

IT Acquisition Councils

Performance Audit

Tabled 17 September 1996

Audit Report No. 7 1996-97

Abbreviations / Glossary

AIDAB	Australian International Development and Assistance Bureau
ANAO	Australian National Audit Office
ATO	Australian Taxation Office
AUSTRADE	Australian Trade Commission
CPSU	Community and Public Sector Union
DAS	Department of Administrative Services
DEETYA	Department of Employment, Education, Training and Youth Affairs
DFAT	Department of Foreign Affairs and Trade
DIST	Department of Industry, Science and Tourism (formerly DITAC)
DITAC	Department of Industry, Technology and Commerce
DoF	Department of Finance
DPRS	Department of the Parliamentary Reporting Staff
DSS	Department of Social Security

DVA	Department of Veterans' Affairs
IT	Information Technology
ITSP	IT Strategic Plan
JCPA	Joint Committee of Public Accounts
NLA	National Library of Australia
OGIT	Office of Government Information Technology
PM&C	Department of the Prime Minister and Cabinet

Summary

The role of an IT Acquisition Council

1. An IT Acquisition Council ¹ is established to examine major information technology acquisition proposals. Its role is to provide impartial advice to the head of an agency and assurance to the Government that IT proposals represent value for money, take account of relevant government policy and are technically sound.
2. IT Acquisition Councils are to be chaired by the agency head or an immediate deputy and should include appropriate representation from the Departments of Industry Science and Tourism (DIST), Administrative Services (DAS) and Finance (DoF). Councils are also to include at least one other person of standing from outside the agency as an independent member to provide competent and impartial advice on all aspects of the proposal, including technical or commercial issues, to all members of the council.
3. All agencies subject to the *Audit Act 1901* and the Finance Directions must submit IT acquisition proposals costing \$10m or more to an IT Acquisition Council. The IT acquisition council process was also developed to provide assurance to the Parliament that there were effective procedures in place to ensure a disciplined, cost effective approach to IT investment decisions.
4. An IT Acquisition Council may also be established for IT proposals costing less than \$10 million at the discretion of an agency head.

Audit objective and scope

5. The objective of the audit was to determine whether:
 - councils essentially met their objectives as stated in the IT Acquisition Council Guidelines (reproduced in Appendix 2);

- council members substantially fulfilled their roles and responsibilities, including providing advice regarding relevant government policy; and
- councils add value and assurance in meeting accountability requirements to the acquisition process.

6. As part of the audit, criteria were determined to consider how well IT acquisition councils met the above objectives, roles and requirements.

7. The audit examined council processes in five agencies - the National Library of Australia (NLA), the Australian Taxation Office (ATO), the Department of the Parliamentary Reporting Staff (DPRS) and the Departments of Foreign Affairs and Trade (DFAT) and Employment Education, Training and Youth Affairs (DEETYA).

Audit findings and conclusion

8. The ANAO concluded that the IT acquisition councils examined during the audit were largely achieving their stated objectives and council members were substantially fulfilling their roles and responsibilities. We also concluded that councils added value to the IT acquisition process and gave a measure of assurance that cost effective decisions were taken in an accountable environment.

9. Several opportunities for further improvement were identified during the audit. These included:

- encouraging a greater focus on whole-of-government issues from both business and technical IT aspects;
- encouraging greater focus on at least the potential for outsourcing of major projects;
- providing greater encouragement to smaller agencies to use the IT acquisition council process;
- ensuring there is adequate focus on risk management aspects of proposals; and
- encouraging non-IT business managers to take greater ownership of IT decision making and operations.

10. These and other opportunities for improvement in the IT acquisition council process are reflected in this report. Recommendations aimed at improving the IT acquisition council process are provided. In making these recommendations the ANAO recognises that Government IT policies in general are presently subject to review in the context of a broader whole-of-government approach. While the policy framework is yet to be fully articulated, the Acquisition Council, or a similarly tailored arrangement, is well placed to provide suitable advice to an agency head on the best acquisition solution that satisfies Government policy requirements. Acquisition councils also provide assurance to the Government that IT policies have been addressed.

11. The audit recommendations in this report should be considered in light of possible changes arising from the Government's present review of IT policy.

Agency responses

12. The proposed report was sent to those agencies subject to audit and to central agencies that have administrative responsibility for policies related to IT acquisition councils. Two agencies, DEETYA and DPRS, declined to provide comments on the report. Agencies that commented on the proposed report were generally supportive of the acquisition council process, viewing councils as an important source of advice and adding value to the IT acquisition process. Agencies also generally supported ANAO recommendations aimed at improving the IT acquisition council process.

13. Although DoF agreed with the majority of the report's recommendations, it considered that the formal acquisition council process that currently operates may have outlived its usefulness and consideration should be given to its replacement by another mechanism which could achieve the same objectives without the requirement for a formal council process.

14. The ANAO notes that this would be a policy decision for the Government.

Recent changes to the acquisition process

15. Since the completion of the audit the Government has announced there will be significant changes to whole-of-government arrangements for Information Technology. Details will be provided by DoF in the near future on the transitional arrangements and their links to decisions in the 1996-97 Budget and Acquisition Council processes.

Key Findings

Current benefits

16. The current IT acquisition council process is seen as adding value by agencies and council members in that it:

- adds discipline and rigour to the IT acquisition process;
- ensures government procurement and industry development policies are addressed;
- provides central agencies with both feedback on the effects of the policies they have developed and a greater understanding of the needs and operations of the proponent agencies; and
- provides the Parliament with assurance that effective procedures are in place to ensure accountability for major IT investment decisions.

Good practice

17. Of the councils reviewed during the audit, we identified several aspects of the DEETYA and ATO processes as good practice. These were:

- high quality documentation presented to the council (including thorough business case analysis);
- strong internal support mechanisms supplementing the council; and
- a strong commitment to the acquisition council process.

