

**NSW Treasury**

**GUIDELINES FOR APPLICANTS**

**Prequalification Scheme:**

**Financial Assessment Services**

**November 2021**

**SCHEDULE OF DOCUMENT AMENDMENTS**

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| **Revision Number** | **Date** | **Update Description** |
|  | 11 March 2015 | Scheme rollover for 2 years, other minor updates |
|  | July 2015 | Update of the name change OFS to DFSI |
|  | 1 March 2017 | Scheme rollover for 2 years, other minor updates |
|  | 1 July 2019 | Change of Department lead, email change and rollover update |
| 1.
 | 10 March 2021 | Scheme rollover for 1 year |
|  | 25 November 2021 | NSW Treasury address contact details have been updated |
|  | 16 March 2022 | Scheme rollover for 2 years |

# INTRODUCTION

The Prequalification Scheme: Financial Assessment Services (the Scheme) will remain effective to 18 March 2024 and may be extended. The Scheme is managed by the NSW Treasury.

NSW Government agencies are continually contracting with providers in the private sector. As such, service providers undergo an evaluation process before they are able to transact with any NSW Government agency. This evaluation process includes an assessment of the risks involved in the project such as the possibility that the private sector entity will not be able to deliver on the contract due to financial stress. One of a range of measures designed to identify and mitigate this risk is to conduct an assessment on the financial capacity of the service providers.

The Scheme offers a means of obtaining the services of prequalified service providers who have demonstrated their professional expertise and capability in performing financial assessments. NSW Treasury maintains a list of service providers which are available to all Government agencies for selection.

The Scheme aims to:

* reduce the financial and reputational exposure for Government by ensuring all agencies understand that there is an opportunity to mitigate part of the commercial risk by using the financial assessment services as appropriate;
* simplify and streamline the engagement process by prequalifying service providers with demonstrated track records in the provision of financial assessment services;
* establish quality, consistency and content expectations on financial assessments through the use of standard reports; and
* implement efficiencies in and continuously improve the quality and reliability of financial assessment services by monitoring trends, reporting on performance and seeking feedback from agencies and service providers.

## *What are the main obligations of Service Providers?*

The NSW *Government Procurement Policy Framework* outlines how the NSW Government will conduct its procurement activities when interacting with the private sector. The *Policy Framework* establishes standards of behaviour expected from government agencies and service providers.

Members of the Scheme must at all times demonstrate a commitment to and consistent application of the standards of behaviour outlined in the *Policy Framework* as well as comply with the requirements of the Scheme Conditions.

## *How do I become a member of the Scheme?*

Service providers who wish to become members of the Scheme must engage in the following process:

1. An application in the Form provided must be completed and submitted by the service provider. The application form is set out in Schedule 1 of the Scheme Conditions.
2. All applications will be assessed by the Assessment Committee, which includes representatives from NSW Treasury, NSW Procurement with at least one (1) independent member sourced from divisions of the Department, other than the NSW Procurement Division, or from any other NSW Government Agency. Assessment will be based on the evaluation criteria set out in the Scheme Conditions.
3. If further clarification is required, the applicant may be invited to attend an interview with the Assessment Committee.
4. NSW Treasury will notify all applicants of the Committee’s decision in writing.

1. If any applicant believes that there are substantive grounds to reconsider the decision by the Assessment Committee, the applicant may request a review of the decision in writing.
2. Once applicants are admitted to the Scheme, they may be approached by NSW Government agencies to perform financial assessment services.
3. The receipt of prequalification by a Service Provider does not guarantee:
	1. continuity of the prequalification during the duration of the Scheme;
	2. receipt of work opportunities; or
	3. that engagements or work of any kind or quantity will be offered.

Information submitted by Service Providers with an application will be treated as confidential by NSW Government agencies unless otherwise required by law, and may be subject to reference checking and other enquiries.

