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# New South Wales Auditor-General's Report

## Performance Audit

### **Making the most of government purchasing power – telecommunications**

Office of Finance and Services

Department of Education and Communities

Forestry Corporation of NSW

Fire and Rescue NSW

NSW Businesslink Pty Ltd

Essential Energy

Sydney Trains

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The roles and responsibilities of the Auditor-General, and hence the Audit Office, are set out in the *Public Finance and Audit Act 1983*.

Our major responsibility is to conduct financial or 'attest' audits of State public sector agencies' financial statements. We also audit the Total State Sector Accounts, a consolidation of all agencies' accounts.

Financial audits are designed to add credibility to financial statements, enhancing their value to end-users. Also, the existence of such audits provides a constant stimulus to agencies to ensure sound financial management.

Following a financial audit the Audit Office issues a variety of reports to agencies and reports periodically to parliament. In combination these reports give opinions on the truth and fairness of financial statements, and comment on agency compliance with certain laws, regulations and government directives. They may comment on financial prudence, probity and waste, and recommend operational improvements.

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In accordance with section 38E of the *Public Finance and Audit Act 1983*, I present a report titled **Making the most of government purchasing power – telecommunications: Office of Finance and Services, Department of Education and Communities, Forestry Corporation of NSW, Fire and Rescue NSW, NSW Businesslink Pty Ltd, Essential Energy, Sydney Trains.**

A handwritten signature in black ink, appearing to read 'G Hehir'.

**Grant Hehir**  
Auditor-General  
26 June 2014

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# Executive summary

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## Audit Overview

The audit examined whether the State telecommunications procurement framework assists agencies to achieve value for money. We also assessed whether six review agencies demonstrated that they achieved value for money in their telecommunications arrangements.

We found that, regardless of the State procurement model, the main determinant of whether agencies achieved value for money is how they managed their procurement processes, contracts and expenses.

Only one agency in our review did this well and could demonstrate that it was getting value for money in its telecommunications arrangements.

Our conclusion is that most of the agencies we reviewed do not have the level of expertise in procurement, contract management and expense management that is needed in the fast-changing telecommunications area to achieve value for money.

## Audit Scope

To get the best value out of their telecommunications arrangements, agencies should use a combination of efficient and effective procurement, contract management and expense management processes that meet their business needs.

We examined these three processes in the following six agencies, which are of different size, concentration and governance:

- Department of Education and Communities
- Forestry Corporation of NSW
- Fire and Rescue NSW
- NSW Businesslink Pty Ltd
- Essential Energy
- Sydney Trains.

In 2012-13, these six agencies spent over \$115 million on telecommunications services and equipment, or around one third of NSW government expenditure. Most agencies were required to use the Government Technology Agreement (GTA) arrangements in place since 2007, and now the new State telecommunications procurement framework, which replaced the GTA in April 2014. So we looked back at the review agencies' procurement practices under the GTA arrangements; and we looked forward at how well they are organised to procure and manage to achieve value for money under the new procurement framework. We also assessed whether the new framework itself is likely to assist agencies to achieve value for money.

The Office of Finance and Services (OFS) is the lead agency for both the GTA arrangements and the new framework.

As well as being a significant area of expenditure, telecommunications services and equipment are used by all staff in all agencies and provide an essential link to the public. The findings and recommendations in this performance audit report are therefore applicable to all agencies.

## Conclusion

### ***Procurement***

The GTA arrangements did not use the government's purchasing power to deliver the full potential for savings in telecommunications to all agencies. The GTA arrangements allowed negotiation with suppliers on price and services but did not actively encourage and support it. Agencies we spoke to assumed that the GTA operated like other State contracts and the ceiling price represented the best rates that agencies could get.

In practice, most agencies were price takers. However, one agency in our review successfully negotiated significantly lower rates based on its large volume of business. This indicates that, if OFS had harnessed the government's purchasing power to the full, it had the potential to deliver further savings to all agencies.

The NSW ICT Board recognised the limitation in the way that the GTA was taken up and, in March 2013, established the Procurement and Technical Standards Working Group on telecommunications. As at 17 March 2014, the working group had assessed 13 telecommunications proposals worth \$11.46 million and realised total savings for the procuring agencies of \$3.66 million. This is a significant achievement and confirms that these agencies were not getting the best price possible on their own. However, not all agencies are using this service.

The new framework for telecommunications procurement, introduced in April 2014, continues the role of the working group and introduces additional support for agencies, including a telecommunications broker. It also puts the responsibility more clearly with agencies to negotiate with telecommunications suppliers in a fast-changing market where new suppliers, services and prices are appearing all the time.

Whether these arrangements will deliver value for money in practice will depend on whether the agencies take up the support and advice available; and how good that advice is. In the new framework, leveraging government purchasing power will not only come from aggregating demand, but also using knowledge across government to enable agencies to drive better deals when negotiating with suppliers.

### ***Contract management***

Selection and implementation of telecommunications services can result in long term relationships with suppliers beyond the initial contract period. Effective contract management requires an appropriate contract management framework that addresses governance arrangements, skills, roles and responsibilities, and policies and procedures. It should promote accountability for decision making and expenditure of public funds.

Only one agency in our review actively managed all of its telecommunications contracts and could assure value for money.

### ***Expense management***

Effective expense management can deliver considerable savings. We found that supplier invoices frequently contain errors. Two agencies had claimed credits and achieved savings through rigorous expense management that represented between seven and 32 per cent of their annual telecommunications expenses. This indicates there is potential for agencies that do not closely manage their expenses to make savings.

In our review, Essential Energy demonstrated that it had good practices in procurement, contract management and expense management and could demonstrate that it was achieving value for money. The other agencies had weaknesses or gaps in their processes that meant we could not conclude that they were achieving the best value from their telecommunications arrangements. Exhibit 1 has a summary of the results for each of the review agencies.

### Exhibit 1: Summary of findings against the audit criteria

	Sydney Trains	Businesslink	Fire and Rescue	DEC		Forestry	Essential Energy
				Data	Voice		
Has efficient processes for procurement	●	○	●	●	●	●	●
Has effective processes for procurement	●	○	●	●	○	●	●
Has built the procurement capability that is needed for the new framework	●*	●	●	●	○	●	●
Good contract management framework	●*	○	○	●	●	○	●
Active contract management	○	●	●	●	○	●	●
Efficient expense monitoring process	●	●	●	●	○	●	●
Effective expense monitoring process	●	●	●	●	○	●	●

Source: Audit Office research 2014

\* Refers to transport cluster arrangement

Key: In place: ● Partially implemented: ● Not demonstrated: ○

## Recommendations

### The Office of Finance and Services should by June 2015:

- Ensure that agencies submit their telecommunications proposals to the Procurement and Technical Standards Working Group for assessment (page 15)
- Publish the outcomes and lessons learned from the Procurement and Technical Standards Working Group assessment of telecommunications contracts (page 15)
- Establish and report on key performance indicators for the government's telecommunications broker. (page 15).

Detailed findings, recommendations and responses from each of the review agencies are included in the body of the report in the following sections:

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## Response from the Office of Finance and Services



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Mr Grant Hehir  
Auditor-General  
Audit Office of NSW  
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SYDNEY NSW 2001

Dear Mr <sup>Grant</sup>Hehir

Thank you for the opportunity to respond to the performance audit *Making the most of Government purchasing power- telecommunications*.

I am pleased to advise that the Office of Finance and Services (OFS) is implementing the report recommendations. OFS works closely with agencies to strengthen procurement capability, stimulate competitive 'as a service' markets and demonstrate effective procurement and contract management.

The ICT Board has mandated the ICT Procurement and Technical Standards Working Group as the forum for agency specialists to work together to optimise contract outcomes. The contract review role of the working group is available for all agencies. As you recommend, OFS will publish the outcomes of the working group process and lessons learned.

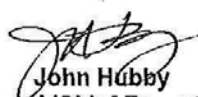
The telecommunications broker is a new approach in this environment. It will assist both the working group and agencies in delivering value for money. Contract management arrangements will include key performance indicators and reporting.

Your report highlights elements of good practice in procurement, contract management and expense management. It is a valuable resource for agencies, the working group and OFS.

I agree that agency decisions will be key in achieving value for money. As you would be aware, in 2012 procurement reforms devolved procurement decisions to agencies on the basis that they are best placed to align purchasing decisions with current and emerging business needs. As the report notes, this is particularly the case in fast moving markets such as telecommunications.

The Procurement Board is leading procurement reform including the completion of agency accreditation. The Board has delegated its ICT procurement functions to the ICT Board. The ICT Board will receive your report and oversee implementation of the recommendations through regular reporting on participation, activity and benefits.

Yours sincerely

  
John Hubby  
A/Chief Executive  
14/6/14



# Introduction

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## 1.1 Government Procurement

The NSW Government procures a broad range of goods and services. It is mandatory for most government agencies to use whole-of-government contracts to buy these goods and services.

The government procurement policy framework is based on six strategic goals adopted by the NSW Procurement Board. These goals are to

- ensure agility in procurement
- reduce red tape for agencies and suppliers
- adopt a best practice category management approach to procurement
- engage with industry
- give greater scope to access innovative procurement arrangements
- support agencies in a devolved environment.

NSW government agencies buy around \$3.8 billion worth of goods and services annually through central procurement arrangements. This was more than 26 per cent of its \$14.245 billion operating expenses for 2012-13.

Telecommunications is one of the largest categories at around \$370 million spent per annum. Exhibit 2 provides a comparison of expenditure on the top 15 categories. They range from relatively stable products like electricity and contingent workforce to fast changing commodities like telecommunications and personal computers. The different characteristics of these products and services affect the type of purchasing arrangements needed; the sort of regular monitoring on expenditure required and the scope for economies of scale.

Large suppliers in some markets have better information than agency purchasers on what value can be obtained, which they can use to their commercial advantage. Aggregating demand and sharing knowledge under a central expert purchaser can put buyer and seller on a more even footing in these circumstances and so offer the potential for delivering value for money to agencies. However, aggregation is less worthwhile if price does not reduce at higher volumes and/or if reaching agreement across many agencies on common service specifications costs more in time than it saves in lower prices.

As markets and products have evolved, so have the purchasing arrangements: from ceiling prices and fixed suppliers over five years on common products, to shorter term and more flexible arrangements. Balancing the benefits and costs of central procurement becomes more difficult in these new markets. At the same time the importance of strong procurement, contract management and expense management increases at the agency level, to achieve value for money.

## Exhibit 2: Agency spending in the top 15 State contracts 2012-13

The top 15 NSW State contracts in terms of expenditure sum up to \$3.1 billion in 2012–13 representing 81 per cent of the total expenditure of \$3.8 billion.

Rank	Contract Name	Contract Expenditure (\$)
1	Contingent Workforce	609,534,010
2	Acquisition of Motor Vehicles	466,346,205
3	Government Telecommunication Agreements	370,935,468
4	Whole-of-government Cleaning Contracts (combined)	317,770,212
5	Electricity - Large Sites	306,323,507
6	Supply of Card Fuel & Associated Services for NSW Government & Participating Jurisdictions (QLD & ACT)	209,371,359
7	ICT Services Pre-Qualification Scheme	122,458,835
8	Pharmaceuticals	113,321,721
9	Personal Computers (Cat 1,2,4,5,6,7)	110,076,058
10	Workplace Supplies (Lot 1-8)	102,023,460
11	Food Services	97,302,028
12	Fuel and Associated Products	83,311,825
13	Facilities Management Contract (Combined)	81,079,294
14	Travel Management	59,316,216
15	Electricity - Large Sites for Non-Government Customers	58,988,142
	<b>Total</b>	<b>3,108,158,340</b>

Source: Department of Finance and Services Annual Report 2012-13

There are good reasons to centralise the procurement of many types of common use goods and services, such as vehicles, fuel, and telecommunications. These have characteristics set by the market rather than by individual agencies' business requirements. There are more suppliers of these goods and services, increasing competitive pressures so suppliers are willing to offer good rates to secure certainty of business over a period of time.

It is less efficient to centralise procurement where product and service specifications need to be matched to local or specialised business needs, such as the collection and transmission of agency data. There is less opportunity for standardisation and aggregating demand to negotiate better rates. There may also be fewer suppliers that can customise to meet agency requirements.

Procurement processes need to be adjusted to meet the characteristics of the market for required goods and services. Fast changing goods and services, like telecommunications and personal computers, need shorter term arrangements or the ability to review the goods and services at regular intervals within the terms of the contract. Procuring services, such as contingent workforce, telecommunications and ICT services, needs much higher skills capabilities in agencies to have rigorous needs identification, assessment of suppliers' capabilities, and negotiating on contract deliverables and performance measures.

Contract management also needs to be adjusted to meet the characteristics of the products and services bought. High value, high complexity, and long term arrangements, such as telecommunications, facilities management and ICT services, increase risks and require more skills in managing these arrangements to ensure the contract performance achieves business objectives.

Expense management is straight forward when the purchase involves fixed price commodities, such as vehicles or pharmaceuticals. However, expense management needs to be particularly rigorous where the price being paid for goods varies depending on usage, such as electricity, ICT services and telecommunications.

We expect that agencies recognise these differences and have adjusted their procurement, contract management and expense management practices accordingly.

## 1.2 Procuring Telecommunications

Telecommunications services and equipment are essential to support the delivery of government services. Fixed and mobile phones and data networks are used extensively in all agencies. Other forms of telecommunications support critical public infrastructure and safety. For example, satellite and paging systems dispatch fire and emergency services crews to incidents, telemetry data is able to identify faults in electricity transmission lines, and GPS locators in vehicles ensure the safety of work crews in remote locations.

Telecommunications are also being used to improve productivity in government agencies. For example, using smart devices to access agencies' internal systems removes paperwork, double handling and manual entry of data, and reduces cycle time and errors. It also gets front line staff, such as case workers and police, out from behind their desks.

Since 2007, NSW government agencies have been able to buy standard telecommunications services and equipment from the Government Telecommunications Agreement (GTA) arrangements, which expired on 31 March 2014.

On 1 April 2014, a new telecommunications procurement framework was introduced to replace the GTA as part of the government's ICT strategy and wider procurement reforms. There is no longer a State contract with a fixed term and defined suppliers, services and prices. As agencies replace contracts the current framework applies for agencies to source telecommunications:

- using the modules under the Procure IT Framework 3.1
- by accessing suppliers pre-qualified under the ICT Services Scheme, for relevant product and service categories. This is an "always open" Scheme, so new suppliers can register for inclusion at any time, giving agencies continual access to new suppliers and emerging technologies, and an ongoing competitive discipline on suppliers for both pricing and service quality
- by accessing established/standardised telecommunications service offerings made available the ICT Service Catalogue.

## 1.3 What does value for money mean in telecommunications?

All government agencies are required by law to ensure they obtain value for money in relation to the procurement of goods and services.

Achieving value for money does not always mean that the 'highest quality' good or service is selected. A lower cost option may be appropriate where an agency has limited funds available for a particular procurement. Value for money is achieved when the 'right sized' procurement solution is selected to meet an agency's need.