18. In ATO's case, we further noted that there was significant involvement of business

managers in the development of IT strategies and IT acquisition processes, including membership of the acquisition council. This initiative helps to ensure that there is adequate consideration of the business case for IT purchases.

Whole-of-Government issues

19. There has been a recent shift in the focus of IT acquisitions from an agency specific approach to a broader, whole-of-government approach. While the framework for a whole-of-government approach is yet to be fully articulated, the acquisition council, or a similarly tailored arrangement, is well placed to provide advice to an agency head on the best acquisition solution that satisfies Government policy requirements. It also provides assurance to the Government and the Parliament that these matters have been properly addressed.

20. In this regard, consideration could to be given for the Office of Government Information Technology (OGIT) to take an increased role in the operation of IT acquisition councils by:

- providing a member on councils to address 'whole-of-government' issues; and
- taking responsibility, in consultation with other agencies, for the appointment and briefing of the independent member.

Outsourcing

21. Total or partial outsourcing of projects was generally not considered a cost effective option by agencies. However, the ANAO is of the view that, in accordance with current policy, greater emphasis could be given to outsourcing by agencies and there are opportunities for councils to ensure that avenues for outsourcing are fully explored. Recent government initiatives announced in the budget should ensure outsourcing and whole-of-government issues are more fully considered by agencies.

Smaller agencies

22. Smaller agencies are not initiating council processes as their major IT acquisitions are under the \$10m threshold. This may be attributed to the fact that IT acquisition councils may be perceived as a control mechanism by agencies, rather than a forum for the provision of independent advice and assurance to the agency head.

23. Compared to larger agencies, smaller agencies potentially lack internal expertise regarding the development of business cases and technical solutions, and may have limited knowledge of government policy relating to procurement and industry development. It is in these areas where an acquisition council can make a significant contribution to the effectiveness of proposals. For this reason, IT acquisition councils, or similar arrangements incorporating the main features, should be promoted as good business practice to smaller agencies.

Risk management

24. During the audit, we found that there was insufficient focus on risk management aspects of some IT proposals by both agencies and councils. Consideration of risks was often limited to those associated with technology with limited attention paid to implementation risks.

Recommendations

Set out below are the recommendations with the report reference and summarised agency responses. The ANAO recognises that Government IT policies are presently subject to review and the audit recommendations should be considered in light of possible changes arising from this review.

Recommendation No. 1 Para. 2.7	<p>The ANAO recommends that greater emphasis be given to consideration of outsourcing options during council deliberations, and to assist this process, OGIT finalise and publish guidelines on outsourcing IT as soon as practicable.</p> <p>Response: All agencies agreed with or noted the recommendation. DoF considered that a greater emphasis on outsourcing could require some changes to Government policy.</p>
Recommendation No. 2 Para. 2.11	<p>The ANAO recommends that standing IT Acquisition Councils have the opportunity to review and provide input to the proponent agency's IT strategic plan to provide advice on whether the plan is technically sound, cost effective and practical.</p> <p>Response: All agencies agreed.</p>
Recommendation No. 3 Para. 2.14	<p>The ANAO recommends agencies provide council members with feedback regarding successes or difficulties encountered during the implementation phase of proposals as a means of ensuring continuous improvement in the acquisition process.</p> <p>Response: All agencies agreed.</p>
Recommendation No. 4 Para. 2.18	<p>The ANAO recommends that IT Acquisition Councils give greater focus to risk management aspects of proposals, including providing assurance that non-technical and implementation risks have been fully addressed.</p> <p>Response: All agencies agreed.</p>
Recommendation No. 5 Para. 2.21	<p>The ANAO recommends that all council members are adequately briefed regarding their roles and responsibilities as IT Acquisition Council members prior to taking up membership on councils.</p> <p>Response: All agencies agreed.</p>
Recommendation No. 6 Para. 2.25	<p>The ANAO recommends that, to overcome any perceptions regarding lack of autonomy of independent members, consideration be given to OGIT being responsible for the selection and briefing of the independent member in consultation with other agencies.</p>

Response: Agencies except DAS and the ATO supported the recommendation on the basis that central agencies and the proponent agency be consulted on the appointment. DAS and the ATO considered the appointment of the independent member should remain with the head of agency.

Recommendation
No. 7
Para. 2.28

The ANAO recommends that agencies ensure that councils are provided with all relevant information to enable fully informed decision making.

Response: All agencies agreed.

Recommendation
No. 8
Para. 2.31

The ANAO recommends that agencies forming IT acquisition councils advise the Minister responsible for the agency of his or her right of representation on the council, consistent with current guidelines.

Response: All agencies agreed.

Recommendation
No. 9
Para. 2.38

The ANAO recommends that DoF finalise guidelines on funding of asset replacement to provide agencies with greater clarity over the budgeting arrangements pertaining to asset replacement.

Response: Agencies supported. DoF proposed to give the recommendation further consideration. OGIT agreed subject to adequate testing of the options to reengineer the system, for example, to use a whole-of-government approach.

Recommendation
No. 10
Para. 2.45

The ANAO recommends that, given DAS' dual role of providing advice and being able to bid for an agency's business, where DAS and the agency involved perceive a potential conflict of interest, consideration be given to the agency finding an alternative means of obtaining procurement advice.

Response: All agencies except DAS and DoF agreed with the recommendation. DAS considered perceptions of conflict of interest arising from its various roles was adequately covered by the DAS code for handling conflict of interest. DoF rejected the recommendation as it was not sure where the Commonwealth should seek procurement advice if not from DAS.

Recommendation
No. 11
Para. 2.59

The ANAO recommends agencies consider including on councils representatives from other agencies that have related interests.

Response: All agencies agreed. In relation to this recommendation and recommendation 13, several agencies expressed the view that care needed to be taken to ensure that councils do not become too large.