***What are the evaluation criteria used for assessing applications?***

## All applications will be assessed according to the following evaluation criteria.

## Applicants must:

1. have key personnel with tertiary qualifications in finance or accounting who are a Chartered Accountant (CA), a Certified Practicing Accountant (CPA) or hold any other equivalent qualification (mandatory requirement);
2. demonstrated experience in the provision of financial assessment services including, but not limited to financial accounting, analysis or reporting financial risk assessment;
3. demonstrated experience in consistently providing on-time delivery of financial assessment services to clients;
4. satisfactory methodology to be used in providing financial assessment services including suitable IT systems to support innovation in the provision of financial assessment reports and data system security with disaster recovery procedures;
5. demonstrated experience in the provision of financial assessments that meet the client’s specified standard of quality of service and reports;
6. holding and maintenance of current certificates of insurance for professional indemnity and public liability with coverage in the amount of not less than $10,000,000 each;
7. rates and cost of services;
8. demonstrated experience in client satisfaction including availability of key personnel, in business hours, to provide clarification and resolve issues in relating to financial assessment reports; and
9. demonstrated experience in the provision of financial assessment services such as:
* training for Government agencies or other organisations in understanding financial assessment reports;
* analysis of current and future risks that affect the financial assessment of contractors or suppliers to Government agencies or other organisations; or
* financial assessment of overseas registered companies in addition to Australian registered subsidiary companies.

***What financial assessment services are covered by the Scheme?***

Financial assessment services are required by Agencies for prequalification of contractors and suppliers, construction contracts, facilities maintenance contractors, goods and services suppliers, information, communications and technology (ICT) suppliers, single trade services suppliers, specific services consultants or any other contracts, and may be requested any time.

Financial Assessment Services under the Scheme means gaining an understanding of and conducting an expert assessment on an entity’s ownership, structure, business and financial capacity to undertake projects up to a specified value. The assessment includes analysis on financial performance and liquidity based on the management, final or audited financial statements of the entity with consideration to any related party transactions such as intra-group loans.

The analysis will include interpretation of financial ratios and assessment of the implications of ratios against the overall financial capacity. The impact of current works on hand, pipeline or proposed projects and/or project commitments to cash flows, cash flow projections, level of working capital and overall financial capability will also be included in the analysis. Simple credit rating information is not considered a financial assessment and would not be acceptable as meeting the definition of Services under this Scheme.

**Levels of Financial Assessment**

The Scheme includes three levels of financial assessment services that may be carried out by Service Providers: Basic, Medium or Comprehensive. There are prequalified Service Providers in each level that Agencies can select from.

Agencies are responsible for determining the appropriate level of financial assessment they require. The level of financial assessment to be carried out should be commensurate to the scale, scope and relative risk of a proposed project. The table below provides a guide where each level of financial assessment may be appropriate:

|  |  |  |  |
| --- | --- | --- | --- |
| **Contact Value** | **< $1.0 M** | **<$10.0 M** | **>$10.0 M** |
| **Contractor Revenue** | **n/a** | **<$25.0 M** | **>$25.0 M** | **<$300.0 M** | **>$300.0 M** |
| **Basic** | **✓** | **✓** |  |  |  |
| **Medium** |  |  | **✓** | **✓** |  |
| **Comprehensive** |  |  |  |  | **✓** |

**Types of Financial Assessment**

Service Providers may be required to carry out a financial assessment for one or more of the following types:

* Prequalification - evaluation of the financial capacity of contractors or suppliers seeking prequalification for construction, facilities maintenance, general goods and services, Information, Communication and Technology (ICT), trade services, complex medical diagnostic equipment, service consultants and other goods and services contracts.
* Tender - evaluation of the financial capacity of tenderers before they are awarded a contract for construction or facilities maintenance, general goods and services, Information, Communication and Technology (ICT), trade services, complex medical diagnostic equipment, service consultants and other goods and services.
* Monitoring – includes updates on a previous financial assessment and the on-going evaluation of the financial capacity of service providers with contracts that are in progress.