In the fast-changing market for telecommunications, new services are emerging all the time and defining an agency's need has to be a regular, if not continual, process. Too much time agreeing detailed specifications can be wasted if new service offerings change what is available. Agencies need to find a balance between anticipating needs and service offerings, and relying on past services and experiences. The contracts for such services must have the duration and flexibility to adapt to meet changes in both supply and demand, if they are to continue to offer value for money.

In this context, we have taken value for money to mean that agencies:

- pay reasonable market rates for the goods and services they get
- only pay for goods and services they continue to need and continue to get
- efficiently manage, monitor and control expenditure.

Aggregating demand for products and services can deliver value for money if it secures discounts and incentives from suppliers. Centralising procurement processes also delivers value for money if the effort in reaching agreement on common needs across agencies is rewarded, not just by lower prices, but also by less effort later in negotiating with suppliers in taking up the services under contract.

A one-size-fits-all approach may not always deliver value for money. Particularly if it means including in a standardised offering unique functionality that may only be required by a few agencies. Similarly, aggregating demand can be counter-productive – there may be only one or two suppliers capable of meeting the aggregated demand requirement. Short term benefits may be eroded over the long term though reduced contestability. There are other strategies for delivering value for money – for example, creating a vibrant competitive market where a range of services enables aggressive pricing to win business.

## 1.4 About the audit

This audit is about the use of government procurement arrangements to provide agencies with telecommunications services. It makes assessments of how these arrangements have worked in six agencies of different size and functions and draws general conclusions about how efficient and effective procurement arrangements have been. It also offers some observations about whether recent changes to such procurement arrangements are likely to assist agencies to achieve value for money.

The reasons we selected expenditure on telecommunications for this performance audit were:

- a significant amount of money is spent on telecommunications by NSW agencies
- use and control over telecommunications is common to all agencies
- all staff in agencies have access to telecommunications, such as fixed line phones, mobile phones or smart phones with mobile data, local and wide area network access for corporate systems
- achieving value for money requires particular attention to contract and expense management in a fast changing environment.

We examined how the following agencies manage their telecommunications arrangements to achieve value for money:

- Department of Education and Communities
- Forestry Corporation of NSW
- Fire and Rescue NSW
- NSW Businesslink Pty Ltd
- Essential Energy
- Sydney Trains.

We also examined whether the State telecommunications procurement framework assists agencies to achieve value for money. The Office of Finance and Services is the lead agency for this aspect of the audit.

In assessing whether these agencies achieved value for money in their telecommunications arrangements, we reviewed their procurement, contract management and expense management processes.

For the purpose of the audit:

- we use the term agencies to mean all organisations in the government service including State owned corporations
- telecommunications includes services listed in the GTA
- State telecommunications procurement framework includes:
  - *Public Works and Procurement Act 1912*
  - *Government Telecommunications Agreements (GTA)*
  - *NSW Government ICT Strategy 2012 and Implementation Update 2013-14*
  - *ProcureIT Framework head agreement and the ICT Category Management Plan*
  - *NSW Procurement Reform Strategic Directions Statement*
  - *NSW Procurement Board Directions*
  - *Statement on Value for Money.*

See Appendix 1 for more information on the audit scope and criteria.

# Key findings

## 2. Does the State telecommunications procurement framework assist agencies to achieve value for money?

Standard government terms and conditions that are imbedded in both the GTA arrangements and the new framework, provide efficiency benefits for suppliers as much as for government. OFS should use this feature to drive better value from suppliers, especially for small volume agencies.

Centralised procurement arrangements have the potential to deliver savings through aggregating demand and sharing knowledge to secure discounts and reduce administration processes across government.

Most agencies must use the Government Telecommunications Agreement (GTA) arrangements and the new framework that commenced in April 2014. State owned corporations can choose to use these if they represent value for money. When agencies replace their current contracts, made under the GTA, they are required to use the Procure IT Framework 3.1 and associated modules.

Historically, OFS' role was to negotiate with suppliers on behalf of the government sector on product and service offerings, prices, terms and conditions, and contractual obligations, such as insurance coverage, in the establishment of the GTAs.

### Exhibit 3: State telecommunications procurement framework

	GTA arrangements	New framework
Centralise processes such as: <ul style="list-style-type: none"><li>tendering</li><li>setting standard terms and conditions</li><li>assessing suppliers' credentials</li></ul>	Yes	Yes
Leverage buying power	No	Untested
Simplify purchasing	Yes	No
Efficiencies to suppliers	Yes	Yes

Source: Audit Office research 2014

Government support to agencies includes:

- establishing a telecommunications working group, under the ICT Procurement and Technical Standards Working Group
- providing advisory and other services, including a recently established brokering service
- accrediting agencies to undertake procurements up to a certain level or degree of complexity
- providing whole of government infrastructure and services, such as e-tendering, category management planning and contract design.

State owned corporations can access the working group process and Procure IT Framework (though this is not mandated).

## 2.1 Did the Government Telecommunications Agreement (GTA) arrangements assist agencies to achieve value for money?

The GTA arrangements did not make the most of government purchasing power when it was established in 2007. In addition, agencies' buying behaviours have not taken advantage of the potential for additional savings to be made through negotiating with suppliers, and taking up new offers and discounts.

While offers from suppliers under the GTA have been refreshed since it was first established, if agencies have not taken advantage of these new offers they have missed out on better rates and services.

The GTA arrangements also lacked some flexibility and was based on fixed terms and technologies that have changed rapidly.

Since 2007, NSW government agencies have been able to buy standard telecommunications services and equipment from the GTA arrangements.

The GTA arrangements delivered process efficiencies for all agencies. It established standard terms and conditions, and centralised the validation of suppliers' insurance coverage. As a result, individual agencies did not have to spend time negotiating these details with suppliers. Procurement processes within agencies were simplified considerably for these purchases, leading to process efficiencies.

The GTA arrangements did not use the government's purchasing power to deliver the full potential for savings in telecommunications to all agencies. It set ceiling prices that were better than market rates, but not as good as could be achieved through negotiation by experienced purchasers. One agency in our review successfully negotiated significantly lower rates based on its large volume of business. This indicates that, if OFS had harnessed the government's purchasing power to the full, it had the potential to deliver further savings to all agencies.

The GTA arrangements still allowed agencies to negotiate lower prices on the planned and specific need for their services, and this was a core part of the approach. OFS noted that a limitation of the GTA was that to obtain better pricing it was necessary for agencies to commit specific volumes to suppliers, and this did not occur.

Initially, the GTA arrangements included only data and high speed internet services. Since then, OFS has negotiated expansions of the arrangements to cover more products and services, with each new release improving rates and services. The most recent, referred to as GTA category 5, incorporated a broad range of telecommunications systems and services, including mobile phones and devices. Agencies that transitioned to the new offers as their existing contracts expired gained the best value from these arrangements.

Under the GTA, OFS negotiated ceiling prices that represented a saving of approximately two to four per cent on market rates available in 2007. However, unlike other NSW Government head agreements, the rates were not fixed and agencies were encouraged to aggregate telecommunications purchases where possible and negotiate lower prices.

The GTA arrangements allowed negotiation but did not actively encourage and support it. Agencies we spoke to assumed that the GTA operated like other State contracts and the ceiling price represented the best rates that agencies could get. They either did not understand their ability to negotiate further or did not have the skills and resources to take advantage of this. In practice, most agencies were price takers. Suppliers also imposed conditions, such as committing a large volume of business, for agencies to access discounts.

The GTA arrangements also lacked flexibility as they were based on a five year fixed term and a static list of approved suppliers and technologies. This is despite a history of rapid changes in telecommunications technology. For example, the GTA arrangements did not initially include smart devices that agencies increasingly need for mobility and 24/7 operations.

While the GTA offers from suppliers have been refreshed since it was first established, agencies that have not taken advantage of these new offers have missed out on better rates and services.

The GTA arrangements comprised five categories of services, with head agreements that commenced at different times. To standardise the periods of the agreements, all GTA categories were consolidated into GTA category 5 in December 2012. When GTA category 5 was extended on 1 April 2013, for a final 12 month period, a discount equivalent to the management fee of 2.5 per cent became a condition on suppliers for any new contracts made (not existing or extended contracts). This effectively removed the management fee from new orders made for services of the expired categories 1 – 4 (carriage services). The management fee continued to apply to new and existing contracts for services originally in category 5 (non-carriage services).

The management fee on the remaining services was removed for new contracts made after 1 April 2014 as agencies use the Procure IT Framework 3.1 and modules. The head agreement of category 5 expired on 31 March 2014, however orders made under the arrangement continue until terminated or replaced.

Two agencies in our review did not take up the opportunity to stop paying the management fee by signing new contracts after 1 April 2013.

Agencies that have bought telecommunications products and services under the GTA arrangements can demonstrate process efficiencies. But there have been limitations:

- the lag time in agencies taking up better offers as they were available reduced value for money
- many agencies were price takers: they did not get several quotes or negotiate prices with suppliers
- some agencies worked in isolation despite guidance available from OFS.

Agencies were advised by OFS that they should seek several quotes from suppliers on the GTA, aggregate demand if possible and negotiate better rates. Agencies that did not market test offers from suppliers on the GTA could not assure value for money.

One agency that did negotiate based on its large business volume secured a discount of approximately 24 per cent on GTA rates. This agency represents approximately 20 per cent of government expenditure on telecommunications. This indicates that if OFS had used the whole of government buying power there was potential to have secured much better rates for all agencies.

The GTA expired on 31 March 2014. Any orders placed by agencies prior to this date can have effective terms of up to two years.

The new framework for telecommunications procurement commenced on 1 April 2014. This is discussed in the next section.



## 2.2 Will the new framework for government telecommunications assist agencies to achieve value for money?

The new framework provides more flexibility than the GTA arrangements to embrace changes in technologies and agencies business arrangements. It also includes an ICT services catalogue and a panel of approved suppliers, which other suppliers can apply to join at any time.

The new framework does not overcome some of the limitations of the GTA arrangements. It will establish standing purchase offers for fewer products and services, and it requires agencies to engage in more direct negotiations with suppliers. While OFS will continue to provide advisory and other services, agencies will need to build or acquire negotiation and contract management skills to achieve value for money.

The new framework alone is not enough to ensure value for money for all agencies. Several of the agencies we reviewed do not yet have mature procurement and contract management capabilities to effectively negotiate with suppliers, and some agencies' business needs and volumes are too small to negotiate good rates from suppliers.

The new framework for government telecommunications procurement commenced on 1 April 2014. The Government's objective is that telecommunications will be sourced 'as a service'. Rather than sourcing technology, agencies will be sourcing a business outcome, such as business capability for a mobile workforce. The new framework supports agencies moving to centralised government data centres, procuring services sourced from the 'cloud' and fulfilling business needs from 'as a service' offerings rather than hardware and software solutions.

The new framework will also facilitate more flexible procurement options such as 'pay as you go' commoditised services.

The government will need to be an informed buyer to get value for money in the new procurement framework. According to OFS, this knowledge will come from:

- procurement reforms driven by central agencies
- maintaining a focus on collaboration and consultation
- building capabilities in agencies
- agencies preparing forward procurement plans
- OFS engaging and informing clusters and CPOs (agency buyers)
- benchmarking and sharing knowledge within government, which will be critical.

In March 2014 the ICT services scheme was expanded to include telecommunications (services and hardware). It is a panel arrangement which is always open to new suppliers so always under competitive pressure. The ICT services scheme depends on having a standardised business services and products model.

As part of the support tools to agencies in the new framework, OFS has appointed a telecommunications broker. In the short term, the broker will assist in establishing technical standards for some telecommunications services and then negotiate with suppliers to establish benchmark rates for these services.

In the future, the broker will assist agencies to review telecommunications pricing, analyse vendor offerings and help negotiate service agreements across government. We support this initiative as it will collect and use knowledge across government to enable agencies to drive better deals when negotiating with suppliers.

The new framework does not overcome some of the limitations of the GTA arrangements. It will establish standing purchase offers for fewer products and services, and it requires agencies to engage in more direct negotiations with suppliers.



In the new framework, leveraging government purchasing power will not only come from aggregating demand, but also using knowledge across government to enable agencies to drive better deals when negotiating with suppliers.

Whether these arrangements will deliver value for money in practice will depend on whether agencies take up the support and advice available; and how good that advice is.

In the not too distant future, telecommunication services, including e-mail and internet access, may be delivered by global suppliers providing standard services and prices. The demand volume of NSW agencies, even if aggregated, would not be significant in comparison to the global market and could not be used to influence either service characteristics or prices. In this emerging environment, the government will need to redefine what is needed to achieve value for money.

## Recommendations

### The Office of Finance and Services should by June 2015:

- Ensure that agencies submit their telecommunications proposals to the Procurement and Technical Standards Working Group for assessment
- Publish the outcomes and lessons learned from the Procurement and Technical Standards Working Group assessment of telecommunications contracts
- Establish and report on key performance indicators for the government's telecommunications broker.

### 3. Did the agencies we reviewed demonstrate that they achieve value for money in their telecommunications arrangements?

Only one agency demonstrated that it was getting value for money in its telecommunications arrangements.

The NSW ICT Board recognised that agencies were not getting the best out of procuring from the GTA and, in March 2013, established the Procurement and Technical Standards Working Group on telecommunications. The working group makes assessments and offers guidance to agencies on telecommunications proposals and contracts.

As at 17 March 2014, the working group had assessed 13 telecommunications proposals worth \$11.46 million and realised total savings for the procuring agencies of \$3.66 million. This is a significant achievement and confirms that these agencies were not getting good value on their own. Government needs a coordinated approach to be an informed buyer, aggregating demand and leveraging knowledge and benchmark rates, to deliver the full savings potential.

Our opinion is that most of the agencies we reviewed do not have the level of expertise in procurement, contract management and expense management that is needed in the fast-changing telecommunications area to achieve value for money.

To get the best value out of their telecommunications arrangements, agencies should use a combination of procurement, contract management and expense management processes that are designed to:

- address their business needs now and in the future
- identify opportunities to work with others to piggy back procurement arrangements or aggregate spending
- test market offers for value by obtaining several quotes from suppliers, even those on prequalified schemes and the GTA arrangements, and getting advice from the Procurement and Technical Standards Working Group on telecommunications (from March 2013)
- negotiate with suppliers on price and quality
- actively manage contracts, and as they expire take up better offers as they are available
- monitor usage, manage expenses and validate the accuracy of supplier invoices.

Essential Energy was the only agency in our review that demonstrated it does all of these activities to assure value for money.

The NSW ICT Board recognised that agencies were not getting the best out of procuring from the GTA and established the Procurement and Technical Standards Working Group on telecommunications. From March 2013, agencies were required to submit any new telecommunications contract proposals and supplier offers to the working group for assessment. The assessment process compares market offerings and ensures contract terms meet government policy and other requirements. The working group also offers guidance to agencies on proposals and contracts.

The working group has achieved significant savings to date on a small number of proposals. This indicates that there is scope for improvement across government that will deliver better value for money and savings. However, we found that not all agencies we spoke to were aware of the telecommunications procurement assessment process, particularly the State owned corporations.

