BTS
Contract management delegations are clear	●
Appropriate reporting and oversight practices are in place	○
The capability required to manage contracts is established	●
The framework is regularly reviewed	○
There is independent monitoring of contracts to check compliance and identify weaknesses	●
Roles and responsibilities are clear	●
People managing contracts have the appropriate skills and experience	●
There is procurement guidance that includes policies and procedures	●
Each contract has a contract management plan	●

Source: Audit Office research 2011

Key: ● In place
● Partially implemented (for example, a policy or procedure is in place but was not seen in our sample)
○ Not in place

Police has invested in contract management capabilities by establishing its Strategic Procurement and Fleet Management Services Group (SPFMS). SPFMS is responsible for whole of Police strategic procurement and developing procurement policies and procedures.

Police's delegation structure includes schedules for general and special financial delegations, and delegations for contract execution responsibilities. However, there is no financial limit placed on some of the contract delegations and the structure does not clearly separate financial approvals from administrative tasks.

Police's purchasing policy requires financial delegates to ensure decisions are properly supported when they authorise or approve commitment of funds. However, we found that the submissions for contract extensions or renewals used in BTS did not provide adequate supporting material or an explicit financial authorisation or approval. Police consider that the financial delegate's support of the recommendation to extend or renew the contract in the case we reviewed was an implied financial approval. However, this is not consistent with its purchasing policy or Treasurer's Directions on financial approvals.

Police's delegations structure is ambiguous and there is no financial limit on some contract delegations

Police has developed some good procurement guidelines, but they are not currently used across the organisation

We also found that the person who approved the final two extensions/renewals of the contract has a special delegation to execute a contract with unlimited value. The financial delegate who supported the contract extension/renewal had a general financial delegation of \$500,000, and a special financial delegation for payments relating to the contract limited to funds available. The delegations are ambiguous as to which of the delegation schedules cover the commitment of new expenditure, such as extending or renewing a contract.

In this instance, the ambiguity has resulted in a person with a general financial delegation of \$500,000 committing Police to new expenditure of \$1.6 million.

SPFMS has developed some good procurement guidelines (policies and procedures), but they are not currently used across the organisation. BTS has developed its own guidance based on advice from SPFMS, but its scope is limited. Specifically, we found that no one was assigned the role of contract manager for the contract we reviewed, and there was no contract management plan in place.

Other gaps we found in the implementation of the framework, included:

- there is no reporting on the contract and supplier performance to the Director BTS or to other senior managers
- there has not been an internal audit review of IT services contracts in the last three years, and such a review is not scheduled in Police's forward internal audit program
- Police has defined contract management roles and responsibilities in SPFMS, but not in other business units that manage services contracts, such as BTS
- Police were not able to demonstrate that key personnel in BTS had the necessary contract management skills and competencies, nor the training or defined roles and responsibilities commensurate with the complexity or inherent risks of the IT services contract being managed.

Police has applied to be accredited under the revised Scheme. In doing so, it has invested time and resources towards enhancing its contract management framework, which should address the gaps we found.

Police, and particularly BTS, would benefit from using its enhanced procurement accreditation capability to manage all services contracts, particularly for purchases through State contracts such as the contract we reviewed.

Police advises that BTS has commenced activities to engage a suitably qualified and experienced resource to facilitate contract management for all BTS contracts.

Recommendation:

Police:

- by March 2012, revises its delegation structure and approval process to provide clear separation of financial and administrative approvals
- by December 2012, ensures it has structures in place to effectively manage all services contracts, including purchases through State contracts.

