



Senate Rural and Regional Affairs and Transport Legislation Committee
Budget Estimates Hearing
23 May 2017

Opening Statement by the Acting Auditor-General

1. Good morning Chairman and committee members.
2. Firstly, I would like to offer apologies on behalf of the Auditor-General, Mr Grant Hehir.
3. Thank you for the opportunity to appear before the Committee today to discuss the ANAO's audit work regarding the OneSKY Australia Program.
4. The Auditor-General decided to conduct audits of the OneSKY tender process in an environment of Parliamentary and Ministerial interest. On 20 August 2015, the then Chair of the Senate's Rural and Regional Affairs and Transport Legislation (RRAT) Committee, Senator Heffernan, wrote to the Auditor-General drawing his attention to matters of concern arising in the course of the Committee's hearings into the performance of Airservices Australia (Airservices).
5. On 31 August 2015, The Hon Warren Truss MP, Minister for Infrastructure and Regional Development, also wrote to the Auditor-General about the probity and conflict of interest arrangements in place for the OneSKY Australia Program being led by Airservices.
6. On 24 September 2015, in response to the letter from Senator Heffernan, and following discussions with the RRAT Committee on 8 September 2015, I wrote to the Committee Chair (in my capacity as Acting Auditor-General), advising that the ANAO would undertake a series of audit activities in relation to the matters raised by the Committee, through our financial statements assurance audit and performance audit programs.

7. I also wrote to Minister Truss on 24 September 2015, noting that the ANAO was aware of matters relating to the OneSKY tender process raised in the course of the RRAT Committee's inquiry. I also advised that the ANAO would undertake two performance audits in relation to the OneSKY Australia Program.
8. The ANAO has now undertaken three pieces of audit work focussed on matters of interest to this Committee.
9. In relation to the concerns raised by the RRAT Committee about the administration of corporate credit cards within Airservices, the Auditor-General committed to examine Airservices' administration of credit cards in the context of the ANAO's financial statement assurance audit program. This work sought to provide reasonable assurance that the entity had appropriate processes and controls in place over the issuance, use and monitoring of credit card activity. It also reviewed governance arrangements over the investigation and referral of identified misuse through legal channels, with reference to established government and entity specific policies and procedures.
10. The ANAO's findings in relation to the administration of corporate credit cards and travel cards by Airservices were reported in ANAO Audit Report No. 7 of 2016–17 *Interim Phase of the Audits of the Financial Statements of Major General Government Sector Entities for the year ending 30 June 2016* (at pages 151-152). This report was tabled in the Parliament on 31 August 2016. The ANAO's financial statements audit testing did not identify weaknesses in Airservices' processes relating to the:
 - issuing and cancellation of corporate credit and travel cards in accordance with Airservices' policies and procedures; or
 - acquittal and reconciliation of corporate credit and travel cards on a timely basis.
11. The ANAO's audit testing did identify weaknesses¹ relating to the:

¹ The ANAO's report on *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2016*, tabled on 23 January 2017, reported that in response to the identified weaknesses, Airservices subsequently implemented an enterprise investigation model for dealing with fraud incidents. As a result of the actions taken by Airservices to address the weaknesses, the ANAO reclassified the moderate audit finding to a minor audit finding during the final audit. The ANAO will continue to review Airservices' management of fraud incidents during 2016–17.

- documentation of key decisions made in relation to dealing with a fraud incident, particularly with reference to decisions of the use of civil, administrative or disciplinary procedures or to take no further action in relation to a suspected fraud incident;
 - documentation of evidence that Airservices had taken all reasonable measures to recover financial losses caused by credit card fraud through appropriate channels such as proceeds of crime, civil recovery processes or administrative remedies; and
 - evidence to demonstrate that key decisions were made by the appropriately authorised officer.
12. The first performance audit examined whether Airservices had effective procurement arrangements in place, with a particular emphasis on whether consultancy contracts entered into with the International Centre for Complex Project Management (ICCPM) in association with the OneSKY Australia process were effectively administered. That audit included consideration of the management of probity and conflict of interest matters. The audit report (ANAO Audit Report No. 1 of 2016–17) was tabled in the Parliament on 31 August 2016.
13. The audit concluded that:
- A key shortcoming in Airservices' procurement policies and procedures is that they do not give appropriate emphasis to the use of competitive processes. In addition, Airservices routinely failed to adhere to its policies and procedures in procuring services from ICCPM. As a result, Airservices' procurement of services from ICCPM, on an exclusively sole-sourced basis, did not deliver value for money.
 - Airservices demonstrated a lack of organisational commitment to the effective implementation of probity principles in respect to the ICCPM arrangements. It was reasonably foreseeable that Airservices' contracting of ICCPM to assist with the OneSKY Australia Program would give rise to perceptions of conflicts of interest and, potentially, actual conflicts of interest. But the ICCPM engagements were not effectively managed so as to ensure the OneSKY tender process was

free of any concerns over conflict of interest that could impact on public confidence in the outcome.

