



Focus On

Large Procurement Projects



CANADIAN AUDIT
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FOUNDATION

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AUDIT  NEWS

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- Training workshops and learning opportunities;
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- Applied and advanced research;
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Focus On Large Procurement Projects

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INTRODUCTION

The Audit News *Focus On* Series is a new performance audit information product intended to help performance auditors save time and complete audit planning and examination work more rapidly.

The Series is designed to be useful for:

- Auditors preparing a strategic audit plan;
- Auditor working on the planning phase of a new performance audit; and
- Audit managers with ongoing responsibilities for a specific topic/entity.

Each *Focus On* issue covers one broad topic that should be of interest to performance auditors, whether they work at the provincial or the federal level.

Each issue includes:

- A short introduction to the topic and why it is important.
- A list of relevant audits and guidance material on the topic that have been released in the previous five years and compiled in the Audit News Database.
- Summaries of selected relevant audits that include information on audit objective(s), scope, criteria, findings and recommendations.
- An analysis of the main audit areas covered by the selected audits in the past five years. For each area, a short summary is presented and examples of objectives, scope, criteria, sources of evidence, findings and recommendations are provided.
- Web links to full audit reports and guidance documents referenced in the issue.

Please contact us if you have suggestions for future topics.

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Auditing Large Procurement Projects – Why it's Important

Large procurement projects, involving public infrastructure, equipment or service contracts, usually share several characteristics: they are complex, expensive and risky undertakings. And if they are not well managed, the consequences can be dramatic.

Cost overruns, delays and fraud are some of the most common issues associated with poorly managed large procurement projects in the public sector. Given the current efforts made by many governments to reduce deficits and limit spending, cost overruns on large procurement projects can adversely impact other programs, delay other investments or augment deficits and debt. One way or another, taxpayers end up paying more.

Project delays can also have serious consequences, especially when new infrastructure or equipment is required on a timely basis to replace ageing assets. In some cases, delays will force authorities to prolong the life of existing assets at a significant cost. In other cases, a decision may have to be made to close a public infrastructure or to ground a fleet of vehicles for safety reasons until a replacement is procured – a decision that will often result in a reduction of service and inconvenience for citizens.

Finally, large, complex procurement projects can be attractive targets for those seeking to commit fraud and corruption. The McGill University Hospital Centre in Montreal, a \$1.3B P3 project in relation to which serious accusations of fraud and bribery have been laid against eight individuals, is a case in point. Illegal actions were allegedly taken in this case to ensure that a specific company would be awarded the contract even though a competitor had submitted a better bid.

Auditing the management and oversight of large procurement projects can play an important role in fostering better procurement practices in the public sector and in increasing accountability for the spending of very large sums of taxpayers' money. By reporting lessons learned and making recommendations that address the root causes of problems, performance auditors can also bring about change and reduce the likelihood that observed deficiencies and mistakes will be repeated in the future.

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OVERVIEW OF 2009-2014 AUDITS OF LARGE PROCUREMENT PROJECTS

The [CAAF Audit News Database](#) contains over 150 procurement audits prepared by 26 different audit offices since 2009. For the purpose of this *Focus On* issue, we selected 19 of these audits for further analysis. We selected audits that had a strong focus on large procurement projects (defined as the acquisition of infrastructure, equipment or services with a value of at least \$20M). We did not include audits of military procurement in our selection because we wanted to cover audit topics that would be relevant at all levels of government, not just for the federal government.

[See list of selected audits of large procurement projects](#)

We also noted the availability of two guidance documents on the subject of procurement:

- [Developing and Managing Contracts](#) (Australian National Audit Office, 2012)
- [Understanding Public Private Partnerships](#) (Office of the Auditor General of British Columbia, 2011)

Procurement audits produced since 2009 have covered a wide variety of public sectors, including health (hospitals), education (schools), transportation infrastructure (railways, highways, bridges), sport infrastructures (sport centers, arenas) energy production (nuclear plants), IT systems and services, etc.

After analyzing the scope of the 19 selected audits, we determined that the audits could be classified under one of three categories:

- Procurement of goods and services using the traditional procurement approach
- Procurement of goods and services using Public Private Partnerships
- Procurement processes: Oversight mechanisms and expertise

For each of these categories, a summary description and examples of objectives, criteria, evidence sources, findings and recommendations can be found in the [Main Audit Areas section](#).

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LIST OF SELECTED PROCUREMENT AUDITS, STUDIES AND REVIEWS

#	Audit Office	Report Title (click on title to access summary)	Publication date
1	OAG – Nova Scotia	Health and Wellness: Colchester Regional Hospital Replacement	May 2011
2	OAG – Nova Scotia	Health and Wellness: Long Term Care – New and Replacement Facilities	May 2011
3	OAG – New Brunswick	Point Lepreau Generating Station Refurbishment – Phase 1	December 2013
4	OAG – Canada	Capital Projects – Yukon Hospital Corporation	February 2013
5	OAG – Quebec	Professional Service Contracts Related to Information Processing	November 2012
6	OAG - Western Australia	Fiona Stanley Hospital Project	May 2010
7	OAG - Western Australia	The Planning and Management of Perth Arena	March 2010
8	National Audit Office - UK	Reducing the Cost of Procuring Fire and Rescue Service Vehicles and Specialist Equipment	July 2010
9	OAG - New Zealand	How the Ministry of Education managed the 2008 national school bus transport tender process	January 2009
10	OAG-Canada	Deh Cho Bridge project	March 2011
11	OAG - New Brunswick	P3: Eleanor W. Graham Middle School and Moncton North School	January 2012
12	OAG - British Columbia	Audit of the Academic Ambulatory Care Centre P3: Vancouver Coastal Health Authority	May 2011
13	OAG - Quebec	Implementation and Operation of Service	June 2014

		Areas	
14	OAG - Alberta	Alberta Schools Alternative Procurement	April 2010
15	OAG - British Columbia	Audit of the Evergreen Line Rapid Transit Project	March 2013
16	OAG - Nova Scotia	Contract Management of P3 Schools	February 2010
17	Victorian Auditor General's Office	Planning, Delivery, and Benefits Realisation of Major Asset Investment: The Gateway Review Process	May 2013
18	Australian National Audit Office	The Administration of the Gateway Review Process	February 2012
19	National Audit Office – UK	Commercial Skills for Complex Government Projects	November 2009

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MAIN AUDIT AREAS

1. Procurement of goods and services using the traditional procurement approach

Description: Government procurement represents a significant proportion (10-15%) of the economic activity of developed countries. Each year, governments in Canada spend billions of dollars procuring goods and services. While there is a trend towards the increasing use of new procurement approaches (for example, Public-Private Partnerships), the majority of large procurement projects are still conducted using the 'traditional approach' under which a government provides specifications for its needs, selects one or more contractors to deliver goods or services that meets these specifications (usually following a competitive tender process), finances the project with public funds and remains responsible for lifetime operation and maintenance requirements. Under this traditional approach, governments are also responsible for project risks like design flaws, delays and cost over-runs.

Audits of traditional procurements tend to focus on:

- Compliance with procurement policies and procedures.
- The adequacy of project risk management systems and practices.
- The adequacy of monitoring processes to ensure contractual obligations are met by contractors.
- The adequacy of project management oversight.
- The fairness and transparency of procurement processes (including tendering).
- The justification and documentation of significant decisions.

[Click here for examples of objectives, criteria, findings, recommendations and more](#)

2. Procurement of goods and services using Public-Private Partnerships

Description: Since the 1990s, governments in Canada have experimented with new, innovative procurement approaches, including different types of Public-Private Partnerships (P3). Under the P3 model, project phases (decision, contracting, design, construction and operation) are usually integrated in single, long-term contract (sometimes over 30 years) and a number of project risks (e.g. financing, construction delays and cost over-runs, infrastructure performance) are assumed by the selected private sector partner in exchange for a risk premium. The private partner can be offered incentives to meet or exceed performance targets and penalties can be applied when performance does not meet expectations. Though private partners play a larger role in project execution than under the traditional approach, the public sector still retains control and ownership of the

infrastructure. The number of P3 agreements has been steadily increasing in Canada in recent years.

Audits of Public-Private Partnerships projects tend to focus on:

- The adequacy of decision-making processes and of information for decision-making (in relation to the decision to use the P3 approach)
- The rigour of Value-for-Money assessments and the reasonableness of the assumptions made in comparing the P3 option with the traditional procurement option.
- The justification and documentation of significant decisions
- The adequacy of the information supporting risk transfer decisions and the reasonableness of risk premiums paid to private partners.
- The monitoring of compliance with contractual clauses during the operational phase of projects.
- The achievement of expected project objectives and outcomes (interim or final).
- The fairness and transparency of procurement processes (including tendering).

[Click here for examples of objectives, criteria, findings, recommendations and more](#)

3. Procurement processes: oversight mechanisms and expertise

Description: Managing large, complex procurement projects is a challenging task that involves significant risks. To mitigate these risks, public sector organizations need to ensure that they have sufficient expertise on hand and adequate project oversight mechanisms in place. Oversight mechanisms for such projects often take the form of special review bodies or functions composed of internal and/or external specialists not involved in the day-to-day management of the projects under review.

Audits of the oversight mechanisms and expertise required to successfully manage large procurement projects tend to focus on:

- The effectiveness of project review processes put in place to oversee large projects at specific points of the procurement process.
- The impact of these review processes on the delivery of large procurement projects.
- The extent of specialized procurement expertise available in government departments to either manage large procurement projects or take part in project review processes for these projects.
- The effectiveness of measures meant to ensure the availability of sufficient procurement expertise in public sector organizations.

[Click here for examples of objectives, criteria, findings, recommendations and more](#)

APPENDIX 1

MAIN AUDIT AREAS SUMMARIES

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PROCUREMENT OF GOODS AND SERVICES – TRADITIONAL PROCUREMENT

Relevant audits

#	Audit Office	Report Title (click on title to access summary)	Publication date
1	OAG - Nova Scotia	Health and Wellness: Colchester Regional Hospital Replacement	May 2011
2	OAG - Nova Scotia	Health and Wellness: Long Term Care – New and Replacement Facilities	May 2011
3	OAG - New Brunswick	Point Lepreau Generating Station Refurbishment – Phase 1	December 2013
4	OAG - Canada	Capital Projects – Yukon Hospital Corporation	February 2013
5	OAG - Québec	Professional Service Contracts Related to Information Processing	November 2012
6	OAG - Western Australia	Fiona Stanley Hospital Project	May 2010
7	OAG - Western Australia	The Planning and Management of Perth Arena	March 2010
8	UK National Audit Office	Reducing the Cost of Procuring Fire and Rescue Service Vehicles and Specialist Equipment	July 2010
9	OAG - New Zealand	How the Ministry of Education Managed the 2008 National Schools Bus Transport Tender Process	January 2009

Examples of audit objectives

- To assess whether roles and responsibilities were clearly defined, documented and communicated at the start of the project. ([#1](#))
- To assess the adequacy of the Department’s oversight of the project. ([#1](#))

- To assess the adequacy of processes used to determine and adjust budgets for the project. [\(#1\)](#)
- To assess whether the project procurements were in compliance with applicable procurement policies. [\(#1\)](#)
- To determine whether the Department had an adequate process to develop the requirements for the request for proposals for new long term care facilities. [\(#2\)](#)
- To determine whether significant project risks have been identified and whether there are arrangements in place to manage them. [\(#6\)](#)
- To determine whether the Department is providing adequate oversight during the development, construction, commissioning and initial licensing of long term care facilities. [\(#2\)](#)
- To obtain assurance that the Secrétariat du Conseil du trésor (SCT) conducts an appropriate follow-up of contract management processes for professional services. [\(#5\)](#)

Examples of audit criteria¹

- The Corporation and the Department conducted an analysis of the health care needs of the communities and evaluated options on how to meet those needs most cost-effectively, including assessing how new services/programs would be integrated with existing ones. [\(#4\)](#)
- The Corporation and the Department identified the requirement for the capital projects in their strategic and capital planning and explained how the projects would help them meet their respective mandates. [\(#4\)](#)
- The Corporation and the Department collaborated with each other in determining the hospital facilities necessary to meet the needs. [\(#4\)](#)
- The Corporation and the Department conducted a risk analysis for the decisions to build the two hospitals. [\(#4\)](#)
- The Corporation and the Department incorporated mitigation strategies for identified risks. [\(#4\)](#)
- The Corporation awarded contracts related to the projects according to relevant authorities. [\(#4\)](#)

¹ Few published audit reports include the audit criteria used to conduct the audit.

