

APPENDIX 4

AUDITOR-GENERAL AUDIT REPORT NO. 9 OF 2000-2001

ANAO recommendations and Department of Finance and Administration whole-of-government response

Recommendation No. 1 (Para. 2.25)

ANAO *recommends* consideration of the advantages to the Commonwealth of having a specific agency assigned responsibility for the conduct and coordination of market surveillance and analysis to support and inform strategic planning by agencies for the re-tendering of outsourcing Agreements following completion of the initial implementation of the IT Initiative.

Response: Agree.

Recommendation No. 2 (Para. 2.48)

ANAO *recommends* that, as part of the management of Commonwealth IT outsourcing contracts, relevant agencies institute a framework to support the identification of opportunities to enhance the synergistic benefits available from the composition of agency groupings, either during the initial contract term, where cost-effective, or in the future re-tendering of the outsourcing agreements.

Response: Agree. Agencies agree to pursue synergistic benefits between agencies within existing groups or with other portfolio agencies during the term of the agreements and in any re-tendering activity.

Recommendation No. 3 (Para. 2.66)

ANAO *recommends* that:

- a. OASITO and DOFA agree a timetable for the finalisation and implementation of an evaluation strategy for assessing whole-of-Government outcomes achieved under the IT Initiative;

Response: Agree. DOFA and OASITO will review the scope of the proposed evaluation strategy for assessing whole-of Government outcomes under the IT Initiative. The review of scope would focus on those areas where ongoing WOG monitoring can be most effective.

- b. Relevant agencies develop an evaluation strategy for consistently assessing and reporting outcomes achieved under IT outsourcing arrangements from the perspective of agency groups and individual agencies; and

***Response:** Agree. The respondents support efforts to make use of monitoring and reporting provisions in service agreements to assess outcomes achieved under IT outsourcing arrangements.*

- c. OASITO considers further enhancing its lessons learned processes through the development of mechanisms for the collection, distribution and maintenance of documented lessons learned material, together with appropriate request for tender and contractual material, arising from previous IT outsourcing tender processes to assist agencies undertaking subsequent processes.

***Response:** Agree. OASITO will continue to explore opportunities to further enhance its existing lessons learned processes through improved clarity in documenting these processes.*

Recommendation No. 4 (Para. 3.29)

ANAO *recommends* that, where appropriate, OASITO improve its management of the Strategic Adviser consultancy for the remaining duration of the IT Initiative by defining key deliverables and milestones required to be delivered by the Strategic Adviser.

***Response:** Agreed with qualification. OASITO considers that its management of the Strategic Adviser has been sound, but will investigate opportunities to establish key milestones and deliverables where appropriate.*

Recommendation No. 5 (Para. 4.9)

ANAO *recommends* that, in future IT outsourcing tenders, relevant agencies ensure that a comprehensive brief confirming the contractual arrangements negotiated with the preferred tenderer, including updated analysis of cost savings, industry development commitments and satisfaction of evaluation criteria, is provided to the relevant Ministers in support of any recommendation to enter into the final contract.

***Response:** Agree. ANAO should acknowledge that, in the two cases in issue, the basis of the outsourcing business decision did not change between the selection of each preferred tenderer and contract signing.*

Recommendation No. 6 (Para. 4.26)

ANAO *recommends* that agencies ensure that consultancy agreements developed for the provision of probity auditing services in future IT outsourcing tenders stipulate:

- a. That a comprehensive probity plan is to be finalised before the commencement of the tender process;

Response: Agree, providing it is acknowledged that the probity framework was developed for Cluster 3 and incorporated in the Cluster 3 Project Plan prior to release of the RFT. The probity framework was appropriate and has been applied in all tender processes under the Initiative.

The activities identified in the project plan are reflected in the Probity Auditor's Contract Schedule of Services.

- b. The nature of any sign-offs and reports to be provided by the probity auditor to the decision-maker; and

Response: Agree, providing it is acknowledged that the decision maker was advised of probity auditor Sign Offs at relevant project milestones and that the signoffs agreed with the probity auditor were in an acceptable form.

- c. That the scope of the probity auditor's services include provision of a formal sign-off to the decision-maker prior to the execution of the final contract.

Response: Agree.

