

**Submission  
No 4**

**EXAMINATION OF THE AUDITOR GENERAL'S PERFORMANCE AUDIT  
REPORTS AUGUST 2019 - JUNE 2020**

**Organisation:** HealthShare NSW

**Date Received:** 28 July 2021



Health

Mr Greg Piper MP  
Chair, Public Accounts Committee  
Parliament of New South Wales  
Macquarie Street  
SYDNEY NSW 2000

Our ref H20/153691

Dear Mr Piper

**Implementation of Audit Recommendations - Ensuring Contract Management Capability in Government: HealthShare NSW**

I am writing in response to your request for a submission from NSW Health to outline our progress on implementing the recommendations made in the performance audit report *Ensuring Contract Management Capability in Government - HealthShare NSW*, as tabled on 31 October 2019.

The recommendations made at the time of the report's tabling in 2019 are reflective of the evolving nature of the system-wide governance framework for procurement in NSW Health. A significant amount of work has been completed in the time since the report to enhance our performance in the areas highlighted. The attached submission provides an overview of activity completed to date in response.

In assessing NSW Health's performance in implementing the Auditor-General's recommendations, it is important to be mindful of the impact of the COVID-19 pandemic on operations. Supply chain and contract management functions have been significantly affected by the pandemic, in terms of volume of demand, the criticality of safeguarding supply and in maintaining the availability of specialised staff and resources.

One of NSW Health's key strengths in responding to the pandemic has been our ability to lead effective, large-scale procurement activity as a system. Led by HealthShare NSW, efforts in this area have ensured the ongoing availability of medical supplies, personal protective equipment and other critical goods in a volatile global market to support the whole-of-government pandemic response.

The pandemic environment also highlighted where further strengthening is required, and there have been significant learnings in the field of contract management and procurement. Of note for the Committee, insights from the pandemic response, together with the findings of the Auditor-General's report, have informed the initiation of a system-wide procurement reform program with objectives to:

1. Improve patient outcomes through value-based healthcare;
2. Clarify and realign NSW Health procurement roles and responsibilities;
3. Revise and improve NSW Health procurement policies;
4. Increase efficiency and effectiveness of NSW Health procurement and supply chain;
5. Improve NSW Health Ways of Working and reduce procurement-related risk;
6. Align and support Whole of Government Procurement Reform; and
7. Optimise NSW Health procurement spend and achieve financial savings.

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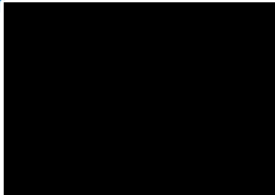
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The reform program will build on the focus of the Auditor-General's report and seek to further strengthen our system-wide contract management capability.

In reviewing the attached information, please note that HealthShare NSW has engaged an independent auditor to provide assurance on the implementation of the reported actions. Further detail of this can be provided on request of the Committee.

In closing, I would also like to thank the Committee for allowing additional time for this submission to be prepared. Your understanding has been appreciated.

Your



Elizabeth Koff  
**Secretary, NSW Health**

## IMPLEMENTATION OF RECOMMENDATIONS

### *Ensuring Contract Management Capability in Government: HealthShare NSW*

RECOMMENDATION	RESPONSE	INITIAL NSW HEALTH RESPONSE	DUE DATE	STATUS	LEAD	
By November 2019, the Health Administration Corporation should:						
1	Notify the NSW Procurement Board of the results of this audit in relation to the non-use of contract management plans as a trigger event under the Accreditation Program for Goods and Services Procurement.	Accepted	NSW Health acknowledges that there are some areas within our contract management processes that require further strengthening, one being the consistent use of contract management plans. Given the scale of procurement undertaken by NSW Health, a risk and value-based approach is taken to contract management. In place of formal contract management plans, a significant number of contracts are managed under Head Agreements and active monitoring is undertaken through our network of experienced staff within our Local Health Districts, HealthShare NSW and the Ministry of Health. This approach ensures the timely and effective delivery of goods and services to our Health facilities across NSW.  NSW Health will work with NSW Treasury and the NSW Procurement Leadership Group to determine the best approach to ensure the processes in place meet the operational demands of the NSW Health System and the intent of the accreditation program.	November 2019	<b>Complete</b>  The NSW Procurement Board was notified of the results of the audit at its meeting on 20 November 2019. At the Procurement Leadership Group meeting on 25 March 2021 it was agreed that the audit findings do not constitute a trigger event under the accreditation program for goods and services.	Finance Branch, Ministry of Health

