

EDUCATION, SCIENCE AND TRAINING

SENATE LEGISLATION COMMITTEE – QUESTIONS ON NOTICE 2004-2005 BUDGET ESTIMATES HEARING

Outcome: CSIRO
Output Group: - CSIRO

DEST Question No. E204_05

Senator Carr asked on 2 June 2004, EWRE Hansard page 65.

Question:

Senator Carr: [Re Ernst and Young review of the engagement of consultants] Can we have a copy of the report?

Answer:

CSIRO has provided the following response.

Ernst and Young review

A final report is yet to be received from Ernst and Young. A summary of the draft report findings and associated management responses is provided below. These responses were endorsed by the CSIRO Board Audit Committee at its meeting on 31 May 2004.

Key Findings and Specific Management Responses

This summary outlines the findings and recommendation of the draft review report following formal review by Ernst & Young of relevant CSIRO policies, a review of tendering and contract management procedures in regard to the procurement and management of consultancies, and a desktop review of eight consultancy transactions randomly selected from across the organization.

Finding 1

- The guidance utilized by CSIRO is largely principal-based and its usefulness could be improved through the inclusion of more practical guidance for officers on the appropriate manner for procurement and management of consultancies. CSIRO management have begun to address this, including through the provision of certain limited suggested proforma documents in an e-mail sent to Finance Managers in November 2003.

Recommendation:

The report recommends that CSIRO considers the publication of more detailed policies and procedures, or potentially a CSIRO-specific "better practice guide" that provides greater detail on steps to be followed in the procurement and management of consultancies. This guide may include various templates and checklists to drive actions and behaviors in accordance with better practice. Such guidance is particularly important in the areas of consideration of a need for a consultancy, and in the management of consultancies. Further, such guidance should be supported by training in the areas of procurement and contract management.

Management Response:

Revised CSIRO procurement policies and procedures have been drafted including a comprehensive and specific 'CSIRO Consultancy Procedures' policy document. These revised procedures address better practice issues and meet the standards applied in the Department of Finance and Administration and Department of Education, Science and Training.

Finding 2

- CSIRO guidance does not include a requirement to consider whether a contract (or consultancy) represents "the most beneficial" option. Currently there is no formal guidance for the Divisions and Units within CSIRO to address the issue of sourcing adequate internal resources to perform the work of consultants.

Recommendation:

We recommend that CSIRO considers the formalization of "suggested guidance" that was distributed by e-mail to the Executive Management Committee and copied to Finance Managers in November 2003, that provides certain guidance on appropriate reasons for the use of consultancies.

Management Response:

The "suggested guidance" has been formalized within the revised procurement policy framework. Refer Section 4 of the new CSIRO Consultancy Procedures, 'CSIRO Directions on the use of Consultants'.

Finding 3

- CSIRO guidance does include the requirement for the development of a 'statement of requirement' for all procurements, including consultancies. However, there is limited guidance provided to CSIRO officers as to what should be included in such a scoping document.

Recommendation:

The report recommends that CSIRO consider the development of either a "proforma" statement of requirement (which would require tailoring for specific consultancies), or a checklist that outlines the key elements that need to be included in any such statement of requirement. This checklist should include such items as: timeframes, required skill sets, required deliverables, required report structures, reporting lines, etc.

Management Response:

The revised policy incorporates a Statement of Requirement checklist, refer Section 6 of the new CSIRO Consultancy Procedures, 'Consultant Selection', which addresses issues such as:

- The nature and purpose, and primary outcomes including services to be procured and reason for procurement.
- The functional and performance requirements of the consultancy.
- Explanation as to why alternative sourcing arrangements were considered but were not practicable.
- Project timeframes and performance evaluation stages.
- Responsibilities and authorities of the consultant.
- Responsibilities of staff involved.
- Resources to be applied to the project including cost forecast.

- Report structures including format and timelines.
- Assess possible, long-term implications and identify, analyse and evaluate likely risks associated with the proposal.
- Prepare a thorough briefing on the planned services and how consultancy performance is going to be evaluated.
- Ensure the resource implications of the consultancy are outlined including cost forecast.
- Complete project specifications.
- Confidentiality agreements and conflict of interest declarations should be considered.