- Senior management regularly monitored the projects to determine whether they were on time, on budget, and being built to specifications. [\(#4\)](#)
- Cost estimate and scheduling are done with rigour. [\(#5\)](#)
- The contract is complete and signed before work begins and significant variances between the estimate and the value of the contract are explained and approved by proper authorities before contract signature. [\(#5\)](#)
- Relevance of any amendments to contracts is demonstrated and amendments are approved in a timely manner by proper authorities. [\(#5\)](#)
- Accountability to Treasury Board is complete and done on a timely basis. [\(#5\)](#)
- The Ministry was expected to apply its RFP rules correctly and consistently. [\(#9\)](#)

Examples of evidence gathering and analysis techniques

Testimonial evidence

- Interviewed current and former senior officers and project management staff [\(#7\)](#)

File review

- Examined requests for proposals, bid submissions, documents and reports, and tested for compliance with policies and processes. [\(#2\)](#)

Sampling

- Used a targeted selection of 10 contracts from a total of 26 to assess whether the Yukon Hospital Corporation awarded contracts according to the Government of Yukon's contracting policy. [\(#4\)](#)
- Selected a sample of 25 bus operators among the 165 who participated in the qualification submissions phase. Evaluated their scores using the criteria in the RFP. Repeated the qualification submissions phase tasks carried out by each service agent. Considered the consistency with which each service agent applied the evaluation criteria to the submissions in the sample, and whether the service agents were consistent with each other in how they applied the evaluation criteria. [\(#9\)](#)

- Selected a sample of four of the fifteen frameworks Firebuy has put in place, for detailed review. Examined procurement practices, with support of an external procurement expert, using desk-based research and interviews. [\(#8\)](#)

Surveys

- Surveyed 23 of the 46 Fire and Rescue Services in England by email to assess the use of Firebuy frameworks and other consortia/arrangements. [\(#8\)](#)
- Surveyed all 50 suppliers on Firebuy's Framework to gauge suppliers' views on how Firebuy manages its framework contracts and their contribution to improving value for money across Fire and Rescue Services. [\(#8\)](#)

Examples of findings

Planning and budgeting

- The project budget was not a realistic estimate of the expected costs to build the new hospital and was not sufficient to complete construction. It was based on assumptions that were unreasonable or unsupported. It did not, for instance, consider inflation over the life of the project. [\(#1\)](#)
- Perth Arena is substantially over budget and late. It will cost more than three times the original estimate. The Arena is scheduled to open almost three years later than originally planned. Insufficient scoping and planning meant that both the original cost estimate and opening date were unrealistic. [\(#7\)](#)
- The planning phase for Fiona Stanley Hospital was neither efficient nor effective. Attempts to fast track project planning to meet unrealistic deadlines caused delays and risks. The project business case and other key planning documents had significant gaps, which required additional time and resources to fix. [\(#6\)](#)
- The Corporation did not conduct a full assessment of the communities' health care needs in planning and designing the hospitals. It also did not determine the incremental operating costs for the hospitals until construction was well under way. The Corporation cannot demonstrate that the hospitals, as designed, are the most cost-effective option for meeting health care needs. [\(#4\)](#)
- The new facility is larger than the existing facility and is designed to offer more services to more people. However, there has been no analysis to

determine whether additional funding will be required to operate the new facility at its intended capacity when it opens. [\(#1\)](#)

Risk assessment and management

- The Corporation and the Department could not provide a documented risk analysis to show that they had identified and assessed risks before beginning to build the hospitals. [\(#4\)](#)
- Significant risks remain on the project. While these risks have been identified, the strategies to manage them are not all well advanced. Without effective management of these risks the hospital may be further delayed, cost more and may not deliver all the planned services to patients when it opens. [\(#6\)](#)

Compliance with policies and processes

- The Department had an appropriate process to develop the request for proposals, and evaluate the bids received. The Department complied with the provincial procurement policy and appropriately awarded successful proposals. [\(#2\)](#)
- The Department developed and followed an adequate process for the development, construction, commissioning and initial licensing of new and replacement facilities. [\(#2\)](#)
- In all three projects, most contracts were competitively tendered and most change orders were appropriately justified and managed. [\(#4\)](#)
- Supplier solicitation did not enable the objective of free competition to be fully reached. The average number of tenders received that were compliant and acceptable following a public call for tenders is not very high. [\(#5\)](#)

Project governance and oversight

- While ineffective budgeting practices were significant contributors to apparent cost increases, oversight and project management weaknesses by both entities have contributed to project difficulties and cost overruns. Some significant decisions were made without sufficient consideration of the related costs. [\(#1\)](#)
- The audit team found evidence of a rigorous oversight reporting structure operating throughout the life of the refurbishment project. [\(#3\)](#)
- Several elements specified in the contract were not rigorously monitored by the entities. Deficiencies were noted, namely with regard to the

execution of unplanned work, invoicing at higher rates than stipulated in the contract and non-compliance with the designated personnel. (#5)

- Oversight was hampered by a lack of full and timely information. This delayed final project approval, and the start of subsequent phases. The additional scrutiny did, however, have the benefit of producing a more realistic scope, budget and timeline for the project, which have so far proved robust. (#6)
- Key decisions on the project during contract negotiations have altered the planned allocation of risks between the state and contractor, increased the risks to the state, and led to project delays and cost increases. These decisions were made without systematic or sufficient analysis of their impact, consideration of alternatives, external scrutiny or legal advice. (#7)
- The Department did not implement the project management and governance arrangements required to control a major project like the Arena. This resulted in inadequate transparency, oversight and blurred accountability. (#7)
- The Department has not exercised sufficiently clear leadership, direction and oversight of Firebuy to ensure it achieved its original objectives. (#8)

Human Resources and Expertise

- As for the use of external resources, when comparing the Government of Québec with other administrations, it is clear that the Government of Québec used these resources a lot more frequently. In the long term, frequent recourse to subcontracting may result in the stagnation or even the loss of internal expertise. Further, there is a risk this practice may create a dependency on suppliers. (#5)

Value For Money

- The continued operation of Firebuy in its current form represents poor value for money. Firebuy has cost the taxpayer nearly twice as much to set up and run as the savings it claims to have helped local Fire and Rescue Services to deliver, and the cost of setting up and running the current frameworks are unlikely to be recouped over their lifetime. (#8)

Examples of recommendations

- The responsible entities should prepare a comprehensive assessment of the funding required to operate the new facility at its intended capacity and agree on the level of funding to be provided. (#1)

- The Department should put a process in place to ensure management in charge of significant capital projects complete an adequate review and challenge of key estimates prepared by consultants. [\(#1\)](#)
- The Department should take appropriate steps to ensure decisions to replace long term care facilities are based on a transparent, consistent process and are adequately supported and documented. [\(#2\)](#)
- The decision-making process should be clearly documented, including identifying the roles and responsibilities of key players before significant amounts are expended. [\(#3\)](#)
- An independent, third-party expert should be contracted to guide the process of selecting the best option, identifying and developing mitigation strategies for all significant risks, identifying a preferred proponent, and ensuring that the corporation gets the best possible outcome for provincial ratepayers. [\(#3\)](#)
- Departments should improve the monitoring of elements in each contract with regard to:
 - the execution of the work, to ensure that it corresponds to the work provided for in the contract;
 - the application of rates provided for in the contract upon payment of the supplier;
 - the execution of the work by designated personnel. [\(#5\)](#)
- The Department should reinforce the Strategic Asset Management framework with more rigorous staged project approval processes, and only recommend funding for those projects that demonstrate realistic budgets and timelines supported by sound planning. [\(#6\)](#)
- The Department should exercise more active oversight of major projects and should ensure consistent application of the Strategic Asset Management Framework to all major capital projects. [\(#7\)](#)
- The Department should quickly assess whether continuing with a nationally directed central procurement body is sensible. If it concludes that it is, the Department should assess how best to change the way Firebuy works to enable delivery of maximum savings cost effectively. [\(#8\)](#)

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PROCUREMENT OF GOODS AND SERVICES – PUBLIC PRIVATE PARTNERSHIPS

Relevant audits

#	Audit Office	Report Title (click on title to access summary)	Publication date
10	OAG - Canada	Deh Cho Bridge project	March 2011
11	OAG - New Brunswick	P3: Eleanor W. Graham Middle School and Moncton North School	January 2012
12	OAG - British Columbia	Audit of the Academic Ambulatory Care Centre P3: Vancouver Coastal Health Authority	May 2011
13	OAG - Quebec	Réalisation et exploitation d'aires de services	June 2014
14	OAG – Alberta	Alberta Schools Alternative Procurement	April 2010
15	OAG - British Columbia	Audit of the Evergreen Line Rapid Transit Project	March 2013
16	OAG - Nova Scotia	Contract Management of P3 Schools	February 2010

Examples of audit objectives

- To determine whether the Government had adequately managed the risk of entering into a public-private partnership to build the bridge. ([#10](#))
- To determine whether the Department had put in place an appropriate framework to manage the key risks associated with the quality, schedule, scope, and cost of the bridge project. ([#10](#))
- To assess the business case on which the Department's decision to adopt the P3 approach for the two school project was based. ([#11](#))
- To determine if agencies adequately demonstrated that the recommended P3 arrangement represents the best procurement solution taking full account of the expected costs, benefits and risks across the project's life-cycle? ([#15](#))

- To determine if the project demonstrates that the P3 approach provides value for money by structuring the project such that:
 - lifecycle costs were minimized;
 - risks were transferred to, or retained by, the party who could most cost-effectively manage the risk; and
 - processes developed, challenged and validated significant assumptions contained in supporting analyses such as the public sector comparator and the shadow bid [\(#14\)](#)
- To determine if a fair, open and transparent process was used during the procurement. [\(#14\)](#)
- To determine whether the Department's contract management processes and procedures are adequate to ensure services detailed in the service contracts are received and payments for services are made in accordance with the contracts. [\(#16\)](#)
- To determine whether service contract terms are adequate to ensure the public interest is being protected. [\(#16\)](#)

Examples of audit criteria

- Investment objectives and intended outcomes have been clearly defined and aligned with government's policy objectives. [\(#15\)](#)
- The costs, benefits and risks of the project options that could feasibly deliver on investment objectives have been rigorously assessed, verified and clearly communicated to decision makers. [\(#15\)](#)
- Project recommendations have been based on the analysis of costs, benefits and risks while taking account of stakeholder consultations. [\(#15\)](#)
- An analysis shows that the P3 approach offers the best value for the Department, who ensures that this value is maintained throughout the project, namely during amendments. [\(#13\)](#)
- A rigorous process ensures a competitive and fair treatment of proposals throughout the different stages (call for interest, call for qualifications, call for proposals, etc.). [\(#13\)](#)
- The Department ensures the financial viability of the project and the proposals received. [\(#13\)](#)

- Responsibility and risk sharing between public and private sectors, compensation mechanisms and guarantees allow for the best VFM throughout the duration of the agreement. [\(#13\)](#)
- All significant assumptions made by the Department are supported and documented; [\(#11\)](#)
- Due diligence is performed to review the value-for-money report. [\(#11\)](#)
- The Government manages the risks of entering into a public-private partnership. [\(#10\)](#)
- The agreement specifies the type of information the partner must provide in order for the Department to effectively monitor compliance of the project implementation against requirements, as well as frequency of reports. [\(#13\)](#)
- The agreement clearly states the process to be followed in the event of a dispute. [\(#13\)](#)
- The Department has clearly stated the responsibilities and tasks with regard to contract management. [\(#13\)](#)
- Performance monitoring is systematic and based on sufficient and reliable management information. [\(#13\)](#)

Examples of evidence gathering and analysis techniques

File review

- Reviewing documents developed or used by the Government to support key decisions made on the project between 2000 and 2010. [\(#10\)](#)

Analysis

- Comparing management practices against several good practice guides. [\(#13\)](#)
- Examining the financial models used to calculate value for money. [\(#14\)](#)
- Meeting with consultants specializing on P3s and hired financial modelization specialists to analyse the project's financial model. [\(#13\)](#)
- Testing compliance with service contract terms. [\(#16\)](#)

Examples of findings

- The project was not a public-private partnership. The Concession Agreement assigned most of the project risks to the Government and did not shift any significant risk to the private sector; risk sharing was anticipated when a P3 procurement strategy was selected. [\(#10\)](#)
- The Government authorized bridge construction to begin without having the assurance of a fully developed design. As a result, the risk to the project was significantly increased. Ultimately, the inability to resolve design issues within the specified time frame resulted in the lenders declaring the Corporation to be in default and requesting the Government to assume the project debt. [\(#10\)](#)
- The Department has a framework in place to manage the key risks, but there are weaknesses in the risk matrix it developed for the project—for example, some of the risk mitigation measures are too general to be useful. Significant risks remain in the areas of the project’s schedule, scope, and cost. [\(#10\)](#)
- There was no evidence that a formal preliminary analysis was performed to support the decision of adopting a P3 approach before it was publicly announced. The audit team was unable to determine the rationale for the decision. [\(#11\)](#)
- The Department concluded the P3 approach provided better VFM to taxpayers for this project over the traditional approach. However, after adjusting for the effect of the maintenance and lifecycle cost assumption, the traditional model would deliver \$1.7 million VFM over the P3 approach. [\(#11\)](#)
- There was little documentation available showing that the Department had reviewed the assumptions upon which the VFM analysis was based. [\(#11\)](#)
- The audit team noted three areas where the VFM analysis was deficient in comparison with common industry practice. These included:
 - sensitivity analysis (i.e. only risk quantification was subject to this analysis);
 - timing of preliminary VFM analysis (i.e. the analysis was not completed prior to announcing the P3 project); and
 - reporting of VFM results (i.e. the Department did not comply with the government’s P3 protocols that require fair and transparent reporting). [\(#11\)](#)
- Increased costs were incurred for a number of reasons. VCHA did not have a clear understanding of the scope and user requirements of the project,

which resulted in numerous variations in the project and prevented the effective transfer of design and scope change risk to AHV. [\(#12\)](#)