Appendices

Appendix 1: Better practice contract management framework

Better practice element Comment: What is required and why

Governance	Define oversight, financial and management controls.
<p>Agencies' contract management delegations are clear and consistent with general financial delegations</p>	<ul style="list-style-type: none"> Agencies' general financial delegations should take precedence over contract management delegations, such as signing the contract. Contract management delegations should escalate based on the risks, value and/or duration of the contracts being managed. Contract management delegations should provide clarity and control the exercise of key decisions such as contract variations and time extensions. <p>Intent</p> <p>It is important that contract management delegations are clear and consistent with general financial delegations. General financial delegations are designed to ensure that any new financial commitments are approved at appropriate levels. While general financial delegations give authority to making financial commitments, contract management delegations give authority to undertaking administrative tasks, such as signing contracts. These functions should be segregated.</p> <p>Long term services contracts, particularly for IT, typically may have an initial duration, with several options to extend which can be unilaterally exercised by the agency. This gives the agency flexibility to either remain with the original supplier if performing well, or return to the marketplace. This arrangement can save the agency costs associated in bringing on board a different supplier.</p> <p>However, if the option to extend is to be exercised, a value-for-money assessment should be completed. A further approval is required under financial delegation if such an action commits the agency to new expenditure.</p>
<p>Appropriate reporting and oversight practices for contract management are in place</p>	<ul style="list-style-type: none"> Defines who reports what to whom and how often, and must be based on contract risk, volume, value, and duration of contracts being managed. The reporting must recognise critical changes/exceptions to approved budget value and duration (traffic lights), such as cumulative variations above preset thresholds of contract value. Greater skilling, training, and independent expert support available for members of agency steering committees and others with management oversight responsibilities for IT services contracts. At least once per year the Audit and Risk Committee should review the contract register. <p>Intent</p> <p>Appropriate reporting and oversight should be in place for contract management, which includes oversight outside the business unit that 'owns' the contract.</p> <p>Well structured and targeted reporting on contract and supplier performance ensures appropriate key agency personnel are provided with the necessary information for decision making. For example, how a supplier is performing in meeting its service level obligations is a key performance indicator of the health of a contract, which would be of interest not only to personnel closely associated with the contract but also to senior management outside the business unit. The way the contract and supplier are performing would also be of interest to management, particularly when considering proposals to renew or extend existing contracts. Financial information such as predicted cash flows, estimated final cost and approved variations should be reported on regularly.</p> <p>The SCCB would also have an interest in both supplier and contract performance where it relates to agency contracts for purchases from State contracts.</p>

Governance	Define oversight, financial and management controls.
The investment required to manage contracts is assessed and committed	<ul style="list-style-type: none"> Agencies need to decide how to organise procurement and contract management functions based on the structure of the organisation, and whether procurement activities will be centralised or decentralised, or a combination. Agencies have completed an assessment of capability and how to acquire and maintain skills and capability to ensure the right people are in place to carry out contract management activities. Agencies capability assessment addresses the structure of the organisation, and the volume and risk profile of current and planned contract management activities. This may be centralised vs decentralised and from where contract management capability is to be sourced (in-house, external). Agencies have the ability to capture key data on contractor performance and lessons learnt from previous experience, and respond accordingly in improving contract management arrangements. <p>Intent</p> <p>Agencies must establish the capability required to effectively manage contracts. This means that agencies review the types, value and number of contracts that need to be managed and the risk to the agency of poor contract management. Agencies then assess the resources required to adequately manage their procurement and contract management activities, which include:</p> <ul style="list-style-type: none"> performance monitoring and management fulfilling contractual obligations supplier relationship management risk assessment and management. <p>Industry benchmarks estimate that organisations should invest between three and seven per cent of the contract value to manage complex contracts where there are high switching costs or time to switch, and where there is low market competition for the services provided.</p> <p>In some agencies this will mean establishing a specialised procurement group. This group would be responsible for developing, and monitoring compliance with agency procurement policies and procedures, as well as centrally managing major contracts and monitoring industry benchmarks. In other agencies the investment will be in skills and capabilities of selected positions to manage specific contracts.</p>
Agencies regularly review their contract management framework for relevance and that it is operating as intended	<ul style="list-style-type: none"> Agencies regularly review the governance framework and policies for compliance with government and agency procurement policies. This could be a role for the Audit and Risk Committee. Performance against procurement function strategy and procurement management plan. <p>Intent</p> <p>Agencies should regularly review their contract management framework for relevance and to ensure that it is operating as intended. Agency structures and government policies governing procurement change over time and the framework must be updated in line with these changes to ensure contracts continue to be appropriately managed and controlled.</p> <p>IT services contracts can be complex and long-term arrangements. Circumstances may change over time, such as governance and management arrangements, and staff changes in the agency. Agencies may be moving from simple purchase of goods to more complex and long term services contracting arrangements. They will need to ensure their framework is adequate to respond to this transition.</p> <p>This is an appropriate role for Audit and Risk Committees.</p>
There is independent internal monitoring of individual contracts to check compliance	<ul style="list-style-type: none"> Ensure independent internal monitoring to ensure that individual contracts are managed effectively. This should be a role for the internal audit function. <p>Intent</p> <p>There should be independent monitoring of contracts to check compliance with contractual obligations and agencies' contract management framework in order to identify weaknesses. This is an appropriate role for agencies' internal audit programs.</p> <p>Through agency Audit and Risk Committees and internal audit programs, independent monitoring can provide an objective process to ensure contract management frameworks comply with government, agency and business unit policies and procedures. They can also provide guidance on the effectiveness of such frameworks which can result in improvements over time.</p>