Recommendation No. 7 (Para. 4.52)

ANAO recommends that, when conducting financial evaluations involving uneven cash flows over time, relevant agencies account for the time value of money in net present value terms, consistently applied in the evaluation outcomes presented to the decision-maker.

Response: Agreed with qualification. Financial evaluations calculated the time value of money using a variety of discount rates to determine the sensitivity of tender evaluation decisions to these different interest rates. OASITO is prepared to expand the discussion of NPV values in the formal reporting processes, but considers that the methodology adopted in the tender processes in question was appropriate.

Recommendation No. 8 (Para. 4.61)

ANAO recommends that, for future IT outsourcing tenders, relevant agencies enhance transparency and accountability of decision making in the tender process by incorporating into the evaluation planning process consideration of the means by which tenderers will be ranked in terms of the best combination of value for money/cost savings and industry development criteria.

Response: Disagree. The evaluation planning process is clear and takes full account of Government policy objectives.

Recommendation No. 9 (Para. 5.22)

ANAO recommends that, in future IT outsourcing tenders, relevant agencies consider the release of a draft Request for Tender for industry comment to assist in the development of IT offerings that will maximise competitiveness and support the achievement of cost-effective outcomes.

Response: Agree. OASITO and Group Agencies will continue to determine, for each tender process, where the release of draft tender material in advance of the RFT release, is warranted. This decision has been taken in each tender process run under the IT Initiative to date.

Recommendation No. 10 (Para. 5.62)

ANAO recommends that, in future IT outsourcing tenders, relevant agencies enhance the transparency and accountability of decision making by documenting explicit consideration of the extent to which tenderers comply with all evaluation criteria and preconditions identified in the Request for Tender.

Response: Agree. All tender processes have considered the extent to which tenderers comply with all evaluation criteria.

Recommendation No. 11 (Para. 6.65)

ANAO recommends that relevant agencies ensure that future IT outsourcing agreements complement the Government's whole-of-Government telecommunication policy by stipulating a requirement that:

- a. Relevant services be provided to agencies in accordance with whole-of-Government telecommunications arrangements, including that services must be procured under a whole-of-Government Head Agreement supported by appropriate reporting arrangements; and

Response: Agree. Whole of Government telecommunications requirements are defined by Office of Government Online (OGO) in consultation with OASITO. OGO reviews each RFT for IT & T services prior to release to ensure consistency with whole of Government telecommunications requirements. ANAO's recommendation will be implemented to the extent it is consistent with whole of government requirements as advised by OGO.

- b. All telecommunications services be procured in the name of the Commonwealth unless otherwise agreed in writing by the Office of Government Online.

Response: Agree with qualification. The current tendering rules permit tenderers to propose telecommunications services under two alternative models, consistent with whole of Government telecommunications requirements as advised by OGO.

Recommendation No. 12 (Para. 7.17)

ANAO recommends that, in order for the evaluation to identify the true financial value to the Commonwealth of future IT outsourcing tenders, relevant agencies include, at a minimum, the estimated fair market value of agency residual assets that provide service potential beyond the evaluation period.

Response: Disagree. The methodology adopted for the implementation of the IT Outsourcing Initiative does not include this residual asset value. This methodology is consistent with independent expert advice obtained by OASITO and applicable Government policy, although some agencies have noted an alternative approach.

Recommendation No. 13 (Para. 7.31)

ANAO recommends that, in conducting future IT outsourcing tender evaluations, relevant agencies:

- a. Identify the risks and benefits relating to ownership of assets that will be borne by each party under the proposed leasing arrangements in order to properly identify the economic substance of the transaction; and

Response: Agree with qualification. Based on expert advice from a number of accounting firms, a law firm and a specialist leasing adviser, the Finance and Administration portfolio does not agree with ANAO's characterisation of certain equipment components of the IT service agreements. The Australian Bureau of Statistics has indicated it will follow this treatment for GFS purposes. OASITO does not accept that the evaluations have failed to "properly identify the economic substance of the transaction".

- b. Inform the decision-maker of the financial implications of the proposed operating or finance equipment lease arrangements prior to execution of the final contract.

Response: Agree with qualification. The evaluation reports will include an explanation of the accounting treatment and any associated liabilities. However, based on expert advice the Finance & Administration portfolio disagrees with ANAO's characterisation of certain equipment components of the IT service agreements.

