

The Auditor-General  
Audit Report No.36 2002-03  
Performance Audit

# **Monitoring of Industry Development Commitments under the IT Outsourcing Initiative**

**Department of Communications,  
Information Technology and the Arts**

© Commonwealth  
of Australia 2003

ISSN 1036-7632

ISBN 0 642 80694 2

**COPYRIGHT INFORMATION**

This work is copyright. Apart from any use as permitted under the *Copyright Act 1968*, no part may be reproduced by any process without prior written permission from the Commonwealth, available from AusInfo. Requests and inquiries concerning reproduction and rights should be addressed to:

The Manager,  
Legislative Services,  
AusInfo  
GPO Box 1920  
Canberra ACT 2601

or by email:  
[Cwealthcopyright@finance.gov.au](mailto:Cwealthcopyright@finance.gov.au)

Canberra ACT  
1 April 2003

Dear Mr President  
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in the Department of Communications, Information Technology and the Arts in accordance with the authority contained in the *Auditor-General Act 1997*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit and the accompanying brochure. The report is titled *Monitoring of Industry Development Commitments under the IT Outsourcing Initiative*.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's Homepage—<http://www.anao.gov.au>.

Yours sincerely



P. J. Barrett  
Auditor-General

The Honourable the President of the Senate  
The Honourable the Speaker of the House of Representatives  
Parliament House  
Canberra ACT

## AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office. The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits and financial statement audits of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

Auditor-General reports are available from Government Info Shops. Recent titles are shown at the back of this report.

For further information contact:  
**The Publications Manager**  
**Australian National Audit Office**  
**GPO Box 707**  
**Canberra ACT 2601**

**Telephone:** (02) 6203 7505  
**Fax:** (02) 6203 7519  
**Email:** [webmaster@anao.gov.au](mailto:webmaster@anao.gov.au)

ANAO audit reports and information about the ANAO are available at our internet address:

<http://www.anao.gov.au>

### Auditors

Barbara Palmer  
Colin Cronin

# Contents

---

Abbreviations/Glossary	6
<b>Summary and Recommendation</b>	<b>7</b>
Summary	9
Background	9
Audit approach	12
Overall audit conclusions	12
Key findings	14
Improvement Opportunity	18
Agency Responses	18
Recommendation	19
<b>Audit Findings and Conclusions</b>	<b>21</b>
1. Introduction	23
Background	23
ID objectives	25
Previous audits and reviews	27
Audit approach	30
2. Industry Development Framework	32
Background	32
Revised ID framework	34
Simplified Procurement Arrangements	38
3. Monitoring of ID Commitments	47
Background	47
ID commitments	48
Monitoring of ID commitments	52
4. Performance Against ID Commitments	68
ID outcomes	68
Reporting by DCITA	72
Review of annual ID reports	73
Series Titles	81
Better Practice Guides	84

## Abbreviations/Glossary

---

ANAO	Australian National Audit Office
ATO	Australian Taxation Office
AUS	Auditing Standard
AVA	Australian value added
CAC Act	<i>Commonwealth Authorities and Companies Act 1997</i>
CPGs	Commonwealth Procurement Guidelines
DCITA	Department of Communications, Information Technology and the Arts
DIST	Department of Industry, Science and Technology
ESA	Endorsed Supplier Arrangement
ESP	External service provider
Finance	Department of Finance and Administration
FTE	Full time equivalent
ICT	Information and communications technology
ID	Industry development
IT	Information technology
IT&T	Information technology and telecommunications
MOU	Memorandum of Understanding
NOIE	National Office for the Information Economy
OASACS	Office of Asset Sales and Commercial Support
OASITO	Office of Asset Sales and IT Outsourcing
PfD	Partnerships for Development
R&D	Research and development
RFT	Request for tender
SIDA	Strategic Industry Development Agreement
SMEs	Small to medium enterprises
SPIDA	Strategic Partnership Industry Development Agreement

# **Summary and Recommendation**





# Summary

---

## Background

1. In the 1997–98 Budget, the Government announced the Whole-of-Government Information Technology Infrastructure Consolidation and Outsourcing Initiative (the Initiative). The measure was directed at achieving long-term improvements in the structuring and sourcing of information technology (IT) services across agencies to facilitate greater integration in the delivery of programs and to realise significant cost savings. The Government also identified an opportunity to enhance the growth and competitiveness of the Australian information technology and telecommunications (IT&T) industry through the IT Initiative, particularly in regional Australia.
2. Industry development (ID) had been a key objective of the Initiative. The Government’s ID policy for the IT Outsourcing Initiative was to promote the involvement of small to medium enterprises (SMEs) and high levels of Australian content in the provision of goods and services under the contracts. The Government also used the IT Outsourcing Initiative to leverage further ID commitments, outside the scope of the provision of services, in the areas of strategic investment, employment, exports and the engagement of SMEs.
3. The ID framework put in place for the IT Outsourcing Initiative used the leverage of a competitive tendering process for substantial contracts for IT&T services to procure ID opportunities for the Australian IT&T sector. Tenderers were required to put forward ID proposals to address the Government’s aims to:
  - support growth in the Australian IT&T industries;
  - promote international competitiveness of the Australian IT&T industries; and
  - support employment growth and development in Regional Australia.
4. Under this framework, an external service provider (ESP) was required to have end to end responsibility for delivering an integrated suite of IT&T services. This approach led to a prime contractor entering into a services agreement with a group of agencies and sub-contracting elements of the services where necessary. The ID framework for the Initiative required tenderers to submit ID Plans as part of the proposed service agreement. The ID Plans were to include commitments relating to the delivery of IT&T services under the services agreement (‘in-scope commitments’) and commitments unrelated to the delivery of the services (‘out-of-scope commitments’).

## Contractual commitments

5. Five contracts have been executed under the IT Outsourcing Initiative, with an initial estimated total contract value of \$1.2 billion. The Initiative has been based upon a framework of a centralised contracting environment in which the IT infrastructure and telecommunications requirements of groups of agencies were offered to the market. The successful tenderers committed contractually to the range of in-scope and out-of-scope ID outcomes through the ID Plan included in the Services Agreement, and are required to report to the Department of Communications, Information Technology and the Arts (DCITA) on the progress in meeting annual ID targets. DCITA is responsible for monitoring achievement against ID commitments under the IT Outsourcing Initiative, and administers the ID policy framework for major information and communications technology (ICT) procurement. DCITA relies on the independent audit of those annual ID reports for verification of claims of performance. The monitoring function requires DCITA to monitor the performance of ESPs and to address shortfalls, where it is assessed that ID commitments have not been met, through the negotiation of variations to subsequent year ID targets in the ID Plan. This variation process requires the ESP to establish that any revisions to ID commitments will deliver at least equivalent ID outcomes.

6. The ESPs have made contractual in-scope ID commitments for the proportion of service charges that will relate to Australian value added (AVA) activity (ranging from 69 per cent in the Australian Taxation Office (ATO) ID Plan to 80 per cent in the Cluster 3<sup>1</sup> ID Plan) and the minimum proportion of service charges that will be paid to SMEs (ranging from 6 per cent under the Group 5<sup>2</sup> ID Plan to 75 per cent in the Group 8<sup>3</sup> ID Plan). Each ESP has also made commitments to levels of strategic investment, exports and regional employment through out-of-scope ID initiatives.

7. ID commitments for SME participation and AVA content are calculated as a percentage of total service charges, which have been derived by the ANAO from the ID Plans included in the Service Agreements for the five contracts awarded under the Initiative. These total service charges for IT&T services

<sup>1</sup> At the time the contract was awarded Cluster 3 comprised: Department of Immigration and Multicultural Affairs (DIMA); Australian Electoral Commission (AEC); IP Australia; Australian Surveying and Land Information Group (AUSLIG); Australian Government Analytical Laboratories (AGAL); Ionospheric Prediction Services; Department of Finance and Administration (Finance) for the Electoral Offices System (EOS); and former bureau customers of Finance, including the National Crime Authority (NCA).

<sup>2</sup> At the time the contract was awarded Group 5 comprised: Department of Industry, Science and Resources (DISR); Department of Communications, Information Technology and the Arts (DCITA); Department of Transport and Regional Services (DoTRS); Department of the Prime Minister and Cabinet (PM&C); and Australian Competition and Consumer Commission (ACCC).

<sup>3</sup> At the time the contract was awarded Group 8 comprised: Civil Aviation Safety Authority (CASA); Australian Communications Authority (ACA); Environment Australia; Agriculture, Fisheries and Forestry Australia (AFFA); Public Service and Merit Protection Commission (PSMPC); Aboriginal and Torres Strait Islander Commission (ATSIC); and Australian Broadcasting Authority (ABA).

amount to approximately \$1.14 billion. Commitments for payments to SMEs amount to \$330 million, representing 29 per cent of total service charges. Commitments for AVA content amount to \$850 million, representing 75 per cent of total service charges. Employment commitments for performing the services total 840 full time equivalent jobs.<sup>4</sup> Commitments for out-of-scope activities include strategic investment by ESPs of \$95 million and new exports revenues or import replacement activities of \$300 million.

## Implementation changes

8. A series of reviews conducted on the IT Outsourcing Initiative have resulted in substantial change to the implementation strategy for the Initiative. From January 2001, responsibility for the implementation of the Initiative, formerly managed centrally by the then Office of Asset Sales and IT Outsourcing (OASITO), and subsequently by the then Office of Asset Sales and Commercial Support (OASACS), has been devolved to agency Chief Executives or Boards. DCITA has retained responsibility for the ID component of the Initiative. Subsequent review of the ID framework by DCITA, in the context of the devolved environment, has resulted in a change in direction away from leveraging ID commitments from the procurement process with the announcement in June 2002 of simplified ID arrangements for the procurement of ICT. For ICT contracts valued at \$20 million or more, only minimum mandatory commitments to SME participation levels are required through the procurement process. A self-regulatory approach to achieving other ID outcomes has been introduced through the issue in June 2002 of guidelines for companies supplying ICT goods and services to the Commonwealth Government, on the Government's strategic ID priorities associated with ICT procurement. The new framework for ID has been applied to the extension to the term of the Service Agreement for Cluster 3.<sup>5</sup>

9. The revised approach to ID was considered by the Government to better align ICT ID and procurement arrangements with the current industry environment by focussing on industry self-regulation and facilitating SME access to the Commonwealth Government ICT market. The self-regulatory approach does not require reporting or monitoring of outcomes against the guidelines, thereby moving away from a regulatory regime with compliance based company specific targets and activities. An SME facilitation package has been announced as part of the overall reform process, designed to allow a greater focus on actual SME outcomes.

---

<sup>4</sup> Total out-of-scope employment commitments cannot be calculated as the commitments relate to each particular year and vary throughout the years, depending on the term of each out-of-scope initiative and the type of activity undertaken in each of those initiatives in each year.

<sup>5</sup> The contract for the provision of IT&T Services and ID for Cluster 3 has been extended for a further period of four years via a Deed of Extension and Amendment executed on 20 August 2002.

10. The introduction in June 2002 of revised procurement arrangements for major ICT contracts will result in a reduced role for DCITA in the implementation and monitoring of ID commitments for future contracts. For the initial terms of the five contracts awarded under the IT Outsourcing Initiative, for which ESPs are contractually bound to deliver very specific ID commitments, DCITA has the ongoing responsibility of monitoring performance against those commitments. For future ICT contracts, DCITA's role will be to advise on policy. Agencies will assume responsibility for assessing and monitoring ID commitments, now comprising only minimum mandatory SME participation.

## Audit approach

11. The audit focused on the five contracts awarded under the IT Outsourcing Initiative for Cluster 3, the ATO, Group 5, the Health Group<sup>6</sup> and Group 8 with an initial value of \$1.2 billion. The audit scope did not include a review of the tender processes that resulted in the selection of the prime contractor or the contract negotiation stage for each contract. The audit took account of changes to the IT outsourcing environment that resulted from the Government's response to the Humphry Review. An extension to the term of the five contracts awarded under the Initiative will be considered under the revised procurement policy framework effective from June 2002. Accordingly, the audit also reviewed DCITA's ongoing role in relation to ID for major ICT contracts.

12. The objective of the performance audit was to review the progress in the delivery of contractual commitments for Industry Development (ID) for the five contracts awarded under the IT Outsourcing Initiative. In particular, the audit examined the effectiveness of the monitoring by DCITA of achievement against contractual commitments for ID; assessed the impact of changes to the IT outsourcing environment on the management and monitoring of ongoing ID obligations; and identified practices that have improved administrative arrangements. In the course of reviewing the effectiveness of DCITA's monitoring, DCITA's treatment of apparent failures to deliver contractual commitments was examined. However, the audit did not review, and hence no findings are made in respect of, whether the failures actually occurred or their cause.

## Overall audit conclusions

13. The ANAO found that the IT Outsourcing Initiative tender processes did not identify the extent to which in-scope ID commitments for employment and

---

<sup>6</sup> At the time the contract was awarded the Health Group comprised: Department of Health and Aged Care (DHAC); the Health Insurance Commission (HIC); and Medibank Private Limited (MPL).

SME participation, included in the ESP's ID Plans, were additional to arrangements in place prior to outsourcing of IT&T goods and services. As such, in-scope ID outcomes have only been assessed by DCITA in the context of achievement against targets committed to through individual ID Plans. The primary monitoring function performed by DCITA has involved the review of audited annual ID reports submitted by ESPs for each of the five contracts awarded under the IT Outsourcing Initiative, and the consideration of contract variations where shortfalls occurred against ID commitments, or at the request of the ESP. DCITA has effectively negotiated variations to ID Plans without diminishing overall ID commitments.

**14.** The new procurement policy framework, effective from June 2002, implements voluntary guidelines that set out the Government's expectations for strategic ID activities by its ICT suppliers. It also simplifies the ID requirements for major ICT contracts, requiring contractual commitment to only minimum mandatory SME participation levels. The revised procurement arrangements have resulted in a shift in DCITA's role in monitoring ID in future major ICT contracts from that of a regulator to advisor. Responsibility for monitoring compliance with ID commitments for SME participation for future ICT contracts rests with agencies.

**15.** Annual ID reports for the five contracts awarded under the IT Outsourcing Initiative have been submitted for four years for the Cluster 3 ID Plan, three years for each of the ATO and Group 5 ID Plans, and two years for each of the Health Group and Group 8 ID Plans. ESPs are performing well against their ID commitments, with strong cumulative achievements in most categories. Actual service charges have significantly exceeded initial projected service charges in most years. However, as these have not been identified by DCITA as step increases of greater than 15 per cent,<sup>7</sup> this has not resulted in additional ID commitments as required under the ID Plans.

**16.** Progress in the delivery of ID commitments under the IT Outsourcing Initiative has been effectively monitored by DCITA. Documentation maintained by DCITA evidences analysis of ESP's annual ID outcomes and follow-up of shortfalls against contractual commitments. Delays have occurred in the resolution of shortfalls for out-of-scope initiatives relating to the Health Group and Group 8 ID Plans. However, DCITA has been negotiating with the relevant ESPs in an attempt to resolve the shortfalls through equivalent or increased ID commitments in future years. DCITA has pursued action through the issue of breach notices and considers that sanctions will only be invoked as a last resort.

---

<sup>7</sup> Where increased services are forecast by the Commonwealth to generate a step increase (not short-term variations) in services charges of more than 15 per cent, either the out-of-scope ID initiatives are required to be increased to reflect the likely increase in service charges, or alternatively, ESPs can propose an increase to in-scope ID commitments.

The ultimate responsibility for taking action against an ESP, if it has been established that the ESP is not adequately performing its ID obligations, rests with the relevant agency or Cluster/Group contract management committee.

## Key findings

### ID Framework

17. Five contracts were executed under the IT Outsourcing Initiative, between March 1998 and March 2000, with contract specific ID commitments relating to both in-scope and out-of-scope ID activity. DCITA is required to monitor achievement against those contracted ID commitments for the term of the contracts. However, under the revised procurement arrangements for future ICT procurement, effective from 21 June 2002, ESPs are only required to contractually commit to threshold levels of SME participation in contracts valued at \$20 million or more. Voluntary guidelines have been established that set out the Government's expectations for strategic ID activity by its ICT suppliers. No reporting or monitoring of outcomes is required against the voluntary guidelines on strategic ID. DCITA's ID monitoring function is diminished under the new procurement arrangements for major ICT contracts, with its role moving from that of regulator to adviser on ID policy. DCITA advised ANAO in November 2002 that 'while responsibility for ensuring compliance with the new arrangements rests with agencies under the FMA Act, DCITA intends, through consultation with agencies, to be appraised of outcomes of the new arrangements as part of the process of keeping under review the effectiveness of the policy'. DCITA further advised ANAO in December 2002 that:

while the specific details of the information have not yet been decided it is expected that the type of information DCITA will seek from agencies in relation to contracts of \$20 million or more, as notified in the Commonwealth gazette, will include the following:

- category of the goods/services to be supplied (ie hardware, software etc);
- the expected value of each contract;
- the actual expenditure undertaken under each category of the contract; and
- the level of expenditure under each category for each contract that is related to SMEs.

18. The contract for the provision of IT&T Services and ID for Cluster 3 has been extended for a further period of four years via a Deed of Extension and Amendment executed on 20 August 2002. The current ID Plan, in place until 30 June 2003, will be replaced with a new ID Schedule, the terms of which were

negotiated under the revised procurement arrangements that came into effect on 21 June 2002. The ESP has committed to total payments to SMEs of 11.8 per cent of annual service charges for each of the four years of the extended term, and to an AVA component of 53 per cent of annual service charges. Under the new devolved IT outsourcing environment, the terms of the ID Schedule were negotiated by the Cluster agencies through the Cluster 3 Contract Management Office. DCITA was not required to approve the SME participation rate, which varied from the threshold levels specified in the revised procurement arrangements for ICT contracts of 21 June 2002. The ID Schedule does not address under-performance or include any provisions for variations or procedures, in the event that ID commitments are not achieved. The ESP is required to report to the Cluster on performance against the ID commitments annually, one month after year end. A copy of the report is to be provided by the Cluster to DCITA.

### **Monitoring of ID commitments**

19. The monitoring of ID commitments under the IT Outsourcing Initiative has been achieved using modest resources. The cost of this monitoring function has been estimated by DCITA as 17.5 person years, and \$77 000 in other monitoring costs, from January 1998 to December 2002. The resources applied to the ongoing monitoring function are now estimated at approximately one person year per annum. DCITA has relied on the independent audit of annual ID reports prepared by external advisers to verify the accuracy of stated ID outcomes. DCITA has been consistent in its requirement that those audits be conducted as review engagements under Auditing Standard (AUS) 902 'Review of Financial Reports', which the ANAO considers provides DCITA with an appropriate level of assurance. Where the report has not been qualified, the review engagements, while not presenting an audit opinion, have indicated that nothing has come to the auditor's attention that would cause them to consider that the tables of outcomes reviewed do not present fairly the results for the year reported.

20. DCITA has been consistent in its approach to considering contract variations that impact on the level of commitments. Changes requested to current year targets have only been approved where the proposal has been lodged prior to the end of the reporting year. DCITA has not allowed rectification of a shortfall to be addressed retrospectively. Where changes have been sought after the end of the reporting year, DCITA has required that the proposed changes apply to future year targets and that the changes offer at least equivalent ID outcomes as the current ID Plan, as required in the contract.

21. DCITA has constructively sought proposals for variations to future commitments to address any annual shortfalls, before proceeding directly with

the issue of a breach notice. At the time of this performance audit, no financial sanctions or liquidated damages had been imposed by DCITA for shortfalls against ID commitments. ANAO notes that DCITA has not sought corrective action from ESPs where service charges to a nominated SME have fallen short of the annual target, but where the total in-scope commitment of payment to SMEs has been met. DCITA advised ANAO in November 2002:

DCITA noted the reported outcomes for individual SMEs but did not seek corrective action where the ESP was able to provide a suitable reason for any shortfall. The main reasons given by the ESPs for shortfalls were that agency demands had reduced, the agencies were sourcing directly from the SME or the agencies had decided to source from an alternative supplier. DCITA did not consider that its role should be to lock agencies and ESPs into using the SMEs identified in tables particularly when the total SME target had been achieved and as such action could have impacted on agencies' value for money considerations in their purchasing practices.