14. The second audit involved a comprehensive examination of the OneSKY Australia Program to assess whether the OneSKY tender had been conducted so as to provide value with public resources and achieve the required timeframes for the effective replacement of the existing air traffic management platforms. The audit report (ANAO Report No.46 of 2016-17) was tabled in the Parliament on 10 April 2017. To form a conclusion against the audit objective, the following high level criteria were adopted:

- Was the OneSKY tender process based on a sound business case and appropriate governance arrangements?
- Did the tender process result in the transparent selection of a successful tender that provided the best whole-of-life value for money solution at an acceptable level of cost, technical and schedule risk, consistent with the RFT?
- Did negotiations with the successful tenderer result in constructive contractual arrangements that ensured continuity of safe air traffic services, the managed insertion of an optimum system of systems outcome within required timeframes, and demonstrable value?

15. Overall, the audit concluded that the design of the OneSKY tender process was capable of producing a value for money outcome. The evaluation governance arrangements were appropriate, given they provided an approach that was capable of identifying the best value for money tender. The arrangements also guarded against the conflicts of interest issues identified in ANAO Report No.1 of 2016-17 impacting on the tender evaluation process and outcome.

16. It should be noted that the audit makes no findings and draws no conclusions on the final criterion as the contractual arrangements are not yet finalised.

17. The Auditor-General did not make any recommendations in the second performance audit because the tender process being audited had been completed. The audit does,

however, identify areas for improvement, which provide lessons that can be drawn out to inform continued improvement of procurement processes. These include:

- The evaluation of tendered prices against the cost criterion was not conducted in a robust and transparent manner. There was not a clear line of sight across the phases of the evaluation and the work of the Tender Evaluation Working Groups and the Tender Evaluation Committee (TEC) in relation to the adjustments made by the TEC to tendered prices for evaluation purposes. Of particular significance was the lack of adequate records explaining the TEC adjustments. Those adjustments suggested that the successful tenderer offered the lowest cost solution when the acquisition and support prices it submitted were actually considerably higher than those of the other tenderers.
- An overarching business case was not prepared for OneSKY Australia Program. Separate business cases were developed by Airservices and Defence. Business cases are an important element in procurement governance, setting out the initial objectives, scope, risks, timeframe, cost and associated value for money considerations. For major procurement projects such as OneSKY, it is reasonable to expect that a robust business case, including cost-estimates, is developed. There is also the expectation that the business case retains its currency and relevance throughout the life of the procurement so that it continues to successfully inform and support project decisions.
- The audit identified that an inadequate approach to summarising the evaluation of tenders was employed. Specifically, the approach of ranking each tender against the criteria did not provide a suitable means of identifying the extent to which one tenderer had been assessed as better or worse than other respondents, or how well each tenderer had been assessed as meeting the relevant criterion aspect. It is important that the evaluation process provides for tenders to be rated consistently against the published criteria and for the results to effectively and consistently differentiate between competing tenders of varying merit.

18. I would also bring to the Committee's attention the current Joint Committee of Public Accounts and Audit's examination of Commonwealth procurement in the context of its inquiry into Auditor-General Reports:

- No. 1 (2016–17) Procurement of the International Centre for Complex Project Management to Assist on the OneSKY Australia Program.
- No. 13 (2016–17) Delivery of Health Services in Onshore Immigration Detention.
- No. 16 (2016–17) Offshore Processing Centres in Nauru and Papua New Guinea: Procurement of Garrison Support and Welfare Services.²

19. We expect the Committee will consider the findings of the Conduct of the OneSKY Tender performance audit in its final report on the inquiry into Commonwealth procurement.

20. Procurement is core business for Commonwealth entities. In view of the large number of procurements undertaken and the centrality of this activity to the operation of government and the success of program delivery, the ANAO will continue to focus on entities' procurement practices in its audit program, to inform improvements across the public sector.

21. We would be happy to answer any questions the Committee may have.

**Senate Rural and Regional Affairs and Transport
Legislation Committee**

Tabled Document No 3

By: Ms Mellor PSM, Acting Auditor-General
ANAO

Time/Date: 23/5/2017

² The JCPAA's public hearing for its inquiry into Commonwealth procurement was held on 25 November 2016.