Finding 4

- The existence of delegation limits, and the obligation for approval and documentation is consistent with better practice. However, there is currently no specific approval process imposed for consultancies to allow for a higher degree of control to address the increased public focus on consultancies let by CSIRO.

Recommendation:

The report recommends that CSIRO considers that the use of a centralised approval process for consultancies (either at the Divisional level or at a Corporate level). This approval process may be either in advance or in arrears of the commencement of the consultancy depending on the preferred approach of management. However, in this regard we note this choice will have differing impacts on the effectiveness of the control.

Management Response:

The revised policy incorporates a new proforma 'Request for Approval to Engage a Consultant'. This document must be completed for all consultancy contracts within CSIRO, refer Section 12 of the new CSIRO Consultancy Procedures. A registration number must also be obtained from the Corporate Procurement Unit before this proforma can proceed through the formal approval process. This procedure, including a final acquittal of the proforma document by the Procurement Unit, should ensure more scrutiny of the process. In addition, only Division Chiefs and Corporate General Managers may approve a consultancy, up to \$50,000, with the Chief Finance Officer required to approve consultancy contracts over \$50,000 with the CEO's approval also required for consultancy contracts with a value greater than \$1.5m.

Finding 5

- The CSIRO guidance does include high-level details of the principles of better practice procurement that are consistent with Commonwealth Procurement Guidelines. Further, the CSIRO guidance also includes some elements of better practice in the provision of direction to officers in the area of selecting suppliers and negotiating contracts. However, there are opportunities for improvement to provide additional guidance that will better enable CSIRO officers to comply with generally accepted practices in the selection of consultants and the negotiation of contracts.

Recommendation:

The report recommends that CSIRO considers providing additional guidance to officers in connection with the procurement of consultancies. The form of this guidance will be influenced by CSIRO's response to Recommendation 1 above. The content of this guidance should include, at a minimum, the various elements noted above to the extent that they are not already included.

Management Response:

Revised policy/guidelines have been prepared. Refer policy document, CSIRO Consultancy Procedures

Finding 6

- CSIRO currently has no procedures or guidelines in place to provide staff with a means to access information relating to ongoing contract management and evaluation issues.

Recommendation:

The report recommends that CSIRO considers providing guidance or a source of advice to officers on the management of consultancy contracts. In this regard, CSIRO may wish to use material included in the ANAO “Contract Management Better Practice Guide” of February 2001, tailoring it to suit CSIRO’s circumstances and specific requirements. The lessons learned from the consideration of management of information technology contracts discussed above may represent a useful platform from which to develop such guidance in connection with consultancies.

Management Response:

A contract management checklist has been developed which is based upon the ANAO’s *Contract Management Better Practice Guide*. This area has been addressed in the new CSIRO Consultancy Procedures, refer Clauses 9.10 and 10.1. A formal contract management checklist also forms part of the new CSIRO Procurement Procedures policy document. A web link has been included in the CSIRO Consultancy Procedures to enable efficient access to this information.

Finding 7

- CSIRO manages reporting of consultancies at a Division/Unit level, which may not be consistent with the strong external focus on consultancies.

Recommendation:

We recommend that CSIRO maintain a central register of all consultancies that allows management to actively monitor how the CSIRO’s consultancy “spend” is being used. This will also allow CSIRO management to identify any risks in consultancies being used (including any trends in the consultants being approached by CSIRO) at an early stage. CSIRO’s approach to this recommendation will depend on its approach to the implementation of Recommendation 5 above.

Management Response:

The revised policy requires that a central consultancy register be maintained. To ensure compliance, Divisions and Units must complete the new policy proforma ‘Request for Approval to Engage a Consultant’, refer Section 12 of the new Consultancy Procedures. A registration number must also be obtained from the Corporate Procurement Unit before this proforma can proceed through the formal approval process. This procedure also includes a final acquittal process to ensure the details documented in the ‘Request for Approval to Engage a Consultant’ proforma reconcile in full with the finance system. Refer Clauses 9.4 and 9.13 of the new Consultancy Procedures.

Finding 8

- CSIRO does not include details of consultancies in its annual report as there is no obligation for it to do so. However, we note that some other CAC Act agencies do in fact include such details.

