

**Submission
No 11**

**FOLLOW UP OF THE AUDITOR-GENERAL'S
PERFORMANCE AUDITS APRIL 2011 - SEPTEMBER
2011**

Organisation: The Department of Finance and Services
Name: Mr Greg Pearce MLC
Position: Minister for Finance and Services
Date Received: 19/12/2012



The Hon **Greg Pearce** MLC
Minister for Finance and Services
Minister for the Illawarra

Ref: DFSMIN12/860

Mr Jonathan O'Dea MP
Member for Davidson
Chair
Public Accounts Committee
Legislative Assembly
Parliament House
6 Macquarie Street
SYDNEY NSW 2000

Dear Chair

I refer to your letter of 28 September 2012 to Mr Chris Eccles, Director-General, Department of Premier and Cabinet (DPC) requesting an update on the recommendations contained in the Auditor-General's Report on the Prequalification Scheme: Performance and Management Services (the Scheme).

I acknowledge that both the Department of Finance and Services (DFS) and DPC (as previous owners of the Scheme) supported the 27 recommendations in principle, however, DFS and DPC accepted some of the recommendations with qualifications due to a number of inconsistencies with the Government's new procurement operating model.

As requested, DFS has completed the attached Implementation of Recommendations template. Of the 27 recommendations, 15 have been completed, five are on track of completion and seven are pending finalisation.

Should you require any further information or wish to discuss this further, I invite you to contact Mr Paul Dobing, A/Executive Director, NSW Procurement on telephone (02) 9372 8695 or email Paul.dobing@services.nsw.gov.au.

I trust this information is of assistance.

Yours sincerely

Greg Pearce MLC
Minister for Finance and Services
Minister for the Illawarra

16 December 2012



PERFORMANCE AUDIT – Prequalification Scheme: Performance and Management Services

IMPLEMENTATION OF RECOMMENDATIONS

RECOMMENDATION	ACCEPTED OR REJECTED	ACTIONS TO BE TAKEN	DUE DATE	STATUS (completed, on track, delayed) and COMMENT	RESPONSIBILITY (Section of agency responsible for implementation) <i>Note: Full responsibility for the Scheme has transferred to DFS in April 2012)</i>
<p>1. To create adequate levels of competition and to achieve value for money, we recommend that the Department of Premier and Cabinet (DPC) and the Department of Finance and Services (DFS):</p>	<p>Accepted/ Accepted with qualification</p>	<p>a) develop and implement options that would ensure agencies obtain a minimum of three proposals for engagements over \$150,000, by December 2011 (page 17)</p>	<p>December 2011</p>	<p>Complete. This was accepted with qualification by both DPC and DFS. DPC and DFS made a submission with exemptions which was approved on 1 December 2011 by the then State Contracts Control Board (SCCB). The standard is that a minimum of three quotes are required for engagements above \$150,000, exemptions being when (a) an agency has applied its best endeavours and the industry does not respond; (b) limited number of prequalified providers; (c) not economically viable to obtain three quotes and; (d) specific, unique and/or urgent time requirements. The Prequalification Scheme: Performance and Management Services (the Scheme) documents have been modified to reflect the exemption.</p>	<p>DFS</p>
		<p>b) include GST and estimated expenses in the value of the thresholds, by December 2011 (page 17)</p>	<p>December 2011</p>	<p>Complete. GST has been included in the value of the thresholds Scheme documents have been modified to reflect the the change. In relation to expenses, DPC and DFS rejected this recommendation. It was stated that expenses cannot always be quantified prior to an engagement. Therefore there is no proposed action</p>	<p>DFS</p>



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					in relation to expenses. Scheme conditions give threshold values which are the "total cost of an engagement"	
			c) develop and implement options that would support greater levels of competition for high value engagements based on a review of engagement trends, by June 2012 (page 23)	December 2012	On track. This is in progress as part of the NSW whole of Government Procurement Review, the Scheme is being restructured to address Ministerial priorities to improve risk management and promote competition. Stage 1 amendments (release of Easy Access Registration List for supplier registration) have occurred and Stage 2 (online Request for Quotation and reporting functionality for agencies through Dynamic Sourcing will address outstanding audit recommendations. The Dynamic Sourcing tool has been developed, is being trialled and will be implemented as part of the NSW new electronic procurement platform as part of the Minister's Review of Procurement. Expected to be complete by December 2012, pending approval.	DFS
			d) merge additional agency specific panels into the Scheme where efficiency and value for money are justified, by December 2012 (page 23)	December 2012	In progress. Incorporated as part of the NSW Government Reform of Procurement, and in line with the NSW Procurement Board draft <i>Strategic Direction 1 Promoting competition: pre-qualification schemes</i> . DFS will complete an audit of agency services-based panels or agreements by 31 June 2013, with a view to identifying those which can be added to the DFS pre-qualification platform for all agencies to use.	DFS



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2.	To ensure the Scheme is used as intended, we recommend that DPC and DFS:	Accepted/ Accepted with Qualification	a) develop compliance monitoring and reporting procedures, by December 2011 (page 17).	December 2011	Complete. The Agency Checklist was created and references all compliance, monitoring and reporting requirements. The Scheme conditions require agencies to submit a performance report if the total value of the engagement exceeds \$150,000 (incl.GST) or where the services provided are unsatisfactory.	DFS
			b) specify to agencies the record keeping requirements for using the Scheme, by December 2011 (page 17).	December 2011	Complete. Record keeping requirements were amended and incorporated in the Scheme documents. These are specified and listed as part of the Agency Checklist.	DFS
			c) require agencies to establish a central point of reference for compliance monitoring and dissemination of information on the Scheme, by December 2011 (page 17).	December 2011	Complete. The Executive Director, NSW Procurement wrote to the Directors of the eight agency clusters requesting that each CPO nominate to represent their agency as the central point of reference for compliance monitoring and dissemination of information on the Scheme.	DFS
			d) undertake risk-based compliance audits of agencies and service providers, by June 2012 (page 17).	December 2012	In progress. Incorporated as part of the NSW Government Reform of Procurement, and in line with the NSW Procurement Board draft Strategic Direction 2 Overarching Policy framework to issue a requirement by 31 March 2013 that agencies test compliance with the Procurement Policy Framework on a regular basis. Also addressed through the NSW Procurement Board's Agency Accreditation Scheme, which requires agencies to conduct risk based assessments of their supplier contracts.	DFS