Roles and Responsibilities	Define who does what.
Roles and responsibilities are determined and assigned	<ul style="list-style-type: none"> Agencies have determined and assigned the various tasks and responsibilities required for contract management and allocated these to the appropriate roles: For example, who manages the supplier relationship, who reports to senior management, what is reported to the Audit and Risk Committee. Agencies have determined and assigned the various roles required for contract management. For example, contract owner, contract manager, contract administrator, etc Agencies may use resources, such as the ANAO Better Practice Guide or PAC CER Contract Management Self Assessment tool, as a checklist for identifying contract management tasks. <p>Intent</p> <p>Agencies must ensure that contract management roles and responsibilities are clear. This means understanding the responsibilities and tasks required to effectively manage contracts, and assigning these responsibilities to the appropriate positions.</p> <p>Appropriately skilled people and the right management structure, supported by comprehensive contract specific guidance material, can strengthen compliance with agency governance frameworks, and better manage gaps in agency policies and guidance. Technical expertise alone is not sufficient to provide the capability required for managing complex services contracts, which typically also require commercial and contractual skills.</p>
The skills and experience required to manage each contract are assessed and sourced	<ul style="list-style-type: none"> Agencies must match and source the contract management skills and competencies required to manage each contract based on the assessed contract risk (see policies and procedures). <p>Intent</p> <p>Agencies must assess the skills and experience required to manage each contract. Each contract should be matched to the level of contract management skills that is needed to manage it effectively and achieve value for money.</p> <p>Typical contract management skills</p> <p>Contract specific skills</p> <ul style="list-style-type: none"> Specific subject matter/industry knowledge Involvement in similar contracts Knowledge of specific client groups <p>General contract management skills</p> <ul style="list-style-type: none"> Project management Interpersonal and liaison Supplier relationship management Negotiation Business acumen Performance monitoring and analysis Risk management Problem resolution/problem solving Team management/team motivation Secretariat support Visual presentation – graphs and diagrams Budgeting, financial management Legal aspects of contracting and procurement Document management <p>Having skilled and competent personnel with defined responsibilities managing legally and technically complex, long term and high value IT services contracts is essential to extract optimum performance and value for money.</p>

Policies and Procedures	Define what is done, how it is done and when it is done.
There is a whole of agency procurement manual that includes contract management policies and procedures	<ul style="list-style-type: none"> • Developed and promulgated by the owner of procurement policy in agencies • Complies with NSW Government Procurement policies, the Public Finance and Audit Act 1983, the NSW Government Procurement Goods and Services framework, and the agency's internal policies and procedures (governance, management, reporting, etc) • The manual should cover contract management processes, such as: <ul style="list-style-type: none"> – maintaining a contract register – assessing and managing risk – keeping appropriate records – complying with government procurement policies and the Public Finance and Audit Act – effective and timely performance monitoring – effective and timely reporting – preparing value for money assessments, including business needs analyses and market testing, to justify contract renewals, extensions, exercising options, new contract with same supplier for the same service, or where ever there is to be direct negotiations – dispute management – transitional arrangements and starting/ending the contract. • Major business units may also need to develop their own procurement manual that complies with the whole of agency procurement manual. <p>Intent</p> <p>Agencies should develop comprehensive procurement guidance material that includes contract management policies and procedures at the agency and business unit level. The guidance should set out the rules for managing contracts, the minimum standards expected of contract managers and how to achieve value for money.</p> <p>Issues such as access to complete contract documents and the need to maintain comprehensive records of actions and approvals need to be covered.</p>
Each contract has a risk based contract management plan	<ul style="list-style-type: none"> • A contract management plan should be developed whether buying off state contracts or where the agency has established its own contracts • A risk based contract management plan will customise its content and level of detail based on the agency's risk assessment of the contract, its contract management capabilities, and its risk management framework • A contract management plan contains information, such as: <ul style="list-style-type: none"> – key information about how a contract will be resourced and managed to comply with contract management policies and procedures – risk assessment and risk management strategy – transitional arrangements: starting, ending and extending or renewing the contract – a commentary or guide explaining operational clauses – systems and processes to ensure that the agency and the contractor complies with the terms and conditions during the performance of the contract – roles and responsibilities of both the agency and contractor – reporting requirements and oversight arrangements – actions to be taken at periodic contract review points, and at decision points to extend or renew contracts, to assess changing business needs, service delivery and value for money – detail on how to effectively monitor and manage performance against the contract objectives, service delivery standards and KPIs. <p>Intent</p> <p>Each contract should have a contract management plan. This sets out key information about contract obligations and milestone dates, as well as the process for managing specific contract clauses. This should assist contract managers to understand the intent and operation of the contract and ensure that contract managers are not left to interpret contract clauses. This will support consistent and correct actions over time, particularly where staff changes occur.</p> <p>A contract management plan will also incorporate information such as how the contract will be resourced and managed, assessing and managing risks, roles and responsibilities of the contracting parties and reporting requirements.</p>