- Although the project agreement provides the responsible entity with a mechanism to address non-performance, payments under the agreement are not subject to reduction for non-performance as asserted in the Project Report. [\(#12\)](#)
- A lack of public reporting since the Project Report prevents external stakeholders such as government or taxpayers from assessing the results of the project against their expectations. [\(#12\)](#)
- The responsible entity was unable to provide documentation to support the evaluation for two financially significant contract amendments. This documentation is necessary to preserve key knowledge and information. [\(#12\)](#)
- The soundness of the sole tenderer’s financing plan has not been demonstrated. [\(#13\)](#)
- Despite a higher-than-expected public financial participation, the financial model remains “fragile.” The large uncertainty that surrounds the key assumptions and the sensitivity of the project’s cost-effectiveness to small variations in those assumptions explain this “fragility.” [\(#13\)](#)
- The Design-Build-Finance-Maintain contract was awarded to the consortium whose proposal provided the lowest net present value of life cycle costs based on the specified standards over the project’s timeframe—both as compared to the other proposals received, and as compared to the Public Sector Comparator. [\(#14\)](#)
- The audit team did not find evidence that estimated risk costs were, in total, validated against actual experience from prior school construction projects. [\(#14\)](#)
- A Value for Money Report was not published in accordance with the procurement framework guidance. The Departments did not demonstrate, in a transparent manner, how value for money was obtained. [\(#14\)](#)
- The procurement was conducted in a fair and open manner. [\(#14\)](#)
- The audit team concluded that the preferred SkyTrain option is likely the best one to meet government’s objectives. However, this conclusion relied on information that was not presented or adequately explained in the submission to Treasury Board. Getting this right despite the information

shortfalls is not a cause for complacency. Relying on the same approach in future capital asset projects puts government at risk of making decisions that would have been modified had government understood the full costs, benefits and risks. [\(#15\)](#)

Examples of recommendations

- For future major projects, the Government should establish a senior project oversight committee early in the planning phase of a project. This committee, composed of individuals with considerable experience in managing major projects, should provide advice to the Government and, where relevant, the Legislative Assembly, on the steps required to develop a major project, and should act as a forum for discussing project objectives, risks, procurement, and other relevant matters. [\(#10\)](#)
- The Department should conduct a preliminary assessment to identify the best procurement approach prior to a Cabinet decision on how to proceed (P3 or traditional approach). [\(#11\)](#)
- The Department should document the development of significant assumptions for the VFM analysis, especially the assessment of their reasonableness. [\(#11\)](#)
- The Department should perform a sensitivity analysis which includes all key variables in the project cost estimate process. [\(#11\)](#)
- The Department should perform an independent due diligence review of the value for money assessment for each proposed P3 project. [\(#11\)](#)
- All documents related to key changes in a P3 Project Agreement should be retained. [\(#12\)](#)
- P3 project budgets should include explicit contingency budgets for variations. [\(#12\)](#)
- All Project Reports should be reviewed independently before they are publicly released to ensure that key assumptions and disclosures are supported. [\(#12\)](#)
- Formal requirements for public reporting should be established after the completion of the capital construction phase and for set times throughout the operational contract. These reports should assess how well the project has achieved its value-for-money/risk transfer objectives in the respective areas. [\(#12\)](#)

- The responsible entities should document project reviews so that the scope of these reviews, and the analysis underpinning decisions, are clearly described in written records. [\(#15\)](#)
- The Department should ensure the developers maintain adequate documentation to show maintenance work is completed on a timely basis. The Department should review this documentation to ensure maintenance work is completed on a timely basis. [\(#16\)](#)
- The Department should establish adequate contract management processes to ensure contracted services are received. [\(#16\)](#)
- The Department should establish adequate contract management processes to ensure payments made under the P3 contracts comply with contract terms. [\(#16\)](#)
- All significant new contracts between the Department and service providers should include audit provisions for the Province. [\(#16\)](#)
- The Department should define measurable service levels for all services in future contracts and these should be included in the contracts prior to signing. [\(#16\)](#)
- The Department should ensure future contracts describe the contract monitoring process, including documentation requirements and sanctions for instances of non-compliance. [\(#16\)](#)

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PROCUREMENT PROCESSES: OVERSIGHT MECHANISMS AND EXPERTISE

Relevant audits

#	Audit Office	Report Title (click on title to access summary)	Publication date
17	Victorian Auditor General's Office	Planning, Delivery, and Benefits Realisation of Major Asset Investment: The Gateway Review Process	May 2013
18	Australian National Audit Office	The Administration of the Gateway Review Process	February 2012
19	National Audit Office - UK	Commercial Skills for Complex Government Projects	November 2009

Examples of audit objectives

- To examine the effectiveness of the administration of the Gateway Review Process (GRP) by responsible entities. ([#18](#))
- To determine the extent to which those Gateway reviews that have been conducted have contributed to improvements in the delivery of major projects undertaken by responsible agencies. ([#18](#))
- To examine the current level of commercial skills and experience in Government, and whether departments are being successful in improving them. ([#19](#))

Examples of audit criteria

- The Gateway Unit has appropriate procedures and guidance in place to effectively manage the administration of Gateway across the Government; ([#18](#))
- The application of the thresholds for inclusion in Gateway is sufficient to ensure that all major projects are subject to review as intended; ([#18](#))
- Gateway review teams are adequately skilled and reviews are carried out in accordance with relevant guidance; ([#18](#))
- Agencies have procedures in place to ensure project team compliance with Gateway requirements; and ([#18](#))

- Agencies respond in a timely manner to the findings and recommendations of Gateway reviews. ([#18](#))

Examples of evidence gathering and analysis techniques

File review

- Review of relevant files, records and information including all Gateway reports issued between January 2007 and December 2012. ([#17](#))
- Review of evidence from departments and agencies on responses to Gateway reviews of sampled projects. ([#17](#))

Testimonial evidence

- Interviews with:
 - Officers from relevant departments and agencies.
 - A sample of Gateway review team leaders and team members.
 - Managers of the Gateway Review Process in other Australian and international jurisdictions. ([#17](#))
- Techniques used to identify commercial skills gaps in central government, and the barriers to addressing them:
 - A focus group with seven Senior Responsible Owners of complex projects.
 - Semi-structured interviews with 14 senior executives of major private sector contractors, and four consultancies.
 - Discussion forums with the Confederation of British Industry and the Major Projects Association.
 - A survey of all departments' commercial directors or heads of procurement, followed by a focus group with six of the 16 directors and three in-depth interviews. ([#19](#))

Analysis

- Review of empirical data on commercial staff salaries to calculate the difference in salary between different government departments and the public and private sector. ([#19](#))

Examples of findings

- The GRP is a valuable concept capable of assisting better performance in project delivery. The Department provides high-quality materials to guide participation in the GRP and has effective processes in place to select, engage and train Gateway reviewers. ([#17](#))

- However, the implementation of the GRP in Victoria reflects a number of missed opportunities. The audit identified 62 projects valued at \$4.3 billion that were not included in the GRP between 2005 and 2012. ([#17](#))
- The Department cannot demonstrate that over that period it actively and consistently identified projects that may have been candidates for the GRP. This meant the process was largely applied on an opt in decision by agencies and not all high-risk projects were subject to review. As a result, the fundamental objective for the GRP—to improve the management and delivery of significant projects—has not been fully met. ([#17](#))
- Further missed opportunities resulted from projects commencing the GRP, only to drop out of the process after completing a few Gates. No single project has completed the full suite of Gateway reviews since its introduction in 2003. The benefits from applying the GRP have not been fully realised. ([#17](#))
- The Department has not measured the impact of the GRP on projects. It has not tracked agency action taken on Gateway recommendations, which is a fundamental success indicator for the GRP, and so cannot demonstrate whether the GRP has resulted in any benefit to individual projects. ([#17](#))
- The Department has missed opportunities to use the GRP to build public sector project management and review capability. It has not done enough to capture and share lessons learned from Gateway reviews and the participation of public sector staff as Gateway reviewers is very low. ([#17](#))
- Overall, the Gateway review process has been effectively implemented within the Government. There has been a focus on high risk, high value projects with 46 projects valued at more than \$17 billion across 23 agencies examined in the first five years of Gateway’s application. In the first three years, about one in every five reviews identified that there were significant issues that needed to be addressed before the project proceeded further. In the last two years, there have been no reviews that have identified major issues requiring urgent action. ([#18](#))
- However, participation in the Gateway review process does not guarantee success in meeting specified project objectives. At least three of the nine projects that have completed the full suite of Gateway reviews were not completed on-time and on-budget and/or did not deliver the outcomes expected when funding was approved. ([#18](#))
- While the processes used to determine which projects are to be subject to Gateway reviews were generally effective, several projects that met the

criteria were not subject to Gateway reviews due to the timing of their risk assessments. (#18)

- The contribution that Gateway makes to improved project delivery depends, to a significant extent, on agencies promptly progressing the issues raised in reviews. However, it is common for agencies to not fully implement review recommendations in a timely manner. (#18)
- To date, there has been significant reliance on private sector reviewers, with targets for participation by public sector staff not being met. In addition, to date, only one review has been led by a member of the public sector, and there has been a high degree of reliance on a small number of private sector participants to lead individual reviews. (#18)
- Departments continue to experience a shortage of staff with the necessary commercial skills and experience to successfully deliver complex projects. (#19)
- Government departments have attempted to fill this commercial skills gap with interim staff and advisers. Whilst both interims and advisers can make a valuable contribution, particularly those with highly specialist skills, an over reliance on them can lead to: higher project staff costs; departmental staff failing to take proper responsibility for commercial decisions; and a loss of commercial knowledge when the interims or advisers leave. (#19)
- Departments have significant weaknesses in a number of the commercial skills critical to the delivery of complex projects. The Office of Government Commerce's reviews found that commercial skills were generally weak across all 16 central government departments. (#19)

Examples of recommendations

The Department of Treasury and Finance should:

- Systematically validate whether projects should be subject to Gateway review, by verifying that robust project risk assessments are completed for new projects (#17)
- Strengthen Gateway Review Process quality assurance processes (#17)
- Track and report on the impact of the Gateway Review Process on improving the outcomes of completed projects (#17)
- Actively monitor agency action in response to Gateway review recommendations (#17)

- Complete the database for sharing lessons learned from Gateway reviews and build case studies to better demonstrate key lessons. [\(#17\)](#)
- To provide assurance that the Gateway review process is being applied to all relevant projects, the Department should periodically examine the outcomes of those projects excluded from Gateway on the basis of their assessed level of inherent risk. [\(#18\)](#)
- The Department should examine the merits of conducting annual Gateway reviews for projects where there would otherwise be an extended delay between reviews. [\(#18\)](#)
- Departments should:
 - put in place project assurance processes that will identify commercial skills gaps in individual project teams; and
 - produce an analysis of the commercial skills required across their future complex project procurements, and identify the contract management skills that are required to prevent value for money being eroded during the delivery phase of complex projects. [\(#19\)](#)

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APPENDIX 2

AUDIT SUMMARIES

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FOCUS ON SERIES – LARGE PROCUREMENT PROJECTS
Audit Summary

Audit Title: Health and Wellness: Colchester Regional Hospital Replacement

Publication Date: May 2011

Audit Office: Office of the Auditor General of Nova Scotia

Link to full report:

<https://oag-ns.ca/sites/default/files/publications/2011%20-%20May%20-%20Ch%2004%20-%20DHW%20-%20Colchester%20Regional%20Hospital%20Replacement.pdf>

Audited Entities

- Department of Health and Wellness
- Colchester East Hants Health Authority (CEHHA)

Audit Scope and Objectives

The audit objectives were to assess:

- whether roles and responsibilities were clearly defined, documented and communicated at the start of the project;
- the adequacy of Health’s oversight of the project;
- the adequacy of CEHHA’s oversight of the project;
- the adequacy of processes used to determine and adjust budgets for the project;
- the adequacy of processes used to manage project costs;
- the adequacy of the project management framework used for the Colchester Regional Hospital replacement project;
- whether the project procurements were in compliance with the applicable Province of Nova Scotia Procurement Policy and CEHHA procurement policies;
- whether the overall procurement strategy was appropriate; and the adequacy of the process followed to prepare RFPs and award final tenders.