OFS advice on procurement reforms has been directed to the Chief Procurement Officers of the lead cluster departments. While State owned corporations are associated with the cluster departments, government procurement reforms are not mandated for them. This may be the reason that they do not always receive this information.

All of the review agencies belong to one of nine cluster departments. These departments have varying models of centralisation of corporate service functions, including information and communications technology and procurement. None in our review have completed the transition to enable them to take full advantage of the cluster arrangement.

The NSW Procurement Board is responsible for monitoring agency compliance with the goods and services procurement requirements. This is a necessary step to hold departments and Chief Procurement Officers accountable for value for money outcomes.

#### **Exhibit 4: NSW Procurement Board Direction 2013 – 01: Compliance**

The NSW Procurement Board requests government agencies to:

1. By 31 August 2014, develop an audit plan, overseen by the agency's Audit and Risk Committee, from which the agency can undertake regular assessment of compliance with the Goods and Services Procurement Policy Framework
2. As part of this plan, identify areas of compliance risk and to report these risks to the Procurement Board for the purposes of informing the further development of NSW procurement policy
3. As part of this plan, develop mechanisms which provides the Procurement Board and the agency head assurance that systems are established to enhance compliance with procurement laws and policies
4. Any other matters considered relevant by the agency insofar as compliance and audit is concerned.

The information is to be provided at least annually from 31 August 2014, or as requested by that Board from time to time.

Source: Office of Finance and Services 2014

### **3.1 Did the agencies use efficient and effective processes to evaluate and select the contracts that delivered best value for their business needs?**

Most agencies in our review showed efficiencies in their procurement processes as they bought telecommunications from the GTA arrangements.

Fewer agencies had effective processes either because they did not market test the GTA rates or negotiate with suppliers. They were also not effective if they let contracts expire and did not take up better offers as they were available.

Only one agency in our review was ready to procure under the new framework and achieve value for money.

In procurement, we examined the processes that agencies used to establish their existing telecommunications arrangements, and their capability for planned and future procurements.

## Exhibit 5: Good practice procurement framework

Features of a good practice procurement framework include:

- Procurement strategy - supports business needs, buy-in from business managers
- Governance, controls and policies – implemented, roles and responsibilities are clear, independent internal review, regular reporting to executive
- Procurement planning - defining the need (business case and funding approval), meets government requirements (procurement accreditation, policy and legislation, other government contracts, access OFS benchmarking and working group assessment for telecommunications)
- Procurement context - risk assessment and management, probity, sustainability
- Procurement process - planning, adequate market testing, supplier selection, contract management, process review, demonstrated value for money
- Procurement tools and systems - assist in managing and documenting the process
- Information management and reporting – transparent and accountable
- Organisation and capability – skills and resources assessed and applied.

Source: Audit Office Research 2014

Essential Energy and Fire and Rescue demonstrated that they had efficient and effective processes to evaluate and select the contracts that deliver best value for their business needs.

The other four agencies in the review did not demonstrate that they had efficient and effective processes to evaluate and select contracts that deliver best value for their business needs, for one or more of the following reasons:

- there was a lack of relevant documentation about how some existing telecommunications arrangements were established
- business needs were not adequately assessed and applied
- supplier offers were not market tested and submitted to the working group for advice.

Essential Energy, Sydney Trains, and Fire and Rescue, have planned telecommunications procurements that are supported by ICT strategies which address their organisation's business needs.

Essential Energy, TfNSW and Fire and Rescue all have procurement capabilities that will support them in the new framework. Businesslink, DEC and Forestry either lacked or were still building these capabilities.

Effective procurement processes ensure that actions to replace contracts start before contracts expire. However, we found DEC and Businesslink had contracts that had expired and continue to run on a month to month basis. These agencies advised that they did not want to lock themselves into a new arrangement, due to operational reasons or advice that OFS was reviewing parts of the GTA.

Agencies are encouraged to include 'piggy-back' clauses in their telecommunication contracts to enable other agencies to access negotiated contracts. The intent is that some agencies (particularly smaller ones) can take advantage of procurement arrangements already in place if the service details meet their needs. This is an efficient way for small agencies to procure telecommunications with less effort and is also a further mechanism to achieve value for money.

OFS maintains a central register of all government contracts, including those with piggy back clauses that agencies can use. At the time of our audit, there were no ICT contracts listed on this register with piggy back clauses. None of the review agencies had used piggy back clauses in existing telecommunications arrangements. There were also limited instances of agencies sharing knowledge with their peers or seeking advice on planned procurements.

#### **Exhibit 6: Don't reinvent the wheel ...**

##### **Good Practice Tip: Don't re-invent the wheel**

The Australian Government as a whole has a vast amount of experience in all aspects of contracting and it is very likely that a contract for a similar requirement has already been developed elsewhere in the APS. So, first check if the goods or services required are subject to a coordinated procurement arrangement. If not, consider accessing standard form contracts or using existing networks to obtain a copy of another contract.

People involved with these contracts are a useful source of information in the development of a new contract. In doing this, care needs to be exercised to avoid the inappropriate disclosure of any commercial-in-confidence information and an agreement should be reached with the 'giving' entity about the basis on which any material can be used, re-used or adapted.

Source: Australian National Audit Office Better Practice Guide, Developing and Managing Contracts 2012

### **3.2 Did the agencies actively manage their contracts to assure value for money?**

None of the agencies in our review had all of the elements of a good practice contract management framework in place. Two agencies had all the elements except contract management plans to support management and performance monitoring and decision making.

Only one agency in our review actively managed all of its telecommunications contracts and could assure value for money.

Selection and implementation of telecommunications 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.

Contract management requires skills and capabilities beyond technical knowledge. Agencies that enter into costly, complex and/or long term telecommunications services arrangements need to invest in appropriate contract management capabilities.

In looking at contract management, we examined whether the agencies:

- had contract management policies or an effective framework in place
- had appropriate skills and resources to manage the contract
- actively managed the contracts, including conducting regular supplier performance reviews against service level agreement (SLA) requirements and claiming rebates for missed SLA's, and appropriate internal reporting.

Effective contract management requires an appropriate contract management framework that addresses 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 7: 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.

In our review, none of the agencies had all elements of the better practice contract management framework in place. DEC had all elements in place, except contract management plans.

Essential Energy demonstrated that it actively managed its telecommunications contracts to assure value for money. Fire and Rescue and DEC only did this for some telecommunications contracts. The remaining three agencies we reviewed did not actively manage their telecommunications contracts and did not demonstrate that they achieved value for money.

### 3.3 Did the agencies efficiently and effectively manage their usage of, and expenditure on, telecommunications?

Three agencies in our review had efficient expense management processes as they were able to identify and correct exceptions and errors with little manual effort.

We found that supplier invoices frequently contain errors that agencies should have corrected and claimed applicable credits.

Two of the agencies in our review that had engaged telecommunications expense management services did not act on all recommendations to claim credits or implement savings strategies.

Our research has identified four key elements of effective expense management.

#### **Exhibit 8: Effective expense management framework**

- There are clear policies on allocation, usage and expense control
- There are processes in place to effectively verify that supplier invoices are accurate, such as:
  - independent checks on transactions and volumes
  - users checking their bills to identify personal use and errors
  - checking that correct rates are charged according to the contract
  - checking charges against device inventory (only paying for services that are used and ensuring that unused services are promptly decommissioned)
  - promptly notifying suppliers of errors and credit requests, and tracking corrections to completion
- Agencies use efficient processes – least effort to ensure they pay no more than they should
- There is regular and exception reporting to executive management.

Source: Audit Office research 2014

Essential Energy, Fire and Rescue and parts of DEC, demonstrated that they had efficient and effective processes to manage their usage of, and expenditure on, telecommunications. In particular, these agencies demonstrated that they had processes to effectively verify the accuracy of supplier invoices and claim rebates and credits for errors.

Businesslink, Sydney Trains, Forestry Corporation and the other parts of DEC had some of these processes but they were not efficient or effective.

Overall, agencies that had a structured expense management process and framework in place were identifying errors on supplier invoices and implementing savings opportunities. It was disappointing that two agencies were not acting on the findings of these processes to minimise waste and overcharging.

At an organisational level, only Essential Energy and Fire and Rescue had sufficient controls, and only Essential Energy regularly monitored and reported to executive management on telecommunications usage and expenditure.

Effectively managing telecommunications expenses can deliver considerable savings. We found that supplier invoices frequently contain errors that agencies should have identified and claimed applicable credits. Agencies also make savings by regularly monitoring usage and moving to more cost effective options or decommissioning unused services. Over the last two years, two agencies had claimed credits and achieved savings through rigorous expense management, representing between seven and 32 per cent of their annual telecommunications expenses.

### Exhibit 9: Savings from telecommunication expense management

	Credits received	Savings realised	Total credits and savings	Telecommunication expense	Credits and savings as a percentage of telecommunication expenses
<b>Businesslink</b>					
2011–12	207,523	1,230,560	1,438,083	11,642,000	12.4%
2012–13	873,404	2,033,981	2,907,385	8,986,000	32.4%
<b>RailCorp</b>					
2011–12	354,168	1,451,650	1,805,818	17,205,000	10.5%
2012–13	110,931	1,020,786	1,131,717	16,183,000	7.0%

Source: Audit Office research 2014

Despite this good result, Businesslink and Sydney Trains were not getting the best value from these processes because they delayed or did not action some recommendations, such as claiming credits or moving to more cost effective contract options.



# Detailed findings

## 4. Department of Education and Communities

The Department of Education and Communities' (DEC) results were mixed. It demonstrated that it achieved value for money in its telecommunications arrangements for data services, worth around \$67.7 million per annum, but not for fixed voice and mobile services, worth around \$17.5 million per annum.

DEC demonstrated that it has the skills and processes necessary to achieve value for money. However, as it has failed to apply this effectively in all its telecommunications arrangements we cannot conclude that it is achieving value for money in its telecommunications arrangements.

DEC has foregone savings in the last three years as a result of weaknesses in its procurement and contract management processes for fixed voice and mobile services. DEC also has not done enough to verify the accuracy of its supplier invoices to ensure that it pays no more than it should for fixed voice and mobile services.

To assess whether DEC achieves value for money in its telecommunications arrangements, we examined whether it:

- used an efficient and effective process to evaluate and select the contracts that deliver best value for its business needs, and whether it has procurement capabilities to manage procurements in the new framework (procurement processes)
- actively manages its contracts to assure value for money (contract management)
- efficiently and effectively manages its usage of and expenditure on telecommunications (expense management).

Exhibit 10 provides a summary of the results for DEC which are discussed in more detail in sections 4.2, 4.3 and 4.4.

### Exhibit 10: DEC - Summary of findings against the audit criteria

Audit Criteria	Data services	Fixed voice and mobile services
Has efficient processes for procurement	●	○
Has effective processes for procurement	●	○
Has built the procurement capability that is needed for the new framework	●	○
Good contract management framework	○	○
Active contract management	●	○
Efficient expense monitoring process	●	○
Effective expense monitoring process	●	○

Source: Audit Office research 2014

Key: In place: ● Partially implemented: ○ Not demonstrated: ○

## 4.1 About DEC and its telecommunications environment

DEC is a government department that serves the NSW Community by providing primary and secondary education and training services. DEC also provides services to the citizens of NSW from early childhood to adulthood and protects young children by regulating preschool and long day care providers.

Telecommunications services are important to enable DEC to maintain communications for schools, TAFE colleges, childcare centres and offices across NSW (metropolitan, remote and regional areas). Data and telephony services are essential to schools and corporate to support their operations. Phone services in schools are vital to enable communication with parents in an emergency situation.

Responsibilities for DEC's telecommunication services are divided into two areas: Data services are managed by the Information Technology Directorate. Fixed voice and mobile services are managed within the Operations Unit in People & Services Directorate.

DEC operates the largest communications network in NSW government, with more than 500,000 computing devices and 12,000 servers connected across NSW in more than 2,500 sites.

In 2012-13, DEC spent \$85.2 million on telecommunications expenses. This represented 4.1 per cent of its actual expenses of \$2,102.7 million (excluding employee related costs).

## 4.2 Did DEC use an efficient and effective process to evaluate and select the contracts that delivered best value for its business needs?

DEC demonstrated that it had efficient and effective processes to evaluate and select the contracts that deliver best value for of its business needs. However, it failed to apply these processes effectively to all its telecommunications procurements. It demonstrated that it has procurement capabilities to support it in the new framework, but these need to be applied to all its procurement activities.

DEC demonstrated efficiencies by buying from the GTA arrangements, but an assessment of its business needs has not been done for fixed voice and mobile services since the last contracts expired in 2011. DEC is developing a procurement plan to support decision making for fixed voice and mobile services.

During the course of the audit, DEC advised that it was taking steps to apply its procurement skills to negotiate its next fixed voice and mobile services contract.

DEC has a procurement policy that is consistent with whole of government procurement policies and DEC has gained procurement accreditation from OFS.

Overall, DEC demonstrated that it uses an efficient and effective process to evaluate and select the data services contracts that deliver best value for its business needs.

DEC successfully used its volume to negotiate better than GTA rates for its data services, equating to a discount of more than 48 per cent between 2009 and 2013. Negotiations for its new data services contract in 2013 secured a further discount of ten per cent with better services.

In early 2013, DEC considered that a consolidated approach for data, fixed voice and mobile services would be of benefit. However, in March 2013, market testing was only carried out for data services. The result was its new data services contract referred to above, with fixed voice and mobile services excluded. DEC advised us that it had business reasons for excluding fixed voice and mobile services from this contract. However, it would have benefited from documenting a cost benefit analysis of the case for and against excluding fixed voice and mobile from the data services market testing exercise.

DEC has been efficient by buying its fixed voice and mobile services from the GTA arrangements rather than spending time running a tender process. The rate that DEC has been paying for these services is better than the government benchmark rate from its supplier. This indicates that DEC successfully used its volume to negotiate better than GTA rates for its fixed voice and mobile services when the contract was signed in 2008, equating to a discount of around 24 per cent.

The contract for its fixed voice and mobile services expired in 2011 and DEC has allowed it to run on a month to month basis since then. DEC advised that it had not signed a new contract for various reasons. However, we think that DEC should have used its volume to negotiate further discounts by entering into a new contract, as it had with its data services contract negotiations. A similar level of savings on fixed voice and mobile services would have equated to \$2.81 million in savings since 2011.

DEC has also forgone \$318,000 over the last year by not taking advantage of the 2.5 per cent discount available due to the abolition of the OFS management fee on State contracts.

A benchmark report commissioned by its supplier in June 2013 demonstrated that DEC was paying less than its government benchmark rates for data, fixed voice and mobile services. However, this benchmark report did not evaluate whether DEC could have received even lower rates, better options and improved service quality had it negotiated new contracts for fixed voice and mobile services under the GTA arrangements since 2011.

DEC is developing a strategic plan for fixed voice and mobile services. A documented plan would ensure that any investment in voice infrastructure is consistent and supports DEC's long term requirements.

During the audit, DEC recognised the shortcomings in relation to negotiating fixed voice and mobile contracts. It advised us that this will be addressed in the near future, resulting in the preparation of a forward plan and strategy for fixed voice and mobile services. It also advised that it was taking steps to apply its procurement skills to negotiate its next fixed voice and mobile services contract.