22. Where an IT&T service is alternatively sourced by the agency/Group, and the ESP was relying on that service to contribute to its AVA content or SME participation, the capacity for the ESP to meet the overall AVA and/or SME commitment could be impacted. Underpinning the initial projected annual service charges is a projected profile of expenditure against each type of service. While the ID Plan provides for variations to absolute dollar commitments for AVA and SME with the removal of services from scope, changes to the percentage commitments must be made in accordance with the ID variation procedures under the ID Plan. The latter requires the ESP to demonstrate that the change is at least as likely to promote the achievement of the Commonwealth's desired outcomes as the current ID Plan.

23. Variations to address shortfalls in achievements against ID commitments relating to the Health Group, for three out-of-scope initiatives in 2000–01, remained outstanding at the time of the performance audit. Shortfalls in those initiatives were also reported for 2001–02. In September 2002, a breach notice was issued for one of the out-of-scope initiatives. While contact has been maintained between the ESP and DCITA at the time of the audit, breach notices have not yet been issued for the shortfalls in the ID commitments for the other two out-of-scope initiatives. Out-of-scope ID commitments for sanction purposes were met in each of the first two years of the Service Agreement for the Health Group. Resolution of shortfalls in achievement against ID commitments relating to Group 8 also remained outstanding at the time of the audit. DCITA issued a breach notice for those shortfalls in October 2002. However, the ESP has denied the alleged breaches. Sanction levels, relating to ID commitments for Group 8, have not been achieved in 2000–01 for AVA, out-of-scope employment and exports, and in 2001–02 for AVA and exports.



24. On a number of occasions, across the five contracts, the actual annual service charges were greater than 15 per cent of the forecast baseline annual service charges. DCITA had not been advised of the increased volume of services by the agencies, as required under the Memorandums of Understanding (MOUs), in advance of receiving the relevant annual ID report from the ESP for the period. Confirmation as to whether increases in service charges are forecast to continue in future years is required from agencies to allow DCITA to determine whether additional ID commitments should be sought from ESPs. In nine of the 14 annual ID reports received at the time of ANAO fieldwork, the actual annual service charges were reported as being more than 20 per cent greater than the initial projected figure. In five of those reports the increase was greater than 40 per cent. DCITA had not received clarification from the agencies or contract management offices as to whether the increases represented a step increase of greater than 15 per cent requiring the ESP to increase its ID commitments to reflect the increased volume of services in accordance with the requirements under the ID Plans.

## **ID outcomes**

25. Reports on achievements have been submitted for four years in respect of Cluster 3, three years for the ATO and Group 5, and two years for the Health Group and Group 8. ESPs have largely met ID targets and overachieved significantly in a number of areas. Shortfalls identified in the audited reports for the current year for each ESP are currently being reviewed by DCITA. Shortfalls from previous years have been addressed where proposed variations by ESPs have been assessed by DCITA as likely to deliver at least equivalent ID outcomes as the current ID Plan.

26. The ID plans require all ESPs to provide qualitative and quantitative information on their activities in the annual ID reports. Under the annual reporting requirements, for both in-scope and out-of-scope SME participation, the ESP must provide information on the precise nature of the relationship with each SME, including the type and nature of activities undertaken by the SME and how the ESP has maximised the prospects for success in the relationship. The ESP is also required to provide a brief assessment by the SME of the quality of the alliance, information on the value of technology transferred to SMEs, and the type and quantum of AVA.

27. Review of underachievements in ID commitments, reported by ESPs in their annual ID reports, revealed that DCITA had performed follow-up action on reported ID outcomes. Shortfalls have been addressed through the consideration of contract variations and approval where it has been established that the variation will deliver at least equivalent ID outcomes. Variations

generally took the form of increased targets in future years. The major exceptions to the incidents of under-performance being resolved relate to AVA content and two out-of-scope initiatives included in the Group 8 ID Plan, and three out-of-scope initiatives in the Health Group ID Plan. In each case contact has been maintained between DCITA and the ESP and proposals for variations have been sought and considered.

## Improvement Opportunity

28. ANAO made one recommendation to enhance the collection of data for assessing the implementation and effectiveness of ID policy for major ICT contracts.

## Agency Responses

29. A copy of the proposed report for this audit was provided to DCITA and to the six contract managers for the five contracts executed under the IT Outsourcing Initiative. Three contract managers (the Health Insurance Commission, ATO and Group 5) chose not to provide any comments whilst two (the Department of Health and Ageing and Cluster 3) advised that they had no specific comments to make. The final contract manager (Group 8) provided a number of observations, and the final report was amended as appropriate.

30. DCITA's response stated that it appreciated the extensive consultation by the ANAO on the proposed report and agreed with the conclusions and recommendation.

# Recommendation

---

*Set out below is the ANAO's recommendation.*

**Recommendation No.1**  
**Para. 2.34** ANAO recommends that, to assess the implementation and effectiveness of ID policy for major ICT contracts, DCITA should enhance the data it collects from agencies by requiring details of:

- a) all ICT contracts awarded with a value of \$20 million or more;
- b) SME participation levels committed to by the ESPs under those contracts;
- c) the categories of goods and services to be supplied under those contracts (i.e. hardware/software); and
- d) annual reports of achievements against the contracted SME participation levels.

*DCITA Response:* Agreed.



# **Audit Findings and Conclusions**



# 1. Introduction

---

*This chapter provides background on the IT Outsourcing Initiative, discusses industry development objectives under the Initiative, references previous reviews conducted on the Initiative, and details the audit objectives, scope and approach.*

## Background

**1.1** In the 1997–98 Budget, the Government announced the Whole-of-Government Information Technology Infrastructure Consolidation and Outsourcing Initiative (the Initiative). The measure was directed at achieving long-term improvements in the structuring and sourcing of information technology (IT) services across agencies to facilitate greater integration in the delivery of programs and to realise significant cost savings. The Government also identified an opportunity to enhance the growth and competitiveness of the Australian information technology and telecommunications (IT&T) industry through the IT Initiative, particularly in regional Australia.

**1.2** Industry development (ID) has been a key objective of the Initiative. The Government’s ID policy for the IT Outsourcing Initiative was to promote the involvement of small to medium enterprises (SMEs) and high levels of Australian content in the provision of goods and services under the contracts. The Government also used the IT Outsourcing Initiative to leverage further ID commitments, outside the scope of the provision of services, in the areas of strategic investment, employment, exports and the engagement of SMEs.

**1.3** The Government commenced its IT Outsourcing Initiative in 1997, under which its IT&T needs were to be outsourced to the private sector in a series of agency groupings. The Finance Portfolio was responsible for the IT Outsourcing tender process with the then Office of Asset Sales and Information Technology (OASITO) being the responsible agency for managing the Initiative within the portfolio. Responsibility for the overall management and coordination of tender processes conducted under the Initiative rested initially with the then Office of Government Information Technology (OGIT), until it was transferred to the then OASITO in November 1997. In July 2001, OASITO was re-named the Office of Asset Sales and Commercial Support (OASACS) to reflect its revised functions. In the Administrative Arrangements Order of 26 November 2001, OASACS was abolished and its functions absorbed by the Department of Finance and Administration (Finance).

1.4 Five contracts have been awarded under the IT Outsourcing Initiative, with an initial estimated total contract value of \$1.2 billion, as detailed in Figure 1.1.<sup>8</sup> The Initiative has been based upon a framework of a centralised contracting environment in which the IT infrastructure and telecommunications requirements of groups of agencies were offered to the market. Under this framework, ESPs were required to have end to end responsibility for delivering an integrated suite of services. This approach led to a prime contractor entering into a services agreement with a group of agencies and sub-contracting services where necessary. The ID framework for the Initiative required tenderers to submit ID Plans as part of the proposed Service Agreement. The ID Plans were to include ID commitments relating to the delivery of IT&T services under the Services Agreement (in-scope commitments) and ID commitments unrelated to the delivery of the services (out-of-scope commitments).

**Figure 1.1**

**Contracts awarded under the IT Outsourcing Initiative**

Cluster/ Group	Prime Contractor	Date of Contract	Handover of Services	Initial projected contract value
Cluster 3	Computer Sciences Corporation (CSC) Australia Pty Ltd	31 March 1998	1 July 1998	\$160m
Australian Taxation Office (ATO)	EDS Australia Ltd	31 March 1999	23 June 1999	\$490m
Group 5	Advantra Pty Ltd (now Telstra Enterprise services Pty Ltd)	14 April 1999	1 July 1999	\$90m
Health Group	IBM GSA	6 December 1999	various	\$350m
Group 8	IPEX ITG (Iplex)	9 March 2000	26 June 2000	\$130m
<b>Total</b>				<b>\$1220m</b>

Source: ANAO analysis of Service Agreements and related media releases.

<sup>8</sup> At the time the contracts were awarded the Groups/Clusters was comprised of the following agencies: Cluster 3: Department of Immigration and Multicultural Affairs (DIMA), Australian Electoral Commission (AEC), IP Australia, Australian Surveying and Land Information Group (AUSLIG), Australian Government Analytical Laboratories (AGAL), Ionospheric Prediction Services, Finance for the Electoral Offices System (EOS), and former bureau customers of Finance, including the National Crime Authority (NCA); Group 5: Department of Industry, Science and Resources (DISR), Department of Communications, Information Technology and the Arts (DCITA), Department of Transport and Regional Services (DoTRS), Department of the Prime Minister and Cabinet (PM&C), and Australian Competition and Consumer Commission (ACCC); Health Group: Department of Health and Aged Care (DHAC), Health Insurance Commissions (HIC), and Medibank Private Limited (MPL); Group 8: Civil Aviation Safety Authority (CASA), Australian Communications Authority (ACA), Environment Australia, Agriculture, Fisheries and Forestry Australia (AFFA), Public Service and Merit Protection Commission (PSMPC), Aboriginal and Torres Strait Islander Commission (ATSIC), and Australian Broadcasting Authority (ABA).



## ID objectives

1.5 OASITO had responsibility for implementing the evaluation and contractual framework under the IT Outsourcing Initiative. As the then Department of Industry, Science and Technology (DIST) had overall policy responsibility for the Government's ID programs and policies for IT, it was consulted in the development of the framework. Since October 1998, the Department of Communications, Information Technology and the Arts (DCITA) assumed responsibility for monitoring the ID commitments of the contracts awarded under the Initiative. The Government's aims, key priorities and desired outcomes with respect to ID for IT&T were included in the request for tenders (RFTs) for each of the tender processes and are specified in the five contracts awarded under the IT Outsourcing Initiative. Tenderers were required to put forward ID proposals to address the Government's aims to:

- support growth in the Australian information technology and telecommunications (IT&T) industries;
- promote international competitiveness of the Australian IT&T industries; and
- support employment growth and development in Regional Australia<sup>9</sup>.

1.6 The Commonwealth's key priorities in implementing these aims were to:

- contribute to the establishment of a sustainable, diverse platform for the cost effective delivery of IT&T services in Australia, and the preservation and development of technical skills and increased technical innovation in the Australian private sector<sup>10</sup>; and
- act as a catalyst to attract international activities and operations to Australia, to develop enduring relationships that encourage SMEs to develop an international focus and assist them to access international markets, and to build internationally competitive capabilities within Australian companies.

1.7 The Government's desired outcomes from these key priorities were to:

- maximise involvement of SMEs in delivering products and services under IT&T outsourcing contracts;

---

<sup>9</sup> The definition of Regional Australia for the purposes of the IT Outsourcing Initiative included any part of Australia outside metropolitan areas of state capital cities. However, flexibility in the tender processes broadened that definition in certain circumstances to include metropolitan areas of all capital cities except Sydney and Melbourne.

<sup>10</sup> This contribution will be achieved by a combination of the Contractor sub-contracting to SMEs, purchasing local products and services, encouraging high value-added activities in Australia and contributing to Australian research and development.

- achieve substantial net growth in employment at all levels in the Australian IT&T industries;
- contribute to the development of technical skills in the Australian IT&T industries;
- achieve a substantial net increase in employment in Regional Australia;
- attract R&D and other investment in the Australian IT&T industries;
- achieve a substantial increase in the net exports by the Australian IT&T industries; and
- not increase the service charges charged by the prime contractor for the services as a result of complying with the ID Plans.

1.8 These desired outcomes were pursued by contracting with external service providers (ESPs) to deliver against specified ID commitments. The ESPs committed to levels of ID activity through an ID Plan, included as a Schedule to the Service Agreements. The ID Plan covers in-scope ID activities with commitments to minimum levels of Australian content (Australian value added requirements) and SME participation, and to promote IT employment, including regional employment. The ID Plan also includes out-of-scope ID initiatives with commitments to levels of strategic investment, employment and exports. Thus, through the ID commitments included in the Service Agreements, the ESPs have agreed to seek opportunities to promote the Government's aims, priorities and desired outcomes through involvement with Australian IT&T companies and the use of Australian products and services. The responsibility to achieve ID commitment resides with the ESP (or prime contractor) for each Service Agreement and not the approved subcontractors.<sup>11</sup>

1.9 DCITA has reported, in its 2000–01 Industry Development Progress Report, the following ID commitments resulting from the five contracts awarded under the IT Outsourcing Initiative:

- SME participation of 30 per cent of total service charges;
- Australian value added (AVA) content of 75 per cent of total service charges for goods and services provided under the contracts; and
- \$277 million in exports and \$92 million in additional investment through out-of-scope Initiatives.

---

<sup>11</sup> In the tender process, the Commonwealth would only consider ID commitments that specifically related to the IT&T Service Agreement being tendered and that did not relate to the tenderers' existing 'business as usual' or ID activities.

**1.10** At the time of the audit, annual reports on performance against contractual ID commitments had been submitted by the ESP's for four years in respect of Cluster 3, three years for Group 5 and the ATO, and two years for the Health Group and Group 8. ID outcomes are covered in Chapter 4 of this report.

## Previous audits and reviews

**1.11** A series of reviews conducted on the IT Outsourcing Initiative has resulted in substantial change to the implementation strategy for the Initiative. From January 2001, responsibility for the implementation of the Initiative, formerly managed centrally by the then OASITO, and subsequently by the then OASACS, was devolved to agency Chief Executives or Boards. DCITA has retained responsibility for the ID component of the Initiative. As detailed in Chapter 2, subsequent review of the ID framework by DCITA, in the context of the devolved environment, has resulted in a change in direction away from leveraging ID commitments from the procurement process with the announcement in June 2002 of simplified ID arrangements for the procurement of ICT. For ICT contracts valued at \$20 million or more, only commitments to minimum mandatory SME participation levels are required through the procurement process. A self-regulatory approach to achieving other ID outcomes has been introduced through the issue in June 2002 of guidelines for companies supplying ICT goods and services to the Commonwealth Government on the Government's strategic ID priorities associated with ICT procurement. The new framework for ID has been applied to the extension to the term of the Service Agreement for Cluster 3.

**1.12** ANAO Audit Report No.9 2000–01, *Implementation of Whole-of-Government Information Technology Infrastructure Consolidation and Outsourcing Initiative*, tabled in September 2000, examined the administrative and financial effectiveness of the implementation of the IT Initiative. The audit focussed on the first four tenders conducted including Cluster 3, DEETYA/Employment National, the ATO and Group 5. The focus of the ID coverage in that audit was on the evaluation framework and tender outcomes. At the time the fieldwork was conducted, only the first annual ID report had been submitted for the Cluster 3 contract.

**1.13** The audit made 20 recommendations identifying opportunities for improvement in the management and ongoing implementation of the IT Outsourcing Initiative. Finance provided a formal whole-of-Government response to the audit report that agreed, or agreed with qualification, with

16 recommendations and disagreed with four. None of the recommendations related specifically to ID.<sup>12</sup>

## **Humphry Review**

**1.14** In November 2000 the then Minister for Finance and Administration announced that Mr Richard Humphry AO would conduct an independent review on aspects of the IT Initiative. The terms of reference stated that the independent reviewer would inquire into matters relating to the Initiative, with particular emphasis on the implementation risk associated with transitioning the provision of IT infrastructure from the in-house IT operations of Commonwealth agencies to an ESP in contracts let under the Initiative to that time.

**1.15** The report of the Humphry Review, entitled *Review of the Whole of Government Information Technology Outsourcing Initiative*, was released by the Minister on 12 January 2001. The report made 10 recommendations relating to the further implementation of the Initiative, all of which were either agreed or agreed with qualification by the Government. Significant changes arising out of the Humphry Review were the devolution of responsibility for implementing the Initiative from OASITO to agency Chief Executives or Boards, and Government agreement to a recommendation that the decision as to which outsourcing model to adopt should be taken by agency Chief Executives or Boards in accordance with their responsibilities under the *Financial Management and Accountability Act 1997* (FMA Act) and *Commonwealth Authorities and Companies Act 1997* (CAC Act). When current outsourcing agreements expire, agency Chief Executives or Boards can use their own discretion on whether to continue with current groupings.

**1.16** The Government's response to the Humphry Review provided that DCITA retain responsibility for the ID component of the IT outsourcing initiative, and that development of the Australian IT&T industry be retained as an objective of the initiative. In addition to the ongoing role of monitoring ID outcomes DCITA became responsible for the maintenance and operation of the Project Register (refer paragraph 2.5) for ID initiatives and for the ID framework. Responsibility

---

<sup>12</sup> In February 2002, Finance advised the Auditor-General on action taken by it up to 30 September 2001 on the implementation of outstanding recommendations raised by the Auditor-General in his reports to Parliament. The report was also provided to the Joint Committee of Public Accounts and Audit. It identified all 20 recommendations made in Audit Report No.9 as being implemented, including the four disagreed recommendations. Against three of the disagreed recommendations, Recommendation No. 8, 12 and 14, Finance advised that its approach to its own IT outsourcing arrangements is consistent with these recommendations. Against the fourth disagreed recommendation, Recommendation No. 15, Finance noted that the Government had decided that responsibility for the implementation of the IT Outsourcing Initiative will reside with agency heads.

for the framework included providing advice to agencies on ID RFT provisions, ID evaluation methodology and evaluation of ID offerings.

**1.17** The ID framework for the IT Outsourcing Initiative, prior to the Humphry Review, reflected a centralised approach of requiring tenderers to develop specific ID Plans for each contract. The Humphry Review identified a number of shortcomings in the IT Outsourcing framework as it applied to ID. The report stated that:

The overall objectives and benefits for the Australian community of the industry development element of the Initiative were well accepted. However, in considering the future direction of the Initiative it is necessary to closely consider the best methods to achieve industry development goals. It is important that the process for assessing ID is transparent and that responsibility for ID policy is clearly defined. As part of ID policy development it is important to consider the tension between the whole of government ID objective, the objectives of individual contracts and the impact ID commitments have on vendor abilities to meet agency business needs and service levels.<sup>13</sup>

**1.18** DCITA sought to develop a new ID framework to apply in the devolved approach to IT Outsourcing following the Humphry Review. The framework, developed in consultation with industry and a cross section of Commonwealth agencies, is discussed in Chapter 2.

## Senate inquiry

**1.19** On 30 November 2000, the Chairman of the Senate Finance and Public Administration References Committee announced an inquiry into the Government's Information Technology Outsourcing Initiative. The inquiry was completed in August 2001, with the Committee making 22 recommendations directed at improving the conduct of future IT outsourcing activities within the Australian Public Service.

**1.20** The Committee produced three reports in the course of its inquiry: an Interim Report, *Accountability in a Commercial Environment—Emerging Issues*, released in April 2001; a second interim report, *Accountability Issues—Two Case Studies*, released in June 2001; and a final report, *Re-booting the IT agenda in the Australian Public Service*, released in August 2001. On each occasion, at least one minority report was also released.

**1.21** The final report of the Senate Inquiry into the IT Outsourcing Initiative of August 2001 raised questions about the responsibility for ID in a devolved IT outsourcing environment. The Committee identified problems with the ID framework proposed at that time as to who had authority for decision making

---

<sup>13</sup> Humphry report p. 37.

and ultimate responsibility for ID. The Government response to the final report of the Committee had not been submitted at the time of the audit. Revisions to the ID framework that occurred both during and subsequent to that review are detailed in Chapter 2.