Audit Criteria

- Not publicly available, but a mention is made that some of the criteria for the audit were obtained from the Project Management Body of Knowledge (PMBOK).

Main Audit Findings

- The project to replace the Colchester Regional Hospital was approved in 2005 with a budget of \$104 million. This budget was not a realistic estimate of the expected costs to build the new hospital and was not sufficient to complete construction. It was based on assumptions that were unreasonable or unsupported. It did not, for instance, consider inflation over the life of the project. The current budget of \$184.6 million is still not complete; it excludes several items that should be part of the overall project budget.
- The initial budget should have been considered to be only a preliminary spending approval. A schedule should have been put in place to revisit the budget regularly during construction to bring cost estimates up to date. It would then have been reasonable to expect those charged with oversight of the project to complete it within budget.
- Supporting documentation prepared by the Department of Health and Wellness for Cabinet for the first budget and for two of the three subsequent budget approvals was incomplete and contained inaccuracies. The impact of this was to hinder effective decision making.
- The new facility is over 100,000 square feet larger than the existing facility and is designed to offer more services to more people. However, there has been no analysis to determine whether additional funding will be required to operate the new facility at its intended capacity when it opens.
- While ineffective budgeting practices were significant contributors to apparent cost increases, oversight and project management weaknesses by both CEHHA and Health have contributed to project difficulties and cost overruns. Some significant decisions were made without sufficient consideration of the related costs.

Selected Audit Recommendations

- The Department should establish a schedule to review the preliminary budget and approve the final project totals for future capital projects.

- The Department and CEHHA should prepare a comprehensive assessment of the funding required to operate the new facility at its intended capacity and agree on the level of funding to be provided.
- The Department should put a process in place to ensure only complete and accurate information is presented to Cabinet.
- The Department should put a process in place to ensure management in charge of significant capital projects complete an adequate review and challenge of key estimates prepared by consultants.
- The Department should put a process in place to ensure design decisions are made with due consideration of the impact on costs for future construction projects.
- The Department should put a process in place to ensure decisions to seek LEED certification for construction projects are supported by an analysis of the costs. Costs should then be tracked over the life of the project.
- CEHHA should put a process in place to ensure all future change orders are compliant with their change order process.
- The Department should require the completion of 30%, 60%, and 90% estimates during the design stage of future construction projects, including significant trade packages for fast track projects.
- The Department should sign a contract including clear responsibilities and reporting requirements with its project manager for the Colchester Hospital replacement project.
- Treasury Board should assign responsibility for construction projects in Nova Scotia to a central organization with the necessary expertise to oversee all significant construction projects for all government departments in Nova Scotia.
- CEHHA should conduct a post-occupancy assessment after the new hospital opens to identify lessons learned for future capital projects. The results of this assessment should be shared with the Department and central government so that the lessons learned can benefit future projects.
- Following the establishment of a central body to oversee large construction projects, Treasury Board should assign responsibility for post-occupancy assessment of large construction projects to this group.

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FOCUS ON SERIES – LARGE PROCUREMENT PROJECTS

Audit Summary

Audit Title: Heath and Wellness: Long Term Care – New and Replacement Facilities

Publication Date: May 2011

Audit Office: Office of the Auditor General of Nova Scotia

Link to full report:

<https://oag-nb.ca/sites/default/files/publications/2011%20-%20May%20-%20Ch%2005%20-%20DHW%20-%20Long%20Term%20Care.pdf>

Audited Entity

- Department of Health and Wellness

Audit Scope and Objectives

The audit objectives were to determine whether:

- the Department has adequate processes to analyze current and future long term care bed requirements and to identify the number and location of long term care beds to be constructed or replaced;
- the Department has an adequate process to develop facility standards for the design, operation, staffing and funding of long term care facilities;
- the Department has an adequate process to develop the requirements for the request for proposals for new long term care facilities;
- the process to award new long term care facilities was in compliance with the provincial Procurement Policy and the related request for proposals requirements;
- the Department and successful bidders complied with the facility development approval process;
- the development and service agreements between the Department and facility operators were adequate;

- the Department is providing adequate oversight during the development, construction, commissioning and initial licensing of long term care facilities; and
- the Department has adequately monitored the impact of opening new long term care facilities on the wait list for long term care placement.

Audit Criteria

- Not publicly available

Main Audit Findings

- The Department engaged in a detailed needs analysis to determine the number and location of new long term care facilities to be constructed under its Continuing Care Strategy. The audit team found the Department had an appropriate process to develop the request for proposals, and evaluate the bids received. The audit concluded that the Department complied with the provincial procurement policy and appropriately awarded successful proposals.
- The Department had no support to show it replaced those facilities which were most in need. The audit team does not know whether the facilities with the most serious deficiencies were replaced.
- The Department developed and followed an adequate process for the development, construction, commissioning and initial licensing of new and replacement facilities. The Department also signed standard development agreements covering facility construction, and long term care service agreements with facility operators.
- The Department has not established agreements with existing long term care service providers, who represent the majority of long term care facilities. Since there were no agreements and therefore no clear termination provisions, Department management believed they had to negotiate with existing service providers for replacement facilities rather than going through a competitive bid process. Although this process was in compliance with the Provincial procurement policy, the audit team does not accept the reasonableness of this explanation. It is a poor management practice to spend large amounts of public funds without contractual agreements.
- None of the eight recommendations made in the June 2007 Auditor General's report have been implemented. The Auditor General recommended that the Homes for Special Care Act and Regulations be updated as far back as 1998; however, no action has been taken. The audit team is concerned about the Department's willingness to implement the

recommendations in this Chapter given its inaction in implementing the 2007 recommendations.

Selected Audit Recommendations

- The Department should take appropriate steps to ensure decisions to replace long term care facilities are based on a transparent, consistent process and are adequately supported and documented.
- The Department should sign agreements with all long term care service providers within a year.
- The Department should develop a risk assessment process for subsequent projects.
- The Department should immediately implement all recommendations made in Chapter 4 of the June 2007 Report of the Auditor General.
- The Departments and Community Services should update the Homes for Special Care Act and Regulations to ensure current service delivery standards are included.

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FOCUS ON SERIES – LARGE PROCUREMENT PROJECTS
Audit Summary

Audit Title: Point Lepreau Generating Station Refurbishment – Phase 1

Publication Date: December 2013

Audit Office: Office of the Auditor General of New Brunswick

Link to full report: <http://www.gnb.ca/oag-bvg/2013v2/chap6e.pdf>

Audited Entity

- NB Power

Audit Scope and Objectives

Objectives for Phase I were as follows:

1. to describe key aspects of NB Power’s planning and execution of the Point Lepreau refurbishment; and
2. to report summary-level financial information of amounts making up the \$1.4 billion capital asset account and the \$1.0 billion deferral account related to the refurbishment.

Audit Criteria

- Not publicly available

Main Audit Findings

The initial decision to conditionally contract with Atomic Energy of Canada Limited (AECL) was made in 2001 and the audit team saw no evidence that it was challenged until a consultant hired by the Province reported in 2004.

Some other risks were not adequately addressed through the decision-making process including:

- The risk to the Province of financing such a large undertaking on its own. The search for a partner did not begin until after the report from the provincial consultant was delivered in 2004, and was ultimately unsuccessful.
- The risk associated with the length of time needed to recover all costs of the refurbishment, estimated to be 27 years by NB Power.

- The risk that significant refurbishment planning costs (\$90.2 million or 6.4% of the original project cost of \$1.4 billion) incurred before final approval would be of no benefit if another alternative was chosen.
- The audit team found evidence of a rigorous oversight reporting structure operating throughout the life of the refurbishment project. This involved NB Power and Nuclearco board members, along with senior and operational management staff of NB Power and AECL.
- Costs associated with the refurbishment, as of November 2012, totaled \$2.4 billion. This amount included \$1.4 billion in direct capital costs of the refurbishment and an additional \$1.0 billion of deferred costs also considered part of the overall cost of the refurbishment under regulatory rules. These amounts exceeded planned costs of \$1.0 billion in capital and \$0.4 billion in deferred costs by a total of \$1.0 billion.

Audit Recommendations

Based upon audit observations relating to the decision-making process for the Point Lepreau Generating Station refurbishment, it is recommended that for future major capital projects undertaken by NB Power:

- the decision-making process be clearly documented, including identifying the roles and responsibilities of key players before significant amounts are expended;
- a planned decision-making timeline be developed and agreed upon by key players;
- all feasible options be identified and fully investigated as early in the process as possible;
- pre-decision spending be limited to that needed to adequately evaluate and mitigate risks associated with options under consideration prior to selecting a preferred option;
- an independent, third-party expert be contracted to guide the process of selecting the best option, identifying and developing mitigation strategies for all significant risks, identifying a preferred proponent, and ensuring that the corporation gets the best possible outcome for provincial ratepayers; and
- the process be transparent and the public made aware of the criteria to be used for decision making, progress towards making a decision and key reasons for the selection of a preferred alternative.

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FOCUS ON SERIES – LARGE PROCUREMENT PROJECTS
Audit Summary

Audit Title: Capital Projects – Yukon Hospital Corporation

Publication Date: February 2013

Audit Office: Office of the Auditor General of Canada

Link to full report:

http://www.oag-bvg.gc.ca/internet/docs/yuk_201302_e_37880.pdf

Audited Entities

- Yukon Hospital Corporation (YHC)
- Department of Health and Social Services (HSS)

Audit Scope and Objectives

The audit objectives were:

- to determine whether the Yukon Hospital Corporation, in collaboration with the Department of Health and Social Services, adequately planned for building the Watson Lake and Dawson City Hospitals;
- to determine whether the Yukon Hospital Corporation adequately planned for building the Crocus Ridge Residence; and
- to determine whether the Yukon Hospital Corporation adequately managed the building of the three projects.

Audit Criteria

- YHC and HSS conducted an analysis of the health care needs of the communities and evaluated options on how to meet those needs most cost-effectively, including assessing how new services/programs would be integrated with existing ones.
- YHC and HSS identified the requirement for these capital projects in their strategic and capital planning and explained how the projects would help them meet their respective mandates.
- YHC and HSS collaborated with each other in determining the hospital facilities necessary to meet the needs of Yukon residents.
- YHC and HSS conducted a risk analysis for the decisions to build the Watson Lake and Dawson City hospitals.

- YHC and HSS incorporated mitigation strategies for identified risks.
- YHC identified a need for the Crocus Ridge Residence project and evaluated options on how to meet the need most cost-effectively.
- YHC identified the requirement for the Crocus Ridge Residence in its strategic and capital planning and explained how the project would help meet the Corporation's mandate.
- YHC designed the buildings to meet the identified needs.
- YHC awarded contracts related to the projects according to relevant authorities.
- YHC developed a project management plan to oversee the work of the contractors for the design and building of the projects.
- Senior management regularly monitored the projects to determine whether they were on time, on budget, and being built to specifications.

Main Audit Findings

- The Corporation did not conduct a full assessment of the communities' health care needs in planning and designing the hospitals. It also did not determine the incremental operating costs for the hospitals until construction was well under way. The Corporation cannot demonstrate that the hospitals, as designed, are the most cost-effective option for meeting the communities' health care needs.
- The Corporation and the Department could not provide us with documented risk analysis to show that they had identified and assessed risks before beginning to build the hospitals. Instead, they identified and assessed risks and developed mitigation strategies for them at the same time as the Corporation was beginning to build the hospitals.
- In all three projects, most contracts were competitively tendered and most change orders were appropriately justified and managed.
- The Corporation also regularly monitored the projects, but the hospital projects will be delivered later than expected and will be over budget.
- The Crocus Ridge Residence also experienced construction delays and cost increases.

Audit Recommendations

- The Yukon Hospital Corporation, in collaboration with the Department of Health and Social Services, should conduct a health care needs assessment in the communities of Watson Lake and Dawson City. The information gathered in this exercise should then be used to ensure that the services delivered in the hospitals are designed to meet the communities' needs in the most cost-effective way possible.
- The Yukon Hospital Corporation should document the analysis on its decisions for capital projects.
- Corporation staff involved in awarding contracts should document the Corporation's contracting processes.
- Before beginning future capital projects, the Corporation should
 - carry out a needs assessment, a risk assessment, and an options analysis (including how the projects will be funded);
 - collaborate with the Department of Health and Social Services to ensure that it is aware of any potential impacts on the Yukon health care system and on the funding of the Corporation by the Department;
 - establish reasonable budget and completion dates for its projects and ensure that they are adhered to; and
 - ensure that both capital and incremental operating costs are known before proceeding.