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3.	To ensure the Scheme objectives are being met and to enhance its transparency, we recommend that DPC and DFS:	Accepted/ Accepted with Qualification	a) require agencies to report on the performance of all engagements irrespective of value, by December 2011 (page 23).	June 2013	On track. Accepted with qualification. Performance reports will continue to be required for agencies on engagements with fees equal or more than \$150,000 or where performance is unsatisfactory. Further reporting currently would add significantly to both the red tape burden for agencies and industry and the cost of procurement when required for small engagements. As part of Stage 2 of the Scheme (the development of the Dynamic Sourcing tool), functionality with this capacity is being considered for completion by June 2013.	DFS
			b) monitor the tendering behaviour of agencies and service providers, by June 2012 (page 23).	June 2012	In progress; accepted with qualification. The respective roles of the Scheme administrators and the agency procuring services need consideration. The revision of the procurement policy framework and code of practice currently underway by the NSW Procurement Board will inform the respective roles, however compliance will continue to rest with the agency..	DFS
			c) develop key performance indicators (KPIs) and set targets for the Scheme, by December 2011 (page 23).	December 2011	Complete. KPIs have been developed with targets set. Scheme documentation has been updated.	DFS
			d) monitor performance against the KPIs and targets, by June 2012 (page 23).	June 2012	In progress. Incorporated as part of the NSW Government Reform of Procurement, and in line with the <i>NSW Procurement Board draft Strategic Direction 1 Prompting competition: pre-qualification schemes</i> to develop in consultation with industry a simple,	DFS



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				performance based rating scheme for pre-qualification schemes utilising the NSWBuy platform by September 2013,	
		e) introduce independent reviews of the Scheme's operations and performance, by June 2012 (page 23).	June 2012	Completed. Review of Scheme conducted to align with new Government procurement operating model, to introduce new categories and to reduce red tape.	DFS
		f) Implement a structured process for gathering regular feedback from agencies and service providers by June 2012, and monitor results over time (page 23).	June 2012	Complete. Agency and supplier briefings on Stage 2 Dynamic Sourcing with anticipated implementation by December 2012.	DFS
		g) report publicly on the performance of the Scheme, by December 2012 (page 23).	December 2012	Accepted with qualification. Incorporated as part of the NSW Government Reform of Procurement, and in line with the NSW Procurement Board Draft Strategic Direction 3 Coordination and cooperation among agencies to establish and maintain a central register of prequalification, standing offer and panel contracts across Government.	DFS
		h) review the membership of prequalified service providers every three years (page 23).	December 2012	On track. Following implementation of Stage 2 of the Scheme review, all service providers will be required as part of the new Scheme to update their company profile through Dynamic Sourcing.	DFS



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4.	To improve the governance of the Scheme, we recommend that DPC and DFS:	Accepted	a) introduce an independent member on the SAC, by December 2011 (page 27)	December 2011	In progress.	DFS
			b) develop terms of reference for the SAC, by December 2011 (page 27)	December 2011	Complete. The terms of reference were delivered in December 2011.	DFS
			c) develop comprehensive procedures for the operation of the Scheme, by December 2011 (page 27)	December 2011	Complete. Scheme conditions were updated in July 2012	DFS



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5.	To improve the transparency and efficiency of the assessment process and promote compliance, we recommend that DPC and DFS:	Accepted/Accepted with Qualification	a) introduce time standards for finalising the assessment of compliant applications, by December 2011 (page 27)	December 2011	Complete. The standard processing time for EARL applicants is one week. For full prequalification applicants the current practice is 30 business days.	
			b) clarify to agencies the rules for using the Scheme, particularly around the thresholds, by December 2011 (page 17)	December 2011	Complete. Has been updated and agencies have been informed of the thresholds.	DFS
			c) clarify the assessment rules to providers, by December 2011 (page 27)	December 2011	Complete. Has been updated with the latest Scheme revision provided in July 2012.	DFS
			d) address gaps and inconsistencies in information published on the rules, by December 2011 (page 17)	December 2011	Complete. Has been updated with the latest Scheme revision provided in July 2012.	DFS
			e) set a minimum standard for the due diligence checks required of agencies, by December 2011 (page 17)	December 2011	Complete. Has been updated with the latest Scheme revision provided in July 2012.	DFS
			f) determine the resource requirements for the Scheme and implement, by June 2012 (page 27)	June 2012	In progress. Expected due date of June 2013. Being considered in NSW Procurement's organisational plan for 2012/13.	DFS
			g) introduce, for agencies using the Scheme, an online system with effective search capability and functionally, by June 2013 (page 23)	June 2013	On track. In progress as part of Stage 2 of the Scheme review. The Dynamic Sourcing tool with this functionality to be made available to agencies in December 2012.	DFS
			h) introduce, for pre-qualified service providers that enables them to apply, update their details and	June 2013	On track. In progress as part of Stage 2 of the Scheme review. The Dynamic Sourcing tool with this functionality to be made available to agencies in	DFS



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			view information provided to agencies about them by June 2013		December 2012.	
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