## **Future role for DCITA**

**1.22** The introduction in June 2002 of revised procurement arrangements for major ICT contracts will result in a reduced role for DCITA in the implementation and monitoring of ID commitments for future contracts. For the initial terms of the five contracts awarded under the IT Outsourcing Initiative, for which ESPs are contractually bound to deliver very specific ID commitments, DCITA has the ongoing responsibility of monitoring performance against those commitments. For future ICT contracts, DCITA's role will be to advise on policy, with agencies assuming responsibility for negotiating and monitoring ID commitments.

## **Audit approach**

**1.23** The objective of the performance audit was to review the progress in the delivery of contractual commitments for ID for the five contracts awarded under the IT Outsourcing Initiative. In particular, the audit examined the effectiveness of the monitoring by DCITA of achievement against contractual commitments for ID; assessed the impact of changes to the IT outsourcing environment on the management and monitoring of ongoing ID obligations; and identified practices that have improved administrative arrangements.

**1.24** The audit assessed the administrative processes undertaken by DCITA to monitor the progress of ESPs in achieving ID commitments in those contracts, and the management of contractual obligations relating to ID commitments.<sup>14</sup> The audit approach involved reviewing documentation held by DCITA of the specification of ID commitments, of the reports submitted by prime contractors, and of the management and review by DCITA of contractor performance. The audit built on audit work undertaken in Audit Report No.9 2000–01<sup>15</sup> dealing with the implementation of the IT Initiative.

---

<sup>14</sup> The ANAO has not attempted to identify whether ID achievements relating to commitments under the five contracts awarded under the IT Outsourcing Initiative were additional to arrangements in place prior to the outsourcing of IT services. For example, the audit did not examine whether SMEs participating in the provision of outsourced services had a pre-existing relationship or contract with a Commonwealth agency included in the outsourcing Service Agreement or to what extent employment was additional to previous levels.

<sup>15</sup> ANAO, Audit Report No.9, *Implementation of the Whole-of-Government Information Technology Infrastructure Consolidation and Outsourcing Initiative, 2000–01*, p. 43.

**1.25** The audit focused on the five contracts awarded under the IT Outsourcing Initiative for Cluster 3, the ATO, Group 5, the Health Group and for Group 8. The total estimated contract value on award of these contracts was \$1.2 billion. The audit scope did not include a review of the tender processes that resulted in the selection of the prime contractor or the contract negotiation stage for each contract. The audit took account of changes to the IT outsourcing environment that resulted from the Government's response to the Humphry Review. An extension to the term of the five contracts awarded under the Initiative will be considered under the revised procurement policy framework effective from June 2002. Accordingly, the audit also reviewed DCITA's ongoing role in relation to ID for major ICT contracts.

**1.26** Audit fieldwork was conducted between August and October 2002. ANAO engaged the Australian Government Solicitor (AGS) to provide legal advice on the clearance process for the proposed audit report. The audit was conducted in accordance with ANAO Auditing Standards at a cost to the ANAO of \$ 272 000.

## 2. Industry Development Framework

---

*This chapter discusses the industry development framework for the IT Outsourcing Initiative, from the initial centralised approach to the Initiative through to the current ID requirements for ICT procurement in a devolved environment.*

### Background

**2.1** The ID framework was originally developed by OASITO and its advisers and in consultation with the then Department of Industry, Science and Technology (DIST). The framework was in place when DCITA took over responsibility, from the former DIST, for monitoring ID for IT Outsourcing contracts. Responsibility was transferred to the newly created DCITA as part of the reorganisation resulting from the Administrative Arrangements Order of 21 October 1998. DCITA is responsible for monitoring progress and compliance with ID commitments associated with contracts awarded under the IT Outsourcing Initiative. DCITA also administers the ID policy framework for major ICT procurement.

**2.2** The ID framework underpinning the IT Outsourcing Initiative has sought to develop a strong, sustainable and internationally competitive IT&T industry in Australia. To achieve this objective, a structure was put in place in 1997 to promote SME participation, increase local content (AVA), encourage regional employment and development and growth in employment in IT&T industries, develop export markets (or import replacement) and to foster strategic investment. Through the IT Outsourcing Initiative, the Government sought to provide opportunities for Australian SMEs and to enhance the prospects for long-term strategic investments.

**2.3** Finance and DCITA jointly manage the scheme for IT suppliers wanting to do business with Commonwealth agencies. Finance administers the Endorsed Supplier Arrangement (ESA) scheme, where IT suppliers must satisfy mandatory pre-qualification criteria before dealing with Commonwealth agencies. DCITA manages the ID requirements of the ESA and undertakes assessments and reviews of the ID activities and claims made by current and prospective ESA companies. DCITA also managed the former Partnership for Development (PfD) scheme where mainly overseas based IT suppliers were required to perform against a formal ID agreement. The suppliers were required to develop a PfD agreement with the Commonwealth as a condition to becoming an Endorsed Supplier, as an alternative to the ESA ID criteria. The PfD scheme has been discontinued. ID requirements for specific IT Outsourcing contracts are in addition to commitments made for ESA and the former PfD. ESPs and their



subcontractors are required to become Endorsed Suppliers within 12 months of the start date for any IT Outsourcing Service Agreement. As part of the evaluation, DCITA was required to ensure that activities counted as part of the PfD program were not counted as eligible ID commitments under the IT Outsourcing contracts. One of the Government's objectives under the Initiative was to secure ID commitments from ESPs, additional to commitments made under other programs, in view of the large size, and long-term nature, of the contracts. Those commitments could not relate to any existing business or ID programs.

**2.4** In May 2000, a number of issues were put to the Minister for Communications, Information Technology and the Arts relating to the framework for ID under the IT Outsourcing Initiative. The Minister was advised that a number of significant industry players had raised issues about the approach taken to ID under the Initiative. DCITA considered that a mechanism was needed to encourage the development of large scale investments because the timing of the release of tenders, as well as seeking ID commitments on a contract-by-contract basis, led to ID offerings being small and relatively piecemeal as they were tailored to the size of each individual business opportunity. In addition, DCITA considered that the tenderers were forced to break projects down into modules that aligned with the timing of the outsourcing process. The requirement that only ID activities related to projects that had not been previously announced were eligible for evaluation under the IT Outsourcing Initiative was also considered restrictive. A proposal that companies set out a confidential forward-looking ID strategy was raised as a means of attracting more ambitious projects. The strategy would be assessed to ensure the elements represent new or additional activity and meet the ID criteria.

**2.5** To address concerns on the timing of announcements of ID initiatives, in September 2000, an ID project register for ID initiatives for the IT Outsourcing Initiative was established. The register was designed to assist companies take a strategic approach to IT outsourcing opportunities by identifying, registering and commencing large-scale projects intended for use in future tender rounds. The register allowed companies to register ID projects with the Government, irrespective of the timing of tender processes. The mechanism allowed companies that had large-scale ID projects to apply those initiatives to more than one tender.

**2.6** In October 2000, the National Office for the Information Economy (NOIE) was established as an Executive Agency under the Public Service Act 1999 and information technology industry policy, previously the responsibility of DCITA, was transferred to NOIE. NOIE's major focus is the application of ICT technologies across the wider economy, while DCITA has responsibility for most program and policy functions that support the development of the national ICT

industry capability.<sup>16</sup> DCITA has responsibility for ICT ID activities such as the ID aspects of IT outsourcing.<sup>17</sup>

**2.7** In February 2002, the Prime Minister announced a key ICT ID initiative, the ICT Framework for the Future. The Commonwealth Government will join with the ICT sector, wider industry and the research and educational community to analyse and scope future development of Australia's ICT sector over a five to ten year timeframe. The steering committee is chaired by the Minister for Communications, Information Technology and the Arts. Development of the framework is to be reported on by the end of 2002.

## Revised ID framework

**2.8** The Government's ID objectives for industries in the ICT sector have been to develop a vibrant, competitive and internationally recognised ICT industry that can take advantage of international opportunities and make greater contribution to economic growth, and to have globally competitive industries that make effective use of ICT.

**2.9** The report of the Humphry Review, released in January 2001, recommended that 'future responsibility for implementing the Initiative should be fully devolved to agency Chief Executives or Boards'. In response to that recommendation, it was agreed that the Government would retain the policy objectives of the IT Initiative including value for money information technology (including savings) and the development of the Australian IT&T Industry. It was also agreed that DCITA would retain responsibility for the ID component of the Initiative. The Humphry Report recognised that a number of inter-linked ID mechanisms existed for suppliers of IT goods and services, including the ESA and PfD schemes.

**2.10** The need to review the framework for ID under the devolved environment was identified. Under the previous framework, a small number of centralised contracts were put in place. Under the devolved environment, a larger number of contracts are expected to be negotiated but of a smaller individual magnitude. The devolved environment is expected to result in increased opportunities for SMEs as they bid for work in their own right, not just as sub-contractors to the larger corporations.

---

<sup>16</sup> On 15 October 2002, the Management Advisory Committee released a report entitled *Australian Government Use of Information and Communication Technology: A New Governance and Investment Framework*. The framework provides a strategic approach to ICT investment and governance in Commonwealth agencies, and includes principles of ICT governance to optimise Commonwealth outcomes.

<sup>17</sup> NOIE's role in ICT ID, as stated on its website, focuses on the creation of a business environment which encourages the development of growing, export-oriented, innovative and competitive ICT businesses in Australia.

**2.11** The Minister for Communications, Information Technology and the Arts announced in January 2001 that the Government was considering the most appropriate ID framework for the new environment for IT outsourcing. The Minister also announced that industry and a cross section of Commonwealth departments and agencies would be consulted on the ID framework for IT outsourcing in light of the recently devolved implementation of the IT Outsourcing Initiative in which agencies assumed responsibility for the scope and methodology of future IT outsourcing activity.

**2.12** On 23 April 2001 the Minister released a new ID framework to apply to future IT outsourcing tenders, entitled *IT Outsourcing and ICT Industry Development Framework*. The new framework had two main elements. The first was the rules to apply to the ID aspects of the IT outsourcing tendering process. The second related to broader aspects of the Government's use of IT procurement for ID purposes. The framework document addressed the first element, outlining the ID requirements for specific tenders in the IT outsourcing process. For IT outsourcing contracts over \$10 million, the tenderer and sub-contractors would be required to be endorsed under the ESA. The tenderer would be required to include in its bid the levels of SME involvement, AVA content, and AVA content provided by SMEs<sup>18</sup> it would contract to provide. DCITA was to contribute to the RFT, to assist in evaluating the ID elements for contracts over \$10 million, and continue to have responsibility for monitoring ID outcomes. The framework was considered more streamlined in terms of the ID component, involving simpler outsourcing contracts.

**2.13** The new framework also flagged that a strategic ID framework would be introduced to replace the range of mechanisms that operated at that time in relation to Government IT procurement.<sup>19</sup> The new framework would focus on the development of strategic ID outcomes. Strategic ID plans were to be established between DCITA and companies that have a significant amount of IT business with the Commonwealth Government, and were to be used as a mechanism for monitoring ID. In order to simplify reporting, ESPs could incorporate all IT outsourcing ID commitments into a strategic ID plan rather than in a particular service agreement. The framework allowed ESPs to focus on ID objectives and to take a longer term approach to their ID activities to meet the Government's ID requirements, rather than taking a contract by contract approach. These plans could be adjusted over time as the sales level of business the company had with the Government changed.

---

<sup>18</sup> This would be a new criterion, termed Small to Medium Enterprises Australian Value Added (SMEAVA), designed to measure the SME involvement adjusted to reflect the level of Australian content.

<sup>19</sup> The framework included a commitment to develop a new strategic ID initiative to replace the PfD program.

**2.14** The establishment and monitoring components of the new strategic ID framework were to be finalised following further consultation with industry on the proposed approach. Details of the new arrangements were to be finalised by June 2001. The framework was to be reviewed by June 2002.<sup>20</sup> The Minister also announced an investigation of any impediments to SMEs selling goods and services to Government.

**2.15** In June 2001, DCITA released two discussion papers on issues foreshadowed in the new ID environment, addressing the implementation of the Strategic Industry Development Agreement (SIDA) program and inhibitors to SME participation in Government IT outsourcing contracts. Formal announcement of the SIDA program and SIDA guidelines was anticipated in July/August 2001 and an action plan on SME inhibitors by September 2001. The SIDA program was to facilitate a long-term collaborative relationship between Government and industry and rationalise Government IT purchasing leverage programs.

### *Senate Inquiry*

**2.16** The final report of the Senate Inquiry into the IT Outsourcing Initiative of August 2001 raised questions about the responsibility for ID in a devolved IT outsourcing environment and under the new ID framework announced on 23 April 2001. The Senate Finance and Public Administration References Committee (the Committee) identified problems with the ID framework proposed at that time as to who had authority for decision-making and who had ultimate responsibility for ID in the devolved IT outsourcing environment. The Committee concluded that responsibilities for setting ID criteria, evaluating ID outcomes and compliance monitoring were considered unresolved. The Committee stated in its report that 'the Committee would like to see in place a process for ID that clearly defines responsibilities, delivers certainty and transparency, and gives agencies the capacity to manage their own business'<sup>21</sup>. The Committee also saw a need for the relative importance given to ID in the evaluation of tenders to be specified and concluded, as Recommendation 20, that:

DoCITA in close consultation with agencies develop and agree to an overall roadmap for ID under the IT outsourcing program. This strategic plan is to spell out the objectives and targets of ID under the IT outsourcing Initiative, to define and specify SME involvement, and establish the evaluation criteria, including the weighting to be assigned to ID in the overall evaluation of tenders for an IT outsourcing contract. This information to be included in the RFTs.

---

<sup>20</sup> DCITA advised the Senate Finance and Public Administration References Committee on 18 May 2001 that under the new ID framework DCITA would develop the ID component of the RFTs in consultation with agencies for relevant contracts, and the evaluation of ID would be undertaken pursuant to an evaluation framework which it would agree with the agency in each case.

<sup>21</sup> Final report on the Government's Information Technology Outsourcing Initiative of August 2001 *Rebooting the IT Agenda in the Australian Public Service* p. 81.

2.17 The Committee identified from the ID framework of April 2001 that DCITA would have an ongoing role, in consultation with agencies, in the development of ID aspects of the RFT and evaluation of ID aspects of bids received. While agencies have assumed responsibility for managing the tendering and contracting process, it is less clear whether the Committee envisaged DCITA retaining responsibility for monitoring and reporting on ID under the new ID framework. However, the DCITA ID Framework of April 2001 states that DCITA will continue to have responsibility for monitoring ID outcomes and will liaise with other Commonwealth agencies when monitoring ID outcomes and compliance.

2.18 The Government's response to the recommendations of the Senate Committee Report on the Government's IT Outsourcing Initiative had not been finalised at the time of the audit. The revised ICT procurement arrangements, that came into effect in June 2002, will impact on DCITA's input to the response to the three recommendations relating to ID.

## **Strategic Partnership Industry Development Agreements Program**

2.19 A new ID program to encourage ICT companies to expand their investment in, and engagement with, Australia's ICT sector was announced by the Minister on 4 October 2001. The Strategic Partnership Industry Development Agreements (SPIDA) program was launched as an integral element of the Government's *IT Outsourcing and ICT Industry Development Framework* announced in April 2001. The SPIDA program replaced the PfD program and a range of ID measures associated with Commonwealth Government ICT procurement of goods and services.

2.20 Under the new program, companies with annual ICT sales to the Commonwealth Government of \$10 million or more would be required to put in place a SPIDA detailing proposed ID activities. Specific activities encouraged included research and development, exports, investments, SME development, technology transfer and skills development. Any company supplying ICT goods could elect to enter into a SPIDA, with activities required to be ICT related and to contribute to the development of the ICT industry. The strategic ID commitments were to be documented in a SPIDA negotiated between DCITA and the ESP. The total level of ID activities was to be broadly in proportion with the levels of ICT sales to the Commonwealth, State, Territory and local governments. The Minister included in his press announcement of 4 October 2001 a revised annual revenue threshold for the definition of SMEs of \$500 million for ICT contract specific requirements.

**2.21** The SPIDA program, implemented collaboratively with State and Territory Governments, was to utilise procurement to assist in the development of the ICT sector in Australia by promoting a strategic ID relationship between the Government and its ICT suppliers. Implementation of the guidelines for the program followed consultation by DCITA with industry associations, SMEs and relevant government agencies. The program was announced as contributing to an overall reduction in ID compliance and reporting requirements associated with Government procurement. Companies would be required to report annually on their ID activities and to forecast ID activity for the following year. DCITA would commission audit reviews of companies' annual SPIDA reports on a random and/or targeted basis. A key operational feature of the SPIDA program was that, where a company did not meet the requirements of the program, it could lose its endorsement as a supplier of ICT products and/or services to the Commonwealth Government.

**2.22** Following the release of a discussion paper on 1 June 2001, the Minister also released an Action Plan addressing inhibitors to SME participation in Commonwealth Government IT outsourcing contracts on 4 October 2001. The Action Plan is designed to improve both access by SME to contracts and the nature of the participation by SMEs in those contracts.

**2.23** No SPIDAs were entered into prior to revised procurement arrangements being announced in June 2002. The SPIDA program, and the previous PfD program, were to provide a formal mechanism for leveraging ICT ID from Commonwealth procurement. These programs were superseded on 21 June 2002 with the announcement of voluntary ID guidelines that set out the Government's expectations for strategic ID activities by its ICT suppliers. However, ESPs are still required to meet the ID criteria of the ESA scheme.

## **Simplified Procurement Arrangements**

**2.24** On 21 June 2002, the Minister for Communications, Information Technology and the Arts announced simplified ID arrangements for the procurement of ICT by Government. Under these arrangements, the Government has moved away from leveraging ID from the procurement of ICT services. The new arrangements include three key elements, including voluntary guidelines for strategic ID activities by its ICT suppliers; simplified ID requirements for ICT contracts; and a facilitation package to enhance the ability of SMEs to participate in ICT contracts.<sup>22</sup>

<sup>22</sup> The media release by the Minister for Communication, Information Technology and the Arts of 21 June 2002 clarified the definition of an SME for the purposes of the new ID arrangements as 'a body corporate incorporated in Australia or New Zealand which, together with its Related Bodies Corporate and Parent Entities, has an average aggregate annual revenue over the last four financial years of less than \$A500 million'. The definition of SME under the IT Outsourcing Initiative was previously revenue of \$250 million, averaged over three years.

**2.25** The revised approach to ID was considered by the Government to better align ICT ID and procurement arrangements with the current industry environment by focussing on industry self-regulation and facilitating SME access to the Commonwealth Government ICT market. The self-regulatory approach does not require reporting or monitoring of outcomes against the guidelines, thereby moving away from a regulatory regime with compliance based company specific targets and activities. An SME facilitation package has been announced as part of the overall reform process, designed to allow a greater focus on actual SME outcomes.

**2.26** The guidelines for ID activities are essentially voluntary in that they state that ICT suppliers of goods and services to the Commonwealth Government are 'encouraged' to undertake a range of strategic activities. The guidelines state that companies are encouraged to undertake research and development, exports, strategic investments, venture capital investments, SME alliances, technology transfer, and skills development. The guidelines are not prescriptive in the type or extent of activity that can be undertaken by ICT suppliers to support the Commonwealth's objective for the ICT sector. Further, the guidelines do not require commitment to, or reporting of, those activities. DCITA advised ANAO, in November 2002, that 'the Government has stated its clear expectation that its ICT suppliers will continue to engage actively in the ICT sector in Australia, in letters dated 25 June 2002 and 26 September 2002 from DCITA to former PfD/ SPIDA firms advising of the new arrangements and in the Government's announcement of 21 June 2002'.

**2.27** The new arrangements specify only minimum mandatory SME participation rates for contracts of \$20 million and above, and greatly simplify reporting and compliance obligations for ESPs.<sup>23</sup> The new ID requirements for ICT contracts involve the following:

- all ICT suppliers of ICT products/services to Commonwealth agencies must be endorsed under the ESA;
- for contracts with a total value below \$20 million, there are no specific ID requirements other than under the ESA; and
- for contracts valued at \$20 million or more, Commonwealth agencies are required to ensure that SME participation levels are, at a minimum, 10 per cent of the contract value of hardware purchases and 20 per cent of the contract value of services purchases.<sup>24</sup>

<sup>23</sup> The new ICT procurement arrangements do not include any criteria for AVA, regional employment, export development or strategic investment.