Recommendation
No. 12
Para. 2.63

The ANAO recommends that consideration be given to including whole-of-government technology issues in the IT acquisition council process.

Response: All agencies agreed.

Recommendation
No. 13
Para. 2.65

The ANAO recommends that consideration be given to OGIT taking an increased role in the operation of IT acquisition councils by providing a member, where appropriate, on councils to address whole-of-government issues.

Response: All agencies agreed. OGIT advised, however, that due to its limited resources, it could only participate in selected councils.

Recommendation
No. 14
Para. 2.69

The ANAO recommends that current guidelines be revised to ensure consistency both within the guidelines and with other government policies.

Response: All agencies except DoF agreed. DoF rejected and considers that the formal acquisition council process that currently operates may have outlived its usefulness and consideration should be given to its replacement by another mechanism which could achieve the same objectives without the requirement for a formal council process.

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Source : Guidelines for the operation of IT Acquisition Councils, DoF, August 1994.

1. Introduction

This chapter provides a background to the IT Acquisition Council process. The audit objective and methodology are also outlined.

Background

1.1 The concept of acquisition councils was proposed and accepted by the Government in February 1988 following recommendations of the Efficiency Scrutiny Unit. The report of this unit recommended increased devolution of the process for major IT acquisitions and, with the agreement of the Joint Committee on Public Accounts (JCPA), its removal from that process. The JCPA was to be replaced by a procedure that emphasised earlier planning, the involvement of external experts in advising the agency and a schedule of outcomes. In 1991, the responsibilities of the councils were extended, requiring the chairperson of the council to ensure adherence to all areas of Government IT policy and to

take responsibility for aspects of the tender evaluation process. At the same time, DAS and DIST (then DITAC) were given the option of membership of councils.

1.2 In 1992, a consultant contracted to review the process concluded that councils were meeting their objectives. Some further changes to the process were recommended including:

- an increase of the threshold for formation of a council from \$5 million to \$10 million and clarification of what items were to be included in the \$10 million;
- removal of the 'need for Cabinet approval' test as a criteria for council initiation;
- agencies with large budgets were encouraged to form standing (permanent) councils; and
- rolling asset replacement programs to be subject to council scrutiny where costs exceed \$10 million over a three year forward estimate period.

1.3 A recommendation to include smaller agencies where the cost of proposals exceeded 50 per cent of an agency's annual IT budget, even if below the threshold of \$10 million, was not included except as an option at the discretion of those agencies.

1.4 Since the requirement to form a council became policy in 1988, over 50 councils have been initiated. Some agencies have formed several councils. A small number of councils have not progressed beyond the initial meeting. Councils presently in existence are standing councils of the departments of Defence, Social Security, Health and Family Services, Employment Education Training and Youth Affairs, and Foreign Affairs and Trade, and also the Australian Taxation Office. A specific purpose council is operating at the Department of Veterans' Affairs.

1.5 A chronology of events related to the Acquisition Council process is provided in Appendix 1.

The audit

1.6 The objective of the audit was to determine whether:

- councils essentially met their objectives as stated in the IT Acquisition Council Guidelines (reproduced in Appendix 2);
- council members substantially fulfilled their roles and responsibilities, including providing advice regarding relevant government policy; and
- councils add value and assurance in meeting accountability requirements to the acquisition process.

1.7 The ANAO has not previously examined the operation of acquisition councils although audits have been conducted of major IT acquisitions that had required the formation of a council ¹.

1.8 The audit was conducted in conformance with ANAO Auditing Standards and cost \$199,000.

Audit methodology

1.9 The audit examined a representative number of councils and included both standing councils and specific purpose councils of large and small agencies.

1.10 Acquisition Councils examined are detailed below.

The National Library

1.11 This council was formed early in 1992 and concluded in mid-1994 with the selection of a prime contractor and project manager. The council examined the National Document and Information Service project (now called World1) to replace the Australian Bibliographic Network. Development of the selected solution is in progress.

The Australian Taxation Office

1.12 This is a continuing or standing council formed in 1994. Projects examined to date include the ATO imaging project and the workstation replacement project. The ATO was not required, under the Acquisition Council Guidelines, to form an acquisition council prior to March 1994 because of their funding arrangements under the modernisation program.

The Department of Foreign Affairs and Trade

1.13 This is a standing council which has considered an asset replacement program, the DFAT Non-National Secure office automation systems for Australia and overseas posts.

The Department of Education, Employment, Training and Youth Affairs

1.14 This standing council has considered many aspects of the DEETYA response to the working nation initiative.

The Department of the Parliamentary Reporting Staff

1.15 This is a specific purpose council formed to examine asset replacement for ageing equipment in the new Parliament House. DPRS initially sought Cabinet in-principle agreement before forming a council. However, Cabinet rejected the approach and sought a council report before agreeing to provide funding.

1.16 Records held by the Department of Finance on all councils, including councils not examined in this audit, were also considered.

Figure 1: Recent IT Acquisition Councils



2. Issues Arising from the Audit

This chapter outlines the ANAO's assessment of the current IT acquisition council process. It concludes that the process is generally effective and adds value to major IT acquisitions. Some improvements are suggested however, and these are reflected in recommendations provided in this chapter.

Background

2.1 The role of an IT Acquisition Council is to provide advice to the head of the agency and assurance to the Government that the IT proposal is both technically sound and value for money. IT Acquisition Councils do not impinge on the responsibilities of the agency executive, nor on the role of DoF regarding funding and budgetary issues. Acquisition Councils are an advice mechanism, not a control mechanism. They also provide assurance to the Parliament that effective procedures are in place with regard to IT investment decisions.

2.2 In discussions with the agencies forming councils, the ANAO was advised that generally the IT Acquisition Council process was working well.