Recommendation:

We recommend that CSIRO management consider its approach to external reporting in light of common practice in other agencies, as discussed above. There is no obligation for CSIRO to disclose the nature of its consultancies, however CSIRO may wish to consider providing such disclosure in the interest of transparency, and in order to address public questions about its consultancies in an up-front manner.

Management Response:

The revised policy requires that all consultancy contracts, agreements, and arrangements will be disclosed in the CSIRO Annual Report from 2004-05 in accordance with the guidelines issued by the Department of Prime Minister and Cabinet. Refer Clause 11 of the new Consultancy Procedures, 'Related issues'.

Finding 9

- Review of files in order to choose the sample indicated that not all contracts classified by CSIRO as consultancies are consistent with the definition of consultancies used by ANAO, the Commonwealth Procurement Guidelines or CSIRO's Guidelines for Contract for Services.

Recommendation:

As part of the process of procurement and approval of procurement for services, CSIRO may wish to consider requiring the procuring officer to complete a checklist based on the ANAO's Better Practice Guidance for classification of consultancies to ensure that there is greater precision in future classification of such transactions.

Management Response:

The revised procedures address this issue and clearly define the nature of consultancy services compared with contract services. In addition, the new policy also states that where a Division or Unit is uncertain about the correct classification they should contact the Procurement Unit for clarification. Refer Section 5 of the new Consultancy Procedures, 'Operational Procedures/Guidelines'.

Outcomes of Sample Review (Transaction Testing)

The following areas received specific mention within the draft report:

1. A Statement of Requirement was not located in all samples tested.
2. In the sample reviewed, risk assessments or risk management plans were not located.
3. It was not clear in all random samples the method of procurement used to procure the consulting service.
4. A 'Request for Services' document was not found on all samples reviewed.
5. An Evaluation Plan was not found on file to support the evaluation of any of the procurements tested.
6. No documentation of record of receipt was located for any of the procurements tested.

7. Signed confidentiality agreements or conflict of interest declarations were not found for all of the randomly selected samples.
8. Evaluation reports were generally not found on the samples reviewed.
9. Although there was a high level of compliance around contract approval, contract objectives and fees and payments in the sample reviewed, milestones reporting requirements, content and format of reports tended to be neglected. In addition, some variability existed in the nature of indemnities and warranties included in the contracts.
10. Of the samples reviewed there was little evidence of sound contract management practices.
11. Of the samples reviewed none contained a report assessing the overall performance of the consultancy.
12. The standard of documentation of the contract file was generally poor.

Management Response:

1. A Statement of Requirement (Checklist) has been incorporated into the new set of CSIRO Consultancy Procedures.
2. The new CSIRO Consultancy Procedures includes information concerning the need for risk assessment and associated management. In addition, a proforma is provided to assist Divisions and Units in risk assessment and management requirements.
3. The revised policy clearly articulates the process required to procure services in CSIRO. These policies are based upon better practice in the wider public sector.
4. Both the new 'Statement of Requirement' and the Registration Form, 'Request Approval to Engage a Consultant' address this issue.
5. The revised policy clearly states that a Tender Evaluation Form should be established for the evaluation phase. A proforma Evaluation Plan is part of the new set of CSIRO Procurement Policies. A web link has been included to ensure staff can gain easy access to the proforma Evaluation Plan.
6. The revised policy clearly states the procurement methods and processes that are to be used.
7. The revised procedures require that confidentiality agreements and conflict of interest declarations should be considered.
8. The new CSIRO Consultancy Procedures require that an Evaluation Plan be established. The requirement of an Evaluation Plan will facilitate formal evaluation processes.
9. The new CSIRO Consultancy Procedures address the issues around milestone reporting, content and format of reports. In addition, a one-CSIRO Consultancy contract is currently being drawn up which will address issues such as indemnities and warranties. This contract, together with other procurement contracts will be available to all staff via the CSIRO intranet.
10. The new CSIRO Consultancy Procedures address contract management issues through the establishment of Service Level Agreements (SLA), with both milestone reporting and payment schedules being effectively incorporated into the SLA.
11. As part of the final acquittal process, the new CSIRO Consultancy Procedures require Divisions and Units to perform a review on the effectiveness of the consultancy.
12. The new CSIRO Consultancy Procedures clearly state that all documentation must be filed in accordance with CSIRO records management procedures.