<sup>24</sup> The minimum SME participation levels are a separate requirement to the Government's general policy in the CPGs requiring agencies to achieve a minimum overall level of 10 per cent SME participation across all procurement.

**2.28** In the Government's response to the Humphry Review, DCITA retained responsibility for the ID component of the IT outsourcing initiative. In addition, development of the Australian IT&T industry was retained as an objective of the initiative. Also, responsibility for implementing the initiative was devolved to agency Chief Executives or Boards. Under the new arrangements for major ICT procurement, for contracts of \$20 million or more, DCITA's role has shifted from that of regulator to adviser on ID policy. The new ICT procurement arrangements provide a diminished role for DCITA in the tender, monitoring and reporting processes for ID. Details of the relative roles of Commonwealth agencies operating under the FMA Act have been set out in a DCITA memorandum to agencies of August 2002, and in a subsequent Finance Commonwealth Procurement Circular (CPC 02/2) dated September 2002. DCITA advised ANAO in November 2002 that 'although not explicitly stated, the April 2002 post-Humphry arrangements and the simplified arrangements announced on 21 June 2002 apply to FMA Agencies only. No measures have been put in place to extend these arrangements to CAC agencies'.

**2.29** In August 2002, DCITA wrote to agencies informing them of the changes to the ID requirements for ICT contracts, attaching a memorandum setting out the details of the new framework. Agencies were advised that DCITA was responsible for administering the Government's ICT ID framework and that agencies have the prime responsibility for implementing the new requirements. Agencies should approach DCITA should they require clarification, in particular the setting of an appropriate SME participation level for a contract. The memorandum states that contract specific ID requirements have been replaced with mandatory SME participation rates determined by the nature of the contract; that the requirements will be administered flexibly; and that any variations to specified SME levels should be seen as exceptional. The memorandum requires that: the mandatory SME participation level be specified in a separate section of the RFT; that agencies will need to satisfy themselves during the evaluation phase of the tender of the capacity of tenderers to actually deliver the minimum participation levels; that the commitment should form part of the contract; and that agencies will need to have a reporting and monitoring process agreed in the contract to ensure compliance.

**2.30** While DCITA has responsibility for, and has established the ID framework, agencies have responsibility for implementation. DCITA will have no role in the evaluation of ID proposals and only an advisory role in the interpretation of the policy framework. Agencies can approach DCITA if they require clarification in regard to the policy, particularly in the setting of an appropriate SME participation level. DCITA advised ANAO in November 2002 that 'ID will not be a selection criterion against which tenderers will be compared; rather



contractors are required to meet the minimum SME threshold'. DCITA will not have an ongoing ID monitoring role under the new ICT procurement arrangements. Instead, agencies will be responsible for monitoring the compliance by ESPs against their SME participation commitments.

**2.31** The new arrangements do not require agencies to advise DCITA of: ICT contracts awarded for \$20 million or more; the SME participation levels the ESP has contracted to achieve; contracts executed with lower SME rates than those set by DCITA; the rationale for negotiating lower rates reporting; or the identity of SMEs and the nature of the relationship between ESPs and SME subcontractors. In view of DCITA's policy role in the Government's overall ICT ID framework, DCITA may need to clarify its information requirements in order to determine how it will be in a position to comment on whether the objectives underpinning the policy are being achieved, on the implementation of the policy and on overall ID outcomes. DCITA advised ANAO in November 2002 that 'while responsibility for ensuring compliance with the new arrangements rests with agencies under the FMA Act, DCITA intends, through consultation with agencies, to be appraised of outcomes of the new arrangements as part of the process of keeping under review the effectiveness of the policy'. DCITA further advised ANAO in December 2002 that:

while the specific details of the information have not yet been decided it is expected that the type of information DCITA will seek from agencies in relation to contracts of \$20 million or more, as notified in the Commonwealth gazette, will include the following:

- category of the goods/services to be supplied (ie hardware, software etc);
- the expected value of each contract;
- the actual expenditure undertaken under each category of the contract; and
- the level of expenditure under each category for each contract that is related to SMEs.

**2.32** The new arrangements to assist SMEs also included a facilitation package to enhance the ability of SMEs to participate in Government ICT contracts. The outline of the facilitation package looks to improve the flow of information on the government ICT marketplace and to facilitate alliances between SMEs and multinational companies. A joint Government/industry working party will drive the package. DCITA will be involved in the improved information activities.

**2.33 Finding:** Five contracts were executed under the IT Outsourcing Initiative, between March 1998 and March 2000, with contract specific ID commitments relating to both in-scope and out-of-scope ID activity. DCITA is required to monitor achievement against those contracted ID commitments for the term of the contracts. However, under the revised procurement arrangements for future ICT procurement, effective 21 June 2002, contracts valued at \$20 million or more only require that ESPs contractually commit to threshold levels of SME participation. Voluntary guidelines have been established that set out the Government's expectations for strategic ID activity by its ICT suppliers. Under the revised arrangements agencies have prime responsibility for implementing the requirements. Commitments to meet mandatory minimum levels of SME participation form part of the contract with the ESP, and agencies are required to have a monitoring and reporting process in place to ensure compliance. DCITA's monitoring function is diminished under the new procurement arrangements for major ICT contracts with its role moving from that of regulator to adviser on ID policy. Unlike the PfD and SPIDA programs, no reporting or monitoring of outcomes is required against the voluntary guidelines.

## Recommendation No.1

**2.34** ANAO *recommends* that, to assess the implementation and effectiveness of ID policy for major ICT contracts, DCITA should enhance the data it collects from agencies by requiring detail of:

- a) all ICT contracts awarded with a value of \$20 million or more;
- b) SME participation levels committed to by the ESPs under those contracts;
- c) the categories of goods and services to be supplied under those contracts (ie. hardware/software); and
- d) annual reports of achievements against the contracted SME participation levels.

**2.35** *DCITA Response:* Agreed.

## Cluster 3 extension

**2.36** The original term of the Cluster 3 Service Agreement with CSC finishes on 30 June 2003. The original Agreement provides for an extension on the terms and conditions then in effect for a further two years by the Cluster giving notice to CSC at least 12 months before the end of year 5. The Agreement also provides for a further two year extension at the end of year 7 with the parties to negotiate in good faith to agree on the terms on which CSC will provide the services during the extended term. The ID Plan provides that, if the Service Agreement

is extended, the parties will agree on ID commitments for the extended term and any liquidated damages that will be payable for failure to fulfil those commitments. It further provides that, if the parties cannot agree on new ID commitments, the milestones and amounts of damages set out in the ID Plan for Year 5 will continue to apply in subsequent years.

**2.37** A Deed of Extension and Amendment (the Deed) was signed on 20 August 2002, with an effective date of 1 July 2003. The Deed provides for an extension of the agreement for four years and involves the deletion of a number of Schedules and replacement with revised schedules. The initial ID Plan, included as Schedule 8, was replaced with a new ID Schedule.

**2.38** In the devolved IT outsourcing environment, operating since January 2001, DCITA has retained responsibility for the ID component of the IT Outsourcing Initiative and agencies have the responsibility for implementing the Initiative. Agency chief executives have responsibility to ensure compliance with procurement requirements under the FMA Act. The Cluster 3 Deed of Extension and Amendment is the first contract to be negotiated under the revised ICT procurement arrangements effective from 21 June 2002.<sup>25</sup>

**2.39** Under the Cluster 3 Service Agreement, the Cluster was required to advise the ESP of its requirements regarding an extension by 30 June 2002. The Cluster had informed the ESP of the new ID framework that came into effect in April 2001 and that would apply in an extension period. In accordance with that framework, the ESP advised of its intentions to incorporate the key elements of the existing out-of-scope projects into a new SPIDA, and that alternative AVA and SME participation levels would be submitted during the contract negotiation stages once volumes and scope of SME activities had been further defined. In May 2002, DCITA advised Cluster 3 of an expected new framework that would only require ID commitments of SME participation.

**2.40** The Cluster 3 Contract Management Office sought DCITA's consideration to apply the expected new provisions to the extension of the contract. DCITA advised, on 21 June 2002, that the new arrangements had been announced by the Minister and that it was appropriate that the new framework apply to the extension of the Cluster 3 IT outsourcing contract. The Cluster 3 Contract Management Office was advised that it could negotiate the contract extension on the basis of minimum SME participation rates of 10 per cent of the contract value of hardware purchases and 20 per cent of the contract value of services purchases. Alternatively, the Cluster could specify an average minimum SME level based on the weighted average of each category's share of the expected

---

<sup>25</sup> The ICT procurement arrangement for contracts of \$20 million or more, applicable from 21 June 2002, require agencies to ensure minimum SME participation levels of 10 per cent of the contract value of hardware purchases and 20 per cent of the contract value of service purchases.

total contract value. DCITA required that a copy of the ESP's report of outcomes be provided for information purposes.

**2.41** On 2 July 2002, the Cluster 3 Contract Management Office advised DCITA of the position it had reached in negotiation with the ESP on ID commitments for the extension period. It also advised that the ESP had indicated that requirements beyond those proposed would require a re-examination of the pricing on offer to the Cluster. That position included an SME participation rate of 11.8 per cent, allowing exclusion of all software and mainframe and midrange hardware purchases. DCITA advised the Cluster 3 Contract Management Office on 5 July 2002 that the Government's policy, while allowing for some flexibility in extenuating circumstances, does not provide for blanket automatic exclusion of segments of the contract in the way proposed.<sup>26</sup> It further expressed the view that the offer did not meet the Government's overall required minimum SME participation level, which DCITA calculated as 17.6 per cent of the contract value, being the weighted average of the services and hardware components. DCITA also disagreed with the pre-conditions attached by the ESP to the SME participation offer. DCITA suggested that the Contract Management Office continue to fully explore the options for meeting the Government's new ID requirements.

**2.42** The Minister for Communications, Information Technology and the Arts was advised of the ID aspects of the Cluster 3 contract extension in a Minute of 22 July 2002. The Minister was advised that the level of SME participation under the contract extension was lower than that required under the 21 June 2002 policy for major Government ICT contracts but that this was defensible under the flexibility provisions of the new policy and that the new policy was announced while the contract negotiations, which had already reached an in-principle value for money agreement with the ESP, were being finalised. The Minute states that 'this Department provides advice on ID aspects but this portfolio is not responsible for monitoring compliance with them'. The Minister was advised that:

Cluster 3 Management Office intends to proceed with the 11.8% SME level for the total \$150m contract because the new SME ID requirement was announced only on 21 June, while the contract negotiations, which had already reached an in-principle value for money agreement with [the ESP], were being finalised. To re-open the negotiations at this late stage to accommodate the new SME levels would involve significant delay and involve a higher contract price since [the ESP] has advised that it would take time for it to re-assess a higher SME level and since higher costs would be involved in using SMEs.

---

<sup>26</sup> The new arrangements provide for flexibility by stating that 'these requirements will be administered flexibly to ensure that tenderers and agencies are not unjustifiably disadvantaged. Exemptions or adjusted levels may be required where significant commercial impediments to achieving the specified SME level exist or the nature of the contract could substantially preclude SME participation'.

**2.43** On 10 September 2002, the Cluster 3 Contract Management Office advised that the contract for the extension of the original Services Agreement had been finalised on 20 August 2002 and provided a copy of the ID outcome reflected in the new ID Schedule. The schedule included the SME participation rate of 11.8 per cent, but excluded any conditions attaching to that rate.

**2.44** The SME participation rate included in the ID Schedule to apply for the extension period is not consistent with the revised ID arrangements applicable to ICT contracts negotiated after 21 June 2002. The SME commitment does not distinguish between hardware and service portions of the contract. The ID Schedule includes annual commitments, expressed as a percentage of annual service charges, of payments to SMEs of 11.8 per cent, AVA content of 53 per cent, and, in respect of payments to SMEs, AVA content of 70 per cent and high AVA content of 42 per cent. The ID Schedule does not specify the SMEs, their intended activities, or the nature of the relationships between the ESP and the SMEs. The ID Schedule provides for variations to commitments where the annual service charges vary, with the SME and AVA dollar amounts to vary accordingly. The ID Schedule does not address under-performance or include any provisions for variations or procedures if contracted ID commitments are not achieved. The new arrangements are silent on this issue. The ESP is required to report annually to the Cluster on performance against the ID commitments, with a copy of the report to be provided by the Cluster to DCITA.

**2.45** ANAO notes that the annual target for SME participation over the original five year contract for Cluster 3 was initially 24 per cent, with approved variations for year 3 and year 5 of 19.75 per cent and 30 per cent respectively. The SME participation rate achieved for the first four years of the Service Agreement is 27 per cent of annual service charges.<sup>27</sup> The effect of this policy is that requirements for ID under the revised procurement arrangements, promulgated under the Commonwealth Procurement Guidelines (CPGs), are a significant reduction in terms of the Cluster 3 ESP's contractual commitments under the original Service Agreement.

**2.46** There is potential for conflict to arise between the achievement of particular ID commitments, such as SME participation levels, and value for money. In the Cluster 3 Services Agreement, much of the SME participation commitment has been met through the purchase of locally assembled PCs from an SME. The apparent higher cost of those machines, and the decision by Cluster 3 not to source its PCs during the period of the contract extension from a local PC assembler, was cited as a reason for the lower level of SME participation accepted in the Deed.<sup>28</sup>

<sup>27</sup> The SME participation rates reported as achieved by the ESP in the first four years of the Cluster 3 Service Agreement were 37.5, 20.2, 27.8 and 26.6 per cent.

<sup>28</sup> The RFT for the outsourcing of Cluster 3 IT&T services stated that ID proposals were not to increase the overall price of the services to be provided under the contract.

**2.47 Finding:** The contract for the provision of IT&T Services and ID for Cluster 3 has been extended for a further period of four years via a Deed of Extension and Amendment executed on 20 August 2002. The current ID Plan, in place until 30 June 2003, will be replaced with a new ID Schedule, the terms of which were negotiated under the revised procurement arrangements that came into effect on 21 June 2002. The ESP has committed to total payments to SMEs of 11.8 per cent of annual service charges for each of the four years of the extended term, and to an AVA component of 53 per cent of annual service charges. Under the new devolved IT outsourcing environment, the terms of the ID Schedule were negotiated by the Cluster agencies through the Cluster 3 Contract Management Office. DCITA was not required to approve the SME participation rate which varied from the threshold levels specified in the revised procurement arrangements for ICT contracts of 21 June 2002. The ID Schedule does not address under-performance or include any provisions for variations or procedures in the event that ID commitments are not achieved. The ESP is required to report to the Cluster on performance against the ID commitments annually, one month after year end. A copy of the report is to be provided by the Cluster to DCITA.

## 3. Monitoring of ID Commitments

---

*This chapter examines the ID monitoring activities performed by DCITA for the five contracts awarded under the IT Outsourcing Initiative.*

### Background

**3.1** Responsibility for administration of the ID elements of the five contracts awarded under the IT Outsourcing Initiative resides with DCITA.<sup>29</sup> The Department's role is defined in the ID Plans, included in the Service Agreements, and the Memorandums of Understanding (MOU) put in place between the Commonwealth parties to those Agreements. The Service Agreements specify that the Commonwealth is represented by DCITA for all matters relating to ID. DCITA nominates an ID representative for each Agreement as the principal contact point with the ESP. The ESPs are required to report to DCITA on the ID outcomes on an annual basis and DCITA is responsible for monitoring performance against the ID commitments. The cost of this monitoring function has been estimated by DCITA as 17.5 person years, and \$77 000 in other monitoring costs, including auditing costs, from January 1998 to December 2002. The resources applied to the ongoing monitoring function are now estimated at approximately one person year per annum.

**3.2** For each IT Outsourcing Services Agreement, similar MOUs were developed to establish the roles of and relationships between the Commonwealth parties to the agreement.<sup>30</sup> For multi-agency Agreements, where a contract management office has been formed, the MOU was developed between the agencies contracting out IT&T services, OASITO and DCITA for the purpose of managing the Service Agreements. The MOU specifies the protocols for dealing with each other and the contractor, and incorporates a section on ID detailing

---

<sup>29</sup> While the focus of this audit is on the monitoring function performed by DCITA after contracts were signed with ESPs, it is noted that DCITA was also involved in the tender evaluation process. External consultants employed by the then OASITO chaired the Industry Development Evaluation Teams (IDET) for each tender, and DCITA officers were assigned to the IDETs to assist in the evaluation of the ID component of the bids. The IDET prepared ID evaluation reports for consideration by the Options Committee. The ID components of the bids were evaluated in parallel with, but independently from, the evaluation of the IT&T service offerings for each tender process. A senior DCITA officer was also a member of the Options Committee which assessed both the ID and Service evaluation reports to formulate the recommendation for the preferred tenderer to the Minister for Finance and Administration, in consultation with the Minister for Communications, Information Technology and the Arts and the respective portfolio Ministers of the agencies participating in the IT Outsourcing tender processes. After contracts had been exchanged, the ID Plans from the Service Agreements were provided to DCITA to allow monitoring of compliance against ID commitments during the term of the agreements.

<sup>30</sup> For Group 8 a Deed of Agreement and Understanding was entered into with the Deed functioning as an MOU between the Commonwealth agencies and as an enforceable Deed between the Commonwealth and the CAC Act bodies.

DCITA's role in relation to ID matters. The former OASITO co-ordinated this process with the group agencies and DCITA. For single agency Agreements, DCITA established a single purpose MOU between the agency and DCITA to address the monitoring of ID commitments under the agreement. The MOU specifies the framework or consultation arrangements to operate between the parties on ID matters during the term of the Agreement.<sup>31</sup>

**3.3** The MOUs specify that the ID representative, from DCITA, is the sole representative with the ESP for all matters concerning ID and that DCITA is to monitor the ESP's compliance with the ID components of the Agreement. The MOUs set out decision-making and conflict resolution procedures. To fulfil its monitoring function, it is necessary for DCITA to have established communication arrangements with agencies on the level of services provided by the ESP and any developments that may impact on the ESP's ability to meet its in-scope ID obligations. Changes to the delivery of services under the Agreements, including changes to volume of services, changes in sub-contractors, or the substitution of Australian products or services, may impact on the ESP's ability to meet its ID commitments or on the commitments themselves. The MOU addresses the transfer of information and requires that the Group or agency consult DCITA in the event of more than a 15 per cent change to the forecast annual volume of services.<sup>32</sup>

**3.4** The MOUs were generally signed as close as possible to the time the Service Agreements were entered into. However, delays were experienced in finalising the terms of the MOU between DCITA and the ATO, which was not signed until more than a year after the Service Agreement between the ESP and ATO was executed. In the decentralised IT outsourcing environment, and with the simplification of ID commitments for future IT outsourcing contracts following the 21 June 2002 announcement of new ID arrangements, an MOU with DCITA may not be required under new contracts.

## **ID commitments**

**3.5** Through the ID Plan, the ESPs have made contractual in-scope ID commitments, relating to the delivery of IT&T services under the Services Agreement, as to the proportion of service charges that will relate to Australian value added activity (ranging from 69 per cent in the ATO Agreement to 80 per

---

<sup>31</sup> In the case of the Health Group, separate Service Agreements were entered into by the DHA, HIC and MPL with the ESP. The ID Plan was incorporated in the Service Agreement between DHA and the ESP. DCITA entered into separate MOUs with DHA and HIC. In the MOU with the HIC, the HIC agreed to assist the Commonwealth to achieve the ID aims, key priorities and desired outcomes with respect to the Whole of Government IT&T Initiative.

<sup>32</sup> The monitoring of ID commitments occurs independently from the contract monitoring function for the provision of IT&T services under the Service Agreement, managed by a Contract Management Office for multi-agency Agreements or by the agency receiving the IT&T services for single agency Agreements.



cent for Cluster 3) and the minimum proportion of service charges that will be paid to SMEs (ranging from 6 per cent under the Group 5 Agreement to 75 per cent for Group 8). Each ESP has also committed to a series of out-of-scope ID initiatives, unrelated to the delivery of the services, including commitments to minimum levels of strategic investment, exports and regional employment.