2.3 Changes to the IT Acquisition Council processes in the eight years since inception have changed the profile of agencies using councils. Most councils are now standing councils formed by large agencies. Few medium sized to small agencies take advantage of the independent advice available from councils under arrangements whereby councils may be formed, at the discretion of the agency head, for acquisitions under the threshold for the mandatory formation of a council. This is in contrast to the view of larger agencies that councils are a valuable source of advice to them.

Councils are meeting their objectives

2.4 The ANAO found that councils largely met their objectives. Councils provided assurance that proposals were soundly based, value for money, and in accordance with the agency's IT strategy. However, although government IT policies were generally followed,

the ANAO is of the opinion that greater emphasis could be given to outsourcing options.

Outsourcing

2.5 The IT Acquisition Council Guidelines state that the council would be expected to consider

...total or partial outsourcing to the private sector, if it is established that the requirements cannot be met from within the Commonwealth public sector in a cost effective manner...

Attachment D of the Guidelines provides a copy of Finance Circular 1991/23 detailing the need for agencies to consider outsourcing.

2.6 Total or partial outsourcing of projects was generally not considered a cost effective option by agencies. However, the ANAO is of the view that, in accordance with current policy, greater emphasis could be given to outsourcing by agencies and that there are opportunities for councils to ensure that avenues for outsourcing are fully explored. IT outsourcing guidelines presently being developed by OGIT will assist in this regard. Recent Government initiatives announced in the budget should ensure outsourcing issues are more fully considered by agencies.

Recommendation No. 1

2.7 The ANAO recommends that greater emphasis be given to consideration of outsourcing options during council deliberations, and to assist this process, OGIT finalise and publish guidelines on outsourcing IT as soon as practicable.

Response

2.8 All agencies agreed with or noted the recommendation. DoF considered that a greater emphasis on outsourcing could require some changes to Government policy.

Standing councils

2.9 Most of the councils in operation at the time of the audit were standing councils. Agencies operating standing councils were very positive about the benefits of such councils and the assurance they gave to agency senior management.

2.10 The acquisition council has responsibility for providing assurance that an acquisition is in accordance with the agencies IT strategic plan. The ANAO considers it is therefore appropriate that a standing council have the opportunity to examine and advise on an agency's IT strategic plan (ITSP). In this context whole-of-government issues could also be addressed.

Recommendation No. 2

2.11 The ANAO recommends that standing IT Acquisition Councils have the opportunity to review and provide input to the proponent agency's IT strategic plan (ITSP) to provide advice on whether the plan is technically sound, cost effective and practical.

Response

2.12 All agencies agreed.

Specific purpose councils

2.13 Although standing councils have the opportunity to obtain feedback on the results of advice provided by councils, specific purpose councils normally conclude at the time of finalising the tender. External members would not normally be aware of the difficulties and successes of implementation and operational phases of projects. The ANAO considers that feedback is desirable if the advice provided by councils and the policies on which members provide advice are to be continually improved. This feedback could include a comparison of performance against the schedule of outcomes.

Recommendation No. 3

2.14 The ANAO recommends agencies provide council members with feedback regarding successes or difficulties encountered during the implementation phase of proposals as a means of ensuring continuous improvement in the acquisition process.

Response

2.15 All agencies agreed.

Risk management

2.16 During the audit we found that there was insufficient focus on risk management aspects of some proposals by both agencies and councils. Consideration of risks was often limited to those associated with technology, with little or no attention paid to implementation risks. Also, those councils considering asset replacement only considered the risk of not proceeding with the proposal.

2.17 The IT Acquisition Council guidelines outline some risks to be considered in the acquisition process. References to other documents² could be included within the guidelines to assist agencies in identifying and addressing risks associated with proposals.

Recommendation No. 4

2.18 The ANAO recommends that IT Acquisition Councils give greater focus to risk management aspects of proposals, including providing assurance that non-technical and implementation risks have been fully addressed.

Response

2.19 All agencies agreed.

Roles and responsibilities of members

2.20 As with any council, it is important that members are knowledgeable and able to contribute constructively. The ANAO found that, generally, the DAS, DIST and DoF members contributed to the success of the councils. However, we noted instances where members from central agencies could improve the process through:

- improved attendance;
- improved understanding of their roles and responsibilities;
- improved preparation for meetings;

- contributing to all aspects of council discussions rather than keeping within their agency's brief;
- representing the views of the agency as a whole;
- more consistent application of policies, particularly with asset replacement; and
- greater continuity of attendance.

Recommendation No. 5

2.21 The ANAO recommends that all council members are adequately briefed regarding their roles and responsibilities as IT Acquisition Council members prior to taking up membership on councils.

Response

2.22 All agencies agreed.

Independent member

2.23 During the audit, some council members questioned the autonomy of the independent member. This perception may be attributable to the fact that the agency appoints and pays for the independent member with a consequent potential for a conflict of interest.

However, the ANAO found the independent members to be important representatives on councils, making positive contributions to the acquisition process.

2.24 The ANAO considers that selection and appointment of the independent member by OGIT, with OGIT briefing the member on his or her role, could better ensure that the independent member is perceived as autonomous.

Recommendation No. 6

2.25 The ANAO recommends that, to overcome any perceptions regarding lack of autonomy of independent members, consideration be given to OGIT being responsible for the selection and briefing of the independent member in consultation with other agencies.

Response

2.26 Agencies except DAS and the ATO supported the recommendation on the basis that central agencies and the proponent agency be consulted on the appointment. DAS and the ATO considered the appointment of the independent member should remain with the head of agency.

Agency responsibilities

Councils to be fully informed

2.27 The proponent agency has the responsibility to provide the council with all relevant information to ensure that the council can make fully informed decisions. In this regard, the ANAO was concerned with some aspects of the council process at one agency. The ANAO noted that a consultant was commissioned to report on the business case for the project. The consultant's report, which was critical of the business case, was not provided to the council. Although the agency considered the report deficient, it did not provide the

full report to the council. Potentially, the council may well have taken a different view of the project if the full contents of the report were known to all external members of the council. An acquisition council is only an advisory committee and it is the prerogative of the agency head to hold a different view. In this instance, however, Cabinet approval for funding was required and it may be questionable whether Cabinet approval would have been forthcoming if the Acquisition Council was not supportive of the project.