RECOMMENDATION	RESPONSE	INITIAL NSW HEALTH RESPONSE	DUE DATE	STATUS	LEAD	
By May 2020, the Health Administration Corporation should:						
2.	Work with NSW Procurement to develop a Trigger Event Action Plan to enable it to fully meet, by November 2020, its obligations under the Accreditation Program for Goods and Services Procurement.	Accepted	<p>NSW Health acknowledges that there are some areas within our contract management processes that require further strengthening, one being the consistent use of contract management plans. Given the scale of procurement undertaken by NSW Health, a risk and value-based approach is taken to contract management. In place of formal contract management plans, a significant number of contracts are managed under Head Agreements and active monitoring is undertaken through our network of experienced staff within our Local Health Districts, HealthShare NSW and the Ministry of Health. This approach ensures the timely and effective delivery of goods and services to our Health facilities across NSW.</p> <p>NSW Health will work with NSW Treasury and the NSW Procurement Leadership Group to determine the best approach to ensure the processes in place meet the operational demands of the NSW Health System and the intent of the accreditation program.</p>	May 2020	<p><b>Partially Complete</b></p> <p>As per the response to recommendation 1 above, the Procurement Leadership Group has agreed that the audit findings do not constitute a Trigger Event and subsequently a Trigger Event Action Plan is not required.</p> <p>The audit findings have been used to inform a system-wide review program, led by the Ministry of Health and designed to strengthen contract management capability and practice in NSW Health.</p> <p>Within this context, the Ministry of Health has commenced a system wide review in August 2020 and engaged Ernst and Young to review and develop a procurement system for whole of NSW Health that maximises value and supports the achievements of improved patient outcomes through being closely aligned to their customers and delivering in an efficient manner.</p> <p>The review was underpinned by seven primary objectives for the NSW Health Procurement Reform:</p> <ol style="list-style-type: none"> <li>1. improve clinical/patient outcomes through value-based healthcare</li> <li>2. clarify and realign NSW health procurement roles and responsibilities</li> <li>3. revise and improve NSW Health procurement policies</li> <li>4. increase efficiency and effectiveness of NSW Health procurement and supply chain.</li> <li>5. improve NSW Health Ways of Working and reduce procurement-related risk.</li> </ol>	Finance Branch, Ministry of Health

RECOMMENDATION	RESPONSE	INITIAL NSW HEALTH RESPONSE	DUE DATE	STATUS	LEAD	
				<p>6. align and support Whole of Government Procurement Reform.</p> <p>7. optimise NSW Health procurement spend and achieve financial savings.</p> <p>The Governance Framework for the Procurement Reform Program of work has been established. Work is overseen by the NSW Health Procurement Reform Steering Committee with representatives at the Chief Executive level of Local Health Districts, Health Agencies, HealthShare NSW, Ministry of Health and NSW Treasury. This Committee reports to the NSW Health Future Health Program Delivery Board and the NSW Government Procurement Reform Steering Committee led by NSW Treasury.</p>		
By May 2020, NSW Health should:						
3.	<p>Develop a performance improvement plan for HealthShare NSW to fully meet, by November 2020, its compliance with Ministry of Health procurement policies.</p> <p>The performance improvement plan should include:</p>		<p>NSW Health (HealthShare NSW) will develop a plan by May 2020 to meet the findings of the audit report, including:</p> <p>Rank all panel arrangements by risk and:</p> <ol style="list-style-type: none"> <li>1. review contract management plans for all high-risk contracts a complete;</li> <li>2. plans for those where they are not in place;</li> <li>3. update User Guides for high risk contracts to include relevant additional information;</li> <li>4. implement a consistent approach to supplier performance management for all high risk contracts;</li> </ol>	May 2020	<p><b>Partially Complete</b></p> <p><i>(An individual status for each sub-point is included in the commentary below.)</i></p> <p>HealthShare NSW responded quickly to the publication of the audit report and developed a plan to address findings in early December 2019. This plan included key activities and deadlines to address each of the recommendations (<b>Tab A</b>).</p> <p>A key activity was the development of a risk assessment tool to rate and rank contracts, which is covered in further detail in the response to point 3d below.</p> <p>In addition, a specific resource was engaged to manage and report on activities associated with addressing the recommendations.</p> <p>Implementation of actions was undertaken in a phased manner within a practical timeframe</p>	HealthShare NSW

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			<p>5. implement a risk-based framework for performance validation; and</p> <p>6. develop a comprehensive plan to implement complete contract management across HealthShare NSW's contracts including completing migration to and use of PROcure.</p> <p>Following development of the above plan, implementation will be undertaken in a phased manner and within a practical timeframe, in consultation with key service partners.</p>		<p>and in consultation with key stakeholders. Status reports were regularly provided to management (<b>Tab B</b>).</p> <p>Some work was paused due to a reassessment of priorities associated with the NSW Government's response to COVID -19, however work resumed in late 2020 and has continued into 2021.</p> <p>Further information in response to each sub-point of the recommendation is provided below.</p>	
	a. improving supplier performance	Accepted	As above.	May 2020	<p><b>Complete</b></p> <p>A consistent approach to supplier performance management for all high-risk contracts has been implemented. Key elements include:</p> <ul style="list-style-type: none"> <li>– contract management plans;</li> <li>– performance reports provided by suppliers;</li> <li>– use of HealthShare NSW's Health Quality Reporting System to report issues with quality, timeliness of delivery or other supplier non-compliance;</li> <li>– satisfaction surveys used to measure customer satisfaction are being implemented (example at <b>Tab C</b>);</li> <li>– KPI performance tracker for each supplier (refer to <b>Tab D</b>);</li> <li>– scheduled meetings with suppliers to manage and review supplier performance; and</li> <li>– assessment of benefits realised.</li> </ul>	HealthShare NSW