### 4.3 Did DEC actively manage its contracts to assure value for money?

We found that DEC has established a good contract management framework. It demonstrated good practices, such as regular supplier performance management, risk assessment, reporting and governance, and contract reviews for some of its telecommunications services. It also actively managed some contracts to assure value for money.

However, as DEC is not applying its contract management framework to managing all its telecommunications services contracts, it cannot demonstrate that it achieved value for money.

DEC has established policies, procedures and a contract management framework that address good practice elements. For example, it includes:

- a risk based approach to contract management activities
- efficient and effective procedures to manage the contract
- managers' responsibility to assess and source the skills and experience required to manage the contract
- the requirement for a risk based contract management plan
- the requirement to exercise contract review mechanisms, if any
- establishing a mechanism for regular reviews of costs and usage against business needs
- reviewing the contracts at regular intervals to check performance against SLA requirements
- regular internal reporting.

DEC used its contract management framework for its data services contracts, and has staff with sound knowledge and skills in managing contracts for data services. It also demonstrated that it was actively managing its data services contracts to assure value for money.

DEC used some elements of its contract management framework for its fixed voice and mobile services. For example, it holds monthly vendor meetings to discuss and resolve issues of concern. In 2011, it had also implemented changes to the tier rates of its fixed voice services to schools resulting in a saving of over \$81,000 per annum. This change was identified by its supplier following an annual review provision in the GTA arrangements. However, DEC does not ensure that these reviews are conducted annually. It also had not implemented the changes recommended from the last review conducted in 2013, which it advised would have resulted in savings of more than \$90,000 per annum.

DEC also did not demonstrate that it was managing SLA performance for its fixed voice and mobile services, as it was not conducting regular contract reviews and reporting internally beyond the monthly vendor meetings. DEC also has not assigned staff with relevant knowledge and skills to manage the fixed voice and mobile services contracts. We found that DEC was not actively managing the fixed voice and mobile services contracts to assure value for money.

#### 4.4 Did DEC efficiently and effectively manage its usage of, and expenditure on, telecommunications?

DEC demonstrated that it had efficient and effective processes to manage its usage of and expenditure on data services. In particular, it demonstrated that it had processes to verify the accuracy of supplier invoices and claim rebates and credits for errors.

However, DEC's expense management processes for fixed voice and mobile services was neither efficient nor effective.

DEC has a policy on the allocation and use of telecommunications devices and services. It demonstrated some good practices, such as independent verification of supplier invoices and some cross checking of charges for data services. However, most data services are fixed price contracts with only a few variable monthly charges. This means there is less risk of errors in the invoices.

Due to the volume of fixed voice and mobile services throughout the State, most verification is related to changes in billing from month to month and whether it is within forecast budgets.

DEC relies on schools and managers to identify and raise errors each month when they receive a copy of their invoices for fixed voice and mobile services. However, we found that there is not guidance provided by DEC on the minimum requirements for what should be checked by schools and managers when they receive the monthly invoice. This guidance would ensure consistent practices for the verification of usage and expense data for fixed voice and mobile services.

DEC advised that mobile phone charges are allocated against each school or business unit's budget, so there is an incentive for them to check accuracy. However, DEC cannot be certain that every school and manager reviews their invoices to identify incorrect charges, to check that cancelled services are not being charged, or whether correct rates are being applied.

In relation to expense management, we found that DEC focusses on staying within approved budgets, rather than proactively identifying savings opportunities. It reports expenditure variations against budget, but there is no regular reporting against telecommunications usage and expenditure.

DEC did not demonstrate that it had effective procedures for supplier invoice checking. In particular, it does not have in place all the elements of an effective expense management framework as shown in Exhibit 8.

The verification process for fixed voice and mobile service invoices is wholly manual and takes one month to complete. This is inefficient. DEC has not implemented any improvements in its processes, such as utilising electronic copies of its supplier invoices, so that data matching within its systems can be done more quickly and accurately.

Other agencies have outsourced or automated much of the verification process. They download their invoices into a spreadsheet that can be automatically cross checked to inventory changes, incidents, and HR systems (asset tracking by user and management of personal calls). When automated, these verification tasks are more efficient, taking minutes rather than days to identify exceptions that should be investigated.

We also found that the DEC invoice verification process for fixed voice and mobile services may not be effective as it is not regularly identifying errors on suppliers' monthly invoices. Our review of other agencies in this audit revealed that four regularly found errors on their supplier invoices.

In addition, two review agencies demonstrated the benefits of effective telecommunications expense management processes, claiming credits and achieving savings of between seven and 32 per cent of expenditure over the years 2011–12 and 2012–13.

DEC believes that its supplier invoices are accurate. However, its last detailed review was conducted in 2010. Based on other agencies' recent experiences, DEC should again audit the accuracy of its supplier invoices for fixed voice and mobile services.

DEC's policy on personal calls is that they are to be reimbursed but managers can waive the obligation for staff to pay if deemed appropriate. Mobile bills are e-mailed to all mobile phone users monthly to review and identify personal calls. However, DEC does not check that these are processed each month and does not track the repayment of personal calls. This indicates a mis-match between policy and practice that DEC should address.

## Recommendations

### Department of Education and Communities should by June 2015:

- improve its documentation for planned procurements, such as including a cost benefit analysis of its decisions for excluding service options
- complete its procurement strategy and plan for fixed voice and mobile services
- use its procurement skills to negotiate new contracts for fixed voice and mobile services consistent with its procurement strategy and plan
- assess the contract management skills needed to effectively manage the fixed voice and mobile services contracts and assign responsibilities accordingly
- provide guidance to schools on the minimum requirements for verifying supplier invoices
- implement an efficient and effective way to process and verify the accuracy of supplier invoices for fixed voice and mobile services
- audit the accuracy of its supplier invoices for fixed voice and mobile services for at least the last 12 months, and if this identifies errors DEC should recover any overpayments and extend this investigation for previous periods as well.



## Response from the Department of Education and Communities



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

DGL14/612  
DGL14/641

Dear Mr Hehir

I refer to your letter of 27 May 2014, regarding the Audit Office's performance audit on managing telecommunications expenditure.

I would like to thank the Audit Office review team for their work. I acknowledge that much of the feedback the Department of Education and Communities has provided to your office on previous drafts of this report has been considered in the formulation of your final report.

I note that the report reflects positively on the Department's procurement and contract management capabilities and acknowledges that the Department has efficient and effective processes in place for managing the data services contract arrangements, which comprise the majority of its telecommunications expenditure.

The report also acknowledges that the Department has demonstrated efficiencies in buying fixed voice and mobile services under the NSW Government Telecommunications Agreement arrangements, at levels better than the government benchmark rates from its service provider.

The framework for the delivery of the Department's data services is quite different to that for voice and mobile services due to the Department's size and complexity. The report distinguishes between the contract arrangements for each, yet it draws a comparison between the two as the basis for estimating potentially foregone savings in relation to voice and mobile services contracts. The Department does not consider that the extent of the estimated foregone savings for fixed and mobile services is realistic, as it is based on savings achieved in respect of an entirely different contract for the Department's data services.

Whilst the extent of potentially foregone savings estimated in the report is the subject of debate, the Department acknowledges the recommendations in the report regarding improvements that can be made to current processes and is committed to their implementation by June 2015.

Yours sincerely

A handwritten signature in black ink that reads 'Michele Bruniges'.

Dr Michele Bruniges AM  
**SECRETARY**  
**DEPARTMENT OF EDUCATION AND COMMUNITIES**  
19 June 2014

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## 5. Forestry Corporation of NSW

Forestry Corporation of NSW (Forestry) is developing its capability in procurement of telecommunications services, resulting in cost savings in a recent negotiation. However, it has not yet developed effective contract management and its expense monitoring processes are limited so it cannot demonstrate that it achieves value for money from its contracts. It has recognised this weakness and advised us that it is taking steps to improve the effectiveness of these processes.

To assess whether Forestry achieves value for money in its telecommunications arrangements, we examined whether it:

- used an efficient and effective process to evaluate and select the contracts that deliver best value for its business needs, and whether it has procurement capabilities to manage procurements in the new framework (procurement processes)
- actively manages its contracts to assure value for money (contract management)
- efficiently and effectively manages its usage of and expenditure on telecommunications (expense management).

Exhibit 11 provides a summary of the results for Forestry which are discussed in more detail in sections 5.2, 5.3 and 5.4.

### Exhibit 11: Forestry - Summary of findings against the audit criteria

Audit Criteria	Result
Has efficient processes for procurement	●
Has effective processes for procurement	◉
Has built the procurement capability that is needed for the new framework	◉
Good contract management framework	○
Active contract management	◉
Efficient expense monitoring process	◉
Effective expense monitoring process	◉

Source: Audit Office research 2014

Key: In place: ● Partially implemented: ◉ Not demonstrated: ○

### 5.1 About Forestry and its telecommunications environment

Forestry is a State owned corporation. It is the largest manager of commercial native and plantation forests in NSW. It manages around two million hectares of hardwood forests and softwood plantations.

Forestry grows and harvests timber to meet the community's needs for hardwood and softwood products, while still providing recreational opportunities and safeguarding the forest environment for current and future generations.

Forestry produces a range of hardwood log products that are supplied to the domestic hardwood processing industry. Forestry also harvests softwood, such as fast-growing pine, to produce sawlogs for conversion into essential structural lumber for the Australian housing industry and other products.

Forestry has communications challenges as some of its operations are in very remote forest areas in NSW where standard telecommunication coverage can be weak or non-existent. Telecommunication plays a key role in Forestry as management and technical information on forests and timber sales from remote areas must be kept up to date.

In 2012-13, Forestry spent \$1.2 million on telecommunications expenses. This represented 0.6 per cent of its actual expenses of \$196.7 million (excluding employee related costs).

## 5.2 Did Forestry use an efficient and effective process to evaluate and select the contracts that delivered best value for its business needs?

There was a lack of relevant documentation in Forestry about how some of its existing telecommunications arrangements were established. It has demonstrated efficiencies by taking advantage of cluster procurement arrangements for its network systems. Forestry's most recent contract negotiations for mobile voice and data services resulted in savings, but the documentation of its process could be improved to confirm that this represented the best value for its business needs.

Forestry is still building its procurement capabilities to support it in the new telecommunications procurement framework.

Forestry's procurement policy is generally consistent with the NSW procurement framework for goods and services.

Forestry is part of the Department of Trade and Investment, Regional Infrastructure and Services (DTIRIS) cluster. DTIRIS has centralised the procurement and contract management for some telecommunications systems, such as its IT/WAN networks. Forestry pays a service fee to DTIRIS for its WAN networks, saving Forestry from this function. DTIRIS has undertaken a tender process on behalf of the cluster, including Forestry, to establish a new contract for its WAN networks. This is a further example of how Forestry achieves efficiencies in its procurement.

Forestry directly manages two other telecommunications contracts for fixed voice phone and mobile device services. Both these were established under the GTA arrangements but there was a lack of relevant documentation available about whether the decision was based on analysis of business needs and market testing.

Forestry's most recent contract negotiations for mobile voice and data services resulted in savings of nearly \$170,000 per year. However, the documentation of its process could be improved to confirm that this represented the best value for its business needs. For example:

- the business case did not fully reflect its analysis of future business needs, input from business managers or how the proposal would support the business going forward
- there was limited discussion of options or cost benefit analysis
- its market testing approach could have been improved by receiving proposals from alternative suppliers as well as having its proposal reviewed by the OFS Procurement and Technical Standards telecommunications Working Group
- the business case recommendation does not quantify the value of the commitment to be approved nor is there evidence of financial authorisation and approval.

Forestry has a procurement policy, procurement procedures and management culture of requiring business cases, which sets a good framework for planned procurements. However, Forestry would benefit from improving its business case model, and accessing whole of government benchmarking information to confirm that any offers it receives from suppliers represents good value for money. Forestry may also benefit from other cluster telecommunications contracts negotiated by DTIRIS.



### 5.3 Did Forestry actively manage its contracts to assure value for money?

Forestry has not been actively managing the two contracts for telecommunications that it is responsible for, so it cannot demonstrate that it is getting value for money. It has recognised this weakness and advised us that it is taking steps to improve the effectiveness of these processes.

As materiality is low, it would not be cost effective to implement an elaborate contract management framework. However, Forestry still needs to ensure key objectives and contract obligations are appropriately managed.

Forestry's IT/WAN network contracts are being managed by DTIRIS. Forestry is responsible for reporting service interruptions and monitors resolution of incidents. It has received rebates where SLA performance was poor.

Forestry is responsible for managing two other contracts for telecommunications services. For these, it monitors the availability of services and resolves incidents as they occur. However, Forestry did not demonstrate that it has a contract management framework in place or that it was actively managing the two contracts for telecommunications that it is responsible for. In particular, it does not have in place all the elements of a better practice contract management framework shown in Exhibit 7.

The materiality of this gap is low as telecommunications expenses account for just 0.61 per cent of operational expenses and it would not be cost effective to implement an elaborate contract management framework. Nonetheless, a simple contract management framework could be implemented to ensure key objectives and contract obligations, such as supplier SLA performance and contract review mechanisms, are appropriately managed.

Forestry has a contract management framework for its commercial operations, but it has not applied this to managing its telecommunications contracts.

Forestry advises that it is developing a business case for the implementation of a contract management system (CMS).

### 5.4 Did Forestry efficiently and effectively manage its usage of, and expenditure on, telecommunications?

Forestry has a policy on how telecommunications expenses will be monitored, but does not have effective processes to action that policy. It is developing its processes to verify the accuracy of supplier invoices.

Forestry has a policy on allocation and use of mobile phones and devices. Each manager is issued with a monthly report of usage and charges for the phones and devices in their group. Managers are expected to review the data in this report to identify any unusual charges without valid justification. Each manager has an overall telecommunications budget and if actual expenses exceeds budget, managers are expected to provide an explanation for significant variations.

However, we found that there are no procedures or minimum requirements for what is checked by managers when they receive the monthly invoice. For example, Forestry cannot be certain that each manager reviews the invoices to identify incorrect charges, cancelled services that are still being charged, or whether correct rates are being applied. Forestry also does not check that all managers have verified their cost centre invoice charges each month, and it does not maintain an inventory register for telecommunications devices to assist in checking the accuracy of supplier invoices.

Forestry has claimed credits for incorrect or excessive charges on its supplier invoices. However, it would benefit from documenting its processes to ensure a consistent approach.

Forestry has recognised this limitation and is considering options to improve its telecommunications expense management practices.

Forestry reviews actual invoice amounts against budget every two to three months and reports this as part of the standard Board reporting pack. However, the report provided is a budget analysis and does not analyse usage. That is, Forestry does not monitor usage levels to determine whether there are better plans. For example, for mobile phone and data services, it only reviews actual usage against its budget.

Forestry has just established a new contract for mobile devices that includes pooled data plans. This will eliminate some of the need to monitor usage for individuals. However, Forestry still needs to have an efficient way to regularly monitor usage to ensure that overall it is within the data limits of the new contract.