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FOCUS ON SERIES – LARGE PROCUREMENT PROJECTS
Audit Summary

Audit Title: Professional Service Contracts Related to Service Processing

Publication Date: November 2012

Audit Office: Office of the Auditor General of Québec

Link to full report:

http://www.vgq.gouv.qc.ca/fr/fr_publications/fr_rapport-annuel/fr_2012-2013-VOR-Automne/fr_Rapport2012-2013-VOR-Automne-Chap05.pdf (In French)

Audited Entities

- Centre de services partagés du Québec
- Revenu Québec
- Régie des rentes du Québec
- Secrétariat du Conseil du trésor

Audit Scope and Objectives

The audit objectives were to obtain the assurance that:

- the audited entities administer the contract management processes for professional services related to information processing in accordance with the normative framework for contract management in effect and sound management practices.
- the Secrétariat du Conseil du trésor (SCT) conducts an appropriate follow-up of contract management processes for professional services related to information processing.

Selected Audit Criteria

- A rigorous needs assessment is done (description, duration, experience and knowledge required) and various possibilities are analysed adequately (internal resources, external resources and costs of each option).
- Cost estimate and scheduling are done with rigour.
- Supplier solicitation is done in accordance with the normative framework and with the view of obtaining several bids.
- Supplier selection is done in accordance with evaluation processes stipulated in the normative framework.

- The contract is complete and signed before work begins and significant variances between the estimate and the value of the contract are explained and approved by proper authorities before contract signature.
- Contract awarding is approved by proper authorities.
- Relevance of any amendments to contracts is demonstrated and amendments are approved in a timely manner by proper authorities.
- Follow-up is done in order to ensure that the contract is carried out by the personnel designated in the proposal, that the timeframe and budget is respected, that the invoicing is accurate, and that a supplier performance evaluation is carried out.

Main Audit Findings

- While most of the legislative and regulatory provisions that were examined are being followed, the numerous deficiencies in contract management raise concerns with regard to the fair treatment of suppliers and the judicious use of public funds. The deficiencies noted indicate that different contract management stages have not always been subject to sound management practices.
- Use of the daily rate as a type of remuneration was generalized for the 38 audited contracts. While the regulation permits this type of remuneration, the suppliers assumed only a small portion of the risks associated with executing the contracts.
- Supplier solicitation did not enable the objective of free competition to be fully reached. The average number of tenders received that were compliant and acceptable following a public call for tenders is not very high.
- An entity entered into nine contracts, for which the maximum amount exceeded what was proposed by the supplier in its tender. The contracts were signed based on the amount estimated by the entity.
- Often, the supplier who continued the work was the one who had been awarded the previous contract. As a result of a public call for tenders, the contract was granted to the same supplier 18 times for the 25 contracts in question. Such a proportion raises concerns with regard to the fair treatment of suppliers, especially since for 10 of the 18 contracts referred to, only one tender was compliant and acceptable.
- Several elements specified in the contract were not rigorously monitored by the entities. Deficiencies were noted, namely with regard to the

execution of unplanned work, invoicing at higher rates than stipulated in the contract and non-compliance with the designated personnel.

- As for the use of external resources, when comparing the Government of Québec with other administrations, it is clear that the Government of Québec used these resources a lot more frequently. In the long term, frequent recourse to subcontracting may result in the stagnation or even the loss of internal expertise. Further, there is a risk this practice may create a dependency on suppliers.

Audit Recommendations

Recommendations to the Centre, Revenu Québec and the Régie:

- Adequately document the definition of the needs and the cost estimates.
- Assess how suppliers may assume a greater portion of the risks associated with contract execution.
- Analyze the difference between the amount estimated by the entity for the contract to be awarded and the amount in the tender accepted, as well as the differences between the amounts in the tenders found to be compliant and acceptable for the same contract.
- Improve the neutrality of selection committees.
- Analyze situations where work is continued with the same supplier as a result of a public call for tenders with a view to ensuring fair treatment of suppliers.
- Document, in a timely manner, the details given to suppliers concerning the work to accomplish and the necessary profiles of resources.
- Improve the monitoring of elements in each contract with regard to:
 - the execution of the work, to ensure that it corresponds to the work provided for in the contract;
 - the application of the specified type of remuneration;
 - the application of rates provided for in the contract upon payment of the supplier;
 - the execution of the work by designated personnel.
- Include a penalty clause in the contract with regard to designated personnel and apply it, where appropriate.
- Carry out a supplier evaluation.

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FOCUS ON SERIES – LARGE PROCUREMENT PROJECTS
Audit Summary

Audit Title: Fiona Stanley Hospital Project

Publication Date: May 2010

Audit Office: Office of the Auditor General of Western Australia

Link to full report:

https://audit.wa.gov.au/wp-content/uploads/2013/05/report2010_05.pdf

Audited Entities

- Western Australia Health (WA Health)
- Department of Treasury and Finance (DTF)

Audit Scope and Objectives

The audit examined the planning and management of the Fiona Stanley Hospital project including planning, development of the business case and the procurement strategy, and project management between March 2004 and April 2010.

The audit focused on three main lines of inquiry:

- What is the current status of the Fiona Stanley Hospital (FSH) project against original scope, cost and time estimates?
- Has the FSH project been effectively planned and managed?
- Have significant project risks been identified and are there arrangements in place to manage them?

Audit Criteria

- Not publicly available

Main Audit Findings

- The estimated capital costs of the FSH stand at \$1.76 billion compared with an original estimate of \$420 million, and the opening date is between three and a half and four years later than originally planned. In common with other capital projects, the original estimates were unrealistic and were not based on a good understanding of what this major project would involve. Better definition of the requirements of the hospital has resulted in scope changes which have increased forecast costs, and delayed the opening.
- The planning phase for FSH was neither efficient nor effective. Attempts to fast track project planning to meet unrealistic deadlines caused delays and risks. The project business case and other key planning documents had significant gaps, which required additional time and resources to fix.

- Oversight was hampered by a lack of full and timely information. This delayed final project approval, and the start of subsequent phases. The additional scrutiny did, however, have the benefit of producing a more realistic scope, budget and timeline for the project, which have so far proved robust. Project management and governance frameworks are defined and agreed, and the awarding of the stage two construction contract will transfer the responsibility for finalising the design and construction to the contractor and provide more certainty about costs.
- Significant risks remain on the project. While these risks have been identified, the strategies to manage them are not all well advanced. Particular attention needs to be paid to transition and workforce planning, and the delivery of key information and communication technology systems. Without effective management of these risks FSH may be further delayed, cost more and may not deliver all the planned services to patients when it opens.

Selected Audit Recommendations

- WA Health should ensure that all future health infrastructure projects conform to the Strategic Asset Management framework so that projects:
 - are supported by a robust business case that incorporates identified health needs and whole of life costs;
 - have budgets and timelines that are based on sound planning and a clearly defined scope; and
 - are planned in a structured and orderly way to minimise risk to the State.
- The Department of Treasury and Finance should reinforce the Strategic Asset Management framework with more rigorous staged project approval processes, and only recommend funding for those projects that demonstrate realistic budgets and timelines supported by sound planning.
- WA Health and DTF should ensure robust financial and project management systems are implemented on the FSH project and are in place for all government capital projects.
- WA Health and DTF, once the stage two contract has been awarded, should ensure the time, construction and through life cost impact of any changes to the design or project brief are fully assessed before being approved

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FOCUS ON SERIES – LARGE PROCUREMENT PROJECTS
Audit Summary

Audit Title: The Planning and Management of Perth Arena

Publication Date: March 2010

Audit Office: Office of the Auditor General of Western Australia

Link to full report:

https://audit.wa.gov.au/wp-content/uploads/2013/05/report2010_01.pdf

Audited Entities

- The former Department of Housing and Works (DHW)
- Department of Treasury and Finance (DTF)
- Western Australia Sports Centre Trust

Audit Scope and Objectives

The audit examined the planning and management of the Arena project including tendering, contract award, and construction between March 2004 and December 2009. The audit focused on two main lines of enquiry:

- What is the current status of the Arena against original cost and time estimates?
- Has the management of the Arena project minimised risk to the state?

Audit Criteria

- Not publicly available

Main Audit Findings

- Perth Arena is substantially over budget and late. On current estimates, it will cost \$483 million, more than three times the original estimate of \$160 million. The Arena is scheduled to open almost three years later than originally planned, in November 2011 rather than January 2009. Insufficient scoping and planning meant that both the original cost estimate and opening date were unrealistic.
- Key decisions on the project during contract negotiations have altered the planned allocation of risks between the state and contractor, increased the risks to the state, and led to project delays and cost increases. These decisions were made without systematic or sufficient analysis of their impact, consideration of alternatives, external scrutiny or legal advice.
- There is little evidence that appropriate planning, monitoring and reporting processes were established or followed. Significant changes to

the contract and resulting risks were not reported in writing to the Minister and Cabinet so their decisions may not have been fully informed.

- DHW did not implement the project management and governance arrangements required to control a major project like the Arena. This resulted in inadequate transparency, oversight and blurred accountability. Statutory governance, financial and record keeping obligations under the Public Sector Management Act and the Financial Management Act may not have been met.
- Recent changes to governance and project management have improved transparency and strengthened project oversight. But the project remains at risk of further cost increases. Further time delays represent a risk to the Arena's fit out and transition to operation, which depends on the agreed construction schedule being met. At the end of December 2009, construction was three months behind schedule.

Audit Recommendations

- Agencies involved in the procurement and delivery of capital projects should:
 - put in place governance structures and project management systems which reflect the scale and complexity of the project;
 - ensure government receives full and complete advice about project status, risks, and decisions;
 - seek appropriate legal advice; and
 - establish and maintain adequate records which meet their obligations under the State Records Act 2000.
- The Department of Treasury and Finance should exercise more active oversight of major projects and should ensure consistent application of the Strategic Asset Management Framework to all major capital projects.
- The Department of Treasury and Finance should reinforce the Strategic Asset Management Framework with more rigorous staged project approval processes that ensures:
 - that projects are funded only when well scoped and planned, and announced budgets and timelines are realistic;
 - the risks at each stage have been identified and addressed; and
 - the governance frameworks implemented by agencies reflect good practice transparency of the progress and performance of major projects to government and Parliament.

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FOCUS ON SERIES – LARGE PROCUREMENT PROJECTS
Audit Summary

Audit Title: Reducing the Cost of Procuring Fire and Rescue Service Vehicles and Specialist Equipment

Publication Date: July 2010

Audit Office: United Kingdom National Audit Office

Link to full report: <http://www.nao.org.uk/report/reducing-the-cost-of-procuring-fire-and-rescue-service-vehicles-and-specialist-equipment/>

Audited Entities

- Department for Communities and Local Government
- Firebuy Ltd.

Audit Scope and Objectives

- The review assessed the Department's success in encouraging more collaborative procurement. The NAO examined whether Firebuy is helping to reduce the cost of Fire and Rescue Service procurement, in particular, by developing national framework contracts with suppliers.

Audit Criteria

- Not publicly available

Main Audit Findings

- The continued operation of Firebuy in its current form represents poor value for money. Firebuy has cost the taxpayer nearly twice as much to set up and run as the savings it claims to have helped local Fire and Rescue Services to deliver, and the cost of setting up and running the current frameworks are unlikely to be recouped over their lifetime.
- The Department and Firebuy's agreed approach to setting up framework contracts acts against maximising savings in Fire and Rescue Service procurement. The contracts have no common specifications and involve many suppliers, so that they allow expensive bespoke equipment to be procured, while preventing suppliers offering lower prices through high volume orders. Firebuy's weak methodology for measuring realised savings from its activities further undermines its credibility and effectiveness.
- A number of Fire and Rescue Services and suppliers said that Firebuy has contributed to bringing more discipline and professionalism to Fire and Rescue Service procurement activities. However, without the Department

using its powers to make local Fire and Rescue Services use Firebuy's national procurement contracts, Firebuy must rely on persuasion. This puts Firebuy in a difficult position and progress has been slow: only five out of the fifteen contracts it has developed are used by more than half of the 46 Fire and Rescue Services.

- The Department has not exercised sufficiently clear leadership, direction and oversight of Firebuy to ensure it achieved its original objectives. The Department's irresolution over the future of the body in 2008 and 2009 created uncertainty, which further undermined Firebuy's capacity to persuade Fire and Rescue Services to use its contracts. A strategic review by the Department, which concluded in 2009 that it was cost effective to continue to retain Firebuy, was based on incomplete savings and cost evidence.
- Firebuy's running costs are relatively high compared with those in the commercial world, because of the top heavy nature of its staff grading mix.