Recommendation No. 7

2.28 The ANAO recommends that agencies ensure that councils are provided with all relevant information to enable fully informed decision making.

Response

2.29 All agencies agreed.

Ministers representative

2.30 In 1990, the Government sought amendment to the Acquisition Council Guidelines to clarify that Ministers have the power to nominate a representative as a member. None of the agencies examined during the audit advised their Minister of this right.

Recommendation No. 8

2.31 The ANAO recommends that agencies forming IT acquisition councils advise the Minister responsible for the agency of his or her right of representation on the council, consistent with current guidelines.

Response

2.32 All agencies agreed.

The Department of Finance

2.33 IT Acquisition Council Guidelines state that the Department of Finance:

- is available for consultation in addition to their role on the council;
- has a primary role to ensure a soundly based business case and value for money;
- may cover technical, managerial and cost-benefit aspects, without being influenced by the proposal's priority in terms of other proposals or general budgetary constraints; and
- has a formal role outside the council in agreeing with agencies the Financial Impact Statement.

2.34 Agencies were generally appreciative of the assistance and expertise provided by the DoF representatives.

2.35 However, a recurring theme amongst council members interviewed was that DoF tended to concentrate on reducing the costs of the solution proposed by agencies and did not fully recognise qualitative benefits. The ANAO recognises that DoF has specific responsibilities in ensuring a full range of options are considered and that appropriate

attention is paid to value for money. However, the views of a number of council members suggest that at times DoF appears to be driven by lowest cost solutions rather than the best solution in the long term. DoF disagrees with this view, advising that its primary responsibility is to ensure that proposals provide a soundly based business case and demonstrate value for money. In this context many agencies are asked to provide justification in terms of the marginal benefits compared to the extra cost over the lower cost solutions.

2.36 It was the intention of the acquisition council guidelines to separate the consideration of value for money terms from the funding issue, which was a matter to be decided outside of the acquisition council process. The ANAO nevertheless accepts that there is an inevitable linkage between these two matters but sees considerable merit in addressing each separately, with the council to be informed of the results of agency-DoF agreements.

2.37 The ANAO also noted that in the case of DFAT, agreement for the final council report was delayed for several months while DoF and DFAT obtained information to set the base funding for asset replacement and DoF considered funding policies. The ANAO further noted that neither DoF nor the agency gave a high priority to resolving the situation. The ANAO is aware that DoF is developing new guidelines on the funding of asset replacement.

Recommendation No. 9

2.38 The ANAO recommends that DoF finalise guidelines on funding of asset replacement to provide agencies with greater clarity over the budgeting arrangements pertaining to asset replacement.

Response

2.39 Agencies supported. DoF proposed to give the recommendation further consideration. OGIT agreed subject to adequate testing of the options to reengineer the system, for example, to use a whole-of-government approach.

The Department of Administrative Services

2.40 IT Acquisition Council Guidelines state that the DAS representative has specific responsibility for advising on Commonwealth purchasing policies and practices, including approaches to suppliers, tender documentation and evaluation, and briefing or debriefing of tenderers. The guidelines also state that the DAS representative will be involved in all aspects of the acquisition process.

2.41 Agencies were generally appreciative of the assistance provided by DAS officers.

Conflict of interest

2.42 In one instance, DAS declined to accept membership of a council due to a perceived conflict of interest.

2.43 The ANAO has previously undertaken an audit of conflict of interest within DAS ³. That audit recognised that DAS, within the existing policy and administrative framework, dealt with the question of conflict of interest in a pragmatic and common sense manner. The ANAO, however, did not accept that organisational separation, that is the establishment of 'chinese walls' necessarily resolved the organisational potential for

conflict of interest within DAS. The ANAO recommended that consideration be given to divesting DAS of one of the roles it then performed in respect to IT acquisitions. DAS did not accept this recommendation. DAS still has the dual role of providing advice and being able to bid for an agency's IT business.

2.44 In practice, to overcome any potential conflict of interest DAS declines membership of IT acquisition councils. The ANAO is therefore concerned that some councils do not benefit from DAS advice. It may be that where DAS and agencies perceive a conflict of interest situation, agencies need to consider alternative means of providing councils with information on the procurement process.

Recommendation No. 10

2.45 The ANAO recommends that, given DAS' dual role of providing advice and being able to bid for an agency's business, where DAS and the agency involved perceive a potential conflict of interest, consideration be given to the agency finding an alternative means of obtaining procurement advice.

Response

2.46 All agencies except DAS and DoF agreed with this recommendation.

DAS response

2.47 The question of potential conflicts of interest within DAS in its role as a member of acquisition councils and in its role as a provider of information technology services was extensively addressed by the ANAO in Audit Report No. 43, 1991-92, *Conflict of Interest: A matter of principle*. As stated in response to that audit report, any potential for perception of conflict of interest arising from the Department's various roles is adequately covered by application of the DAS Code for Handling Conflict of Interest, which was published in October 1991.

2.48 If the situation arises where there is a potential for conflict of interest and DAS has declined membership of a council, DAS could still provide advice without being a full member of that council. Where advice is sought from a source other than DAS, the agency head would need to be satisfied that the alternative source had sufficient knowledge of the procurement policy and practices and also accept that the advice would carry no formal authority.

DoF response

2.49 DoF rejects this recommendation as it is not sure where the Commonwealth should seek procurement advice if not from DAS.

ANAO comment

2.50 The ANAO considers that, where DAS has a dual role of providing advice and being able to bid for an agency's business, a perceived conflict of interest exists.