Appendix 2: About the audit

Audit objective

This performance audit assessed whether agencies effectively manage IT services contracts post award.

Lines of inquiry

In answering the audit objective, we answered the following questions:

- Do agencies have an appropriate framework to manage IT services contracts?
 - Do agencies effectively manage individual IT services contracts?
- We also looked at whether SCCB guidance to agencies helped them to effectively manage IT services contracts post award.

Audit scope

This audit focused on high value (greater than \$5m), and long term (3 or more years duration) IT services contracts in a sample of agencies.

Audit approach

We acquired subject matter expertise by:

- interviewing agency staff responsible for:
 - developing and maintaining IT services contract management governance frameworks, policies and guidance
 - monitoring IT services contract performance, and compliance with applicable frameworks, policies and guidance
 - day-to-day management of the sample IT services contracts
 - internal audit
 - contract performance monitoring and reporting
- interviewing Department of Finance and Services staff responsible for state contracts
- interviewing the Chair of the State Contracts Control Board
- examining agency documentation on:
 - governance frameworks, policies and guidance for IT services and contract management
 - agency and SCCB correspondence associated with SCCB accreditation approval
 - the selected IT services contract/s, including the contract files
 - government procurement policy documents for goods and services and contract management guidance.

We also examined approaches in the Australian Government and other jurisdictions, including States and Territories and the UK.

Our audit approach was shaped by contract management practices we found during an investigation of a complaint into a long term and high value IT services contract in another agency.

We referenced the work of the Independent Commission Against Corruption (ICAC) in relation to procurement. In particular, the ICAC Guidelines for Managing Risks in Direct Negotiations (May 2006), and Corruption Risks in NSW Government Procurement, Recommendations to Government (June 2011).

Audit sample

We asked a selection of agencies that held accreditation from the SCCB for goods and services procurement at the time of the audit to list all IT services contracts they were managing that fit our criteria: viz. high value and long term. Two agencies reported they manage such contracts and provided a list of those contracts. We then selected the contracts to review based on length and evidence of contract extensions.

We used a case study approach to test whether contract management policies and practices existed in agencies, and whether these helped staff to effectively manage the contracts we reviewed.

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 staff of the Department of Finance and Services, Ministry of Health, Health Support Services, and NSW Police Force.

Audit team

Our team leader for the performance audit was Giulia Vitetta, who was assisted by Edward Shestovsky. Jane Tebbatt provided direction and quality assurance.

Audit cost

Including staff costs, printing costs and overheads, the estimated cost of the audit is \$220,000.

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
220	Department of Finance and Services NSW Ministry of Health NSW Police Force	<i>Managing IT Services Contracts</i>	1 February 2012
219	NSW Health	<i>Visiting Medical Officers and Staff Specialists</i>	14 December 2011
218	Department of Family and Community Services Department of Attorney General and Justice Ministry of Health NSW Police Force	<i>Responding to Domestic and Family Violence</i>	8 November 2011
217	Roads and Traffic Authority	<i>Improving Road Safety: Young Drivers</i>	19 October 2011
216	Department of Premier and Cabinet Department of Finance and Services	<i>Prequalification Scheme: Performance and Management Services</i>	25 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 and 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

No	Agency or Issues Examined	Title of performance Audit Report or Publication	Date Tabled in Parliament or Published
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
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

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.

Our vision

To make the people of New South Wales
proud of the work we do.

Our mission

To perform high quality independent audits
of government in New South Wales.

Our values

Purpose – we have an impact, are
accountable, and work as a team.

People – we trust and respect others
and have a balanced approach to work.

Professionalism – we are recognised
for our independence and integrity
and the value we deliver.

Professional people with purpose

Making the people of New South Wales
proud of the work we do.

Level 15, 1 Margaret Street
Sydney NSW 2000 Australia

t +61 2 9275 7100

f +61 2 9275 7200

e mail@audit.nsw.gov.au

office hours 8.30 am–5.00 pm

audit.nsw.gov.au