Selected Audit Recommendations

- The Department should quickly assess whether continuing with a nationally directed central procurement body is sensible. If it concludes that it is, the Department should assess how best to change the way Firebuy works to enable delivery of maximum savings cost effectively. If not, it should transfer Firebuy's operations to another Professional Buying Organisation, such as Buying Solutions, or to a Fire and Rescue Service with sufficient capacity.
- If it decides to continue with a nationally directed central procurement arrangement, the Department should ensure the procurement follows best practice, by:
 - establishing new contracts with limited numbers of suppliers and common specifications for each equipment type;
 - mandating Fire and Rescue Services to use the contracts; and
 - putting in place a robust, auditable and comprehensive mechanism for identifying and measuring savings generated and introducing arrangements to independently validate measurements made.

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FOCUS ON SERIES – LARGE PROCUREMENT PROJECTS
Audit Summary

Audit Title: How the Ministry of Education Managed the 2008 National School Bus Transport Tender Process

Publication Date: January 2009

Audit Office: Office of the Auditor General of New Zealand

Link to full report:

<http://www.oag.govt.nz/2009/bus-tender/docs/school-bus-tender.pdf>

Audited Entity

- Ministry of Education

Audit Scope and Objectives

The inquiry examined:

- how the Ministry prepared its overall procurement strategy and RFP for the 2008 bus tender process;
- the extent to which the RFP reflected the Ministry's earlier consultation with stakeholders, where appropriate, and the clarity with which any important changes to the RFP were communicated to stakeholders;
- the extent to which the RFP rules were applied correctly and consistently by Ministry staff, contractors, and the Tender Evaluation Committee; and
- the extent to which the Ministry responded promptly and effectively when concerns were expressed about aspects of the 2008 bus tender process.

Audit Criteria

- The Ministry's 2008 bus tender process was expected to give effect to the Government's school transport policy objectives, comply with relevant Ministry policies, and follow good practice for procurement and contract management.
- The Ministry was expected to apply its RFP rules correctly and consistently.
- The Ministry was expected to respond promptly and effectively to correspondence about the 2008 bus tender process.

Main Audit Findings

- The Ministry's process for preparing its RFP for the 2008 bus tender process was based on thorough and inclusive consultation and, for the most part, the consultation feedback was reflected in the final RFP. Where the

consultation feedback was not reflected in the final RFP, the Ministry had justifiable reasons for deciding not to include it.

- Overall, the Ministry's 2008 bus tender process met the most significant procurement requirements set out in its own policies, and in the good practice guidance promulgated by the Ministry of Economic Development and by the Office of the Auditor General. Notwithstanding this, there are some minor areas for improvement that the Ministry should address in any future bus tender processes.
- All three changes to the stated RFP process should have been communicated through the GETS website. The Ministry's weekly email newsletters were not an adequate substitute for communicating changes to the final RFP. The email newsletters could have been used as a supplementary means of communicating the changes.
- The Ministry's quality assurance arrangements did not operate as effectively as they could have. The audit team considers that they need to be enhanced for any subsequent bus tender processes. While a quality assurance system may not identify all errors, a number of the errors and identifiable inconsistencies that occurred in the 2008 bus tender process were, in the audit team's view, easily avoidable.
- The Ministry's approach to gaining assurance about the outcomes of the qualification submissions phase before proceeding with the pricing submissions phase was not robust enough. It appeared that the persistence of some bus operators led to increases in their qualification ratings, rather than any quality assurance process that the Ministry initiated after concerns were expressed about the accuracy of some qualification ratings.
- The influence of price in the 2008 school bus tender process is not a cause for concern, given the Ministry's stated value-for-money objectives. There is no suggestion that safety was compromised as a result of the emphasis on price.

Audit Recommendations

- N/A

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FOCUS ON SERIES – LARGE PROCUREMENT PROJECTS
Audit Summary

Audit Title: Deh Cho Bridge Project

Publication Date: March 2011

Audit Office: Office of the Auditor General of Canada

Link to full report:

http://www.oag-bvg.gc.ca/internet/docs/nwt_201103_e_34999.pdf

Audited Entity

- Department of Transportation

Audit Scope and Objectives

- Objective: To determine whether the Government of the Northwest Territories (GNWT) had adequately managed the key risks associated with the Deh Cho Bridge project.
 - Sub-objective #1: The Government of the NWT had adequately managed the risk of entering into a public-private partnership to build the Deh Cho Bridge.
 - Sub-objective #2: The Department of Transportation had put in place an appropriate framework to manage the key risks associated with the quality schedule, scope, and cost of the Deh Cho Bridge project.

Audit Criteria

- The Government of the NWT manages the risks of entering into a public-private partnership.
- The Department of Transportation manages the key risks of the project

Main Audit Findings

- The project was not a public-private partnership. The Concession Agreement assigned most of the project risks to the GNWT and did not shift any significant risk to the private sector; risk sharing was anticipated when a P3 procurement strategy was selected.
- Despite unresolved design issues between the Department and the Corporation, the GNWT authorized bridge construction to begin without having the assurance of a fully developed design. As a result, the risk to the project was significantly increased. Ultimately the inability to resolve design issues within the specified time frame resulted in the lenders

declaring the Corporation to be in default and requesting the GNWT to assume the project debt.

- The Department has a framework in place to manage the key risks, but there are weaknesses in the risk matrix it developed for the project—for example, some of the risk mitigation measures are too general to be useful. While quality assurance and quality control have increased since the Department took over the project, significant risks remain in the areas of the project’s schedule, scope, and cost. Although the Department has identified the need for a single engineer to sign off that the bridge as a whole meets the Canadian Highway Bridge Design Code, it has yet to determine how this will be accomplished.

Audit Recommendations

- For future major projects, the Government of the Northwest Territories should establish a senior project oversight committee early in the planning phase of a project. This committee, composed of individuals with considerable experience in managing major projects, should provide advice to the Government and, where relevant, the Legislative Assembly, on the steps required to develop a major project, and should act as a forum for discussing project objectives, risks, procurement, and other relevant matters.
- The Department of Transportation should update the information contained in its risk matrix. It should provide more complete information on mitigation measures responding to potential risks.
- The Department of Transportation should ensure that a single authority is identified to certify that the design and construction of the bridge meet the Canadian Highway Bridge Design Code. This certification should be obtained before the bridge is open to traffic.

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FOCUS ON SERIES – LARGE PROCUREMENT PROJECTS
Audit Summary

Audit Title: Public Private Partnership: Eleonor W. Graham Middle School and Moncton North School

Publication Date: 2011

Audit Office: Office of the Auditor General of New Brunswick

Link to full report: <https://www.gnb.ca/oag-bvg/2011v3/chap2e.pdf>

Audited Entity

- Department of Supply and Services

Audit Scope and Objectives

- To determine the process for identifying the two school project as a potential P3.
- To assess the business case on which the Department's decision to adopt the P3 approach for the two school project was based.

Audit Criteria

- All significant assumptions made by the Department should be supported and documented;
- All assumptions made by the VFM consultants should be reviewed and challenged (by the Department);
- VFM analysis should be in-line with common industry practice; and
- Due diligence should be performed to review the value-for-money report.

Main Audit Findings

- The audit found no evidence that a formal preliminary analysis was performed to support the decision of adopting a P3 approach before it was publicly announced. The audit team was unable to determine the rationale for the decision. Subsequent to the announcements, the Department of Supply and Services decided to prepare a value for money (VFM) assessment to see whether the P3 approach would deliver value for money.
- The project was not included in the capital estimates (i.e. for approval by the Legislative Assembly) until fiscal year 2010-11, although the Province had already signed multi-year agreements with a successful bidder in

September 2009. The Legislative Assembly had no opportunity to debate this commitment in advance of the decision being made.

- The audit found that assumptions associated with discount and inflation rates, as employed in the VFM analysis, were supported. However the audit team did not agree with the Department's assumption to include an additional net present value (NPV) of \$14.2 million for the traditional model to reflect the maintenance and life cycle deficit. The assumption was based on the expectation that the Province would not adequately fund these costs under the traditional model.
- Based on the VFM analysis, the Department concluded the P3 approach provided \$12.5 million VFM to taxpayers for this project over the traditional approach. However, after adjusting for the effect of the maintenance and lifecycle cost assumption (NPV \$14.2 million), the traditional model would deliver \$1.7 million VFM over the P3 approach.
- There was little documentation available showing that the Department had reviewed the assumptions upon which the VFM analysis was based.
- The audit noted three areas where the VFM analysis was deficient in comparison with common industry practice. These included:
 - sensitivity analysis (i.e. only risk quantification was subject to this analysis);
 - timing of preliminary VFM analysis (i.e. the analysis was not completed prior to announcing the P3 project); and
 - reporting of VFM results (i.e. the Department did not comply with the government's P3 protocols that require fair and transparent reporting).
- The only review of the VFM report was an informal one completed by departmental employees who had been involved in developing the report, and therefore were not independent.

Audit Recommendations

- The Department of Supply and Services should conduct a preliminary assessment to identify the best procurement approach prior to a Cabinet decision on how to proceed (P3 or traditional approach).
- The Department of Finance should have the government obtain approval of the Legislative Assembly, during the budget process, for future year P3 funding commitments in advance of entering into such contracts.
- The Department of Supply and Services should document the development of significant assumptions for VFM analysis, especially the assessment of their reasonableness.

- The Department of Supply and Services should review assumptions made by its VFM consultant. Reviews and important discussions should be properly documented.
- The Department of Supply and Services should obtain the discounted cash flow model from its consultant as part of the arrangement for future P3 projects.
- The Department of Supply and Services should perform a sensitivity analysis which includes all key variables in the project cost estimate process.
- The Department of Supply and Services should inform the public of key information in the P3 process.
- The Department of Supply and Services should perform an independent due diligence review of the value for money assessment for each proposed P3 project.
- To ensure provincially owned schools are properly maintained over their useful lives, the Department of Supply and Services in cooperation with the Departments of Finance and Education should:
 - develop and implement an asset management system that provides for and prioritizes multi-year maintenance and capital repair needs of the schools; and
 - implement budgeting measures to protect the long-term funding stream required for sufficient ongoing maintenance of the schools.
- The Department of Supply and Services should tender or solicit multiple fee estimates when engaging advisors for P3 projects, given the significant cost of these services.

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FOCUS ON SERIES – LARGE PROCUREMENT PROJECTS
Audit Summary

Audit Title: Audit of the Academic Ambulatory Care Centre Public Private Partnership: Vancouver Coastal Health Authority

Publication Date: May 2011

Audit Office: Office of the Auditor General of British Columbia

Link to full report: <http://www.bcauditor.com/pubs/2011/report2/public-private-partnership-P3-audit-VCHA-AACC>

Audited Entity

- Vancouver Coastal Health Authority

Audit Scope and Objectives

To assess whether the Academic Ambulatory Care Centre P3 project achieved its key value-for-money assertions based on the first five years of the Project Agreement.

The Project Report identified a number of value-for-money assertions. The audit assessed the following ones as key measures of success in achieving value for money:

- The facility will have an estimated capital cost of \$95 million.
- Payments will be performance-based and subject to reduction.
- Risks will be allocated to the partner best equipped to manage them.

Audit Criteria

- The P3 partner delivered on the design/construction expectations
- VCHA has effective procedures to monitor the progress of the P3 contract
- Key stakeholders are satisfied with the outcomes to date from the P3 contract
- The P3 contract allows for flexibility and learning in order to improve future outcomes

Main Audit Findings

- Overall, the audit found that not all of the key value-for-money goals were met. While the facility was completed on time, the final capitalized value was \$123 million – 29% greater than the estimated \$95 million capital cost in government’s Project Report.
- Increased costs were incurred for a number of reasons. VCHA did not have a clear understanding of the scope and user requirements of the project, which resulted in numerous variations in the project and prevented the effective transfer of design and scope change risk to AHV. This added an additional \$11 million to the estimated cost.
- VCHA used a number of mechanisms to monitor AHV’s performance in managing the completed facility’s operations. However, the audit found that although the project agreement provides VCHA with a mechanism to address non-performance, payments under the agreement are not subject to reduction for non-performance as asserted in the Project Report.
- A lack of public reporting since the Project Report prevents external stakeholders such as government or taxpayers from assessing the results of the project against their expectations.
- While the agreement does include provisions for flexibility in managing the contract, VCHA was unable to provide documentation to support the evaluation for two financially significant contract amendments.

Selected Audit Recommendations

- All documents related to key changes in a P3 Project Agreement should be retained.
- P3 project budgets should include explicit contingency budgets for variations.
- A project implementation plan should be prepared and approved at the outset of a P3 project.
- Project Reports should be reviewed independently before they are publicly released to ensure that key assumptions and disclosures are supported.
- Formal requirements for public reporting should be established after the completion of the capital construction phase and for set times throughout the operational contract. These reports should assess how well the project has achieved its value-for-money/risk transfer objectives in the respective areas.