**3.6** ID commitments for SME participation and AVA content are calculated as a percentage of total service charges, which have been derived by the ANAO from the ID Plans included in the Service Agreements for the five contracts awarded under the Initiative. These total service charges for IT&T services amounted to approximately \$1.14 billion.<sup>33</sup> Commitments for payments to SMEs amount to \$330 million, representing 29 per cent of total service charges.<sup>34</sup> Commitments for AVA content amount to \$850 million, representing 75 per cent of total service charges. Employment commitments for performing the services total 840 full time equivalent jobs.<sup>35</sup> Commitments for out-of-scope activities include strategic investment by ESPs of \$95 million and new exports revenues or import replacement activities of \$300 million.<sup>36</sup>

**3.7** ID commitments for sanction purposes for each of the ID Plans are included in Figure 3.1.<sup>37</sup> In each tender process, the RFT stipulated that tenderers would be required to propose sanctions that clearly demonstrated that non-performance of their ID proposals would be financially disadvantageous to their organization. If the ID milestones were not met within the timeframes specified in the ID Plans, ESPs have agreed to pay sanctions to the Commonwealth. The summary commitments in the sanctions tables are not always consistent with the individual

<sup>33</sup> This figure differs from the total contract value figure for the five contracts awarded under the IT Outsourcing Initiative of \$1.2 billion. In the case of the ATO Services Agreement, the total contract value was \$487 million, while the total service charge derived from the ID Plan included in the Services Agreement was \$414 million. In the case of the Group 5 Service Agreement, the total contract value was \$88 million, while the total service charge derived from the ID Plan included in the Services Agreement is either \$86 million or \$115 million depending on whether the SME or AVA percentage commitment is used to derive the figure.

<sup>34</sup> The SME commitment in the ID Plan for Group 5 was reduced from 10 per cent, at the completion of the tender evaluation process and announcement of the successful tenderer, to 6 per cent prior to contract execution. This reduction resulted from the agencies finalising one aspect of the Service Agreement after the announcement. The Group agencies decided to contract to a fixed price for the applications development and maintenance component of the bid, rather than on a time and materials basis, resulting in a reduction in price and therefore reduction in overall SME component for the contract.

<sup>35</sup> Total out-of-scope employment commitments cannot be calculated as the commitments relate to each particular year and vary throughout the years, depending on the term of each Initiative and the type of activity undertaken in each Initiative in each year.

<sup>36</sup> ID Commitments under these five contracts contrast with the simplified procurement arrangements announced in June 2002. Future IT Outsourcing contracts valued at \$20 million or more are required to meet only minimum mandatory SME participation levels of 10 per cent of the contract value for hardware purchases and 20 per cent for services purchases. Australian content, regional employment, strategic investment and export development are no longer included as criteria in the procurement process. Guidelines have been put in place to encourage ESPs to undertake a range of strategic ID activities.

<sup>37</sup> The total commitments vary from the individual commitments in each of the ID Plans where the ESP has contracted to a lower level of commitment for sanction purposes.

commitment tables for in-scope and out-of-scope activities. The individual tables in the ID plans are the commitments against which performance is monitored, and shortfalls can result in a breach notice requiring a remedy. The sanctions tables specify the commitment levels that must be achieved in total to avoid attracting a financial penalty. ANAO notes that only the commitments included in the sanctions tables were considered in the tender evaluation process.

**Figure 3.1**

**ID commitments over 5 years for sanctions purposes**

	In-Scope Commitments		Out-of-Scope Commitments		
	Australian Value Added <sup>1</sup>	SME Participation <sup>2</sup>	Strategic Investment	Exports	Total Net Employment <sup>3</sup>
Cluster 3	80%	24%	\$39.75m	\$55m	100 full time equivalent jobs (including 30 Regional jobs)
ATO	\$285.5m <sup>4</sup>	\$108.6m <sup>5</sup>	\$34.5m	\$55.72m	267 full time equivalent jobs (including 82 Regional jobs) <sup>6</sup>
Group 5	\$62.73m <sup>7</sup>	\$6.87m <sup>8</sup>	\$1.2m	\$29.1m	\$23.92m in employment remuneration <sup>9</sup> (all Regional jobs)
Health Group <sup>10</sup>	79.5%	21.2%	\$9.74m	\$100.5m	335 full time equivalent jobs (including 162 Regional jobs) <sup>11</sup>
Group 8	73.89%	75.03%	\$2.85m	\$40m	90 full time equivalent jobs (including 70 Regional jobs)

Note 1: The minimum percentage and/or quantum of overall service charges that the ESP has committed will relate to Australian value added products and services. 'Australian value added' means the supply price of products and services less the amount spent on imported products and services.

Note 2: The minimum percentage and/or quantum of overall service charges that the ESP has committed will be paid to SME subcontractors.

Note 3: 'Net employment' means the number of full time equivalent jobs created in Australia over the relevant period additional to employment numbers in the base period prior to commencement of the Agreement.

Note 4: Equates to 69 per cent of initial total service charges.

Note 5: Equates to 26 per cent of initial total service charges. For sanction purposes, a further \$10 million in SME participation is committed to through out-of-scope activities.

Note 6: The ESP did not commit to a total employment figure for the five years for sanction purposes, but rather to an annual commitment that fluctuates from year to year depending on the level of activity for each out-of-scope initiative for each year. For the purposes of this table only, the year 5 commitment is recorded for information purposes.

Note 7: Equates to 73 per cent of initial total service charges

Note 8: Equates to 8 per cent of initial total service charges.

Note 9: 'Remuneration' means the average annual cost of employment per full time equivalent employee.

Note 10: Separate Service Agreements were executed for the three agencies included in the Health Group as the Group included a department, a CAC Act agency and a GBE. ID commitments were included in the ID Plan in the Service Agreement between the ESP and the Commonwealth, represented by the Department of Health and Aged Care. ID commitments do not relate to the GBE.

Note 11: The ESP did not commit to a total employment figure for the five years for sanction purposes, but rather to an annual commitment that fluctuates from year to year depending on the level of activity for each out-of-scope initiative for each year. For the purposes of this table only, the year 5 commitment is recorded for information purposes.

Source: ANAO analysis of ID Plans and DCITA documentation.

**3.8** The Group 8 tender process was the only one in which the preferred tenderer was ultimately selected on the basis of its ID offerings. Cost savings and ID were identified as the Commonwealth's primary objectives in the tender evaluation process for the outsourcing of IT&T services. The tender documents established two preconditions to the awarding of a contract. The service and risk criteria formed threshold criteria that had to be satisfied before a tenderer was eligible to be considered against the cost savings and ID criteria and to, potentially, be selected as preferred tenderer. Each RFT also explicitly stated that achievement of substantial cost savings was a precondition to the awarding of a contract. Where more than one tenderer was assessed as offering substantial and acceptable cost savings, the Commonwealth would determine the preferred tenderer on the basis of the best combination of industry development and cost savings.<sup>38</sup>

**3.9** In March 1999 the evaluation criteria for future tenders under the IT Initiative, starting with the Group 8 tender, were revised to be 'value-for-money' (in place of cost savings) and ID<sup>39</sup>. OASITO noted that this made the approach consistent with the CPGs. As ID was not a threshold criteria, bids could not be removed from the evaluation process on the basis of their ID offerings.

**3.10** It was the role of the Options Committee formed for each tender to consider the findings of the IT services and ID evaluation teams, and to then formulate selection options for consideration by the Ministerial decision-maker/s. Where appropriate under the terms of the RFT, those options were required to include consideration of the tenderer that offered the best combination of cost savings and ID. In only one of the five tender processes that resulted in a contract under

---

<sup>38</sup> The CPGs stipulate that value-for-money is the essential test against which agencies must justify any procurement outcome. It is not an attribute or criterion in itself, but is a basis for comparing alternative solutions. It is through the consideration of both financial and non-financial benefits and risks that the value-for-money offered by tenderers can be best assessed.

<sup>39</sup> Each RFT stipulated that the highest-rated ID proposal would be the proposal that, in the Commonwealth's opinion, offered the most credible and sustainable ID, and was most likely to achieve the Government's identified objectives and priorities. The credibility and sustainability of tenderers' ID proposals was assessed against the ID objectives, priorities and desired outcomes through a series of quantitative and qualitative criteria and using a combination of work and numeric rating scales. No relative priorities or minimum requirements were stipulated in respect of those criteria. A threshold issue for the ID evaluation was that the Commonwealth would only take into account commitments that were specifically related to the IT services project being tendered and could not relate to tenderers' existing 'business as usual' or ID activities. The evaluation also assessed the relative strength of the financial 'sanctions' proposed by tenderers' for non-performance of their ID commitments. In each case, the RFT stipulated that tenderers would be required to propose sanctions that clearly demonstrated that non-performance of their ID proposals would be financially disadvantageous to their organisation. At a minimum, prospective tenderers would be asked to propose specific dollar amounts to be payable to the Commonwealth in the event that the commitments were not met within the time frames specified in their proposal.

the IT Outsourcing Initiative, Group 8, was there a need to form a combined value for money and ID ranking in order to determine the preferred tenderer.<sup>40</sup>

**3.11** In the case of Group 8, the Minister for Communications, Information Technology and the Arts agreed to endorse the recommendation of the Options Committee in selecting the preferred tenderer. In a brief to the Minister of 15 December 1999, seeking that endorsement, the Minister was advised that, as two of the tenderers ‘offered a business case for the IT Outsourcing to proceed, the evaluation of the ID and cost savings offerings became the central issue for consideration by the Options Committee’. The Minister was further advised that, as the combined cost savings and ID offerings could not be assessed on a quantitative basis, an assessment of the quantitative and qualitative attributes of the ID offerings provided the basis for the Options Committee recommendations with the Committee concluding ‘that the ID benefits to be delivered by the [the preferred tenderer] bid more than offset the difference between the [two top] tenders in terms of cost savings and that the [preferred tenderer] bid delivered the best overall outcome in terms of the industry development and value for money objectives’.

**3.12** The recommendation of the Options Committee states that [another tenderer] offered the best value for money for the Group as a whole, with the level of savings being the primary differentiator in the ranking of the top two tenderers in terms of value for money, and that the ID Report ranked [the preferred tenderer] first based on ID considerations. The Committee concluded that the ID benefits available from the [preferred tenderer’s] tender more than offset the difference in the [two top] tenders in terms of value for money and that consequently [the preferred tenderer] offered the best combination of value for money and ID. The strength of the ID plan was the high SME participation rate, due to the tenderer being an SME. The ID plan was also considered to offer significant levels of SME exports. The Options Committee considered that the selection of [the preferred tenderer] would promote the establishment of a diverse base of suppliers of IT services to the Commonwealth.

## Monitoring of ID commitments

**3.13** Following the tender evaluation process, the ID Plans required the identification of an ID representative from DCITA for each contract awarded

<sup>40</sup> In Cluster 3, the preferred tenderer was assessed as offering the highest level of savings (44 per cent greater than next ranked) and was ranked first against the ID criteria. In the ATO tender, the preferred tenderer was the only tender assessed as offering savings and was ranked first against ID. In Group 5, the preferred tenderer was the only tenderer assessed as offering savings, and was assessed as adequately meeting the Government’s ID objectives (ranked equal second in ID evaluation). In the Health Group tender, the preferred tenderer was assessed as offering the highest expected level of projected savings (and considering service and risk criteria) and the superior ID offering. In Group 8, the preferred tenderer ranked second in value for money terms and first for its ID submission.

under the IT Outsourcing Initiative. DCITA advised the ESP of the nominated ID representative, to be the first point of contact on all ID matters, and set up an initial meeting with the ESP following execution of the Service Agreement. To support the annual reporting requirement, in the first year of the Service Agreements, ESPs were requested to provide quarterly progress reports. The progress reports would assist in the development of reporting systems by the ESP, and facilitate regular contact between DCITA and the ESP on progress in meeting ID commitments and timely identification of concerns. When it had been established that satisfactory progress was being made in meeting ID commitments and adequate reporting systems had been implemented, half yearly reports were sought from ESPs.<sup>41</sup>

## **Audit assurance**

**3.14** ANAO Audit Report No.9 2000–01 *Implementation of Whole-of-Government Information Technology Infrastructure Consolidation and Outsourcing Initiative* reported that the ANAO considered it would be prudent for the Commonwealth to clarify and agree the level of assurance it was seeking in regard to ESPs' annual ID reporting prior to the audit engagement. Following discussion with ANAO regarding this issue in November 1999, DCITA commissioned its internal auditors to review its existing procedures and practices for ID monitoring applied to the first Service Agreement let under the IT Outsourcing Initiative, including audit requirements of ESPs' annual reports. As a result, a procedures manual was produced in March 2000 for use by DCITA in the monitoring of ID commitments arising from the IT Initiative.

**3.15** The key accountability document for monitoring purposes is the audited annual report submitted by the ESP. DCITA accepts annual reports that have been reviewed in accordance with Australian Accounting Standards applicable to review engagements, Auditing Standard (AUS) 902 'Review of Financial Reports'. These reviews are generally limited to inquiries of personnel of the ESP and analytical procedures applied to the financial data. The report of the review, conducted to this level, generally states that the review did not involve obtaining corroborative evidence from inspection, observation or confirmation to test responses to inquiries. The Procedures manual states that:

In most circumstances a review in accordance with AUS 902: 'Review of Financial Reports' will be sufficient to meet the Commonwealth's needs. However, if circumstances exist where the Commonwealth requires a full audit, for example

<sup>41</sup> In practice, delays in the finalisation of audited annual reports have resulted in some ESPs not submitting half yearly reports. The ESP for Group 5 advised in July 2002 that due to staff and structural changes within the company it would be submitting its ID report as an annual report rather than two half yearly reports given that the 2001–02 year was completed. While the ESP for Cluster 3 has not submitted half yearly reports for some time, DCITA has advised that the ESP has provided it with updates through periodic briefings.

if there is some question over the quality of the information being provided by the Contractor, the contracts have the scope for this to be specified.

**3.16** DCITA implemented a Procedures Manual on 31 March 2000, prescribing its internal monitoring processes. The monitoring process essentially involves reviewing audited annual ID reports submitted by the ESPs and negotiating contract variations to rectify any shortfalls in achievement against commitments. DCITA's monitoring and review activity includes maintenance of contact with ESPs, review of progress reports submitted by ESPs, site visits of some SMEs involved in elements of the ID commitments, discussions with some SMEs participating in the provision of IT products and services, and contact with Cluster/Group contract management offices. However, the extent of contact with Cluster/Groups has varied. DCITA generally attends contract management committee meetings on invitation. DCITA's records indicated that the ESPs were advised of the availability of DCITA officers to discuss and clarify ID issues at any time. While it was apparent that site visits had been conducted on a number of occasions to SME participants in the delivery of services or in relation to out-of-scope initiatives, it is good contract management practice to maintain a written record of the visit recording any support for an assessment as to whether quantitative and qualitative aspects of the relevant ID commitments were being satisfied. Records of site visits conducted in 2000 to SMEs used as sub-contractors in the Cluster 3 Service Agreement indicated that, in the main, those SMEs had a pre-existing relationships with agencies included in the Cluster.

**3.17** DCITA sends a standard letter to ESPs before the end of the reporting period reminding them of the need to submit an audited annual report. Australian Auditing Standards provide for three levels of audit and audit-related services, each of which provides a different level of assurance.<sup>42</sup> The letter

<sup>42</sup> Under Australian Auditing Standard AUS 106 '*Explanatory Framework for Standards on Audit and Audit Related Services*', there are three forms of audit engagement: *Audit* where the auditor's objective is to provide a high level of assurance through the issue of a positive expression of opinion that enhances the credibility of a written assertion about an accountability matter; *Review engagement* where the auditor's objective is to provide a moderate level of assurance, being a lower level of assurance than that provided by an audit, through the issue of a statement of negative assurance that enhances the credibility of a written assertion about an accountability matter; and *Agreed-upon procedures engagement* where the auditor's objective is to issue a report of factual findings to those parties that have agreed to the procedures to be performed, in which no conclusion is communicated and therefore no assurance is expressed, but which provides the user with information to meet a particular need, and from which the user can draw conclusions and derive assurance as a result of the auditor's procedures. A review engagement is conducted under AUS 902 and an agreed-upon procedure under AUS 904 '*Engagements to Perform Agreed-Upon Procedures*'. As to the level of assurance, AUS 106 provides that 'An agreed-upon procedures engagement does not enable the auditor to express assurance. The Auditor is engaged to carry out procedures of an audit nature in order to meet the information needs of those parties that have agreed to the procedures to be performed. However, because the auditor does not determine the nature, timing and extent of the procedures performed, no assurance is expressed. The recipients of the report of factual findings must form their own conclusions from the agreed-upon procedures performed and the factual findings reported by the auditor. The report of factual findings is ordinarily addressed to those parties that have requested the procedures to be performed, since others, unaware of the reasons for the procedures, may misinterpret the results.'

states that the Department 'prefers' the audit to be conducted in accordance with AUS 902. As the procedures manual states that an audit conducted under AUS 904 should not be used, the reminder letter should more appropriately state a requirement for the audit to be undertaken in accordance with AUS 902. The first annual report lodged under the Cluster 3 ID Plan by the ESP was supported by a report based on an agreed-upon procedures engagement, carried out on specified tables in the annual report, which provides a lower level of assurance than do audit engagements. In response to concerns raised by the ANAO, during the earlier audit of the IT Outsourcing Initiative, ESPs are now required to agree the scope of the audit engagement prior to commencing the audit of its annual ID report. The procedures manual states that in most circumstances a review in accordance with AUS 902 will be sufficient to meet the Commonwealth's needs.

**3.18** The wording of the clause in the ID Plan for Group 8, relating to the requirement for the annual ID report to be independently audited, differs from that of the other four ID Plans in that it allows for the audit to be conducted in accordance with AUS 902 'and/or' AUS 904. The clause states, however, that the ID report must be independently audited by an auditor nominated by the Commonwealth and that the scope is to be agreed between the Commonwealth and the ESP. A letter to the ESP of 1 June 2001, detailing the reporting requirements, stated that DCITA prefers the audit to be conducted in accordance with AUS 902.<sup>43</sup> The audit of the ESP's Year 1 ID report for Group 8 was conducted as an agreed upon procedure under AUS 904 without seeking DCITA's agreement. The report also stated that work was not able to be carried out on export sales claimed. Consequently, DCITA did not consider that the report provided sufficient assurance to allow it to rely on the reported outcomes contained in the annual ID report. The procedures manual for the monitoring process by DCITA also states that engagements conducted under AUS 904 'Agreed Upon Procedures' should not be used, as it would not result in the issuing of an audit opinion. DCITA subsequently commissioned an audit of the ESP's year one annual ID report for Group 8, to be conducted in accordance with AUS 902: 'Review of Financial Reports'. The need to conduct an additional audit resulted in delays in the finalisation of the Year 1 report by the ESP and in the ID Progress Report for 2000–01 not being finalised until August 2002.

**3.19** A variation to the Group 5 ID Plan was approved in April 2000 requiring the annual report to be provided to DCITA within 60 days of 1 July each year and requiring an audit of the annual ID report in accordance with Australian Accounting Standards or, at the discretion of the Commonwealth, a review in

---

<sup>43</sup> In a letter provided to the ESP on 11 August 2000 relating to annual ID reporting, DCITA noted that 'the Department expects in all cases that an audit opinion will be issued by the auditor'.

accordance with AUS 902. The year one report, due by 31 August, was submitted on 7 December 2000. The examination of this report was delayed as it had already commenced based on instructions from the ESP to conduct it in accordance with AUS 904, rather than in accordance with AUS 902 as per the contract variation.

**3.20** Each ID Plan specifies the annual reporting requirements. The annual report must provide both qualitative and quantitative information and be independently audited at the ESP's expense, with the exception of the ATO ID Plan which requires the ESP to pay for the first three days of the audit and the Commonwealth to pay the balance of the cost of the audit. This condition was negotiated during the tender evaluation process.

**3.21** The procedures manual of July 2001 states that once every three years DCITA should undertake a process of selecting a suitably qualified independent auditor as its nominee to undertake the audit of the ESP's annual ID report. One of the benefits identified for this process was to ensure consistency between audits. DCITA has not undertaken this process for any of the annual ID reports submitted to date. However, it did commission an audit of the first annual ID report for Group 8 after the ESP submitted a report that had been audited under AUS 904. DCITA advised ANAO in December 2002 that:

the original intent of provision of the procedures manual was for DCITA to retain the services of a suitably qualified and experienced auditor in ID programs, to undertake further independent reviews when the reviews supplied by the companies were not in accordance with the requirements of the procedures manual. The auditor commissioned by DCITA to review the first annual report of the Group 8 ESP performed similar audits of the ID annual reports for the ESP of ATO. The ESPs for the Health Group and Group 5 also used the same auditor for their annual report.