## Recommendations

### Forestry Corporation of NSW should by June 2015:

- improve its business case model for planned procurements
- ensure it has a process to access whole of government benchmarking information to confirm that any offers it receives from suppliers represents good value for money
- investigate opportunities to leverage other cluster telecommunications contracts negotiated by DTIRIS
- develop and implement an efficient contract management framework
- assess the contract management skills needed to effectively manage its contracts and assign responsibilities accordingly
- implement an efficient way to verify the accuracy of telecommunications supplier invoices.

## Response from Forestry Corporation of NSW



Forestry Corporation of NSW ABN 43 141 857 613

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6/06/2014

Ref No.: COUT14/00056

Mr Grant Hehir  
Auditor General  
GPO Box 12  
SYDNEY NSW 2000

Dear Mr Hehir

I appreciate the opportunity to respond to your Performance Audit Report *"Making the most of Government Purchasing Power - Telecommunications"*.

I support your recommendations in principle and believe the adoption of these principles will assist Forestry Corporation of NSW (FCNSW) in leveraging increased value out of its telecommunications services.

The telecommunications environment of FCNSW is made up of three major elements – the IT network, mobile phones, and landlines.

As you have noted in your report, the IT network is managed by FCNSW's cluster parent, Department of Trade and Investment and Regional Infrastructure and Services. We have a Service Level Agreement with the Department and they are the active managers of the contract with the third-party supplier. The procurement of FCNSW network services is also managed through the Department. The other two services for mobile phones and landlines are managed directly by FCNSW.

It is important to note that telecommunications expenses form only 0.6% of FCNSW's total operating expenditure. While it is an important area of the business, our largest expense categories are related to the harvesting and haulage of logs, roading, silviculture and the related plantation costs. It is in these areas where we place the greatest business focus.

We are however conscious that consumables contracts such as telecommunications could be better managed as a business cost and to this extent, FCNSW will be looking into implementing an integrated contract management system.

Recently FCNSW has increased its focus on the management of mobile phones and related devices. A thorough review was undertaken which included reviewing staff mobile phone usage, bill patterns, business requirements and the latest plans offered by mobile phone carriers. As a result of this a new contract with the carrier has been negotiated which will save FCNSW approximately \$170,000 per annum.

FCNSW is also embracing the latest technology available to the business, such as the use of tablet devices in the field where they can contribute to improvements in staff productivity, efficiency and safety.

FCNSW will also be considering the possibilities new technology present. Specifically, evaluation is underway as to whether VoIP (voice over internet protocol) can be a cost effective solution for the FCNSW landline environment.

The report notes that FCNSW can improve its expense monitoring of telecommunication services. While regular mobile phone bill reports are currently reviewed by managers across the business, I agree that there are opportunities to improve on the review and analysis of this spend. To this extent FCNSW will also investigate use of third parties that perform detailed telecommunications expense and analysis on behalf of the business.

I note the recommendations that you had made in your report and believe that FCNSW is already on the road to achieving them.

Thank you and your staff for making a positive contribution to improving the telecommunications services in our business.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Nick Roberts', with a stylized flourish extending from the bottom right.

Nick Roberts  
CEO

## 6. Fire and Rescue NSW

Fire and Rescue NSW (Fire and Rescue) demonstrated that it achieved value for money in most of its telecommunications arrangements. It is building capabilities in procurement and contract management and has good expense monitoring processes that enable it to manage and extract value from its telecommunications arrangements.

To assess whether Fire and Rescue achieves value for money in its telecommunications arrangements, we examined whether it:

- used an efficient and effective process to evaluate and select the contracts that deliver best value for its business needs, and whether it has procurement capabilities to manage procurements in the new framework (procurement processes)
- actively manages its contracts to assure value for money (contract management)
- efficiently and effectively manages its usage of and expenditure on telecommunications (expense management).

Exhibit 12 provides a summary of the results for Fire and Rescue which are discussed in more detail in sections 6.2, 6.3 and 6.4.

### Exhibit 12: Fire and Rescue - Summary of findings against the audit criteria

Audit Criteria	Result
Has efficient processes for procurement	●
Has effective processes for procurement	●
Has built the procurement capability that is needed for the new framework	◐
Good contract management framework	○
Active contract management	◐
Efficient expense monitoring process	●
Effective expense monitoring process	●

Source: Audit Office research 2014

Key: In place: ● Partially implemented: ◐ Not demonstrated: ○

### 6.1 About Fire and Rescue and its telecommunications environment

Fire and Rescue provides emergency risk management services throughout NSW, promoting fire safety, managing fires and protecting NSW from hazardous material incidents. In 2012-13 Fire and Rescue served a population of 7.3 million people and attended 133,611 incidents, or one every four minutes, making it the largest provider of fire and non-fire rescue services in NSW. Fire and Rescue also provides statewide counter-terrorism consequence management and hazardous materials emergency response.

Fire and Rescue is a large and complex agency that employs 6,825 fire fighters and 7,200 community fire unit volunteers, supported by 412 administrative and trades staff. It comprises a network of 337 fire stations, and a fleet of 645 fire appliances, and 250 minor fleet (passenger and commercial) vehicles.

Robust telecommunications systems are vital for Fire and Rescue to respond to emergency situations. Fire and Rescue has two independent communications networks: one for emergency services and the other for corporate and other business needs. This ensures that communication to emergency services is not interrupted by the business side of the organisation.

In 2012-13, Fire and Rescue spent \$4.7 million on telecommunications expenses. This represented 5.3 per cent of its actual expenses of \$89.06 million (excluding employee related costs).

## 6.2 Did Fire and Rescue use an efficient and effective process to evaluate and select the contracts that delivered best value for its business needs?

Fire and Rescue demonstrated that it has efficient and effective processes to evaluate and select the contracts that deliver best value for its business needs.

Fire and Rescue has planned telecommunications procurements that are supported by ICT strategies which address its business needs. The latest update to its IT Strategy has been drafted and endorsed by the IT Steering Committee.

We found that Fire and Rescue demonstrated procurement capabilities to support it in the new framework.

Fire and Rescue has a draft IT strategy, procurement policy and delegations manual that are consistent with the whole of government procurement framework. Its procurement policy includes value for money considerations. For example, it requires officers to:

- ensure the rates are reasonable and consistent with market rates for items of a similar nature
- conduct a regular review to ensure the reasonableness of prices, including the random invitation of quotations at appropriate time intervals.

Fire and Rescue is accredited for procurements up to \$6.6 million.

Fire and Rescue demonstrates efficient and effective procurement processes by preparing Situation, Implication, Proposal (SIP) documents, and conducting proof of concept trials of new technologies and approaches to better address business needs. As part of the SIP for proposed projects, a risk analysis is undertaken identifying the hazards and proposed treatments to minimise the risks.

Other examples of Fire and Rescue's efficient and effective processes for telecommunications procurements include:

- buying services from the GTA where it demonstrates value for money, and market testing services that are not on the GTA (such as satellite services)
- hosting some telecommunication services for another agency in its cluster including mobile voice and data, Wide Area Network (WAN) and Local Area Network (LAN)
- managing the 000 emergency despatch system contracts (on behalf of the cluster) and maintaining this to a very high level of reliability and resilience. This includes six layers of resilience (back-up systems)
- evaluating new technology, innovations and alternative options to get better value and drive cost reductions that could be modelled across government.

**Exhibit 13: Fire and Rescue’s innovative approach to drive cost reductions**

Fire and Rescue plans to save 50 to 70 per cent of its telecommunications network costs by using the Internet instead of a private data network. It believes its new strategy will also improve the capability of its data communications network.

Until recently, private data networks have been the only viable option that agencies could use for their business data communications due to speed, security, connectivity and legacy systems. Telecommunications services have been priced accordingly.

Like many agencies, Fire and Rescue’s workforce is highly mobile, and it has developed solutions that work anywhere using the Internet. It is now taking its mobile workforce approach to the next level by defining its physical offices as being part of anywhere. Its plan is for staff to work via the Internet in any of its offices in the same way as they work anywhere else.

Fire and Rescue believes that its private data network is now a costly duplication of the Internet and will be phasing it out over the next 12-24 months. By doing so, Fire and Rescue is taking advantage of Internet improvements for private citizens, including fast speeds, low capital costs, good security, high resilience and competitive access prices.

Most importantly, Internet services can be procured from any provider or different providers. This allows for the best (fastest/lowest cost) service to be cherry-picked from the most suitable provider in each office location. In its view, this will drive cost reductions of between 50 and 70 per cent, and this can be achieved by other agencies as well.

***Fire and Rescue’s make-over***

**BEFORE**

370 remote offices/fire stations connected to MPLS cloud that is connected to a data centre.  
  
Internet traffic then routed via a firewall and single 200Mbit Internet connection out onto the Internet.

**AFTER**

Remote offices/fire stations connected to the Internet using consumer-based connections of choice.  
  
Corporate traffic uses VPN or inherent application security to route to data centre or other clouds. 50-70 per cent cost reduction offered by telecommunications companies.  
  
Theoretical aggregate Internet bandwidth is now 6.4Gbits. That is, every site can use its full bandwidth to access the Internet.  
  
Some technical changes will be required within both existing IT infrastructure and web-based application security to enable achievement of the desired end-state and incorporate 2-factor security authentication.  
  
As the number of external clouds accessed increases, this option becomes even more efficient. Bring-your-own-device (BYOD) becomes much simpler. Authentication is via a web-portal.  
  
No standard operating system required on devices. The embedded 4G service on most devices provides full resilience.

Source: Fire and Rescue NSW 2014

Fire and Rescue’s IT Strategy is still in draft form, but is useful in understanding the direction of its procurement planning. The IT Strategy has been endorsed by the IT Steering Committee and is due for final release in July 2014. Until then, Fire and Rescue advises that it continues to follow the previously approved plan. This is also supported by an annual IT Business Plan, which outlines in detail the proposed outcomes for the ensuing year.

The IT Strategy would benefit from including consultation with business managers and relevant cluster representatives in its key actions. Input from business and cluster representatives into the emerging technology platforms will ensure that the procurement investments being made by Fire and Rescue are demonstrably aligned to business needs and have buy-in and commitment from operational areas to ensure success.

Fire and Rescue has gained procurement accreditation and already hosts some systems on behalf of agencies in the cluster. There may be benefit in Fire and Rescue engaging with other agencies in its cluster when considering trials of new technologies and during procurement planning.

### 6.3 Did Fire and Rescue actively manage its contracts to assure value for money?

Fire and Rescue demonstrated elements of contract management that addressed good practice expectations, such as supplier performance, risk assessment, reporting, governance, and contract reviews.

However, it does not have a contract management framework in place to ensure a consistent approach. As Fire and Rescue is not actively managing its telecommunication contracts in a systematic way, it cannot say that it is getting value for money from all its telecommunication contracts.

Fire and Rescue has recognised the need for a contract management framework to manage telecommunications contracts and has restructured its IT department to provide resources to strengthen this capability.

We found that elements of good contract management practices are evident for telecommunications contracts, such as supplier performance reviews, risk assessment and contract reviews. Fire and Rescue has achieved value for money by negotiating a contract renewal with improved services at lower cost, and by leveraging an existing contract to reduce implementation costs in another contract.

However, Fire and Rescue does not have a contract management framework, contract management plan or contract manager assigned for any of its telecommunications contracts. Currently, contracts are managed on an ad hoc and exception basis.

We found that Fire and Rescue is not actively managing its telecommunication contracts in a systematic way and cannot say that it is getting value for money from all its telecommunication contracts. The value for money that it achieves in procuring telecommunication services may be undermined if the contracts are not well managed over the long term. This is particularly important as Fire and Rescue is pursuing a strategy, consistent with NSW government procurement strategy, of buying more services rather than products.

Fire and Rescue has recognised the need for a contract management framework and has plans to establish a governance team which will have responsibility for contract and vendor management. Fire and Rescue is also working with its Cluster in implementing a procurement and contract management system to improve these processes.



## 6.4 Did Fire and Rescue efficiently and effectively manage its usage of, and expenditure on, telecommunications?

Fire and Rescue demonstrated that it had efficient and effective processes to manage its usage of, and expenditure on, telecommunications. In particular, it demonstrated that it had processes to effectively verify the accuracy of supplier invoices and claim rebates and credits for errors.

Fire and Rescue has a clear policy on how telecommunications services will be used by staff and how expenses will be monitored. It also has efficient processes to action that policy. For example, it has set a per person threshold for monthly mobile phone charges and provides exception reports to managers based on this threshold.

Fire and Rescue also has an effective process to verify the accuracy of supplier invoices and track resolution of issues and receipt of credits or reimbursements. For example, telecommunications supplier invoices are received electronically and entered into a billing system. This system analyses the data from supplier invoices to identify exceptions, such as unusual data transmissions or calls. The billing system includes access to Fire and Rescue's employee and telecommunications inventory records to identify any errors such as continuing charges for discontinued services.

Fire and Rescue demonstrated that its invoice verification process was effective by regularly challenging incorrect invoices. Examples of errors on supplier invoices that have been challenged include:

- mobile services being charged incorrect data plan rates
- incorrect billing rate applied to fixed line phone services.

Fire and Rescue's billing system was developed, and is being maintained, by a contracted company. However, this system has reached the end of its useful life and the contracted company has indicated it will not support this system into the future. Fire and Rescue has recognised this risk to its expense management process and has initiated a project to replace its billing system.

### Recommendations

Fire and Rescue NSW should by June 2015:

- finalise its IT Strategy with input from business managers and obtain executive sign-off
- explore more opportunities to collaborate on telecommunications procurements within its cluster
- develop and implement a contract management framework
- assess the contract management skills needed to effectively manage its contracts and assign responsibilities accordingly
- complete the transition to a new expense management system.

## Response from Fire and Rescue NSW



File Ref. No: CC14/356  
TRIM Ref. No: D14/40568

24 June 2014

Mr Grant Hehir  
Auditor-General, Performance Audit  
Audit Office of NSW  
GPO Box 12  
Sydney NSW 2001

Dear Mr Hehir

Thank you for providing my agency with the opportunity to provide final comment on your report.

I am pleased that the report shows that Fire & Rescue NSW is managing its telecommunications spend well and am also grateful for advice and recommendations on how the agency can improve.

Your team that conducted the work at Fire & Rescue NSW were both professional and efficient in their dealings with my staff, for which I am appreciative.

Fire & Rescue NSW has been developing innovative new ways of working that will halve its data communications costs while significantly improving bandwidth. I am pleased to see a case study on this has been included in your report and look forward to seeing how this may benefit other agencies.

Yours sincerely

A handwritten signature in black ink, appearing to read "Greg Mullins".

Greg Mullins AFSM  
**Commissioner**

**Fire & Rescue NSW**  
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## 7. NSW Businesslink Pty Ltd

NSW Businesslink Pty Ltd (Businesslink) was established more than ten years ago as a shared corporate services provider to a number of agencies, including those in the Family and Community Services (FACS) cluster. However, we found that four of its client agencies continue to negotiate and manage telecommunication service contracts in isolation to Businesslink and the cluster. This has resulted in inefficient and ineffective processes for telecommunications procurement, contract management and expense monitoring.