***On what terms are service providers from the Scheme engaged?***

Agencies can place an order to a Service Provider using the standard Order Form set out in Schedule 4 of the Scheme Conditions. Each order will be considered a separate and distinct engagement but there is no need to sign separate agreements for each financial assessment engagement. The engaging Agency and the Service Provider are deemed to have entered into the Standard Form Agreement set out in Schedule 2 of the Scheme Conditions at the time an order is made.

Agencies can send the order form to Service Providers in hard copy or through an electronic ordering facility, if offered by the Service Provider. Any order placed electronically via the Service Provider’s database, and provided in the prescribed format, is deemed to be an order placed under the Scheme. Any financial assessment service provided not supplied in this format is deemed to have occurred outside of the Scheme.

***What information is required by the Service Providers in carrying out the financial assessments?***

There are several factors that will impact the information which will be required by a Service Provider to carry out the financial assessment. Some of these factors include the level and type of assessment requested by the Agency and the size and type of the organisation being assessed.

The following are examples, but are not exhaustive, of possible information and/or documents that will be obtained from or about the organisation subject to assessment:

* Organisational and legal structure
* Corporate and directors’ details
* Annual reports
* Audited financial statements
* Management accounts
* Cash flow projections
* Bank guarantees, overdrafts and other financing facilities
* Court or other regulatory notices
* Work on hand and pipeline summary
* Company search through Australian Securities and Investments Commission (ASIC) or Personal Property Securities Register (PPSR)

***Who is responsible for gathering and collecting all the required information to be used in the financial assessment?***

The Service Provider is responsible for obtaining all relevant information required to perform the financial assessment. In some unusual circumstances, the Agency that requested the financial assessment may assist the Service Provider in acquiring relevant financial information through the Agency’s procurement process.

***What will happen if a Service Provider is unable to obtain all relevant information to enable a financial assessment report?***

Problems or delays may be experienced by the Service Provider in gathering the information and these can potentially cause the Service Provider to miss the deadline for submitting the report. In these circumstances, the Service Provider should provide a status update to the Agency as soon as the delay or problem is known or at the time the report is due, whichever is earlier.

The Service Provider will be advised by the Agency on how to proceed. Agencies may instruct the Service Provider to still carry out the financial assessment or to cancel the order for that financial assessment. In the event that an Agency decides to cancel the order, payment for any interim work already performed by the Service Provider will be negotiated between the Agency and the Service Provider.

***How should Service Providers perform the financial assessments under the Scheme?***

The Service Providers prequalified under the Scheme are required to conduct the financial assessment in a method that is:

* reproducible and independent of assessor bias;
* independent of individual financial assessors i.e. suitably qualified personnel can be trained in the use of the assessment method;
* able to be audited through a document and record management system; and
* secure and confidential in relation to commercially confidential information supplied to the Service Provider.

Service Providers are required to conduct their own assessment and apply full analysis regardless of the level of assessment. Hence, Service Providers cannot merely send the report templates (e.g. through fax or e-mail) and ask the supplier/contractor to complete these reports.

***How should Service Providers prepare their reports under the Scheme?***

Service Providers are required under the Scheme to prepare the financial assessment reports in a standard and consistent format. There are Template Financial Assessment Reports under each level of assessment (Basic, Medium and Comprehensive) and these are included in Schedule 5 of the Scheme Conditions. The Service Providers are to provide electronic copies of the financial assessment reports to the Agencies and to NSW Treasury, NSW Procurement. The use of Template Financial Assessment Reports allows for comparability over time and across various Agencies.

The reports should include a clear recommendation, based on the current available information obtained, whether the contractor or supplier being assessed meets or does not meet the financial capacity criteria set out by the Department and whether the contractor or supplier does, or does not have, the financial capacity to deliver and complete the construction works or goods or services. The reports will also include an explanation on why the contractor or supplier does, or does not have, the financial capacity to deliver and complete the construction works or goods or services.

The Service Provider should also provide a conclusion on whether the financial performance and liquidity of the contractor is acceptable or not acceptable and the key factors or consideration to support such conclusion.