The Department of Industry, Science and Tourism

2.51 The IT Acquisition Council Guidelines give DIST a specific role in ensuring councils take account of the Government's IT industry development policies. The

guidelines also state that DIST representatives will be fully involved in evaluating all aspects of the acquisition proposal.

2.52 Agencies were generally appreciative of the assistance provided by DIST officers.

Value of acquisition councils

2.53 The ANAO is of the opinion that the IT Acquisition Council process is operating satisfactorily, with objectives being met and the process being of benefit to the agencies acquiring IT facilities. They also provide assurance in meeting accountability requirements. The process is of most benefit where the agency involves the council in the operating functions for the management of IT. It is of limited benefit where the agency considers the process as another administrative hurdle to overcome on the way to obtaining approvals.

2.54 The agencies examined were very positive about the benefit of the independent review an acquisition council provides and of the value of the advice provided by the central agencies. A major benefit claimed by most agencies was the early involvement of central agencies and, upon signing the report, the commitment of those agencies to the project. DPRS, however, considered the assurance provided by the council was of benefit to the government but of no great benefit to DPRS.

2.55 The central agencies, DAS, DoF and DIST were also positive about the value of councils. The benefit was seen to be twofold. The central agencies were able to see the effect of the policies for which they had administrative responsibility and were also able to gain a greater understanding of the operation of other agencies. The proponent agency was able to be advised in a timely manner regarding purchasing policies and procedures and were generally able to resolve funding issues with DoF where necessary. However, DoF expressed concern that too many agencies look to participation in acquisition councils as a means to smooth the path to funding, rather than for the formal purposes for which acquisition councils were established. It is further of the view that, as presently structured, acquisition councils do not adequately address inter-agency or whole-of-government options or economies in addressing agency based acquisitions.

Current good practice

2.56 The ANAO considers good practice in the management of IT occurs where business managers approve, fund and set priorities for IT projects to support the organisation's business activities. This practice ensures that the agency accepts corporate responsibility for IT and focuses on supporting the business of the agency rather than on technical matters. It is also desirable for expert independent advice to be available to business executives in solving the business problem. The IT Acquisition Council process goes some way towards providing that independent advice. The ATO formed an internal committee to undertake this function and then formed an acquisition council by adding external members to that committee. We consider that this practice has merit and should be considered by other agencies.

2.57 The ANAO also noted that good practice from agencies was to include, as members or observers, other agencies with a direct interest in the projects examined by councils. Examples are the DFAT inclusion of AUSTRADE and AIDAB, and the DEETYA and DSS representation on each others' councils.

2.58 Two councils included a CPSU representative on the council. This initiative enables staff associations to be aware of strategic directions and provide assistance and comment on staff impact issues.

Recommendation No. 11

2.59 The ANAO recommends agencies consider including on councils representatives from other agencies which have related interests.

Response

2.60 All agencies agreed. In relation to this recommendation and recommendation 13, several agencies expressed the view that care needed to be taken to ensure that councils do not become too large.

Opportunities for a wider perspective

2.61 The acquisition councils examined by the ANAO considered specific projects without examining the potential for including broader efficiencies across more than one agency. The ANAO recognises that present Government policies are emphasising a whole-of-government approach to IT. Whilst these policies have yet to be fully articulated, the ANAO considers IT acquisition councils could be a useful mechanism for providing assurance to agencies and the Government that the solution is appropriate and whole-of-government matters have been properly addressed.

2.62 The ANAO suggests including an OGIT representative on councils with a brief to address whole-of-government issues. In discussions during the audit, OGIT have indicated that their current resourcing levels are limited. However, given the small number of councils presently in existence, the ANAO does not consider this representation would be resource intensive.

Recommendation No. 12

2.63 The ANAO recommends that consideration be given to including whole-of-government technology issues in the IT acquisition council process.

Response

2.64 All agencies agreed.

Recommendation No. 13

2.65 The ANAO recommends that consideration be given to OGIT taking an increased role in the operation of IT acquisition councils and providing a member, where appropriate, on councils to address whole-of-government issues.

Response

2.66 Agencies agreed. OGIT advised, however, that due to its limited resources, it could only participate in selected councils.

Smaller agencies

2.67 As mentioned above, smaller agencies rarely form councils, as their IT acquisitions

normally do not exceed the \$10 million threshold for mandatory formation of a council. The guidelines state that 'councils may be formed for acquisitions costing less than \$10 million at the discretion of the agency head, if such proposals involve sensitive issues or high risk'. The guidelines also state that 'the Council process should be regarded as a useful adjunct to good management rather than just adherence to policy'. The ANAO agrees with the latter sentiment and suggests smaller agencies be encouraged to form a council like forum to guide their larger (under \$10m and funded internally) IT purchases. The qualification 'if such proposals involve sensitive issues or high risk' may be seen as discouraging smaller agencies from forming IT acquisition councils.

Current guidelines

2.68 A number of changes are suggested to the current guidelines including:

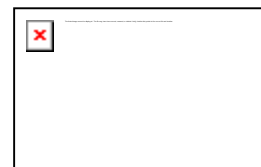
- clarification of the requirements for the statement of benefits and the statement of outcomes;
- aligning the guidelines with annual report guidelines relating to adherence to purchasing policy;
- the guidelines to indicate that the \$10m threshold for asset replacement is over three years, consistent with Finance Circular 1994/6;
- include references to documents addressing risks associated with IT acquisitions (paragraph 2.17 refers);
- clarification of IT asset replacement guidelines (paragraph 2.38 refers); and
- terms of reference to include whole-of-government issues.

Recommendation No. 14

2.69 The ANAO recommends that current guidelines be revised to ensure consistency both within the guidelines and with other government policies.

Response

2.70 All agencies except DoF agreed. DoF rejected and considers that the formal acquisition council process that currently operates may have outlived its usefulness and consideration should be given to its replacement by another mechanism which could achieve the same objectives without the requirement for a formal council process.



