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Ref: DG13/758

Mr Jonathan O'Dea MP  
Chair  
Legislative Assembly Public Accounts Committee  
Parliament of New South Wales  
Macquarie Street  
SYDNEY NSW 2000

Dear Mr O'Dea

I refer to your letter requesting responses to Questions on Notice relating to *Report No 220: Managing IT Services Contracts*, as part of the follow up of the Auditor-General's Performance Audits October 2011 – March 2012.

I have attached the Department of Finance and Services' answers to the Questions on Notice that you have raised.

Should you have any further enquiries regarding this matter, please do not hesitate to contact Mr Paul Dobing, Executive Director, NSW Procurement, [REDACTED]

I trust this information is of assistance.

Yours sincerely

[REDACTED]  
**Michael Coutts-Trotter**  
Director-General

## Questions on Notice

### Report No 220: Managing IT Services Contracts

*Department of Finance and Services*

#### Question

1. With regard to recommendation 2.2, you advise that as part of accreditation assessment, agencies must demonstrate that risk based Contract Management Plans are in place for a minimum of 50% of all IT services contracts valued over \$250,000 including purchases through State Contracts. In order to achieve a higher level of accreditation, agencies must demonstrate that risk based Contract Management Plans are in place for 100% of all IT services contracts valued over \$250,000 including purchases through State Contracts.
  - a. The recommendation was for all services contracts to have risk based management plans. Could you indicate why all services contracts are not required to have risk based management plans?

#### Answer

- 1a. The accreditation scheme uses a diagnostic tool to assess all aspects of agency procurement capability. This tool sets out comprehensive sub-criteria which must be met to fall within the various score bands. The lower score bands represent basic capability. The higher score bands represent best practice procurement.

The purpose of this graduated approach is to assist agencies in building their procurement capability. Where an agency does not achieve the highest score band, the diagnostic tool provides specific, discrete, achievable steps which the agency can implement to build procurement capability and achieve a higher level of accreditation.

The Department of Finance and Services (DFS) sought agency feedback when amending the accreditation scheme in response to the Auditor-General's report. The feedback indicated that a new 100% requirement would be unachievable for many agencies, particularly agencies that were just about to commence their accreditation assessments. It was agreed to set a 50% requirement in a lower score band and a 100% requirement in a higher score band.

#### Question

2. Recommendation 3.1 recommends that the Department develop guidance to agencies on managing IT services contracts post award, including advice that their contract management delegations should be consistent with their general financial delegations. You accept the recommendation with the exception of including advice that contract management delegations should be consistent with general financial delegations.
  - a. Could you indicate why you accept the recommendation with the exception of including advice that contract management delegation should be consistent with general financial delegations?
  - b. If contract management delegation is not consistent with general financial delegation, what would be your response to a situation when a contract management decision has financial implications? If contract management delegation is not consistent with general financial delegation, then a contract management decision may result in significant additional expenditure which is greater than the decision maker's financial delegation.

## Answer

- 2a. DFS agrees with the statement in *Appendix 1: Better practice contract management framework* of the Auditor-General's report that the functions of contract management and making financial commitments should be segregated.

Best practice often requires agencies to have procurement delegations which are separate to financial delegations. For example, agencies may wish to centralise their procurement activities within a specialised strategic procurement function. To support this, general business units may have a lower procurement delegation than financial delegation while specialised procurement units may have a higher procurement delegation than financial delegation.

Implementing an approval under procurement delegation will also require approval under financial delegation to commit the expenditure of funds.

- 2b. Where a contract management decision has financial implications, approval will be required under both the procurement and the financial delegations.

Approval under financial delegation is required to commit the agency to the expenditure of funds.