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FOCUS ON SERIES – LARGE PROCUREMENT PROJECTS
Audit Summary

Audit Title: Implementation and Operation of Service Areas – Special Audit

Publication Date: June 2014

Audit Office: Office of the Auditor General of Quebec

Link to full report: http://www.vgq.gouv.qc.ca/fr/fr_publications/fr_rapport-annuel/fr_2014-2015-VOR-Printemps/fr_Rapport2014-2015-VOR-Chap02.pdf
(In French)

Audited Entities

- Ministère des Transports (MTQ)

Audit Scope and Objectives

The audit had the following objectives:

- To ensure that the agreement entered into rests on recognized best practices in the awarding of public-private partnership contracts;
- To ensure that the Ministère des Transports du Québec (MTQ) conducts an adequate follow-up of the partnership agreement with the private partner.

Audit Criteria

- The project responds to justified needs.
- An analysis shows that the P3 approach adds the best value for the MTQ and the Department ensures that this value is maintained throughout the project, namely during amendments.
- A rigorous process ensures a competitive and fair treatment of proposals throughout the different stages (call for interest, call for qualifications, call for proposals, etc.)
- The Department ensures the financial viability of the project and the proposals received.
- Responsibility and risk sharing between public and private sectors, compensation mechanisms and guarantees allow for the best VFM throughout the duration of the agreement.
- The agreement specifies the type of information the partner must provide in order for the Department to effectively monitor compliance of the

project implementation against requirements, as well as frequency of reports.

- The agreement clearly states the process to be followed in the event of a dispute.
- The Department has clearly stated the responsibilities and tasks with regard to contract management.
- MTQ carries out a rigorous follow-up of the management of the risks related to the agreement.
- Performance monitoring is systematic and based on sufficient and reliable management information.

Main Audit Findings

- The MTQ has not demonstrated that the services required in each service area are linked to needs. Service area locations were based on the principle of establishing one every 100 km, but the MTQ has disregarded the existing services near highways exits.
- The analysis conducted to demonstrate that the PPP is the best solution is incomplete. The government has not obtained sufficient information to assess the project concerning the seven service areas, in particular information on cost-effectiveness and risks that each implementation method involves.
- The soundness of the sole tenderer's financing plan has not been demonstrated. Given the large margin of error possible in the assumptions and the financial model of a 31-year project, more rigour and cautiousness during the assessment of the proposal would have been necessary.
- Despite a higher-than-expected public financial participation, the financial model remains "fragile." The large uncertainty that surrounds the key assumptions and the sensitivity of the project's cost-effectiveness to small variations in those assumptions explain this "fragility."
- The guarantees that were granted limited the partner's and the lenders' risks and increased those of the MTQ. The fact that the MTQ guaranteed the repayment of the debt and the indemnities in case of cancellation of the agreement modified the sharing of risks that was initially established.
- The risks related to construction permits and environmental requirements were not subject to a rigorous follow-up. The MTQ did not take the necessary steps in a timely manner to mitigate the risks of cancellation of

the agreement. Starting work was delayed by several months, and the MTQ had to pay indemnities of \$4 million.

- Despite the significant consequences of partner's default, the Department made no follow-up of its financial situation. It did not assess the consequences on the partner's financial health nor on its own situation due to the fact that it paid the partner almost no performance bonuses and bonuses related to tourist offices.

Selected Audit Recommendations

The Department should:

- Ensure that services deployed in each service area are linked to needs by considering in particular the services already available nearby.
- Present a complete analysis of the infrastructure projects to decision makers, including the cost-effectiveness of each project, the comparison of the different methods, the costs related to each method, the risks and the sensitivity analyses.
- Limit negotiations allowed with the selected candidate in order to increase the efficiency of the call for tenders process.
- Carry out a rigorous analysis of the tenderers' proposals in order to identify all the risks related to the financial model and assess their effects on the project's self-financing.
- Assess the impact of public guarantees on risk distribution related to the project and their future repercussions on public finances and, where necessary, use these guarantees as an incentive to attract a larger number of tenderers.
- Ensure an optimal distribution of the risks by providing for measures in the agreement such as financial rebalancing, should the project prove to be more cost-effective or less cost-effective than anticipated.
- Carry out a rigorous follow-up of the partner's performance and risks that the MTQ assumes in order to identify potential problems early to limit their impact and clearly define the responsibilities and actions to be accomplished in this regard.

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FOCUS ON SERIES – LARGE PROCUREMENT PROJECTS
Audit Summary

Audit Title: Alberta Schools Alternative Procurement

Publication Date: April 2010

Audit Office: Office of the Auditor General of Alberta

Link to full report:

<http://www.oag.ab.ca/webfiles/reports/OAGApr2010report.pdf>

Audited Entities

- Department of Education

Audit Scope and Objectives

To determine if:

- The Alberta School Alternative Procurement (ASAP 1) project demonstrates that the P3 approach provides value for money by structuring the project such that:
 - lifecycle costs were minimized;
 - risks were transferred to, or retained by, the party who could most cost-effectively manage the risk; and
 - processes developed, challenged and validated significant assumptions contained in supporting analyses such as the public sector comparator and the shadow bid.
- A fair, open and transparent process was used during the procurement.

Audit Criteria

- The ASAP 1 project should demonstrate that a P3 provides value for money. A public sector comparator should be prepared that contains the following components:
 - base costs that represent the base cost to government of producing and delivering the project, including costs associated with design, construction and operation (if applicable)
 - periodic costs such as major maintenance and cyclical renewal required to maintain the service potential of the asset.
- The public sector comparator should be based on a full life cycle cost analysis. This analysis should include all costs and expected benefits, and include both capital and operating expenditures.

Main Audit Findings

- The Design-Build-Finance-Maintain (DBFM) contract was awarded to the consortium whose proposal provided the lowest net present value of life cycle costs (design, construction, maintenance and cyclical renewal costs) based on the specified standards over the project's timeframe—both as compared to the other proposals received, and as compared to the Public Sector Comparator.
- The systems demonstrated that risks were transferred to, or retained by, the party who could most cost-effectively manage the risk. The actions the Departments took, and their expanded role in managing the design development process appears to have significantly mitigated risks of scope creep. Structuring the project as a government managed P3, enabled the Departments to bring additional rigour to the process.
- Significant common assumptions and assumptions specific to either the Public Sector Comparator or P3 alternatives were identified in the business case. The ASAP 1 project team did not retain evidence to support all significant assumptions and risk costs were based on anecdotal evidence. Notwithstanding the quality of evidence, the audit team has been able to conclude that the decision to award the DBFM contract was appropriate.
- The audit team did not find evidence that estimated risk costs were, in total, validated against actual experience from prior school projects.
- A sensitivity analysis, or an explanation why a sensitivity analysis was not required, was not included in the business case.
- A Value for Money Report was not published in accordance with the procurement framework guidance. The Departments did not demonstrate, in a transparent manner, how value for money was obtained. Summarizing relevant information in a Value for Money Report would enhance the transparency of the procurement process for Albertans.
- The ASAP 1 procurement was conducted in a fair and open manner.

Audit Recommendations

- The Departments of Treasury Board and Infrastructure should improve processes, including sensitivity analysis, to challenge and support maintenance costs and risk valuations.
- The Departments of Treasury Board and Infrastructure should follow their own guidance to publish a Value for Money Report upon entering into a P3 agreement.

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FOCUS ON SERIES – LARGE PROCUREMENT PROJECTS
Audit Summary

Audit Title: Audit of the Evergreen Line Rapid Transit Project

Publication Date: March 2013

Audit Office: Office of the Auditor General of British Columbia

Link to full report: <http://www.bcauditor.com/pubs/2013/report15/audit-evergreen-line-rapid-transit-system>

Audited Entities

- Ministry of Transportation and Infrastructure
- Ministry of Finance
- Partnerships BC

Audit Scope and Objectives

- To determine whether agencies provided sufficient and rigorous information to recommend the project option that is most likely to cost-effectively meet government's objectives.
- To determine whether agencies adequately demonstrated that the recommended P3 arrangement represents the best procurement solution taking full account of the expected costs, benefits and risks across the project's life-cycle.

Audit Criteria

- An appropriate strategic analysis, governance and management framework exists to guide and oversee agencies' work.
- Investment objectives and intended outcomes have been clearly defined and aligned with government's policy objectives.
- The costs, benefits and risks of the project options that could feasibly deliver on investment objectives have been rigorously assessed, verified and clearly communicated to decision makers.
- An appropriate procurement assessment, governance and management framework exists to guide and oversee agencies' work.
- Project recommendations have been based on the analysis of costs, benefits and risks while taking account of stakeholder consultations.

- Agencies had prepared the management framework needed to successfully procure the project.

Main Audit Findings

- The agencies had not fully informed government's scope decision in the material provided to Treasury Board. The 2008 and 2010 business cases summarised an extensive body of work, but fell short of meeting the Capital Asset Management Framework (CAMF) guidelines because they did not:
 - assess the risks of the alternative scope options or clearly explain the difference in their costs before recommending the SkyTrain;
 - explain that ridership forecasts were at the upper end of the estimated range;
 - describe the risks from changes in complementary and competing transit services and how these would be monitored and managed; and
 - include a framework for measuring performance.
- In addition, the audit found that agencies had not adequately documented their reviews of the material presented to Treasury Board and verified its accuracy.
- Despite these gaps and weaknesses, the audit also concluded that the preferred SkyTrain option is likely the best one to meet government's objectives. However, this conclusion relied on information that was not presented or adequately explained in the submission to Treasury Board.
- Getting this right despite the information shortfalls is not a cause for complacency. Relying on the same approach in future capital asset projects puts government at risk of making decisions that would have been modified had government understood the full costs, benefits and risks. In the case of the Evergreen Line, the audit found that neither business case informed government decision-makers about the ridership risks or how they would be managed.
- The audit team concluded that MOTI and Partnerships British Columbia demonstrated that a short-term P3 arrangement, covering the designing, building and financing of the Evergreen Line, best meets government's policy objectives.

Audit Recommendations

- The Ministry of Finance should implement a project plan, describing the scope, required resources, timelines and deliverables, for updating the

CAMF to provide comprehensive guidance for public sector agencies on:

- the information required to underpin capital project planning and how this should be documented; and
- the type of oversight that should be applied to verify the information presented to government.

- The Ministry of Finance, the Ministry of Transportation and Infrastructure, and Partnerships British Columbia should document project reviews so that the scope of these reviews, and the analysis underpinning decisions, are clearly described in written records.
- The Ministry of Transportation and Infrastructure should provide more detailed guidance on its requirements for estimating ridership and the economic benefits of transit projects.
- The Ministry of Transportation and Infrastructure should provide more detailed guidance on performance measurement so that business cases include appropriate detail on performance indicators, targets and how these indicators will be measured.
- The Ministry of Transportation and Infrastructure should develop and apply a detailed framework for measuring, managing and reporting on the performance of the Evergreen Line. The framework should describe:
 - evaluation objectives and specific performance measures;
 - methods for collecting reliable, meaningful information;
 - how agencies will measure and manage performance and provide the necessary resources to do this work; and
 - how the outcomes will be shared across government and the wider community.
- The Ministry of Finance, Ministry of Transportation and Infrastructure, and Partnerships British Columbia should improve how they assess and report on whether strategic options assessments and business cases have followed the CAMF guidelines.
- The Ministry of Transportation and Infrastructure should update its guidelines to make relevant comparisons with observed data central to justifying and explaining traffic and ridership forecasts.

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FOCUS ON SERIES – LARGE PROCUREMENT PROJECTS
Audit Summary

Audit Title: Education: Contract Management of Public-Private Partnership Schools

Publication Date: February 2010

Audit Office: Office of the Auditor General of Nova Scotia

Link to full report:

<https://oag-ns.ca/sites/default/files/publications/2010%20-%20Feb%20-%20Ch%2003%20-%20Education%20-%20Contract%20Management%20of%20P3%20Schools.pdf>

Audited Entity

- Department of Education

Audit Scope and Objectives

To determine whether:

- the Department of Education’s contract management processes and procedures are adequate to ensure services detailed in the service contracts are received and payments for services are made in accordance with the contracts.
- the developers are complying with significant terms of the service contracts, focusing primarily on those terms related to student health and safety.
- service contract terms are adequate to ensure the public interest is being protected.
- subcontracts between developers and regional school boards result in government getting value for money.

Audit Criteria

- Not publicly available

Main Audit Findings

- Comprehensive contract terms and management processes and procedures which ensure services paid for are received are essential to protecting the public interest. The audit identified significant weaknesses in both of these areas. As a result, the audit team cannot conclude on whether key

calculations supporting contract payments are correct or whether many services paid for are received.