Canberra ACT
16 September 1996

P. J. Barrett
Auditor-General

ANAO Report #38 1992-93, *Information Technology Acquisitions*. Attorney-General's, Department of Administrative Services (Australian Construction Services), Comcare and the Department of Finance.

2

Examples are

Guidelines for the management of risk in the Australian Public Service MAB/MIAC;

Commonwealth Procurement Circular No. 8, Managing Risk in Government DAS 1992; and

Risk management Standard AS/NZS 4360:1995.

3

Department of Administrative Services. *Conflict of Interest: A matter of Principle*. Audit Report Number 43 1991-92

Appendix 1 - Chronology of the Acquisition Council Process

Date	Event	Changes
August 1987	Report of the Efficiency Scrutiny Unit (The Block Report)	<p>Recommends changes in the purchasing process for major IT purchases :-</p> <ul style="list-style-type: none"> • acquisitions costing less than \$5m can proceed subject to funding approval; • other computing acquisitions require Cabinet in-principle approval. <p>For those acquisitions requiring Cabinet in-principle approval :</p> <ul style="list-style-type: none"> • an Acquisition Council is to be established to provide independent advice to Cabinet and the head of the proponent organisation on the appropriateness, viability and cost effectiveness of the acquisition and the potential for Australian industry participation; and • an outcomes schedule is to be developed and agreed with DoF before in-principle approval is sought.
February 1988	Cabinet approval of recommendations of the Efficiency Scrutiny Unit.	
March 1988	Finance Circular 1988/6	Advises of the changes to IT acquisition procedures as

		approved by Cabinet.
August 1988	Finance Circular 1988/17	<p>Advises of the publication of the guidelines and clarifies :-</p> <ul style="list-style-type: none"> • costs which are to be included in determining whether Cabinet in-principle approval is required; and • the types of equipment which are exempt from the procedures.
August 1988	DoF publication of the first Guidelines for the operation of ADP Acquisition Councils.	
November 1990	Cabinet approval of further deregulation of IT acquisition processes.	<p>Cabinet agreed to a number of changes to the IT acquisition process including amendment of the acquisition council guidelines to:-</p> <ul style="list-style-type: none"> • provide for Chairpersons of IT Acquisition Councils to be responsible for supplier prebriefing, steering the evaluation process and supplier debriefing; • clarify that the responsible Minister has the power to nominate a representative as a Council member; • give DAS and DIST the option of membership of councils; and • Acquisition Councils to take full account of the Government's IT purchasing policy.
March 1991	Industry Statement	Advised of the need to use a restricted panel of Systems Integrators (SI panel) for projects of over \$1m. (Note : the panel membership was not announced until June 1992.)
March 1991	Finance Circular 1991/11	Advises of the extension of the responsibilities of Acquisition Councils as approved by Cabinet. The circular does not advise of Cabinet's requirement to clarify that the responsible Minister has the power to nominate a Council member.
December 1991	DoF publication of the second Guidelines for the operation of ADP Acquisition Councils	
June 1992	Announcement of SI panel membership	
October 1992	Review of Acquisition Councils report	The Department of Finance engaged a consultant to review and report on the Acquisition Council process.

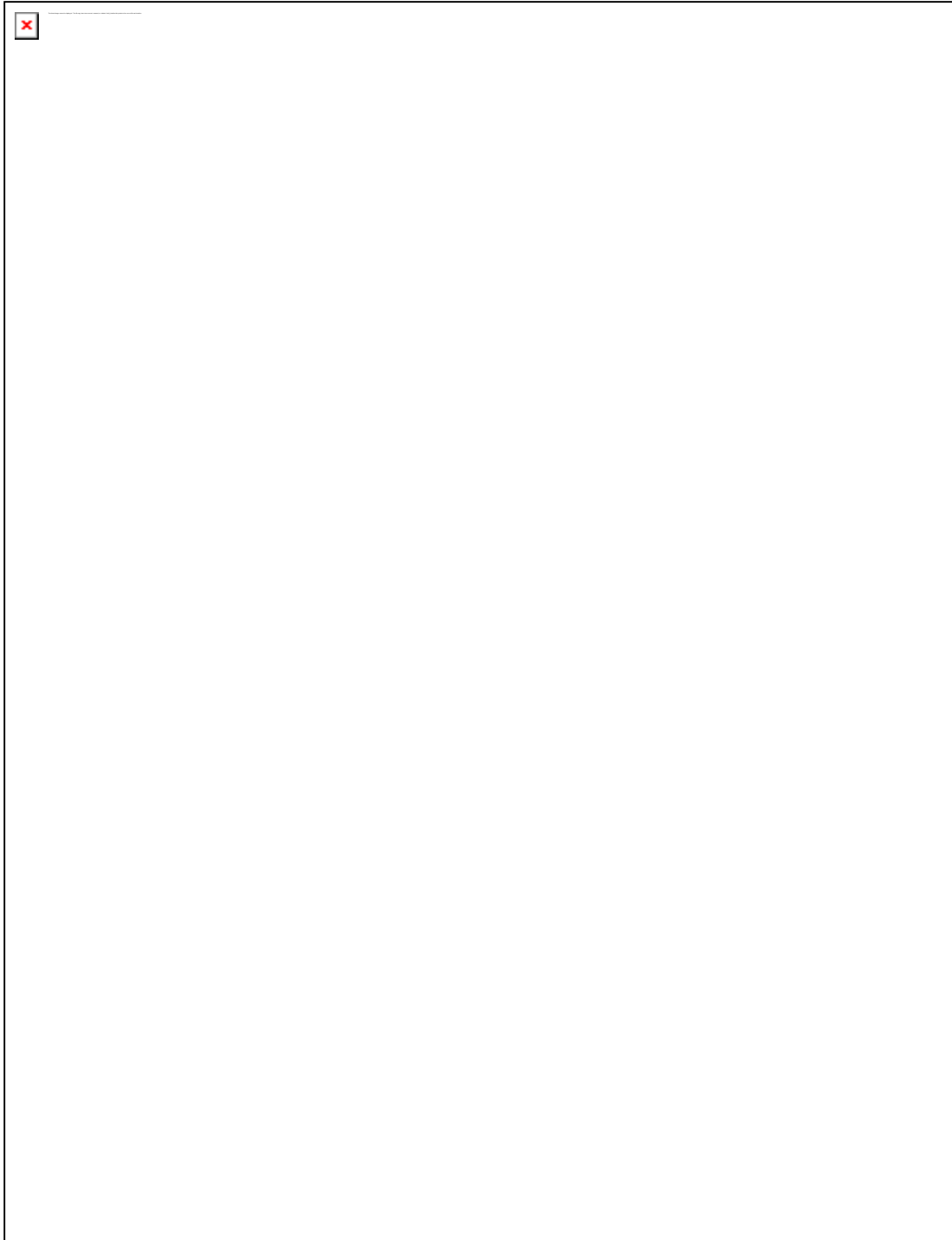
November 1992	Finance Circular 1992/18	Advises of publication of SI panel guidelines.
August 1993	Finance Circular 1993/11	Advises of publication of <i>Guidelines for the Cost-Benefit Analysis of IT Proposals</i> , replacing guidelines published in 1981.
March 1994	Cabinet approval of changes to Acquisition Councils	Following the 1992 consultants report, Cabinet agreed that the IT Acquisition Council process continue and increased the threshold for formation of a council to \$10m. Asset replacement programs are included where the cost of the program exceeds \$10m over three years. The concept of standing councils was introduced.
March 1994	Finance Circular 1994/6	Advises of the changes to the process approved by Cabinet.
August 1994	DoF publication of the third Guidelines for the operation of ADP Acquisition Councils.	