To assess whether Businesslink achieves value for money in its telecommunications arrangements, we examined whether it:

- used an efficient and effective process to evaluate and select the contracts that deliver best value for its business needs, and whether it has procurement capabilities to manage procurements in the new framework (procurement processes)
- actively manages its contracts to assure value for money (contract management)
- efficiently and effectively manages its usage of and expenditure on telecommunications (expense management).

Exhibit 14 provides a summary of the results for Businesslink which are discussed in more detail in sections 7.2, 7.3 and 7.4.

### Exhibit 14: Businesslink - Summary of findings against the audit criteria

Audit Criteria	Result
Has efficient processes for procurement	○
Has effective processes for procurement	○
Has built the procurement capability that is needed for the new framework	●
Good contract management framework	○
Active contract management	●
Efficient expense monitoring process	●
Effective expense monitoring process	●

Source: Audit Office research 2014

Key: In place: ● Partially implemented: ● Not demonstrated: ○

### 7.1 About Businesslink and its telecommunications environment

Businesslink is a State owned corporation. It was established in 2002 to provide outsourced business services to a wide range of clients. Businesslink's primary purpose is to reduce the cost of Government administration and increase public sector productivity, collaboration and service delivery with cost-effective, integrated solutions.

Its main client is the NSW Department of Family and Community Services (FACS) which includes agencies such as Community Services, Housing NSW, Ageing, Disability and Home Care, Land and Housing Corporation and the Aboriginal Housing Office.

Telecommunications services are important to enable Businesslink to support around 22,000 front line service delivery staff in its client agencies.

In 2012-13, Businesslink spent \$8.98 million on telecommunications expenses. This represented 9.93 per cent of its actual expenses of \$90.5 million (excluding employee related costs).

Following an internal review, completed in April 2014, Businesslink and its functions will be merged into FACS as a new business unit from July 2014.

## 7.2 Did Businesslink use an efficient and effective process to evaluate and select the contracts that delivered best value for its business needs?

Businesslink has achieved value for money in some telecommunications procurements for its clients.

However, four of Businesslink's clients have each negotiated telecommunication contracts for similar services in isolation to Businesslink. Centralised procurement for these clients was a key objective of Businesslink. The fact that they continue to undertake these functions indicates that Businesslink has not met its business objectives. There was also a lack of relevant documentation about how some of Businesslink's existing telecommunications arrangements were established. This meant that we could not judge the overall efficiency and effectiveness of its processes in establishing these arrangements, for example, how it assessed business needs and engaged its clients.

Businesslink has recently replaced its procurement team with contract resources and commenced re-establishing its procurement capabilities. As this had not been completed at the time of the audit, we could not judge whether Businesslink will have the procurement capabilities needed in the new framework.

Businesslink has a procurement functional strategy, and a procurement management Plan that are consistent with NSW Government procurement requirements. Businesslink does not have a specific telecommunications procurement policy but it is developing a telecommunications category management plan that will inform the telecommunications plan for the future. Businesslink has introduced a category management approach to utilise economies of scale and achieve better value for money through aggregating demand. However, it is still developing this approach so we could not assess whether it has achieved this objective.

In the last 12 months, Businesslink has replaced its procurement team with contract resources. Businesslink had commenced re-establishing its procurement capabilities, but this was not completed at the time of the audit. In addition, Businesslink has applied for accreditation under the NSW Procurement Board's Agency Accreditation Scheme for Goods and Services Procurement. At the time of the audit, OFS was still assessing Businesslink's application for procurement accreditation.

While Businesslink is working on building its procurement capabilities, we could not judge whether it will have the procurement capabilities needed in the new framework.

Businesslink has provided examples of procurements for data services where it has assessed business requirements and conducted research and market testing, on behalf of its client agencies. These procurements have demonstrated that Businesslink achieved value for money by aggregating demand across its client agencies.

Businesslink documents procurement achievements in a closure report. This outlines how the procurement performed against its objectives; it provides for the handover of knowledge to operational teams; and it captures lessons learned for future procurements.

Businesslink has bought fixed voice and mobile services from the GTA arrangements. However, we cannot conclude that it is efficient or effective for these procurements because it has not centralised these arrangements on behalf of its client agencies.

We found that four of Businesslink's client agencies have been entering into and managing fixed voice and mobile telecommunications services contracts in their own right. Centralised procurement for these clients was a key objective of Businesslink. The fact that they continue to undertake these functions indicates that Businesslink has not met its business objectives.

This fragmented approach has meant that some of these client agencies are paying more than others for the same services. For example, the access cost per mobile voice service varies from \$1.29 to \$42.10. This variation is related to the volume of mobile voice services rather than location and geographic spread, and indicates there is an opportunity to leverage buying power to get better rates for the agencies in the group with lower volumes.

As Businesslink has not centralised the procurement of all telecommunications contracts for its client agencies, procurement processes across the cluster have been inefficient and ineffective.

In addition, three of the client agencies contracts for fixed voice and mobile services expired in 2012 and July 2013. Businesslink was advised in March 2013 that annual savings of \$228,082 were available across its client agencies with expired contracts. The potential savings would result from the removal of the 2.5 per cent management fee on State contracts and take up of more cost effective mobile phone plans. These potential savings have been continually reported to Businesslink since March 2013. Businesslink claimed the 2.5 per cent discount for one of its own contracts in April 2014.

Businesslink has achieved value for money by centralising some telecommunications procurements for its clients. However, Businesslink has not taken the opportunity to achieve the same benefits for its clients for fixed voice and mobile services.

### 7.3 Did Businesslink actively manage its contracts to assure value for money?

Businesslink did not actively manage its telecommunications contracts and did not demonstrate that it achieved value for money.

Businesslink does not have a contract management framework in place. It has assigned service owners to its telecommunications contracts that are described as contract managers. However, we found that their activities were centred on account management and vendor management tasks. Businesslink did not demonstrate that these staff had sound knowledge and skills to manage the contracts for which they were responsible. There are also no processes to ensure that contracts are effectively managed, such as undertaking regular performance reviews, risk assessment and reporting.

Businesslink has a document called a contract management plan that was prepared by its main telecommunications service supplier as an operational plan for the contract. However, it is inadequate as it does not:

- include a risk assessment and risk management strategy
- outline the roles and responsibilities of both the agency and supplier; and
- describe Businesslink's governance and reporting requirements.

It is important for an effective contract management plan to be established so that there are clear guidelines on how the contract will be resourced and managed. A contract management plan will also ensure that Businesslink is getting value for money from its contracts because it will identify and respond to risks and enable Businesslink to manage the performance of suppliers if they are not meeting their obligations.

Businesslink has outsourced its telecommunications vendor management activities, including monitoring SLA performance. This gives Businesslink important analysis of the use of telecommunications services across all agencies in FACS and makes timely recommendations of actions that Businesslink should take to maximise value for money. However, we found that Businesslink has not actioned some of these recommendations in a timely manner, reducing the benefits it could have achieved.

Vendor management is one element of contract management, but Businesslink has not developed an effective contract management framework despite this being a core function of its services to client agencies. In particular, it does not have in place all the elements of the better practice contract management framework shown in Exhibit 7.

The lack of a contract management framework means that Businesslink is not effectively managing the performance of its telecommunication service providers, including monitoring performance against SLA's and claiming rebates for missed SLA's.

Businesslink has commenced re-establishing its contract management capabilities, but this had not been completed at the time of the audit.

#### 7.4 Did Businesslink efficiently and effectively manage its usage of, and expenditure on, telecommunications?

Businesslink had some processes to verify the accuracy of supplier invoices and claim rebates and credits for errors, but these are not efficient or effective.

Businesslink has outsourced most of its telecommunications management processes to a telecommunications management service (TMS). This makes its processes for monitoring usage and verifying supplier invoices efficient. This service has also generated savings that may otherwise have been missed.

#### Exhibit 15: Savings from telecommunication management service

	Credits received	Savings realised	Total credits and savings	Telecommunication expense	Credits and savings as a percentage of telecommunication expenses
<b>Businesslink</b>					
2011–12	\$207,523	\$1,230,560	\$1,438,083	\$11,642,000	12.4%
2012–13	\$873,404	\$2,033,981	\$2,907,385	\$8,986,000	32.4%

Source: Audit Office Research 2014

Businesslink's TMS supplier undertakes invoice verification processes and provides monthly reports showing errors identified on supplier invoices and actions it is taking to have the errors corrected and credits claimed. It also tracks the resolution of errors and receipt of credits.

The TMS supplier also identifies actions that Businesslink can implement to achieve better value for money, such as checking and cancelling unused services and signing new contracts to take advantage of better offers. However, we found that Businesslink is not implementing recommended actions from this service in a timely manner which means it is not getting the best value from its telecommunications arrangements or this service.

Where there are errors identified on supplier invoices, these should be resolved as soon as possible. However, we found a case that has been open for 12 months. The TMS supplier demonstrates, through its monthly reports, that it is regularly following-up these issues with the telecommunications suppliers on behalf of Businesslink. However, Businesslink's telecommunications suppliers do not have an obligation to the TMS supplier to resolve these issues in a reasonable time.

Consequently, Businesslink did not demonstrate that it has an effective approach to managing its usage of and expenditure on telecommunications.

### Recommendations

The Department of Family and Community Services and NSW Businesslink Pty Ltd should by June 2015:

- develop and implement, for FACS, procurement and contract management frameworks that clearly outline procedures, responsibilities, resourcing and governance arrangements for telecommunications
- review all existing FACS telecommunications contracts to identify and address duplications or gaps in contract information, contract management processes, reporting and governance arrangements, and build capabilities to support procurement and contract management
- develop a plan to transition existing telecommunications arrangements to consolidated arrangements, consistent with the procurement and contract management frameworks and capabilities
- implement an efficient way to address weaknesses in telecommunications expense management processes that were identified in the audit
- develop and implement a reporting framework that will indicate to FACS that telecommunications procurement, contract management and expense management processes are working to assure value for money.



## Response from FACS and NSW Businesslink Pty Ltd



BLECF14/41  
EFACS14/553

Mr Grant Hehir  
Auditor General  
Audit Office of New South Wales  
GPO Box 12  
SYDNEY NSW 2001

24 JUN 2014

  
Dear Mr Hehir

### **Performance Audit: Making the most of Government purchasing power – Telecommunications**

Thank you for your letter dated 27 May 2014 providing a copy of the final report for the Performance Audit: Making the most of Government purchasing power – Telecommunications.

We acknowledge that improvement is always possible, particularly across the diverse and rapidly changing environment of Telecommunications and it is with this in mind that we welcome the opportunity to embrace the recommendations of the Performance Audit and release further value which can be directed towards supporting the most vulnerable in our community.

The Department of Family and Community Services (FACS) is undergoing a significant reform program and as a result the operations of Businesslink are to be merged into FACS as a new business unit from July 2014. This move will assist in the consolidation of telecommunication agreements and remove the inefficiencies identified in the audit.

The report includes a range of recommendations in relation to effective contract management. We will look to further refinement of our Strategic Sourcing and Service Ownership model to align with these elements in order to support the continued delivery of value from our procurement activities.

We will work closely with our telecommunications management service provider to build on our success in this area, strengthening the expense management and recovery function to enable speedy identification of errors or value improvement opportunities and to harvest these in a timely manner.

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Finally, we would like to thank the Audit Office review team for the professionalism shown throughout the audit and the collaborative way in which the final report and recommendations were constructed.

Yours sincerely



Albert Olley  
**Chief Executive**  
**NSW Businesslink Pty Ltd**



Michael Coutts-Trotter  
**Secretary**  
**Department of Family and Community**  
**Services**

## 8. Essential Energy

Essential Energy demonstrated that it achieved value for money in its telecommunications arrangements. It has built capabilities in procurement, contract management and expense monitoring that enables it to effectively manage and extract value from its telecommunications services.

To assess whether Essential Energy achieves value for money in its telecommunications arrangements, we examined whether it:

- used an efficient and effective process to evaluate and select the contracts that deliver best value for its business needs, and whether it has procurement capabilities to manage procurements in the new framework (procurement processes)
- actively manages its contracts to assure value for money (contract management)
- efficiently and effectively manages its usage of and expenditure on telecommunications (expense management).

Exhibit 16 provides a summary of the results for Essential Energy which are discussed in more detail in sections 8.2, 8.3 and 8.4.

### Exhibit 16: Essential Energy – Summary of findings against the audit criteria

Audit Criteria	Result
Has efficient processes for procurement	●
Has effective processes for procurement	●
Has built the procurement capability that is needed for the new framework	●
Good contract management framework	○
Active contract management	●
Efficient expense monitoring process	●
Effective expense monitoring process	●

Source: Audit Office research 2014

Key: In place: ● Partially implemented: ○ Not demonstrated: ○

### 8.1 About Essential Energy and its telecommunications environment

Essential Energy is a State owned corporation which operates alongside Ausgrid and Endeavour Energy as the State's three energy distribution companies. These companies operate under a shared group management model known as 'Networks NSW'. Networks NSW is undertaking joint procurement arrangements to get better value for money for their telecommunications arrangements.

Essential Energy is responsible for operating and maintaining Australia's largest electrical network across New South Wales and a small part of Queensland, covering 95 per cent of the State but only 5 per cent of the population. This is in contrast to Ausgrid, which covers around 5 per cent of the State but 95 per cent of the population.

Essential Energy maintains over 200,000 kilometres of power lines with over 1.4 million power poles and 135,000 distribution substations to provide electrical services to over 800,000 homes and businesses. It also provides over 10,000 homes and businesses with water and sewerage services. Essential Energy has a workforce of over 4,000 people based across more than 100 local depots and regional offices.

Telecommunications services are important to enable Essential Energy to maintain constant communication between regional offices and individual depots with instructions, feedback, emergency information and incident alerts.

## 8.2 Did Essential Energy use an efficient and effective process to evaluate and select the contracts that delivered best value for its business needs?

Essential Energy demonstrated that it had efficient and effective processes to evaluate and select the contracts that deliver best value for its business needs. Its planned telecommunications procurements are supported by procurement procedures and ICT strategies that address its business needs.

Essential Energy also demonstrated that it had the procurement capabilities that will support it in the new telecommunications procurement framework.

Essential Energy has a comprehensive procurement manual as well as documented procurement and contract management processes to assist staff understand requirements and foster a consistent approach to procurement at all stages. Business cases for new telecommunications programs indicate how the proposal addresses key strategies in its information and communications technology strategy.

Essential Energy uses an online system to manage the procurement process and automate approvals and workflows. This centralised approach fosters efficiency and consistency. Essential Energy also uses a procurement approval checklist to document its processes. This effectively demonstrates that procurement policies and procedures are being followed.

Other examples of Essential Energy's efficient and effective processes for telecommunications procurements include:

- purchasing from the established Essential Energy's goods and services catalogue or State contracts as a first principle
- market testing procurements, including those from State contracts such as the GTA
- evaluating new technology, innovations or alternative options to get better value.

## 8.3 Did Essential Energy actively manage its contracts to assure value for money?

Essential Energy has established a good contract management framework and practices. It also assigns appropriate skills and resources to manage its contracts.

Essential Energy demonstrated that it actively managed its telecommunications contracts to assure value for money.