**3.22** AVA is one of the significant in-scope ID deliverables and is included in the sanctions tables. DCITA relies on the audit of the annual report to ensure that the calculation of the total AVA can be substantiated by the ESP following the definition included in the ID Plan. That definition provides direction on the way in which the supply price should be broken down into eligible and ineligible AVA components. The ID Plans do not detail the methodology to be applied for determining the AVA component of the services and a methodology has not been specified or proposed by DCITA. The ID Plan includes a percentage of total service charges of AVA for each company listed as providing services under the Agreement. DCITA also relies on the audit process to ensure claims of percentage AVA content can be substantiated for each service provider listed.<sup>44</sup> In the case of the ID Plan for Group 5, DCITA has agreed contract variations to

---

<sup>44</sup> The ESP for Cluster 3 and Group 5 provide greater levels of detail on how AVA figures are calculated in their annual reports.



the percentages of services that the companies listed as providing services in the ID Plan can claim as AVA. However, DCITA relies on the audit of the ESP's annual report to determine whether claims of the actual AVA component have been substantiated against the indicative percentage levels for AVA. DCITA does not provide ESPs with a methodology for calculating AVA. DCITA advised in November 2002 that:

The detailed definition of AVA contained in each ID Schedule was sufficient for the ESPs' auditors to calculate the level of AVA in preparing the annual reports. As such, it was considered that a prescriptive approach to an AVA methodology would not have been appropriate without a detailed knowledge of each of the ESPs' accounting systems. DCITA was prepared to accept the AVA assessment of the auditors engaged by the ESP or DCITA in applying the definition during their fieldwork.

**3.23 Finding:** The key accountability document for monitoring purposes is the audited annual report submitted by the ESP. DCITA has relied on the independent audit of annual ID reports prepared by external advisers to verify the accuracy of stated ID outcomes. DCITA has been consistent in its requirement that those audits be conducted as review engagements under AUS 902, which the ANAO considers provides DCITA with an appropriate level of assurance. Where the report has not been qualified, the review engagements, while not presenting an audit opinion, have indicated that nothing has come to the auditor's attention that would cause them to consider that the tables of outcomes reviewed do not present fairly the results for the year reported.

## Contractual commitments

**3.24** The ID Plans contain actions that can be taken in the event that the ESP has not met its annual ID commitments. If the ESP is not meeting, or is not likely to meet, one or more ID commitments, DCITA requires the ESP to develop a corrective action plan to rectify the failure or likely failure. If the ESP has breached any of its ID commitments DCITA may issue the ESP with a breach notice requiring it to remedy the breach within 90 days.<sup>45</sup> If the ESP does not remedy the breach, the ID Plans provide that DCITA may require the ESP to pay liquidated damages or sanctions as specified in the relevant ID Plan.<sup>46</sup> A table is included in each of the ID Plans specifying the annual milestones to be achieved for key performance measures of ID activities in order to avoid the imposition of liquidated damages or sanctions. Through the ID Plans, the ESPs agree to fulfil each ID commitment completely.

<sup>45</sup> The ID Plans requires that, within five days of receiving a breach notice, the ESP must notify DCITA in writing that it either denies the breach or has commenced action to rectify the breach.

<sup>46</sup> The RFTs required tenderers to include contractual sanctions for non-performance, in addition to the performance commitments.

**3.25** ANAO notes that breach notices can be issued for failures to meet individual out-of-scope ID commitments, but that sanctions only apply where overall out-of-scope ID targets included in the sanctions tables are not met. Although the Commonwealth retains the right under the five outsourcing Service Agreements to pursue a number of remedies in respect of non-performance of contractual obligations, including termination of the Agreement and suing for damages, the principal remedy established in respect of ID non-performance is payment by the ESP of agreed amounts where it does not fulfil its annual ID commitments for key performance measures.

**3.26** Sanction regimes vary from contract to contract. Sanctions apply specifically to annual ID milestones and are not applicable for any other breach relevant to the contract, for example, the late submission of annual ID reports. The ID Plans allow for the Commonwealth, represented by DCITA, to enforce the sanctions in respect of failure by the ESP to comply with the ID Plan. Under the Memorandums for Understanding (MOUs), the ultimate responsibility for taking action against an ESP, if it has been established that the ESP is not adequately performing its ID obligations, rests with the relevant agency or contract management committee. DCITA would formally request that the agency or management committee consider recommended action. However, in practice, before considering an action to impose sanctions DCITA has sought to negotiate with the ESP for the delivery of ID outcomes in subsequent years that deliver at least equivalent outcomes. Negotiating contract variations with ESPs is considered by DCITA to be a more practical method of dealing with commitment shortfalls and achieving ID outcomes in the first instance, than pursuing the imposition of sanctions.<sup>47</sup>

**3.27** The ID Plans allow for variations to ID commitments. DCITA is required to approve contract variations that impact on ID commitments and must be satisfied that any variation does not lessen the ESP's overall commitment. *Guidelines for Contract Variations*, originally prepared by the then Department of Industry, Science and Technology, have been provided to ESPs to indicate the information requirements to allow evaluation by DCITA. The guidelines detail three different levels at which the contract may be varied or amended and the process for considering those variations. Revisions to the definition of terms and clarification without alteration to obligations can be resolved through an exchange of letters. The ID Plans include a formal contract variation mechanism for any proposals to vary contractual obligations. Proposals are required to be lodged in writing, must specify the impact of the change, and must demonstrate

---

<sup>47</sup> In January 2000 internal legal advice was sought on the enforceability of sanctions included in the Service Agreements for failure to fulfil ID commitments in accordance with the ID Plans. A record of the subsequent discussion with the Legal and Parliamentary Branch was made. However, advice in writing was not sought.

that any change is at least as likely to promote the achievement of the Commonwealth's desired outcomes as the current ID Plan by delivering at least equivalent qualitative and quantitative ID outcomes. The guidelines provide the required format for the proposal.

**3.28** DCITA does not allow the retrospective adjustment of current year targets unless a contract variation is sought before the end of the year to which the target applies. DCITA requires each individual annual target to be met in that year and has not allowed cumulative overachievements from previous years to be carried forward. The ID plans do not provide for over performance of annual ID commitments to be netted off against shortfalls of either other ID commitments for that year or subsequent year targets.

**3.29** It is good contract management practice to maintain a contract variation register to monitor the numbers and types of variations proposed and agreed.<sup>48</sup> In some situations it may be appropriate to develop updated contract documentation to incorporate approved contract variations. DCITA maintained a database list of variations, but as the details of contract variation proposals and approved variations to the ID Plans are distributed through the contract management registry files maintained by DCITA for each of the ID Plans, they were difficult to locate easily. To facilitate review of performance against current approved ID commitments, DCITA should consider collating or compiling a register of all approvals and supporting proposals for the term of the Service Agreements. The list of the nature of variations to each ID Plans and approval dates, currently maintained by DCITA, contained insufficient detail to allow the original ID Plan and the list to stand alone as a reference point of all current ID commitments against which ESP are required to report. ANAO located all contract variation approvals listed in the database maintained by DCITA, with the exception of three variations in 1999 relating to Cluster 3.

**3.30 Finding:** DCITA has been consistent in its approach to considering contract variations that impact on the level of commitments. Changes requested to current year targets have only been approved where the proposal has been lodged prior to the end of the reporting year. DCITA has not allowed rectification of a shortfall to be addressed retrospectively. Where changes have been sought after the end of the reporting year, DCITA has required that the proposed changes apply to future year targets and that the changes offer at least equivalent ID outcomes as the current ID Plan, as required in the contract. The level of detail provided by ESPs in support of a proposed change has been variable. However, DCITA has generally sought further information to substantiate any variations, particularly where substantial change has been sought. DCITA has effectively negotiated variations to ID Plans without diminishing overall ID commitments.

<sup>48</sup> ANAO, *Contract Management Better Practice Guide*, February 2001, p. 62.

## Performance monitoring

**3.31** The letter sent by DCITA to ESPs prior to the end of a reporting period, detailing the annual ID reporting requirements, states that any shortfalls in achievements against targets should be addressed in the form of a Corrective Action Plan in accordance with the ID Schedule. The letter states that in the absence of a Corrective Action Plan the Commonwealth would identify any in-scope or out-of-scope shortfalls as breaches and issue a rectification request notice. In practice, in the absence of a Corrective Action Plan being provided with the annual ID report, DCITA has constructively sought proposals for variations to future commitments to address any annual shortfalls, before proceeding directly with the issue of a breach notice. A breach notice is issued by DCITA in the event that an ESP has failed to propose a suitable variation or has not achieved revised commitments approved to address previous year shortfalls. An approved Corrective Action Plan is a variation to the ID Plan. In the event that a Corrective Action Plan cannot be agreed and the ESP has failed to adequately respond to a breach notice, DCITA can consider applying financial sanctions as provided for in the ID Plans, in consultation with the Group agencies. DCITA had not imposed financial sanctions or liquidated damages under any of the five Service Agreements at the time of the performance audit.

**3.32** ANAO notes that DCITA has not sought corrective action from ESPs where service charges to a nominated SME have fallen short of the annual target in the ID Plan, but where the total in-scope commitment of payment to SMEs has been met. DCITA advised ANAO in November 2002:

DCITA noted the reported outcomes for individual SMEs but did not seek corrective action where the ESP was able to provide a suitable reason for any shortfall. The main reasons given by the ESPs for shortfalls were that agency demands had reduced, the agencies were sourcing directly from the SME or the agencies had decided to source from an alternative supplier. DCITA did not consider that its role should be to lock agencies and ESPs into using the SMEs identified in tables particularly when the total SME target had been achieved and as such action could have impacted on agencies' value for money considerations in their purchasing practices.

**3.33** Variations to address shortfalls in ID outcomes for three out-of-scope initiatives relating to the Health Group for year one (2000–01) remained outstanding at the time of the audit. While the Year 1 annual ID report was lodged in October 2001, a draft variation addressing shortfalls for two of those initiatives was not provided to DCITA until June 2002. The ESP has not yet submitted a final variation for approval. ID commitments for these three out-of-scope initiatives were again not met in year two (2001–02). In September 2002, DCITA issued a breach notice for the shortfall in year one for the initiative not

covered by the draft variation. The ESP has responded that it will pursue a settlement with the relevant SME within the required 90 days from issue of the breach notice. Breach notices for the other two out-of-scope initiatives had not been issued by DCITA at the time of the audit, but contact was being maintained between the ESP and DCITA. Individual ID commitments for these three initiatives have not been met in the first two years of the Service Agreement, although total ID commitments for out-of-scope initiatives for sanction purposes have been met in each year. In year two, the sanction level for payment to SMEs was not achieved. The ESP has indicated to DCITA that this has resulted from the Group agencies not requiring the anticipated scope of services from one of the nominated SMEs. DCITA is currently reviewing the shortfall.

**3.34** Variations for shortfalls in ID outcomes relating to Group 8 also remained outstanding at the time of the audit. The Year 1 annual ID report was initially submitted in October 2001, with an audit report conducted under AUS 904. It was re-submitted in March 2002 with an audit report conducted under AUS 902 at Commonwealth expense. The audit report qualified a number of figures included in the annual ID report resulting in shortfalls in in-scope AVA content and employment and in two of the three out-of-scope initiatives. Sanction levels for year one (2000–01) were not achieved for AVA, out-of-scope employment and exports. DCITA met with the ESP in April 2002, and a draft proposal submitted by the ESP in June 2002 for Initiative 1 was approved in July 2002. Consideration of proposals submitted by the ESP for Initiative 3, relating to an exports program, has been ongoing with DCITA seeking further detail from the ESP.

**3.35** In September 2002, the Year 2 annual ID report relating to Group 8 was submitted with shortfalls identified in in-scope AVA and out-of-scope Initiative 1. The audit report qualified the outcomes included for Initiative 3, resulting in sanction levels not being met in year two (2001–02) for AVA and exports. The ID report indicated that outcomes for Initiative 3 had been derived in accordance with its proposal of June 2002. However, this proposal had not been approved by DCITA. In October 2002, DCITA issued a breach notice to the ESP for shortfalls in year one for AVA and out-of-scope Initiatives 2 and 3. A corrective action plan was also requested for shortfalls in year two for AVA and Initiative 3. DCITA also noted that the proposal relating to Initiative 3 could not be approved because it did not satisfy the criteria of equal or better outcomes. In November 2002, the ESP advised DCITA that it denied the alleged breaches, disputing the audit qualifications for the out-of-scope initiatives. It claimed that the assessed deficiency in AVA was a result of product choices of the Group agencies and difficulties in assessing AVA. In February 2003 Group 8 advised ANAO that this resulted from significant one-off acquisitions for research equipment, with low AVA values, being included in total service charges. Group 8 further advised ANAO that:

The concept of a 'target' for service charges is not well defined in the Group 8 Services Agreement through the ID plan. When exercising the original resource baseline through the Service Charges Schedule, the service charges invoiced to the Group 8 Agencies were within 1% of the Year 1 'target.' When non-baseline (or out of scope) Year 2 expenditure (additional RIS Hardware) is excluded, the 'target' was also within a few % for Year 2. Given that this expenditure has been included in the 'audited' Year 2 ESP ID report, it would explain why they failed to meet their AVA commitments for Year 2. While discussions are ongoing with DCITA on this particular issue it would appear that the ID commitments for the ESP have been significantly changed in a manner for which they have no control. Either the reporting arrangements are at fault or a re-write of ID schedule is in order. It should also be noted that using the word 'target' implies that there has been a cost blow out and that the cost of IT services has increased. This is not the case for the Group 8 Agencies.

**3.36** For DCITA to effectively monitor performance against ID commitments, the actual annual service charges/contract values need to be determined as they apply for each ID Plan. The definition of 'annual service charges' / 'annual contract value' for the purpose of the ID Plans varies for each of the Service Agreements.<sup>49</sup> Achievement of in-scope commitments is assessed against the total service charges, or contract value, for each year. Commitments for AVA content and SME participation are stated as percentages of those figures, sometimes with minimum dollar amounts specified. DCITA does not routinely clarify the actual service charges for each year with the agencies to confirm that it equates with the ESP's audited annual report.<sup>50</sup> DCITA advised ANAO that while it does not specifically and routinely confirm the actual annual service charges with the agencies, a copy of the contractor's audited ID annual report is provided to the Group/Agency for their consideration. The Groups or agencies have not advised of any apparent discrepancies in those reports. Group 8 have advised the ANAO that since before the effective date of the Group 8 Contract regular discussions have taken place with DCITA regarding ID reporting and performance.

**3.37** The actual annual service charge is significant in that variation from the initial projected annual service charge can trigger the operation of Clause 10 of

---

<sup>49</sup> For Cluster 3, annual service charges are those paid or payable in accordance with the Price Schedule for the supply of services, not including pass-through expenses. For the ATO the annual contract value includes pass-through expenses. For Group 5 annual service charges do not include pass-through expenses. For the Health Group the annual contract value is the sum of total service charges and pass-through expenses, but excludes postage costs. For Group 8 the annual contract value is the sum of all service charges and pass-through expenses.

<sup>50</sup> Year one actual service charges in the annual ID report for Group 5 was confirmed by DCITA with the Group 5 Contract Management Office. DCITA identified to ANAO that it had sought confirmation from the Cluster 3 contract management office of the total service charges for years one and two of the contract in June 2000. The figures were within 6 per cent and 1 per cent respectively of those reported by the ESP.

the ID Plans, 'Variations in Services (Rise and Fall)'. This clause provides that where the scope or volume of services increase or decrease, any in-scope AVA or SME commitment expressed as a percentage remain the same. Commitments expressed in absolute dollars will change by the same proportion of any change to those services. Where increased services are forecast by the Commonwealth to generate a step increase (not short-term variations) in services charges of more than 15 per cent, either the out-of-scope ID initiatives are required to be increased to reflect the likely increase in service charges, or alternatively, ESPs can propose an increase to in-scope ID commitments.

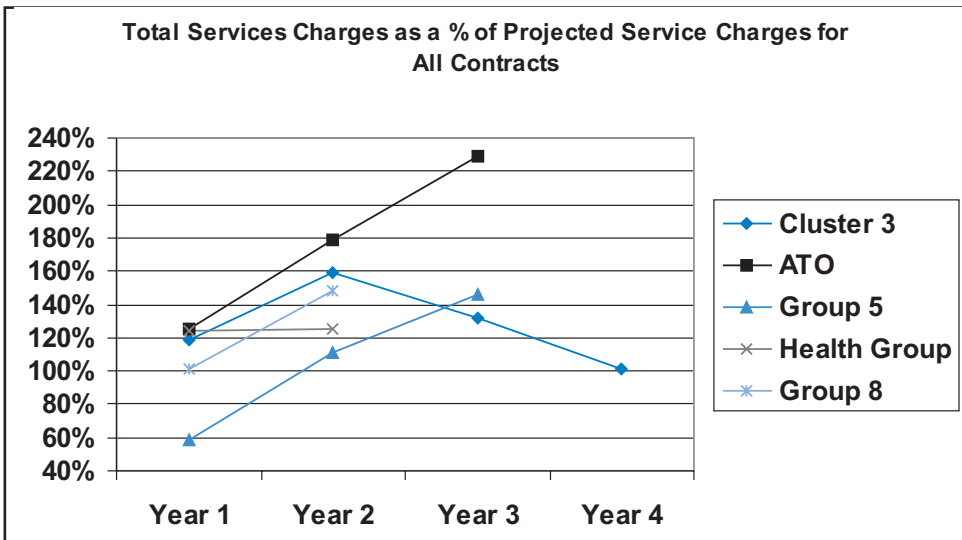
**3.38** On a number of occasions, across the five contracts, the actual annual service charges were greater than 15 per cent of the forecast baseline annual service charges. DCITA had not been advised of the increased volume of services by the agencies, as required under the MOUs, in advance of receiving the relevant annual ID report from the ESP for the period. Confirmation as to whether increases in service charges are forecast to continue in future years is required from agencies to allow DCITA to determine whether additional ID commitments should be sought from ESPs. In nine of the 14 annual ID reports received at the time of ANAO fieldwork, the actual annual service charges were reported as being more than 20 per cent greater than the initial projected figure, and in five of those reports the increase was greater than 40 per cent. Figure 3.2 illustrates the incidents of actual annual service charges exceeding projected annual service charges.<sup>51</sup>

---

<sup>51</sup> ANAO notes that where actual service charges increased above initial projected service charges, in-scope percentage commitments for AVA content and SME participation would have remained constant, thereby requiring increased absolute dollar outcomes for these ID commitments.

**Figure 3.2**

**Total actual service charges as a percentage of initial projected service charges**



Note 1: While this Figure shows only a one per cent increase in actual service charges from the initial figure projected in Year 4 for Cluster 3, using the baseline figures provided by Cluster 3 to DCITA in June 2000, and actual service charges derived from the ESP annual ID reports, the total service charges as a percentage of forecast annual baseline service charges for years one to four would be 101, 133, 122 and 163 per cent respectively.

- 2: In year one of the Health Group Service Agreement, actual service charges were lower than the initial projected service charges derived from the ID Plan.
- 3: Discussions are ongoing between DCITA and the ESP for Group 8 to resolve issues on the definition of annual service charges and measurement.

Source: ANAO analysis of annual ID reports.

3.39 DCITA had not received clarification from the agencies or contract management offices as to whether the increases represented a step increase of greater than 15 per cent requiring the ESP to increase its ID commitments to reflect the increased volume of services in accordance with the requirements under the ID Plans. In the first year of the ATO Service Agreement there was a 25 per cent increase in the Service Charges from that forecast, and in the second year a 79 per cent increase. The ATO advised DCITA in September 2001 that:

the last financial year saw the ATO undertake significant infrastructure-related work in support of the implementation of the Government's tax reform agenda. However, work on such a scale will not be ongoing. The ATO's current planning projections are for expenditure with [the ESP] to be considerably less this financial year than for the preceding one.