Appendix 2 - Objectives of the IT Acquisition Council Process

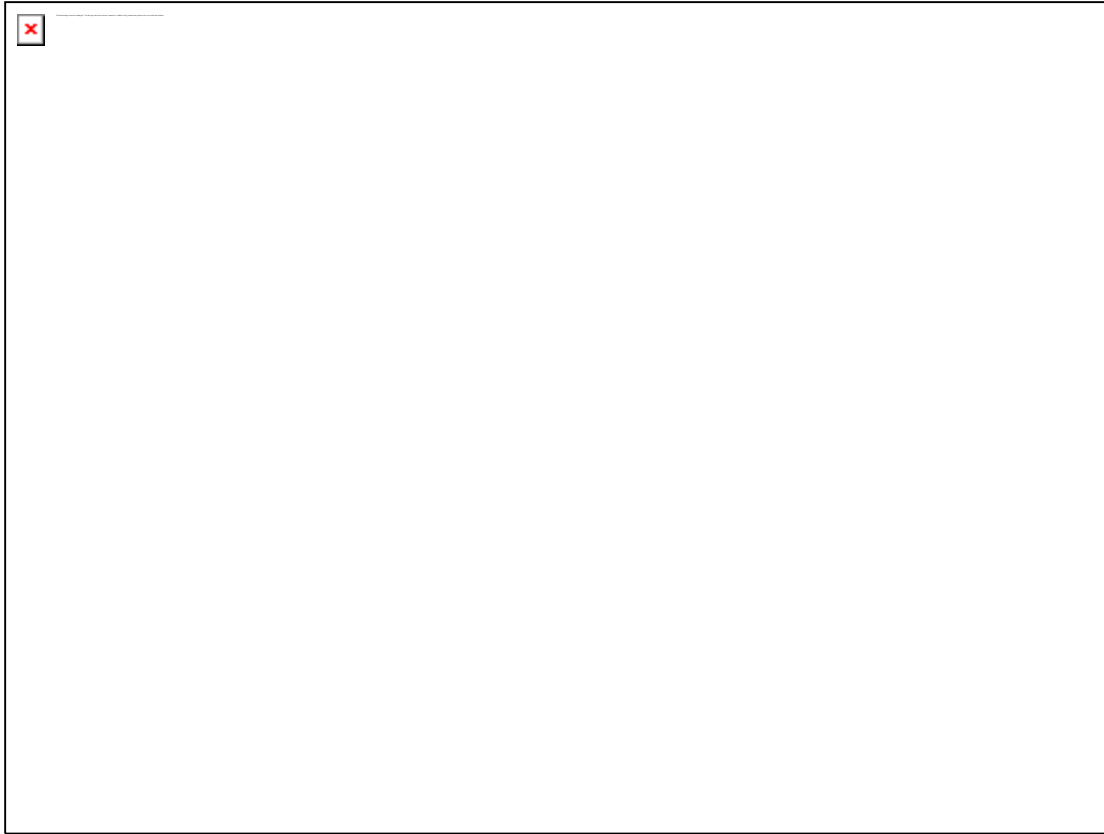
The objective of the IT acquisition council process as defined in attachment A of the IT Acquisition Council Guidelines are to:

- a) provide assurance to the government that the proposal is soundly based;
- b) assist departmental secretaries and heads of organisations by providing them with comprehensive, independent and timely advice during the development of a proposal which would include an appropriate range of viable alternatives;
- c) provide a sound cost-effectiveness analysis of the proposal;
- d) promote the interchange of organisations' experience;
- e) ensure the proposal is in accordance with an agency's corporate and IT strategic objectives;
- f) ensure conformance to Government IT and other policies; and
- g) provide an independent assessment of the tender evaluation process and subsequent recommendation.

Appendix 3 - Key steps in the Acquisition Council process ¹



Appendix 4 - Key steps in the Acquisition Council process for an asset replacement ¹



1

Source : Guidelines for the operation of IT Acquisition Councils, DoF, August 1994.