Recommendation No. 14 (Para 7.44)

ANAO recommends that, for future IT outsourcing tenders, relevant agencies properly account in the financial evaluation for any residual end-of-term Commonwealth obligations arising from underwriting tenderers' asset risk associated with the outsourced services.

Response: Disagree. The base financial evaluation should not include a contingent liability in relation to dedicated end of term assets. Any contingent liabilities will be disclosed in the evaluation reports in the form of scenario sensitivity analysis. This

treatment is consistent with expert advice obtained by OASITO and consistent with Government policy on IT outsourcing.

Recommendation No. 15 (Para. 7.78)

ANAO recommends that, to ensure competitive neutrality adjustments are consistent with the conditions on which tenderers' pricing is based, OASITO, in consultation with DOFA, review the methodology to be applied in future IT outsourcing tenders for the calculation of adjustments for the required rate of return on agency assets in situations where the Commonwealth underwrites the asset risk of tenderers.

***Response:** Disagree. OASITO has previously reviewed the methodology having regard to asset risk allocation issues and has obtained expert advice that no change to the ROI component of the competitive neutrality calculation is required. This approach is consistent with Government policy on IT outsourcing.*

Recommendation No. 16 (Para. 8.78)

ANAO recommends that, to assist in the verification of external service providers' reported performance, its compliance with contractual obligations, and as an aid to effective contract and resource management, relevant agencies consider the formulation and implementation of an independent review and evaluation program as soon as practicable in the term of an IT outsourcing arrangement.

***Response:** Agree. Agencies will continue to develop mechanisms and processes to ensure effective contract management, having regard to the costs and anticipated benefits of introducing additional layers of review.*

Recommendation No. 17 (Para. 9.38)

ANAO recommends that, in managing IT outsourcing agreements, relevant agencies develop procedures for the conduct and documentation of the processes followed in evaluation options for the use of contractually-available service credits to facilitate effective delivery by the external service provider of contracted services.

***Response:** Agree with qualification. Agencies will continue to pursue a flexible, outcomes-oriented approach for the exercise of service credits and other contractual mechanisms, with an emphasis on encouraging good contractor performance. It should be acknowledged that agencies may responsibly take decisions to redirect or reprioritise contractor resources to address the business needs of the agencies.*

Recommendation No. 18 (Para. 9.70)

ANAO recommends that, where appropriate in outsourcing IT infrastructure services, agencies develop, in consultation with Defence Signal Directorate, an integrated security architecture strategy that addresses operational security issues, identifies the necessary security safeguards and the required timetable for their implementation by the external service provider.

***Response:** Agree. Security requirements have been addressed with the assistance of Defence Signals Directorate in all tender processes conducted under the Initiative having regard to existing security arrangements in the relevant agencies. The development of group security policies is considered on a case by case basis having regard to both existing security arrangements and the contractual framework for each Group.*

Recommendation No. 19 (Para. 9.80)

ANAO recommends that, in implementing IT outsourcing arrangements, relevant agencies develop a specific strategy for monitoring external services providers' compliance with contractual privacy obligations.

***Response:** Agree. IT service agreements provide a rigorous regime for compliance with privacy obligations. Monitoring of compliance with these obligations is a matter for responsible agencies.*

Recommendation No. 20 (Para. 9.99)

ANAO recommends that, in future IT outsourcing processes, relevant agencies:

- a. Ensure that the capacity of tenderers to provide the invoicing information and associated documentation required to support the approval of Commonwealth payments an agency budgetary purposes is appropriately assessed during the tender evaluation and transition phases;

***Response:** Agree. Tender evaluations now place greater emphasis on these matters in light of the experience of earlier groups.*

- b. Specify in the outsourcing Agreement threshold invoice requirements that must be met before payment can be made; and

***Response:** Agree with qualification. Any threshold requirements must be flexible to allow agencies to make judgments about the materiality and value of supporting invoice data and materials.*

- c. Consider including in the transition milestones and deliverables required to be met in order for the external service provider (ESP) to receive full payment of transition fees,

a requirement that the ESP demonstrate adequate capacity to provide invoicing that will satisfy the specified threshold requirements.

***Response:** Agree that this requirement should be considered.*