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	<p>b. effectively using contract management tools, including contract management plans and PROcure</p>	<p>Accepted</p>	<p>As above</p>	<p>May 2020</p>	<p><b>Partially Complete</b></p> <p>Following release of the audit report on 31 October 2019, a detailed plan was developed and approved by the former Executive Director, Strategic Procurement for uploading relevant contract management artefacts and implementing improved functionality in PROcure.</p> <p>HealthShare NSW currently has Panel Arrangement Management Plans (PAMPs) for Head Agreements which are established by HealthShare NSW and contracts within these Head Agreements are established at the Local Health District level.</p> <p>The PAMP template has been updated where relevant to reflect the findings in the audit report. Refer to the updated template at <b>Tab E</b>.</p> <p><b>Uploading contracts into the core module of PROcure</b></p> <p>In 2019 the Strategic Procurement Services (SPS) team began uploading their panel agreements / contracts to PROcure with the primary purpose of giving Managers across NSW Health access to them. The contracts were uploaded into the CORE module, which is accessible to all registered users of PROcure. However, this module did not have contract management capability. The primary purpose at that stage was to comply with the NSW Health Policy Directive requirement, which states, "All contracts greater than \$150,000 including GST in value (excluding property leases) must be recorded in PROcure immediately following contract award."</p>	<p>HealthShare NSW</p>



	RECOMMENDATION	RESPONSE	INITIAL NSW HEALTH RESPONSE	DUE DATE	STATUS	LEAD
					<p><u>Contracts - Medical Portfolio</u> The contracts, PAMPS and relevant contract management artefacts for all 72 contracts worth \$7.5bn that have been assessed as high risk have been uploaded into PROcure.</p> <p><u>Contracts - Corporate Portfolio</u> The contracts, PAMPS and relevant contract management artefacts for all 25 contracts worth \$1.5bn that have been assessed as high risk have been uploaded into PROcure.</p> <p><b>PROcure Enhancement</b> Strategic Procurement Branch (SPB) has been leading this initiative over the past 12 months to realise significant enhancements to the functionality and capabilities of the PROcure contract management software, in collaboration with HealthShare procurement teams. These enhancements will further address the recommendations made by the Audit Office.</p> <p>The project is on-track for implementation at Health Entities from 1 December 2020. Roll-out is scheduled to be carried out in three phases. Health Entities will be grouped into each phase based on their maturity in using the system. Implementation to all Health entities will be completed by December 2021.</p>	
	c. ensuring LHD specific contracts are managed in line with Ministry of Health procurement policy.	Accepted	As above	May 2020	<p><b>Partially Complete</b> The implementation of this recommendation is currently in progress. Local Health District-specific contracts and their management will be addressed as part of the system-wide procurement reform program.</p>	HealthShare NSW

	RECOMMENDATION	RESPONSE	INITIAL NSW HEALTH RESPONSE	DUE DATE	STATUS	LEAD
	<p>d. developing a risk-based framework to validate performance information to assist contract managers to select and justify appropriate validation methods for performance information</p>	Accepted	As above	May 2020	<p><b>Complete</b></p> <p>As per the response above, a risk assessment tool has been developed to rate and rank contracts (<b>Tab F</b>).</p> <p>As per point 3a above, information regarding supplier performance is collected by several means, including performance reports provided by suppliers.</p> <p>The way in which performance information is validated depends on the risk rating assigned to each contract. Methods include HealthShare NSW's Health Quality Reporting System and scheduled meetings with suppliers to manage and review supplier performance.</p>	HealthShare NSW
	<p>e. improving customer user guides for whole of health head agreements by explaining the provisions of the contract relevant to customers as well as information on how customers can report performance issues to HealthShare NSW.</p>	Accepted	As above	May 2020	<p><b>Complete</b></p> <p>The Contract User Guide (CUG) template has been updated to reflect the findings in the audit report. See Generic Template at <b>Tab G</b> and an example of a Specific User Guide at <b>Tab H</b>.</p> <p><u>Medical Portfolio</u></p> <p>All 72 contracts worth \$7.5bn that have been assessed as high risk have a CUG.</p> <p><u>Corporate Portfolio</u></p> <p>All 25 contracts worth \$1.5bn that have been assessed as high risk have a CUG and an additional four contracts worth \$105.4m that have been rated as Low risk also have a CUG.</p>	HealthShare NSW