Essential Energy has a good contract management process that meets most of the requirements of a good practice framework. For example, there is:

- independent internal monitoring of the procurement process
- regular reporting on forecast against budget and other contract issues
- up to date documentation of decisions and activities.

Essential Energy's contract management framework also includes a procurement and contract management process map. This is an example of good practice as it outlines all requirements and guides staff to support compliance and consistent practice.

Essential Energy undertakes activities that demonstrate that it is effectively managing its telecommunications contracts, including regular supplier performance reviews against its contractual obligations.

Essential Energy uses different systems for its telecommunications contract register. It may benefit from an integrated system for all contracts being managed.

Essential Energy may also benefit from consolidating information about each telecommunications contract in a contract management plan. This will assist continuity if key staff leave the organisation.

#### 8.4 Did Essential Energy efficiently and effectively manage its usage of, and expenditure on, telecommunications?

Essential Energy demonstrated efficient and effective processes to manage its usage of, and expenditure on, telecommunications. In particular, Essential Energy demonstrated that it had processes in place to effectively verify the accuracy of supplier invoices and claim credits for errors.

Essential Energy has a clear policy on how telecommunications expenses will be monitored and efficient processes to action that policy. For example, it has set a per person threshold for monthly mobile phone charges and provides exception reports to managers based on this threshold. All mobile phone users are required to verify their phone charges each month and exception reports indicate when this has not been done.

Essential Energy also has an effective process to verify the accuracy of supplier invoices and track resolution of issues and receipt of credits or reimbursements.

Essential Energy verifies supplier invoices each month using different processes for different telecommunications services. It also engages an outsourced expense management service to assist with analysing some of its telecommunications services invoices. It may find benefit in extending the expense management service to cover all telecommunications services to reduce some of its processing and introduce a consistent practice in verifying supplier invoices.

Essential Energy also makes savings by monitoring usage and moving to more cost effective options or decommissioning unused services. For example, a recent review of its mobile device usage identified savings by moving to more cost effective plans.

#### Recommendations

##### Essential Energy should by June 2015:

- implement an integrated system for all contracts being managed
- introduce contract management plans
- consider extending its telecommunication expense management service to all telecommunications arrangements.

## Response from Essential Energy



Ref: B913602

11 June 2014

Mr Grant Hehir  
Auditor - General  
Audit Office of New South Wales  
Level 15, 1 Margaret Street  
Sydney NSW 2000

Dear Mr Hehir

**Performance audit: Making the most of Government purchasing power - Telecommunications**

Thank you for writing to the Chief Executive Officer of Networks NSW, Vince Graham, recently regarding the Performance audit: making the most of Government purchasing power – Telecommunications. Mr Graham has noted your invitation to provide a formal response, and has asked me to respond to you.

Essential Energy was pleased to participate in this audit as a means of enabling an assessment of whether the State telecommunications procurement framework assists agencies to achieve value for money.

We accept the findings of this audit, and acknowledge the recommendations pertaining to Essential Energy as representative of better practices in the management of telecommunications contracts. We are currently assessing the recommendations and evaluating the cost/benefit of these practices and, where deemed appropriate, will introduce them into our work practices and controls.

Thank you for providing the opportunity for Essential Energy to contribute to this survey.

Yours sincerely

A handwritten signature in black ink, appearing to read "Gary", written over a large, faint, stylized graphic element.

Gary Humphreys  
Chief Operating Officer  
Essential Energy

cc: Caroline Hungerford, General Manager Information Communications & Technology  
cc: Vince Graham, Chief Executive Officer

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## 9. Sydney Trains

Sydney Trains, and its predecessor RailCorp, have undergone several organisational changes since 2010. Some of these changes included centralising procurement and contract management processes for telecommunications in the transport cluster into Transport for NSW (TfNSW). In doing so, TfNSW has demonstrated that aggregating demand and processes across the transport cluster can achieve efficiencies and value for money overall. However, the transition of these processes, as well as the split of RailCorp into Sydney Trains and NSW Trains in 2013, has resulted in gaps and weaknesses in the contract and expense management processes provided to Sydney Trains by TfNSW.

To assess whether Sydney Trains achieves value for money in its telecommunications arrangements, we examined whether it:

- used an efficient and effective process to evaluate and select the contracts that deliver best value for its business needs, and whether it has procurement capabilities to manage procurements in the new framework (procurement processes)
- actively manages its contracts to assure value for money (contract management)
- efficiently and effectively manages its usage of and expenditure on telecommunications (expense management).

Exhibit 17 provides a summary of the results for Sydney Trains which are discussed in more detail in sections 9.2, 9.3 and 9.4.

### Exhibit 17: Sydney Trains - Summary of findings against the audit criteria

Audit Criteria	Result
Has efficient processes for procurement provided by TfNSW	●
Has effective processes for procurement provided by TfNSW	●
Has built the procurement capability that is needed for the new framework (via TfNSW)	●
Good contract management framework (via TfNSW)	●
Active contract management provided by TfNSW	○
Efficient expense monitoring process supported by TfNSW	●
Effective expense monitoring process supported by TfNSW	●

Source: Audit Office research 2014

Key: In place: ● Partially implemented: ● Not demonstrated: ○

### 9.1 About Sydney Trains and its telecommunications environment

On 1 July 2013, Sydney Trains and NSW Trains replaced the Rail Corporation of NSW.

Sydney Trains' role is to operate and maintain train services in the greater Sydney metropolitan area, bounded by Emu Plains, Berowra, Waterfall and Macarthur.

Sydney Trains' operations include:

- one million customer journeys per weekday
- 176 train stations
- 2,008 electric and diesel cars (includes 560 NSW fleet)



Telecommunications services are important to enable Sydney Trains to maintain communications between train stations and continuously monitor the location and operations of train services to manage safety and reliability.

TfNSW has primary responsibility for transport coordination, transport policy and planning, transport services, and transport infrastructure. TfNSW was established in November 2011.

In 2010 the centralisation of transactional functions across the transport cluster commenced. As part of that initiative the functions and teams responsible for business services, procurement for indirect (non-rail specific) categories, ICT operations delivery and HR service delivery have been transferred from RailCorp to TfNSW. The transfer of management of telecommunications services to TfNSW for RailCorp was included in the transfer of these functions. The intention was to consolidate similar functions, reduce costs and provide additional funds for frontline staff and services.

Between 1 July and 31 December 2013, Sydney Trains spent \$3.7 million on telecommunications expenses. This represented 0.5 per cent of its actual expenses of \$643 million for the same period (excluding employee related costs).

## 9.2 Did Sydney Trains use an efficient and effective process to evaluate and select the contracts that delivered best value for its business needs?

There was a lack of relevant documentation in Sydney Trains and TfNSW about how some existing telecommunications arrangements were established. This meant that we could not judge the efficiency and effectiveness of its processes in establishing these arrangements.

We found that recent procurements by TfNSW for Sydney Trains and the transport cluster demonstrated efficient and effective processes.

TfNSW has planned telecommunications procurements that are supported by ICT strategies which address Sydney Trains' business needs.

We found that TfNSW demonstrated procurement capabilities to support the transport cluster in the new framework.

The telecommunications procurement functions of Sydney Trains (formerly RailCorp) were transferred to TfNSW in November 2011. This created efficiencies for Sydney Trains as it no longer has to undertake these functions. Sydney Trains retains a Chief Information Officer whose role is to ensure Sydney Trains business needs are met via the TfNSW Group IT function and the Transport Shared Services procurement programs in relation to telecommunications requirements.

There is a lack of relevant documentation about the process undertaken by RailCorp to establish telecommunications contracts prior to 2011. This meant that we could not judge the efficiency and effectiveness of its processes in establishing these arrangements.

TfNSW has developed a Good Practice Procurement Guide for Goods and Services, which is consistent with government requirements. It has also developed an IT Sourcing and Contract Administration Guide and procurement activity process, which details the procurement process and roles and responsibilities. This guidance is designed to assist staff understand requirements and foster a consistent approach to procurement at all stages and across all agencies in the transport cluster.

There is good documentation available on the processes used by TfNSW for recent procurements for Sydney Trains and the transport cluster. We found that these procurements by TfNSW demonstrated efficient and effective processes.

In 2013, TfNSW developed an IT Strategy for the transport cluster that includes coordinated procurement and contract management processes for telecommunications. The IT Strategy and policy are controlled by TfNSW. Sydney Trains has input to the strategy through its Chief Information Officer who is a member of relevant steering committees. The progressive implementation of this strategy and key activities will conclude in 2015.

#### **Exhibit 18: Opportunity to leverage the transport cluster's buying power**

TfNSW has started a Next Generation Infrastructure Services project (NGIS) to replace existing disparate telecommunications sourcing contracts across the transport cluster to increase efficiency and cost effectiveness. The NGIS will have the commercial flexibility to allow the transport cluster to adopt cloud services in the future.

The objective of NGIS is to establish a multiservice network platform upon which the transport cluster can consolidate, rationalise, standardise and evolve its business operations. This will result in desired cost avoidances and cost reductions plus service improvements across the cluster.

TfNSW estimates that the NGIS project will save the transport cluster \$5 million per year in telecommunications costs due to:

- administrative savings through consolidating voice and mobile service contracts
- reduced cost of purchasing smart devices
- reduced ongoing cost by pooling data plans for smart devices
- updating the technology used for the public transport information priority system.

Source: Transport for NSW 2014

TfNSW has demonstrated the capacity, governance and engagement of Sydney Trains to enable it to efficiently and effectively evaluate and select future contracts that deliver best value for Sydney Trains' business needs. Sydney Trains is not trying to do this by itself but is engaging with the cluster procurement processes and IT Strategy willingly. This is more likely to result in efficient processes.

### **9.3 Did Sydney Trains actively manage its contracts to assure value for money?**

We found that TfNSW is still developing its contract management framework for telecommunications services and standardising practices across the cluster. The contract management framework has elements of good practice, such as supplier performance, risk assessment, reporting and governance, and contract reviews. However, as this is yet to be fully implemented, we could not judge whether it was being followed for Sydney Trains to assure value for money.

Sydney Trains retains responsibility for managing a small number of telecommunications contracts. It did not demonstrate that it was actively managing these contracts to assure value for money.

TfNSW has developed a contract management framework that includes telecommunications and meets the requirements of the better practice contract management framework outlined in Exhibit 7. However, this is not yet fully implemented and consequently not implemented in Sydney Trains.

Previously, RailCorp had not implemented a contract management framework for telecommunications.

Contract management for Sydney Trains' telecommunications contracts is currently being shared between TfNSW and Sydney Trains on a case by case basis. TfNSW noted that it has no visibility of contracts being managed by Sydney Trains.

We found that telecommunications contracts for Sydney Trains, and RailCorp previously, have not been actively managed. For example, one of its contracts expired in December 2012 and has continued to run on a month to month basis. As a result of the audit, TfNSW has discovered that some of the supplier's contractual obligations under this contract have not been performed in the last two years. And the only documentation available for the contract is from 2005 with incomplete information in its contract register.

This demonstrates that Sydney Trains is not actively managing its contracts to assure value for money.

When telecommunications procurement functions were transferred from RailCorp to TfNSW there was a lack of understanding of the end to end accountabilities for the contracts being managed. TfNSW confirmed that these accountability lines were broken and never re-connected. As a result of the audit, TfNSW has taken steps to resolve these issues for current contracts.

The cluster wide contract management framework, that includes telecommunications, is designed to overcome weaknesses that it has identified in individual transport agency frameworks and that have been raised in previous Auditor-General's reports. In addition, it gives transport agencies greater efficiencies and effectiveness by centralising these functions. TfNSW has established a governance framework and regular meetings (referred to as forums) with telecommunications vendors to review services and performance.

However, following the transfer of telecommunications procurement functions to TfNSW, the lack of clarity of accountabilities resulted in contract management responsibilities for Sydney Trains not being met.

#### 9.4 Did Sydney Trains efficiently and effectively manage its usage of, and expenditure on, telecommunications?

TfNSW and Sydney Trains could not demonstrate that there were efficient and effective processes in place to manage Sydney Trains usage of and expenditure on telecommunications.

Several processes are in place to verify the accuracy of supplier invoices and claim rebates and credits for errors, but these were not efficient or effective.

TfNSW has cluster wide policies and procedures for the allocation and use of telecommunications services.

The monitoring of mobile service costs are undertaken by two telecommunications management services providers (TMS) and has been managed by TfNSW since 2010. One of these services had generated savings that may otherwise have been missed.

#### Exhibit 19: Savings from telecommunication expense management

	Credits received	Savings realised	Total credits and savings	Telecommunication expense	Credits and savings as a percentage of telecommunication expenses
<b>RailCorp</b>					
2011-12	354,168	1,451,650	1,805,818	17,205,000	10.5%
2012-13	110,931	1,020,786	1,131,717	16,183,000	7.0%

Source: Audit Office research 2014

However, it has not received some of the required services from either of its TMS suppliers in the last two years.

TfNSW and Sydney Trains use several mechanisms to monitor usage and expenditure, including:

- the review of usage by category specialists and user management
- monitoring expenditure and processing invoice payments
- two different outsourced telecommunications expense management services.

In response to the audit, TfNSW recognised that while there are several mechanisms for verification of telecommunications invoices, it does not have a streamlined or consolidated approach. This creates a risk that there are missing or duplicated functions. As a result, TfNSW and Sydney Trains did not demonstrate efficient and effective processes.

Since the end of 2013, TfNSW has been focusing on identifying and managing telecommunications usage and expenditure in all transport agencies, including Sydney Trains. This will improve monitoring of usage and expenditure across the cluster, but will require clear roles and responsibilities for taking action to achieve savings identified in the process.

In Dec 2013, TfNSW established a cluster based contract for Sydney Trains for mobile phone and data plans, which includes unlimited calls. This will introduce some efficiencies as it will remove the administration needed to monitor and recover personal use charges. However, a project plan outlining how long it will take to migrate all devices to this contract to gain the savings and efficiencies has not been finalised. These benefits will diminish the longer it takes to migrate all services to the new plans.

## Recommendations

### Transport for NSW supported by Sydney Trains should by June 2015:

- agree and assign accountabilities for managing all telecommunications services contracts
- assess the contract management skills needed to effectively manage the telecommunications services contracts and assign responsibilities accordingly
- fully implement the transport cluster contract management framework for telecommunications
- implement a consolidated approach to monitoring usage and expense management to resolve duplications and gaps in its processes
- develop and implement a reporting framework for the transport agencies that will indicate to Transport for NSW that procurement, contract management and expense management processes are working to assure value for money.

## Response from Transport for NSW and Sydney Trains



Your ref: PA6545  
BN14/00405

Mr Grant Hehir  
Auditor-General  
GPO Box 12  
SYDNEY NSW 2001

Dear Mr Hehir

**Transport for NSW response to the Performance Audit Report – *Making the most of Government purchasing power - Telecommunications***

I refer to the Performance Audit Report on *Making the most of Government purchasing power – Telecommunications*. Transport for NSW welcomes the analysis of value for money in Sydney Trains' telecommunications arrangements.