3.40 While the ATO response indicated that it had taken Clause 10 of the ID Plan into account, DCITA did not clarify with the ATO whether the increase of 15 per cent in service charges was anticipated. ANAO notes that in the third



year of the ATO Service Agreement, actual service charges were 129 per cent greater than the initial projected charges derived from the ID Plan. In October 2002, DCITA sought advice from the Group 8 Contract Management Office as to whether increased services were forecast to generate a step increase in the services baseline of more than 15 per cent, noting that annual service charges derived from the first two annual ID reports for Group 8 showed service charges payable to the ESP had increased by more than 15 per cent. The Group 8 Contract Management Office responded in October 2002 that the majority of the additional service charges had been for one off projects and not step increases to volumes over baselines, and put at question the veracity of the initial baselines. At the time of the audit, DCITA had not determined whether it accepted this interpretation of the application of Clause 10.

**3.41** In the case of Cluster 3, the initial projected service charges could not be derived from the ID Plan as the target figure for payment to SME in the plan was stated as a minimum total only. The ID Plan required 24 per cent of annual service charges to be paid to SMEs with a minimum payment of \$8 million per year. This reflects an initial projected figure of at least \$33.3 million in annual service charges. In June 2000, DCITA sought from the Cluster 3 Contract Management Office the baseline expenditure forecasts. The figures, derived from the final evaluation report, ranged from \$39.4 million in year 2 to \$20.8 million in year 4, when data network and voice services would no longer be provided through the Services Agreement. It is not apparent that the ID Plan was verified, at the time of contract execution, to ensure the initial projected figures aligned with annual baseline figures from the tender evaluation process.

**3.42** The ESP for Group 5 anticipated problems in meeting AVA targets in future years where agencies in Group 5 choose alternate providers for services. The Group 5 Service Agreement allows agencies to alternatively source any of the IT&T services included in the agreement. Each of the Service Agreements allow the Commonwealth to perform, or retain third parties to perform, any of the services. However, penalties may apply where a specified volume of business is sourced other than from the ESP. The Commonwealth is required to give the ESP written notice of the removal of any services from scope and the service charges are adjusted to reflect the reduced scope and or volume of the services. Where this occurs, the agencies should advise DCITA of the change to determine with the ESP the potential impact on the ESP's ability to meet its ID commitments.

**3.43** Where the service is alternatively sourced by the agency/Group, and the ESP was relying on that service to contribute to its AVA content or SME participation, the capacity for the ESP to meet the overall AVA and/or SME commitment could be affected. Underpinning the initial projected annual service charges is a projected profile of expenditure against each type of service. While

the ID Plan provides for variations to absolute dollar commitments for AVA and SME with the removal of services from scope, changes to the percentage commitments must be made in accordance with the ID variation procedures under the ID Plan which requires the ESP to demonstrate that the change is at least as likely to promote the achievement of the Commonwealth's desired outcomes as the current ID Plan. Problems could arise for an ESP if it was intending to satisfy a significant portion of its AVA or SME commitment through the provision of the service the agency/Group chooses to source alternatively.

**3.44 Findings:** DCITA has constructively sought proposals for variations to future ID commitments to address total annual shortfalls, before proceeding directly with the issue of a breach notice. No financial sanctions or liquidated damages had been imposed by DCITA for shortfalls against ID commitments at the time of the audit. DCITA has not sought corrective action from ESPs where service charges to a nominated SME have fallen short of the annual target, but where the total in-scope commitment of payment to SMEs has been met.

**3.45** Variations to address shortfalls in achievements against ID commitments relating to the Health Group, for three out-of-scope initiatives in 2000–01, remained outstanding at the time of the performance audit. Shortfalls in those initiatives were also reported for 2001–02. In September 2002, a breach notice was issued for one of the out-of-scope initiatives. While contact has been maintained between the ESP and DCITA at the time of the audit, breach notices have not yet been issued for the shortfalls in the ID commitments for the other two out-of-scope initiatives. Out-of-scope ID commitments for sanction purposes were met in each of the first two years of the Service Agreement for the Health Group. Resolution of shortfalls in achievement against ID commitments relating to Group 8 also remained outstanding at the time of the audit. DCITA issued a breach notice for those shortfalls in October 2002. However, the ESP has denied the alleged breaches. Sanction levels, relating to ID commitments for Group 8, have not been achieved in 2000–01 for AVA, out-of-scope employment and exports, and in 2001–02 for AVA and exports.

**3.46** On a number of occasions, across the five contracts, the actual annual service charges were greater than 15 per cent of the forecast baseline annual service charges. DCITA had not been advised of the increased volume of services by the agencies, as required under the MOUs, in advance of receiving the relevant annual ID report from the ESP for the period. Confirmation as to whether increases in service charges are forecast to continue in future years is required from agencies to allow DCITA to determine whether additional ID commitments should be sought from ESPs. In nine of the 14 annual ID reports received up to the time of ANAO fieldwork, the actual annual service charges

were reported as being more than 20 per cent greater than the initial projected figure. In five of those reports the increase was greater than 40 per cent. DCITA had not received clarification from the agencies or contract management offices as to whether the increases represented a step increase of greater than 15 per cent requiring the ESP to increase its ID commitments to reflect the increased volume of services in accordance with the requirements under the ID Plans.

**3.47** Where an IT&T service is alternatively sourced by the agency/Group, and the ESP was relying on that service to contribute to its AVA content or SME participation, the capacity for the ESP to meet the overall AVA and/or SME commitment could be affected. Underpinning the initial projected annual service charges is a projected profile of expenditure against each type of service. While the ID Plan provides for variations to absolute dollar commitments for AVA and SME with the removal of services from scope, changes to the percentage commitments must be made in accordance with the ID variation procedures under the ID Plan. The latter requires the ESP to demonstrate that the change is at least as likely to promote the achievement of the Commonwealth's desired outcomes as the current ID Plan.

## 4. Performance Against ID Commitments

---

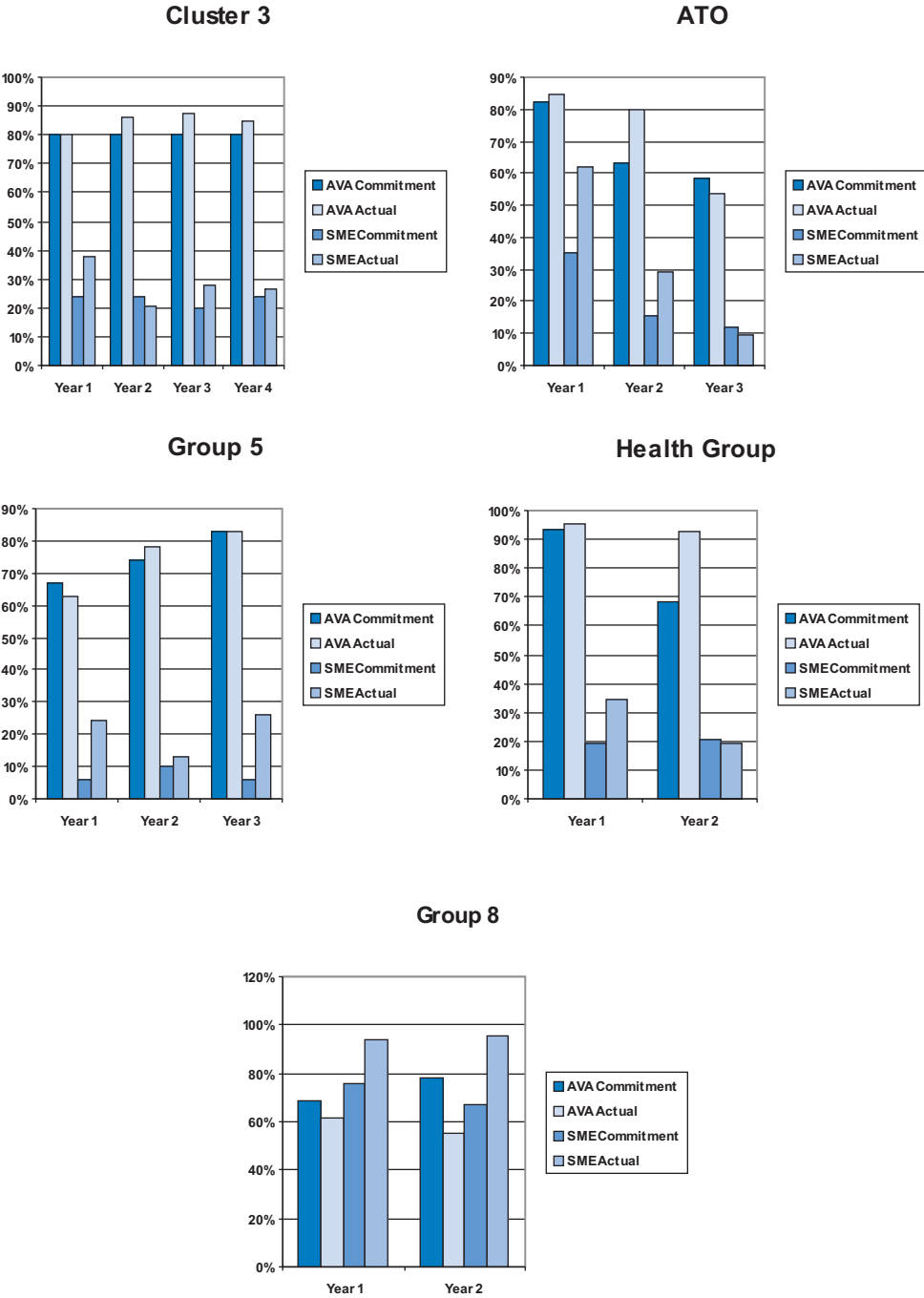
*This chapter discusses the achievements of external service providers against the ID commitments included in the ID Plans for the five contracts awarded under the IT Outsourcing Initiative.*

### **ID outcomes**

**4.1** The tender processes did not identify the extent to which in-scope ID commitments for employment and SME participation, included in the ESP's ID Plans, were additional to arrangements in place prior to outsourcing of IT&T goods and services. As such, ID outcomes have only been assessed by DCITA in the context of achievement against targets committed to through individual ID Plans.

**4.2** At the time of the performance audit, ESPs had generally performed well against contracted ID commitments. Results were available for four years in respect of Cluster 3, three years for the ATO and Group 5, and two years for the Health Group and Group 8. Figure 4.1 illustrates actual performance against in-scope commitments for AVA content and SME participation as a percentage of annual service charges, for each of the five ID Plans.

**Figure 4.1**  
**Outcomes for in-scope ID commitments for AVA content and SME participation**



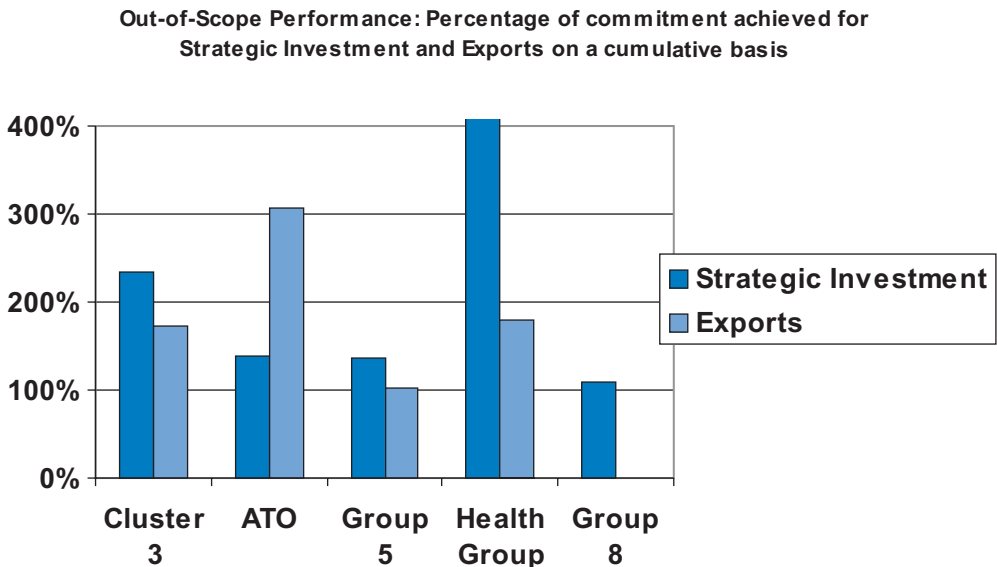
Source: ANAO analysis of annual ID reports submitted by ESPs.

4.3 For in-scope activities, the AVA content was achieved in all years with the exception of year 1 for Group 5, year 3 for the ATO, and the first two years for Group 8. The Group 5 shortfall was addressed by a variation to subsequent year targets that DCITA assessed as providing at least equivalent ID outcomes. The Group 8 shortfalls resulted from the audit qualification of figures as two significant component figures could not be verified. Committed levels of SME participation were achieved with the exception of year 2 for Cluster 3 and the Health Group, and year 3 for the ATO. The Cluster 3 shortfall has been addressed by a variation and the other three recent shortfalls will be reviewed by DCITA in the current monitoring process. In-scope employment figures were met, with the exception of the year 4 results for Cluster 3 which are currently being reviewed by DCITA. In-scope employment has no sanctionable targets, as enforcing commitments could potentially conflict with value for money considerations.

4.4 Figure 4.2 illustrates actual performance against out-of-scope commitments for strategic investment and exports, for each of the five ID Plans.

**Figure 4.2**

**Outcomes for out-of-scope ID commitments for strategic investment and exports**



Notes 1: The overachievement for the Health Group in strategic investment relates to an Initiative for which over \$10 million was spent fitting out and setting up an Innovation Centre in Sydney, and where a target commitment for that expenditure had not been included in the ID Plan. This resulted in actual expenditure being 1027 per cent of the commitment.

2: Claims for exports by the ESP for Group 8 could not be accepted by DCITA based on the audit qualification of figures included in the ESP's annual ID reports for the first two years.

Source: ANAO analysis of ESP's annual ID plans.

4.5 For out-of-scope activities, commitments for both strategic investments and exports were easily met with the exception of export commitments by the ESP for Group 8. While the ESP for Group 8 has provided draft variation proposals for DCITA comment, the ESP has been unable to develop a proposal that DCITA could assess and approve as meeting the contractual requirement of demonstrating equivalent or better ID outcomes. DCITA has assessed that the ESP had not pursued exports and has requested the ESP to provide detailed information as to what its original export intentions were at the time the out-of-scope ID Initiative was proposed during the tender process.

4.6 Out-of-scope employment figures have been met with the exception of Group 8 initiatives for year 1. This shortfall relates to two initiatives for which DCITA has not approved variation proposals put by the ESP. While ID commitments for three of the 10 out-of-scope initiatives for the Health Group were not met in either of the first two years, total out-of-scope ID commitments were met in both years.

4.7 For in-scope activities, significant incidents of overachievement against commitments in ID Plans were noted for:

- AVA content for the ATO and the Health Group service agreements in year 2.
- SME participation for the Cluster 3 service agreement in years 1 and 3, the ATO and Group 8 service agreements in the first two reported years, the Group 5 service agreement in years 1 and 3, and the Health Group service agreement in year 1.
- Total employment for the Cluster 3 service agreement in the first three years, the ATO and Group 8 service agreements in the first two reported years, the Group 5 service agreement in years 2 and 3 and the Health Group service agreement in year 2.

4.8 For out-of-scope activities, significant incidents of overachievement against commitments in the ID Plan were noted for both strategic investment and exports for the Cluster 3, ATO and Health Group service agreements in all reported years, for strategic investment for the Group 5 service agreement in year 1, and for total employment for the Cluster 3, ATO and Health Group service agreements.

**4.9 Findings:** The tender process did not identify the extent to which in-scope ID commitments for employment and SME participation, included in the ESP's ID Plans, were additional to arrangements in place prior to outsourcing of IT&T goods and services. As a result, ID outcomes have only been assessed by DCITA in the context of achievement against targets committed to through those ID Plans.

**4.10** ESPs have generally performed well against contracted ID commitments. Reports on ID achievements have been submitted by the ESPs for four years for in respect of Cluster 3, three years for the ATO and Group 5, and two years for the Health Group and Group 8. ESPs have largely met ID targets and overachieved significantly in a number of areas. Shortfalls identified in the audited reports for the current year for each ESP are currently being reviewed by DCITA. Shortfalls from previous years have been addressed where proposed variations by ESPs have been assessed by DCITA as likely to deliver at least equivalent ID outcomes as the current ID Plan.

## Reporting by DCITA

**4.11** DCITA has publicly reported performance by ESPs against the ID commitments for the five contracts awarded under the IT Outsourcing Initiative, in the financial years 1998–99 to 2000–01. The first annual ID report was submitted in respect of the Cluster 3 Services Agreement covering the reporting year 1 April 1998 to 31 March 1999.<sup>52</sup> The Minister for Communications, Information Technology and the Arts was briefed on the achievements in that first year and issued joint press releases with the Minister for Finance and Administration on 12 July 1999 and 6 August 1999 detailing the first year results. The media releases indicated that the ESP for Cluster 3 had met all the levels of ID it committed to contractually.

**4.12** DCITA has produced two external summary reports on performance against contractual commitments for ID under the IT Outsourcing Initiative. There is no legislative requirement for this report to be prepared. In February 2001, DCITA published the *IT Outsourcing Initiative Industry Development Progress Report 1999–2000* incorporating the ID outcomes for the second year of the Services Agreement for Cluster 3, and the first year of the Service Agreements for the ATO and Group 5. Publication of the report was delayed due to the late submission of the audited annual report by the ESP for Group 5, as discussed in paragraph 3.19, and to follow the release of the report of the Humphry Review. The report states that the ESPs declined to give approval for publication of specific targets as they were considered by them to be particularly sensitive. DCITA published the extent of achievement against ID commitments in percentage terms only.

**4.13** The second external report, *Information Technology Outsourcing Initiative Industry Development Progress Report on 1997–2000 Contracts 2000–01*, was published to the DCITA web site in August 2002. The report states that

<sup>52</sup> Contract amendments have been effected for the other four ID Plans to align the reporting year with the anniversary of handover dates, which in each case are close to a financial reporting period of July to June.



information marked as commercial-in-confidence by the contractors was withheld only where it was assessed to be in accordance with the criteria outlined in ANAO Audit Report No.38 2000–01 *The Use of Confidentiality Provisions in Commonwealth Contracts*. The report included total ID achievements for the 2000–01 year for the five contracts awarded under the IT Outsourcing Initiative, and individual achievements against the ID Plans for year three for Cluster 3, year two for the ATO and Group 5, and year one for the Health Group and Group 8. External publication of the outcomes for 2000–01 was delayed due to delays in finalising the review of the Group 8 annual ID report.

**4.14** DCITA advised ANAO in November 2002 that the Minister is briefed on the ID outcomes of the outsourcing contractors, as required under the Procedures Manual. DCITA advised that this is achieved through the summary annual reporting process. DCITA further advised that the Minister or his office is also advised on an ad hoc basis. The first progress report was endorsed by the Minister through his signing off on the foreword. DCITA advised that the second was published on the DCITA web site following consultation with the Minister’s office.

## Review of annual ID reports

**4.15** A contract year is defined in the Services Agreements as ‘each full year of the Term, commencing on the Handover Date.’ The annual ID report for Cluster 3 is due on 30 June and covers the reporting period 1 April to 31 March. Contract variations have been approved for the other four ID Plans to amend the due date for the annual ID report to within 60 days of the date of handover of services. The only annual ID reports that have been received on time have been those submitted by the ESP for Cluster 3. With the exception of the ID report for Cluster 3, DCITA has allowed the ESPs to provide reports to coincide with the financial year for practical purposes. DCITA advised ANAO in November 2002 that it ‘allowed an extension of time for the ESPs to submit their annual reports when notified that the auditors required additional time to complete their work’.

**4.16** ID Plans differ in the specification of reporting requirements. The ID Plan for Cluster 3 requires that the annual ID report must be in a format specified by the Commonwealth and must contain at least all the information requested by the Commonwealth. It also requires that all information provided by the ESP must be accompanied by sufficient supporting information to enable the Commonwealth to verify the manner and extent of compliance with the ID Plan. The ID Plans in the four subsequent Service Agreements awarded under the Initiative included as Part 9 the annual reporting requirements.