- The audit identified instances in which child abuse registry and criminal record checks, fire safety inspections, and emergency first aid and CPR training were not completed by the developers as required under the service contracts. Contract terms do not address significant areas such as audit access for the Province; measurable levels for all services; monitoring compliance with contract terms including required documentation; and an adequate payment adjustment system when contract terms are not complied with. The Department's reliance on negative feedback to monitor contract compliance is not sufficient to ensure services are received.
- Two developers subcontracted their responsibilities under their service contracts for certain schools to the regional school boards. These subcontracts effectively transfer the risks for the operation and maintenance of the schools assumed by the developers in the service contracts back to government. Regional school boards are delivering contracted services at a lower cost than that paid to the developers. Over the 20-year life of the contracts the estimated difference in payments between the developers and regional school boards is approximately \$52M.
- The audit noted instances in which amounts received by the regional school boards did not comply with contract terms; these will result in significant financial recoveries for the Boards.

Selected Audit Recommendations

- The Department should ensure child abuse registry checks and criminal record checks are completed prior to hire for all employees working in schools.
- The Department should ensure all employees working in schools have required emergency first aid and CPR training.
- The Department should ensure the developers are completing and documenting the results of all fire safety inspections required under the Fire Safety Act.
- The Department should ensure all preventative maintenance is completed in accordance with manufacturers' requirements.
- The Department should ensure adequate documentation is maintained to support the provision of required cleaning services under the contracts. The Department should review documentation to ensure cleaning is completed.

- The Department should ensure the developers maintain adequate documentation to show maintenance work is completed on a timely basis. The Department should review this documentation to ensure maintenance work is completed on a timely basis.
- The Department should establish adequate contract management processes to ensure contracted services are received. These processes should be followed for the remainder of the contracts.
- The Department should obtain appropriate supporting documentation from the developers for amounts used in calculating operating payments.
- The Department should establish adequate contract management processes to ensure payments made under the P3 contracts comply with contract terms. These processes should be followed for the remainder of the contracts.
- The Department should maintain a control copy of all significant contracts, which includes all approved changes and supporting documentation.
- The Department should monitor funds received from the developers concerning technology refresh and furniture, fixtures and equipment.
- The Department should develop a contract management manual for use by staff.
- All significant new contracts between the Department and service providers should include audit provisions for the Province.
- The Department should define measurable service levels for all services in future contracts and these should be included in the contracts prior to signing.
- The Department should ensure future contracts describe the contract monitoring process, including documentation requirements and sanctions for instances of non-compliance.
- The Department should work with the developers to assess the risk of not completing periodic record checks subsequent to hiring, determine the appropriate frequency of rechecks, and amend contract terms accordingly.

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FOCUS ON SERIES – LARGE PROCUREMENT PROJECTS
Audit Summary

Audit Title: Planning, Delivery, and Benefits Realisation of Major Asset Investment: The Gateway Review Process

Publication Date: May 2013

Audit Office: Victorian Auditor General's Office (Australia)

Link to full report: <https://www.audit.vic.gov.au/sites/default/files/20130508-Gateway-Review-Process.pdf>

Audited Entity

- Department of Treasury and Finance (DTF)

Audit Scope and Objectives

This audit assessed the effectiveness and efficiency of Gateway Review Process (GRP). This involved assessing:

- DTF's management and administration of GRP;
- The contribution of GRP to improving the management and delivery of major asset projects.

The audit examined the management and administration of the GRP, including the systems and processes used to identify projects for review, and the conduct, timing, cost and resourcing of reviews. The audit examined the relationship and interaction between the GRP and the HVHR project assurance framework. It also examined DTF's broader role in developing and disseminating lessons learned from Gateway reviews.

Audit Criteria

- Not publicly available

Main Audit Findings

- The GRP is a valuable concept capable of assisting better performance in project delivery. DTF provides high-quality materials to guide participation in the GRP and has effective processes in place to select, engage and train Gateway reviewers.
- However, the implementation of the GRP in Victoria reflects a number of missed opportunities. The audit identified 62 projects valued at \$4.3 billion that were not included in the GRP between 2005 and 2012.

- DTF cannot demonstrate that over that period it actively and consistently identified projects that may have been candidates for the GRP. This meant the process was largely applied on an opt in decision by agencies and not all high-risk projects were subject to review. As a result, the fundamental objective for the GRP—to improve the management and delivery of significant projects—has not been fully met.
- Further missed opportunities resulted from projects commencing the GRP, only to drop out of the process after completing a few Gates. No single project has completed the full suite of Gateway reviews since its introduction in 2003. This means that the benefits from applying the GRP have not been fully realized.
- DTF has not measured the impact of the GRP on projects. It has not tracked agency action taken on Gateway recommendations, which is a fundamental success indicator for the GRP, and so cannot demonstrate whether the GRP has resulted in any benefit to individual projects.
- Finally, DTF has missed opportunities to use the GRP to build public sector project management and review capability. It has not done enough to capture and share lessons learned from Gateway reviews and the participation of public sector staff as Gateway reviewers is very low.

Audit Recommendations

The Department of Treasury and Finance should:

- Systematically validate whether projects should be subject to Gateway review, by verifying that robust project risk assessments are completed for new projects.
- Re-establish an oversight committee for the Gateway Review Process and report regularly to government on Gateway activity and impacts.
- Strengthen Gateway Review Process quality assurance processes.
- Track and report on the impact of the Gateway Review Process on improving the outcomes of completed projects.
- Actively monitor agency action in response to Gateway review recommendations.
- Complete the database for sharing lessons learned from Gateway reviews and build case studies to better demonstrate key lessons.

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FOCUS ON SERIES – LARGE PROCUREMENT PROJECTS
Audit Summary

Audit Title: The Administration of the Gateway Review Process

Publication Date: February 2012

Audit Office: Australian National Audit Office

Link to full report:

<https://www.anao.gov.au/sites/g/files/net3721/f/201112%20Audit%20Report%20No%2022.pdf>

Audited Entities

- Department of Finance and Deregulation
- Financial Management and Accountability (FMA) Act agencies

Audit Scope and Objectives

- The objective of the audit was to examine the effectiveness of the administration of the Gateway review process by Finance and FMA Act agencies.
- The audit also examined the extent to which those Gateway reviews that have been conducted have contributed to improvements in the delivery of major projects undertaken by FMA Act agencies.

Audit Criteria

- The Gateway Unit has appropriate procedures and guidance in place to effectively manage the administration of Gateway across the Australian Government.
- The application of the thresholds for inclusion in Gateway is sufficient to ensure that all major projects are subject to review as intended.
- Gateway review teams are adequately skilled and reviews are carried out in accordance with relevant guidance.
- Agencies have procedures in place to ensure project team compliance with Gateway requirements.
- Agencies respond in a timely manner to the findings and recommendations of Gateway reviews.

Main Audit Findings

- Overall, the Gateway review process has been effectively implemented within the Australian Government. There has been a focus on high risk, high value projects with 46 projects valued at more than \$17 billion across 23 agencies examined in the first five years of Gateway's application. In the first three years, about one in every five reviews identified that there were significant issues that needed to be addressed before the project proceeded further. In the last two years, there have been no reviews that have identified major issues requiring urgent action.
- However, participation in the Gateway review process does not guarantee success in meeting specified project objectives. At least three of the nine projects that have completed the full suite of Gateway reviews up to 30 June 2011 were not completed on-time and on-budget and/or did not deliver the outcomes expected when funding was approved.
- While the processes used to determine which projects are to be subject to Gateway reviews were generally effective, several projects that met the criteria were not subject to Gateway reviews due to the timing of their risk assessments.
- There are often significant delays between Gate reviews, including as a result of reviews being rescheduled by the sponsoring agency.
- The contribution that Gateway makes to improved project delivery depends, to a significant extent, on agencies promptly progressing the issues raised in reviews. However, it is common for agencies to not fully implement review recommendations in a timely manner.
- To date, there has been significant reliance on private sector reviewers, with targets for participation by Australian Public Service (APS) staff not being met. In addition, to date, only one review has been led by a member of the APS, and there has been a high degree of reliance on a small number of private sector participants to lead individual reviews.

Audit Recommendations

- To improve the Gateway risk assessment process used to determine which projects are to be subject to these reviews, the ANAO recommends that the Department of Finance and Deregulation examine options and pursue an approach that provides relevant Ministers with visibility over any projects proposed to be excluded from Gateway because of delays with the sponsoring agency completing a Gateway risk assessment.
- To provide assurance that the Gateway review process is being applied to all relevant projects, the ANAO recommends that the Department of

Finance and Deregulation periodically examine the outcomes of those projects excluded from Gateway on the basis of their assessed level of inherent risk.

- To provide assurance that the high risk projects subject to Gateway are being progressed in accordance with the stated objectives and time, cost and quality parameters expected at the time funding was originally approved by government, the ANAO recommends that the Department of Finance and Deregulation examine the merits of conducting annual Gateway reviews for projects where there would otherwise be an extended delay between reviews.
- To assess the contribution that the Gateway review process is making to improving project delivery performance by agencies and identify any opportunities to improve the Australian Government's application of Gateway, the ANAO recommends that the Department of Finance and Deregulation periodically analyse the time, cost and scope outcomes achieved by completed projects against the parameters expected at the time funding was originally approved by government, and compare this with the findings and ratings of the Gateway review report for each project.
- The ANAO recommends that the Department of Finance and Deregulation implement appropriate measures to promote a greater focus by agencies on the timely and effective implementation of Gateway review report recommendations.

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FOCUS ON SERIES – LARGE PROCUREMENT PROJECTS
Audit Summary

Audit Title: Commercial Skills for Complex Government Projects

Publication Date: November 2009

Audit Office: United Kingdom National Audit Office

Link to full report: <http://www.nao.org.uk/report/commercial-skills-for-complex-government-projects/>

Audited Entity

- Office of Government Commerce (OGC)

Audit Scope and Objectives

- The report examines the current level of commercial skills and experience in Government, and considers whether the OGC and departments are being successful in improving them.

Audit Criteria

- Not publicly available

Main Audit Findings

- Departments continue to experience a shortage of staff with the necessary commercial skills and experience to successfully deliver complex projects.
- Government departments have attempted to fill this commercial skills gap with interim staff and advisers. Whilst both interims and advisers can make a valuable contribution, particularly those with highly specialist skills, an over reliance on them can lead to: higher project staff costs; departmental staff failing to take proper responsibility for commercial decisions; and a loss of commercial knowledge when the interims or advisers leave.
- Departments have significant weaknesses in a number of the commercial skills critical to the delivery of complex projects. The shortcomings identified by NAO and Public Account Committee reports have been confirmed by the OGC's Procurement Capability Reviews. The OGC's reviews found that commercial skills were generally weak across all 16 central government departments.
- Pressure to reduce public spending and the frequency with which commercial staff move, both impact on the commercial experience of project teams. Senior Responsible Officers on complex projects believe

their inability to pay market rates affects their ability to recruit experienced commercial staff. Rotation of staff can cause commercial knowledge to be lost to a project and prevent Government getting best use of an individual's commercial expertise.

Audit Recommendations

Departments should by the end of July 2010:

- Put in place project assurance processes that will identify commercial skills gaps in individual project teams; and
- Produce an analysis of the commercial skills required across their future complex project procurements, and identify the contract management skills that are required to prevent value for money being eroded during the delivery phase of complex projects.

The OGC and departments should by October 2010:

- Use these plans to establish an optimal cross-government commercial staff plan; and
- Work together to make it possible for commercial staff to be seconded quickly between departments, addressing barriers preventing this. The OGC should act as a broker of such secondments where they are in both the government's and the individual's best interests.

As a key part of the cross-government staffing plan, the OGC should explore how to establish a cadre of experts that can be deployed if a project runs into difficulty.

Departments should:

- Ensure adequate budgetary provision for individuals who have the commercial skills to support complex project teams. Departments should be flexible in determining the number, calibre and pay of the commercial staff needed to ensure successful project delivery.

The OGC should:

- Set out guidance on the factors to consider in the recruitment of, and remuneration for, appropriately skilled commercial staff.

Departments should:

- Produce strategies which set out how they intend to develop, retain and fully utilise commercial staff in critical posts on projects. These strategies should be produced in line with the recommendations set out in the OGC's *Building the Procurement profession in the Future*. The strategies also need

to investigate other options for improving the retention of commercial staff, such as allowing project staff to be promoted in their current post.

The OGC and departments should:

- Establish a comprehensive set of best commercial practice and standard approaches to be applied across government wherever appropriate. Its adoption should be supported with guidance, training events, and access to experts. This work should draw on the contractual standards already developed for private finance projects, information communication technology, and construction.

The OGC and departments should further develop information sharing on:

- Learning and development opportunities; and
- Individuals' experiences of interacting with different private sector companies.

The OGC should:

- Collect data from commercial directors, to assess the impact of OGC's commercial skills initiatives against their objectives. This could include tracking the impact that initiatives have had on the future retention of commercial staff, their career progression, and confidence in dealing with commercial challenges; and
- Establish by October 2010 a performance measurement framework, with key performance indicators for commercial skills capability across government. The OGC should coordinate the collection of relevant data from departments and make use of existing sources such as the Government Procurement Service annual survey and PCRs.

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