I acknowledge the report identified a number of positive elements and some areas for improvement. Transport for NSW has started to address the report's recommendations and has allocated accountability for ensuring its completion.

By June 2015, Transport for NSW will fully implement the *IT Contract Management Framework* across all telecommunications contracts in the Transport Cluster, including Sydney Trains. This will ensure agreement on clearly identified accountabilities and on the allocation of appropriate capabilities.

Additionally, by December 2014, Transport for NSW will implement revised and consolidated telecommunications expense management capabilities across the Transport cluster to ensure the monitoring of usage and expense, and the achievement of value for money.

Comments on specific recommendations in the Performance Audit Report are provided in the attached Annexure.

Thank you for the opportunity to comment on this report.

Yours sincerely

A handwritten signature in black ink, appearing to be 'TR', with the date '23/6/14' written below it.

**Tim Reardon**  
**Acting Secretary**

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## **ANNEXURE – Specific comments relating to the recommendations**

### **1. Agree and assign accountabilities for managing all telecommunications services contracts.**

Transport for NSW's IT Contract Management Framework identifies the end-to-end processes for managing IT services contracts, including telecommunications contracts. Accountabilities for each step of the process are identified for each part of the framework.

The framework will be implemented in consultation with Sydney Trains to ensure clear understanding and allocation of accountabilities for all telecommunications contracts. This is expected to be completed by 30 March 2015.

### **2. Assess the contract management skills needed to effectively manage the telecommunications services contracts and assign responsibility accordingly.**

Transport for NSW will perform a skills gap analysis in relation to the accountabilities agreed for all telecommunications contracts, and will implement a plan to address any identified deficiencies. This is expected to be completed by 30 June 2015.

### **3. Fully implement the transport cluster contract management framework for telecommunications.**

Transport for NSW's IT Contract Management Framework identifies the end-to-end processes for managing IT services contracts, including telecommunications contracts.

The framework will be implemented in consultation with Sydney Trains to ensure clear understanding and allocation of accountabilities for all telecommunications contracts. This is expected to be completed by 30 March 2015.

### **4. Implement a consolidated approach to monitoring usage and expense management to resolve duplications and gaps in its processes.**

A consistent approach to telecommunications expense management will be designed by December 2014 and implemented across the Transport cluster. This will include a reporting capability to ensure efficient and effective expense management. This is expected to be completed by 30 June 2015.

### **5. Develop and implement a reporting framework for the transport agencies that will indicate to Transport for NSW that procurement, contract management and expense management processes are working to assure value for money.**

Transport for NSW's IT Contract Management Framework identifies the end-to-end processes for managing IT services contracts, including telecommunications contracts.

The framework also links with the Transport Procurement processes.

By December 2014, an interim reporting framework embedded into existing Governance processes will ensure achievement of value for money on the sourcing and management of telecommunications contracts.

A final capability and more sophisticated reporting capability will be implemented by 30 June 2015.

# 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"> <li>Agencies' general financial delegations should take precedence over contract management delegations, such as signing the contract.</li> <li>Contract management delegations should escalate based on the risks, value and/or duration of the contracts being managed.</li> <li>Contract management delegations should provide clarity and control the exercise of key decisions such as contract variations and time extensions.</li> </ul> <p><b>Intent</b></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"> <li>Defines who reports what to whom and how often, and must be based on contract risk, volume, value, and duration of contracts being managed.</li> <li>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.</li> <li>Greater skilling, training, and independent expert support available for members of agency steering committees and others with management oversight responsibilities for IT services contracts.</li> <li>At least once per year the Audit and Risk Committee should review the contract register.</li> </ul> <p><b>Intent</b></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"> <li>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.</li> <li>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.</li> <li>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).</li> <li>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.</li> </ul> <p><b>Intent</b></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"> <li>performance monitoring and management</li> <li>fulfilling contractual obligations</li> <li>supplier relationship management</li> <li>risk assessment and management.</li> </ul> <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"> <li>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.</li> <li>Performance against procurement function strategy and procurement management plan.</li> </ul> <p><b>Intent</b></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"> <li>Ensure independent internal monitoring to ensure that individual contracts are managed effectively. This should be a role for the internal audit function.</li> </ul> <p><b>Intent</b></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"> <li>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.</li> <li>Agencies have determined and assigned the various roles required for contract management. For example, contract owner, contract manager, contract administrator, etc</li> <li>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.</li> </ul> <p><b>Intent</b></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"> <li>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).</li> </ul> <p><b>Intent</b></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"> <li>Specific subject matter/industry knowledge</li> <li>Involvement in similar contracts</li> <li>Knowledge of specific client groups</li> </ul> <p>General contract management skills</p> <ul style="list-style-type: none"> <li>Project management</li> <li>Interpersonal and liaison</li> <li>Supplier relationship management</li> <li>Negotiation</li> <li>Business acumen</li> <li>Performance monitoring and analysis</li> <li>Risk management</li> <li>Problem resolution/problem solving</li> <li>Team management/team motivation</li> <li>Secretariat support</li> <li>Visual presentation – graphs and diagrams</li> <li>Budgeting, financial management</li> <li>Legal aspects of contracting and procurement</li> <li>Document management</li> </ul> <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.
<p>There is a whole of agency procurement manual that includes contract management policies and procedures</p>	<ul style="list-style-type: none"> <li>• Developed and promulgated by the owner of procurement policy in agencies</li> <li>• 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)</li> <li>• The manual should cover contract management processes, such as: <ul style="list-style-type: none"> <li>– maintaining a contract register</li> <li>– assessing and managing risk</li> <li>– keeping appropriate records</li> <li>– complying with government procurement policies and the Public Finance and Audit Act</li> <li>– effective and timely performance monitoring</li> <li>– effective and timely reporting</li> <li>– 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</li> <li>– dispute management</li> <li>– transitional arrangements and starting/ending the contract.</li> </ul> </li> <li>• Major business units may also need to develop their own procurement manual that complies with the whole of agency procurement manual.</li> </ul> <p><b>Intent</b></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>
<p>Each contract has a risk based contract management plan</p>	<ul style="list-style-type: none"> <li>• A contract management plan should be developed whether buying off state contracts or where the agency has established its own contracts</li> <li>• 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</li> <li>• A contract management plan contains information, such as: <ul style="list-style-type: none"> <li>– key information about how a contract will be resourced and managed to comply with contract management policies and procedures</li> <li>– risk assessment and risk management strategy</li> <li>– transitional arrangements: starting, ending and extending or renewing the contract</li> <li>– a commentary or guide explaining operational clauses</li> <li>– systems and processes to ensure that the agency and the contractor complies with the terms and conditions during the performance of the contract</li> <li>– roles and responsibilities of both the agency and contractor</li> <li>– reporting requirements and oversight arrangements</li> <li>– 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</li> <li>– detail on how to effectively monitor and manage performance against the contract objectives, service delivery standards and KPIs.</li> </ul> </li> </ul> <p><b>Intent</b></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

This audit examined whether the following agencies demonstrated that they achieved value for money in their telecommunications arrangements:

- Department of Education and Communities
- Forestry Corporation of NSW
- Fire and Rescue NSW
- NSW Businesslink Pty Ltd
- Essential Energy
- Sydney Trains.

We also examined whether the State telecommunications procurement framework assists agencies to achieve value for money. The Office of Finance and Services is the responding agency for the State procurement framework.

We asked whether:

- the agency used an efficient and effective process to evaluate and select the contracts that delivered best value for its business needs
- the agency actively managed its contracts to assure value for money
- the agency efficiently and effectively managed its usage of and expenditure on telecommunications
- the State telecommunications procurement framework ensured value for money for all agencies.

### Scope

The audit examined procurement policies and practices for existing and planned procurements, for managing contracts and expense monitoring and control. We identified good practices where agencies are achieving efficient oversight and control over expenditure, have achieved cost savings and/or demonstrated value for money in how they manage their telecommunications arrangements.

### Audit exclusions

The audit did not:

- analyse call logs and invoices to determine the accuracy of charges
- analyse agency data to detect excessive expenditure by staff
- undertake a needs analysis to determine whether the agency has selected the best value contracts and options for its needs
- include radio communications, unless this service is bundled with other telecommunications services in the same contract.

We did not examine other NSW State contracts, but where we could make observations about the State contract framework in general as a mechanism for efficiency and value for money, we did so.

## Audit approach

We drew audit criteria from relevant sources including:

- NSW Government Procurement Accreditation Scheme
- NSW Goods and Services Procurement Policy Framework
- Australian National Audit Office, Better Practice Guide – Developing and Managing Contracts
- NSW Auditor-General, Performance Audit Report - Managing IT Services Contracts
- Victorian Auditor-General, Performance Audit Report - Managing Telecommunications Usage and Expenditure
- South Australian Auditor-General, Annual Report for the years ended 30 June 2011, 30 June 2012 and 30 June 2013; Part A, Agency Telecommunications Management Arrangements
- Commonwealth procurement rules July 2012
- South Australian Government Procurement Good Practice Guide.

We collected evidence by:

- interviewing agency personnel responsible for:
  - procurement strategy and planning
  - procurement management
  - contract management
  - telecommunication systems and device management
  - invoice verification and processing.
- gathering information from other stakeholders as appropriate
- examining agencies':
  - procurement policies and procedures and forward procurement plans
  - files relating to telecommunications procurement
  - contract management policies and procedures
  - contract files for current telecommunication arrangements
  - policy and procedures on the allocation, use and monitoring of telecommunications
  - policies and procedures for verifying invoices
  - management reports showing that trends in usage and expenditure, including exceptions to policy, are being monitored and addressed.
  - recent invoices for evidence that they have been verified
  - information and case studies that demonstrate cost savings, process efficiencies or value for money outcomes.

## Agency selection

We decided to review six individual agencies where we had not had recent audit coverage. In particular, we discounted agencies from this review if they had been included in the 2012 Managing IT Services Contracts review, due to similar focus areas relating to contract management.

We selected the agencies for this review based on the following criteria:

1. Agencies with large expenditure under the existing GTA State contract
2. Agencies showing large expenditure in their annual reports that did not appear in the expenditure reported under the GTA State contract
3. Smaller agencies to test whether they are able to negotiate with suppliers and compare the rates they are paying for the same services from the same suppliers as the other agencies we review
4. At least one State owned corporation to examine commercially based contract negotiation and contract management practices.

According to these criteria, the six agencies were selected as follows:

- Two agencies with large expenditure under the GTA State contract:
  - Department of Education and Communities
  - NSW Businesslink Pty Ltd (also a State owned corporation).
- Two agencies showing large expenditure in their annual reports:
  - Sydney Trains
  - Fire and Rescue NSW
- A small agency:
  - Forestry Corporation of NSW (also a State owned corporation)
- A State owned corporation:
  - Essential Energy.

## 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. 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 the Office of Finance and Services, Department of Education and Communities, Forestry Corporation of NSW, Fire and Rescue NSW, NSW Businesslink Pty Ltd, Essential Energy, Transport for NSW and Sydney Trains. In particular we wish to thank our liaison officers and staff who participated in interviews and provided material relevant to the audit.

We also thank our Financial Audit colleagues, Joe Field, Damian Ison, Sozo Petras, Kumar Ratnakumar and Annie Wang, who assisted with fieldwork and analysis.

## Audit team

Giulia Vitetta and Lucy Stedman conducted the performance audit. Rob Mathie provided direction and quality assurance.

## Audit cost

Including staff costs and overheads, the estimated cost of the audit is \$290,000.

# Performance auditing

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## 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.

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.

The PAC is also responsible for overseeing the performance of the Audit Office and conducts a review of our operations every four 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](http://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
244	Office of Finance and Services Department of Education and Communities Forestry Corporation of NSW Fire and Rescue NSW NSW Businesslink Pty Ltd Essential Energy Sydney Trains	<i>Making the most of Government purchasing power – Telecommunications</i>	26 June 2014
243	NSW Treasury	<i>Use of purchasing cards and electronic payment methods</i>	5 June 2014
242	NSW Police Force	<i>Effectiveness of the new Death and Disability Scheme</i>	22 May 2014
241	Road and Maritime Services	<i>Regional Road funding – Block Grant and REPAIR programs</i>	8 May 2014
240	NSW State Emergency Service	<i>Management of volunteers</i>	15 April 2014
239	Fire and Rescue NSW NSW Rural Fire Service	<i>Fitness of firefighters</i>	1 April 2014
238	Transport for NSW Department of Attorney General and Justice Department of Finance and Service Roads and Maritime Services NSW Police Force Department of Education and Communities	<i>Improving legal and safe driving among Aboriginal people</i>	19 December 2013
237	Department of Education and Communities	<i>Management of casual teachers</i>	3 October 2013
236	Department of Premier and Cabinet Ministry of Health – Cancer Institute NSW Transport for NSW – Rail Corporation NSW	<i>Government Advertising 2012-13</i>	23 September 2013
235	NSW Treasury NSW Police Force NSW Ministry of Health Department of Premier and Cabinet Department of Attorney General and Justice	<i>Cost of alcohol abuse to the NSW Government</i>	6 August 2013
234	Housing NSW NSW Land and Housing Corporation	<i>Making the best use of public housing</i>	30 July 2013
233	Ambulance Service of NSW NSW Ministry of Health	<i>Reducing ambulance turnaround time at hospitals</i>	24 July 2013
232	NSW Health	<i>Managing operating theatre efficiency for elective surgery</i>	17 July 2013
231	Ministry of Health NSW Treasury NSW Office of Environment and Heritage	<i>Building energy use in NSW public hospitals</i>	4 June 2013
230	Office of Environment and Heritage - National Parks and Wildlife Service	<i>Management of historic heritage in national parks and reserves</i>	29 May 2013

No	Agency or issues examined	Title of performance audit report or publication	Date tabled in parliament or published
229	Department of Trade and Investment, Regional Infrastructure and Services – Office of Liquor, Gaming and Racing Independent Liquor and Gaming Authority	<i>Management of the ClubGRANTS scheme</i>	2 May 2013
228	Department of Planning and Infrastructure Environment Protection Authority Transport for NSW WorkCover Authority	<i>Managing gifts and benefits</i>	27 March 2013
227	NSW Police Force	<i>Managing drug exhibits and other high profile goods</i>	28 February 2013
226	Department of Education and Communities	<i>Impact of the raised school leaving age</i>	1 November 2012
225	Department of Premier and Cabinet Division of Local Government	<i>Monitoring Local Government</i>	26 September 2012
224	Department of Education and Communities	<i>Improving the literacy of Aboriginal students in NSW public schools</i>	8 August 2012
223	Rail Corporation NSW Roads and Maritime Services	<i>Managing overtime</i>	20 June 2012
222	Department of Education and Communities	<i>Physical activity in government primary schools</i>	13 June 2012
221	Community Relations Commission For a multicultural NSW Department of Premier and Cabinet	<i>Settling humanitarian entrants in NSW: services to permanent residents who come to NSW through the humanitarian migration stream</i>	23 May 2012
220	Department of Finance and Services NSW Ministry of Health NSW Police Force	<i>Managing IT Services Contracts</i>	1 February 2012

## 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](http://www.audit.nsw.gov.au).

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**Purpose** – we have an impact, are  
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