**4.17** The ID plans require all ESPs to provide both qualitative and quantitative information on their activities in the annual ID reports. Under the annual

reporting requirements, for both in-scope and out-of-scope SME participation, the ESP must provide information on the precise nature of the relationship with each SME, including the type and nature of activities undertaken by the SME and how the ESP has maximised the prospects for success in the relationship. The ESP is also required to provide a brief assessment by the SME on the quality of the alliance, information on the value of technology transferred to SMEs, and information on the type and quantum of AVA.

**4.18** It was not always possible to identify from the annual ID reports submitted by the ESPs, the nature of the relationship between the ESP and SMEs utilised in delivering the services to determine whether the SME participation is one of a strategic partnership between the ESP and SME, or a straight vendor/supplier relationship.<sup>53</sup> The annual ID reports have not included assessments by the SMEs of the quality of the alliance between the ESP and the SME. While the audit process may have included contact with SMEs the annual reports did not include any qualitative contributions by the SMEs. However, DCITA has requested from, and included in the ID progress reports it produced for 1999–2000 and 2000–01, profiles of some positive examples of the relationships developed between SMEs and the relevant ESP.

**4.19** The level and quality of SME involvement is one of the key criteria for ID. There is evidence that some SMEs have not received the expected benefits through the IT Outsourcing Initiative in terms of development of relationships with prime contractors. Criticism has occurred where prime contractors commercial objectives have compromised the development of strategic relationships with SMEs. DCITA's focus has been on ensuring that quantitative SME commitments have been met and have limited influence over the nature of the involvement of SMEs under the IT outsourcing contracts.<sup>54</sup> On 21 June 2002, the Government announced an ICT SME Facilitation Package to assist SMEs access to the Commonwealth ICT market. This announcement followed on from the Government's announcement of the *Action Plan on Inhibitors to Small-to-Medium Sized Enterprise Participation in Commonwealth Government IT Outsourcing Contracts* in October 2001.

---

<sup>53</sup> The ESP for the ATO stated in the year 1 annual report that the majority of the relationships with SMEs were in the nature of vendor/supplier relationship, with the relationship in one out-of-scope initiative in the nature of formal strategic teaming and alliance arrangements or deeds. The report did not include any assessments by the SMEs on the quality of the alliance.

<sup>54</sup> The original bid by the ESP for Group 5 included the participation of an SME for the provision of IT training. After the contract was executed, the ESP and SME were unable to resolve pricing issues caused by a late change to the pricing structure in the contract during the negotiation stage. A replacement provider was approved by DCITA. Subsequent to this issue, a system was put in place requiring written confirmation from subcontractors that an agreement is in place between the ESP and the subcontractor before the contract was finalised.

**4.20** There does not appear to be a process of DCITA formally accepting annual ID reports submitted by ESPs, either initially, if it is accepted that no shortfalls in ID commitments have occurred, or after variations to future commitments have been approved to address current year shortfalls. An acceptance process would provide closure for the negotiation of variations and formalise the approved targets in the ID Plans for future years.<sup>55</sup> The procedures manual for the monitoring of ID commitments requires that the analysis of the results included in the ESP's annual ID report should be signed off by the ID representative and that a letter be sent to the ESP acknowledging that the Annual Report was satisfactory where the analysis did not show any deficiencies. The DCITA analysis would be supplementary to the independent audit of the annual report in that it would address any variations required to future ID commitments, resulting from shortfalls in achievements or changes in volume of services in the reporting year. It would also consider any overlap between ID commitments under the ID Plan and achievements under other DCITA administered ID programs. DCITA advised ANAO in November 2002 that:

the reports from ESPs were accepted by DCITA upon receipt and subsequently reviewed against the contractual milestones. The negotiation of corrective contract variation proposals would generally take some time and once signed off and agreed, would formalise the approved targets in the ID plans for future years. DCITA sought and obtained clearance from the ESPs to the wording of individual chapters for inclusion in the annual Industry Development Progress Report prior to its publication which represented acknowledgement of the reported results.

**4.21** ANAO's review of underachievements in ID commitments, reported by ESPs in their annual ID reports, revealed that DCITA had performed follow-up action on reported ID outcomes. Shortfalls have been addressed through the consideration of contract variations and approval where it has been established that the variation will deliver at least equivalent ID outcomes. Variations generally took the form of increased targets in future years. The major exceptions to the incidents of under-performance being resolved relate to AVA content and two out-of-scope initiatives included in the Group 8 ID Plan, and three out-of-scope initiatives in the Health Group ID Plan. In each case, contact has been maintained between DCITA and the ESP. Proposals for variations have also been sought and considered. A draft breach notice for shortfalls in two out-of-scope initiatives for the Health Group had been prepared at the time of the performance audit. A breach notice had been issued for shortfalls relating to Group 8. At the time of the performance audit, the ESP for Group 8 had denied the breaches. Shortfalls in current year annual ID reports (2001–02) are currently under review.

---

<sup>55</sup> In the case of the Group 5 annual ID report for year 2, DCITA was satisfied that all ID commitments had been met by the ESP and advised the ESP that there were no outstanding matters.

## Group 8

**4.22** The ESP identified only two shortfalls in achievements against ID targets in the Year 1 Annual ID report and did not include with the report any proposed action. The ESP reported an underachievement in the service charges to one of the SMEs, noting that Group 8 had alternatively sourced that service, and an underachievement in net export revenue for one of its out-of-scope initiatives. The significant shortfall in export revenue for Initiative 3 was anticipated prior to year end and DCITA encouraged the ESP to submit a rectification plan in advance of the annual report, which it did not do. In May 2001, the ESP proposed that it be relieved from performing its obligations in respect of that Initiative for the first contract year. The request did not propose a change that would deliver at least equivalent ID outcomes, as required under the ID Plan. Therefore, DCITA was unable to approve the request.

**4.23** DCITA assessed there to be further shortfalls in performance against commitments, based on the auditor's qualifications of certain claims of performance in the annual ID report. The audit report of the year 1 annual ID report for Group 8, commissioned by DCITA, qualified specific components of the claimed ID activities that could not be verified to the level required under AUS 902. The audit report stated that, under the standards embodied in AUS 902, a number of the processes and procedures that the ESP used in compiling the annual report were not of a standard that resulted in sufficient and appropriate audit evidence being produced to support the issuing of an unqualified audit report. The report stated that a number of the amounts included in the annual ID report were estimated, assumed or reconstructed from non-source data and that 'the basis of the management estimate calculations could not, in most cases, be directly verified to source documentation or be able to be established as reasonable given a lack of a suitable reference point or past history.'

**4.24** The audit report qualified the figures claimed for exports for Initiative 3, as the transaction supporting the claim was not considered to meet the definition of an export sale in terms of the ID Plan. DCITA has not been able to establish the nature or destination of the claimed exports or an export marketing plan for Initiative 3, despite requests to the ESP for this information. ANAO notes that export commitments was a significant component of the ESP's ID offerings in the tender process. The audit report also qualified figures claimed for AVA content for two non-SMEs, employment for Initiative 2, and employment, exports and strategic investments for Initiative 3. These qualifications put in question whether annual milestones were in fact achieved. As the main document relied on in the monitoring process is the audit report, the qualification required follow-up by DCITA to effect clarification of the supporting information or variation to the ID Plan.

**4.25** In June 2001, the ESP sought a variation to Initiative 2 on the basis that it had remodelled its approach to the technical training initiative. The letter was not in a form consistent with the requirements for a variation under the ID Plan and did not detail the nature of the variation proposed. In a meeting in April 2002, the ESP undertook to submit proposals to revise Initiatives 2 and 3, including correcting the year one shortfalls through revisions to future year ID targets.

**4.26** Quarterly reports were submitted by the ESP for Group 8. However, they were essentially financial tables not supported by qualitative information. While these have allowed a quantitative assessment of progress towards meeting annual financial targets and indicated that their reporting systems were capable of producing figures for the required annual reports, they have not included supporting information to allow identification of any problems with the methodology behind the calculations or assessment of the support for claims of assessment. It was not until the audit of the annual ID report that claims of performance were assessed.

**4.27** The ESP's Year 2 annual ID report for Group 8 was supported by an independent review report conducted in accordance with AUS 902 and paid for by the ESP as required under the ID Plan. The audit report was again qualified in respect of the information presented for out-of-scope Initiative 3 relating to exports. The auditor was unable to rely on the figures presented for that initiative based on the supporting information made available by the ESP. In June and August 2002, the Group 8 ESP sought comment on draft variation proposals to address the shortfall in Initiative 3. DCITA commented that the draft proposals did not appear to meet the requirements for variations under the ID Plan, requiring an offer of equivalent or better ID outcomes. Elements of the proposal also appeared to double count in-scope commitments.

**4.28** On 25 October 2002, DCITA issued a breach notice to the ESP for breaching its ID commitment for the uncorrected shortfalls in year 1 for AVA, Initiative 2 and Initiative 3. A corrective action plan was also requested for the year 2 shortfalls in AVA and Initiative 3. The ESP for Group 8 responded in November 2002, denying the alleged breaches. In respect of the AVA shortfalls the ESP advised that the assessed deficiency resulted from the product choices of the Group agencies, or the difficulties in assessing AVA, or both.<sup>56</sup> In February 2003, DCITA advised ANAO that it is continuing to seek a resolution of these issues with the ESP.

---

<sup>56</sup> The ID Plan does not provide for ESPs to adjust a commitment where a service is removed or alternatively sourced by the Group or agency, and that change impacts on the ability of the ESP to deliver a particular commitment. The ID Plan requires that any shortfall must be addressed by a variation that delivers at least equivalent ID outcomes.

## *Health Group*

**4.29** The ESP for the Health Group did not meet its ID commitments for out-of-scope Initiative 1, 2 and 10 in the first two years, and in-scope SME payments and out-of-scope Initiative 8 in year two. The year one report originally submitted by the ESP in October 2001 indicated that, while the total targets for out-of-scope ID initiatives were met, targets for three of the initiatives were not met. The report included a corrective plan covering the three initiatives. The proposed plan was not approved by DCITA as a contract variation as it did not contain revised targets.

**4.30** In June 2002, the ESP submitted a draft variation proposal for Initiatives 2 and 10, to extend the ID arrangements to deliver the commitments in subsequent years. However, in July 2002, the ESP requested that DCITA hold the contract variation proposal to allow it to do more work on it. The Year 2 annual ID report, dated 20 September 2002, again reported shortfalls in outcomes for out-of-scope Initiatives 1, 2 and 10, in addition to a shortfall in payments to SMEs. However, sanction levels for out-of-scope ID commitments were met for the year.

**4.31** In September 2002, DCITA issued a breach notice to the ESP in relation to out-of-scope Initiative 1, for not achieving the employment and export targets for the first two years. DCITA considered that the proposed actions outlined in the corrective action plan in the year 1 annual ID report had not been carried through. The ID Plan requires the ESP to notify DCITA within five working days if it denied the breach or of any action it had commenced to rectify the breach, and to rectify the breach within 90 days. The ESP had advised DCITA that it had been unable to reach an agreement with the SME involved in the Initiative on the future arrangements for achieving the commitments or for an alternative settlement. In October 2002, the ESP responded that it would continue to pursue a settlement with the SME within the given 90 days.

**4.32** At the time of the audit fieldwork, a breach notice had not been issued for shortfalls in commitments for Initiatives 2 and 10, and only a draft corrective action plan had been provided for year two shortfalls. The ESP advised DCITA in October 2002 that one of the SMEs was currently under external administration. In February 2003, DCITA advised ANAO that it is continuing to seek a resolution of these issues with the ESP.

## *Group 5*

**4.33** A breach notice was issued to the ESP in December 2000 for a shortfall in the AVA achieved as a percentage of the annual service charges and reported in the 1999–2000 ID Annual Report. The scale of the shortfall in dollars was incorrectly advised to the ESP, as the target figure had not been adjusted to

reflect the lower level of total service charges for the year. The ESP originally contested the breach on the basis of the definition of annual service charges and whether or not pass through expenses were included. In January 2001, DCITA requested that the ESP propose a suitable rectification notice to remedy the revised shortfall in the AVA achievement for year one. It was not until May 2001 that the shortfall was addressed by an approved variation to the ID Plan increasing the year 2 target for payment to SMEs from 6 to 10 per cent.

**4.34** The Group 5 Year 3 annual ID report indicates a shortfall in payment to each of the three specified SMEs but a significant overachievement in total payment to SMEs. The payment figure for SMEs included payments to some non-SMEs but the audit report was unqualified.

**4.35 Findings:** The annual ID reports have not included assessments by the SMEs of the quality of the alliance between the ESP and the SME. While the audit process may have included contact with the SMEs, the annual reports did not include any qualitative contributions by the SMEs. The level and quality of SME involvement is one of the key criteria for ID. DCITA's focus has been on ensuring that quantitative SME commitments have been met and have limited influence over the nature of the involvement of SMEs under the IT outsourcing contracts. On 21 June 2002, the Government announced an ICT SME Facilitation Package to assist SMEs access to the Commonwealth ICT market. This announcement followed on from the Government's announcement of the *Action Plan on Inhibitors to Small-to-Medium Sized Enterprise Participation in Commonwealth Government IT Outsourcing Contracts* in October 2001.

**4.36** ANAO's review of underachievements in ID commitments, reported by ESPs in their annual ID reports, revealed that DCITA had performed follow-up action on reported ID outcomes. Shortfalls have been addressed through the consideration of contract variations and approval where it has been established that the variation will deliver at least equivalent ID outcomes. Variations generally took the form of increased targets in future years. The major exceptions to the incidents of under-performance being resolved relate to AVA content and two out-of-scope initiatives included in the Group 8 ID Plan, and three out-of-scope initiatives in the Health Group ID Plan. In each case contact has been maintained between DCITA and the ESP and proposals for variations have been sought and considered. A draft breach notice for shortfalls in two out-of-scope initiatives for the Health Group had been prepared at the time of the performance audit and a breach notice had been issued for

shortfalls relating to Group 8. At the time of the performance audit the ESP for Group 8 had denied the breaches. Shortfalls in current year annual ID reports (2001–02) are currently under review.

---

Canberra ACT  
1 April 2003



P. J. Barrett  
Auditor-General



## Series Titles

---

Audit Report No.1 Performance Audit  
*Information Technology at the Department of Health and Ageing*  
Department of Health and Ageing

Audit Report No.2 Performance Audit  
*Grants Management*  
Aboriginal and Torres Strait Islander Commission

Audit Report No.3 Performance Audit  
*Facilities Management at HMAS Cerberus*  
Department of Defence

Audit Report No.4 Audit Activity Report  
*Audit Activity Report: January to June 2002*  
Summary of Outcomes

Audit Report No.5 Performance Audit  
*The Strategic Partnership Agreement between the Department of Health and Ageing and the Health Insurance Commission*  
Department of Health and Ageing and the Health Insurance Commission

Audit Report No.6 Performance Audit  
*Fraud Control Arrangements in the Department of Veterans' Affairs*

Audit Report No.7 Performance Audit  
*Client Service in the Child Support Agency Follow-up Audit*  
Department of Family and Community Services

Audit Report No.8 Business Support Process Audit  
*The Senate Order for Department and Agency Contracts (September 2002)*

Audit Report No.9 Performance Audit  
*Centrelink's Balanced Scorecard*

Audit Report No.10 Performance Audit  
*Management of International Financial Commitments*  
Department of the Treasury

Audit Report No.11 Performance Audit  
*Medicare Customer Service Delivery*  
Health Insurance Commission

Audit Report No.12 Performance Audit  
*Management of the Innovation Investment Fund Program*  
Department of Industry, Tourism and Resources  
Industry Research and Development Board

Audit Report No.13 Information Support Services  
*Benchmarking the Internal Audit Function Follow-on Report*

Audit Report No.14 Performance Audit  
*Health Group IT Outsourcing Tender Process*  
Department of Finance and Administration

Audit Report No.15 Performance Audit  
*The Aboriginal and Torres Strait Islander Health Program Follow-up Audit*  
Department of Health and Ageing

Audit Report No.16 Business Support Process Audit  
*The Administration of Grants (Post-Approval) in Small to Medium Organisations*

Audit Report No.17 Performance Audit  
*Age Pension Entitlements*  
Department of Family and Community Services  
Centrelink

Audit Report No.18 Business Support Process Audit  
*Management of Trust Monies*

Audit Report No.19 Performance Audit  
*The Australian Taxation Office's Management of its Relationship with Tax Practitioners*  
Australian Taxation Office

Audit Report No.20 Performance Audit  
*Employee Entitlements Support Schemes*  
Department of Employment and Workplace Relations

Audit Report No.21 Performance Audit  
*Performance Information in the Australian Health Care Agreements*  
Department of Health and Ageing

Audit Report No.22 Business Support Process Audit  
*Payment of Accounts and Goods and Services Tax Administration  
in Small Commonwealth Agencies*

Audit Report No.23 Protective Security Audit  
*Physical Security Arrangements in Commonwealth Agencies*

Audit Report No.24 Performance Audit  
*Energy Efficiency in Commonwealth Operations—Follow-up Audit*

Audit Report No.25 Financial Statement Audit  
*Audits of the Financial Statements of Commonwealth Entities  
for the Period Ended 30 June 2002*  
Summary of Results

Audit Report No.26 Performance Audit  
*Aviation Security in Australia*  
Department of Transport and Regional Services

Audit Report No.27 Performance Audit  
*Management of Commonwealth Guarantees, Warranties, Indemnities and Letters of Comfort*

Audit Report No.28 Performance Audit  
*Northern Territory Land Councils and the Aboriginals Benefit Account*

Audit Report No.29 Audit Activity Report  
*Audit Activity Report: July to December 2002*  
Summary of Outcomes

Audit Report No.30 Performance Audit  
*Defence Ordnance Safety and Suitability for Service*  
Department of Defence

Audit Report No.31 Performance Audit  
*Retention of Military Personnel Follow-up Audit*  
Department of Defence

Audit Report No.32 Business Support Process Audit  
*The Senate Order for Departmental and Agency Contracts (Spring 2002 Compliance)*

Audit Report No.33 Performance Audit  
*Management of e-Business in the Department of Education, Science and Training*

Audit Report No.34 Performance Audit  
*Pest and Disease Emergency Management Follow-up Audit*  
Department of Agriculture, Fisheries and Forestry—Australia

Audit Report No.35 Performance Audit  
*Fraud Control Arrangements in the Australian Customs Service*

## Better Practice Guides

---

Internal Budgeting	Feb 2003
Administration of Grants	May 2002
Performance Information in Portfolio Budget Statements	May 2002
AMODEL Illustrative Financial Statements 2002	May 2002
Life-Cycle Costing	Dec 2001
Some Better Practice Principles for Developing Policy Advice	Nov 2001
Rehabilitation: Managing Return to Work	Jun 2001
Internet Delivery Decisions	Apr 2001
Planning for the Workforce of the Future	Mar 2001
Contract Management	Feb 2001
Business Continuity Management	Jan 2000
Building a Better Financial Management Framework	Nov 1999
Building Better Financial Management Support	Nov 1999
Managing APS Staff Reductions (in Audit Report No.49 1998–99)	Jun 1999
Commonwealth Agency Energy Management	Jun 1999
Corporate Governance in Commonwealth Authorities and Companies—Principles and Better Practices	Jun 1999
Managing Parliamentary Workflow	Jun 1999
Cash Management	Mar 1999
Management of Occupational Stress in Commonwealth Agencies	Dec 1998
Security and Control for SAP R/3	Oct 1998
Selecting Suppliers: Managing the Risk	Oct 1998
New Directions in Internal Audit	Jul 1998
Controlling Performance and Outcomes	Dec 1997
Management of Accounts Receivable	Dec 1997
Protective Security Principles (in Audit Report No.21 1997–98)	Dec 1997
Public Sector Travel	Dec 1997
Audit Committees	Jul 1997

Core Public Sector Corporate Governance (includes Applying Principles and Practice of Corporate Governance in Budget Funded Agencies)	Jun 1997
Management of Corporate Sponsorship	Apr 1997
Telephone Call Centres	Dec 1996
Telephone Call Centres Handbook	Dec 1996
Paying Accounts	Nov 1996
Asset Management	Jun 1996
Asset Management Handbook	Jun 1996
Managing APS Staff Reductions	Jun 1996