In some instances, there may be other factors or considerations in reaching a conclusion in order for a contractor or supplier to secure an acceptable conclusion. In these instances, the Service Provider must provide details of these factors or considerations in the report including a clear explanation of how these factors affected the overall financial assessment

Note that any modification to the report templates prescribed under the Scheme or any abridged versions of such reports are also considered outside the scope of this Scheme.

***When should Service Providers submit their reports under the Scheme?***

Turnaround times are based on the level of assessment and the priority level that a requesting Agency has specified in the Order form. The time commences from the date and time an order is made by an Agency and that order is received by the Service Provider.

Schedule 6 of the Scheme Conditions specifies the following timeframes for submission of financial assessment reports:

|  |  |
| --- | --- |
|  | Priority Level |
| Level of Assessment | Standard | Priority |
| Basic | 5 working days | 3 working days |
| Medium | 7 working days | 4 working days |
| Comprehensive | *not specified* | *not specified* |

In the case of comprehensive financial assessments, a standard turnaround time is not specified in the Scheme due to the complexity and the scope expected for these assessments. The required turnaround times for comprehensive financial assessments are to be negotiated and agreed between the Agency and the Service Provider.

***How should Service Providers handle enquiries or complaints on financial assessment reports prepared under the Scheme?***

* **From Agencies**

The Service Provider shall establish a procedure for receiving and resolving enquiries and complaints from Agencies using the services under the Scheme.

The Agency receiving the assessment report should be able to discuss the assessment with a senior staff member of the Service Providers who is a Chartered Accountant (CA), a Certified Practicing Accountant (CPA) or hold any other equivalent qualification.

* **From Contractors/Suppliers**

In cases where a contractor or supplier that received an unfavourable financial assessment seeks an explanation of the assessment, the Service Provider will answer and respond to the queries raised by the contractor or supplier in accordance with the following process:

When the contractor or supplier’s first contact is with the Agency that requested the financial assessment, the contractor or supplier will be referred by the Agency to the Service Provider personnel being used to provide the Services.

If the contractor or supplier is not satisfied with the explanation provided by the Service Provider and contacts the Agency that requested the financial assessment, the Agency will:

* ask the contractor or supplier to write to the Agency setting out details of the inquiry/complaint, the response they received from the Service Provider and the reasons why they are not satisfied with this response; and
* following receipt of the contractor or supplier’s letter, a copy will be forwarded to the Service Provider along with a request to provide an explanation and any further advice in relation to the financial assessment.

On receipt of the explanation provided above, the Agency will then decide on the appropriate course of action which may include but not be limited to:

* asking the Service Provider to write to the contractor or supplier providing more information and/or a more detailed explanation of the assessment carried out; or
* writing to the contractor or supplier advising that the Agency is satisfied with the way the financial assessment was carried out, the result of the financial assessment; and the explanation provided to the contractor or supplier by the Service Provider.

***Are the fees for financial assessment services under the Scheme fixed and to be published?***

The rates that have been specified by Service Providers in their Application shall remain fixed for a two (2) year period from the date that they become prequalified. Service Providers may apply to NSW Treasury, NSW Procurement for a reduction in the rates at any time. However, an application for an increase can only be made at the end of the initial two (2) year period.

***What do Service Providers need to submit to the Department under the Scheme?***

The Service Provider must provide NSW Treasury, NSW Procurement with electronic copies of all financial assessment reports arising from requests made by Agencies under the Scheme.

The Service Provider is required to submit to NSW Treasury, NSW Procurement a monthly report summarising all financial assessments carried out for that month with the following details:

* name of Agency;
* project or engagement name;
* contract value;
* names of contractors or suppliers assessed;
* when the financial assessments were carried out;
* types of financial assessments carried out;
* levels of financial assessments carried out;
* results of financial assessments; and
* any other detail that the Department may consider relevant.

# *How is performance monitored and reported on?*

Agencies are required to submit a Performance Report where:

* the performance of, and the services, provided by the Service Provider is considered by the Agency to be unsatisfactory; or
* the Service Provider has been engaged by an Agency for a comprehensive level of financial assessment.

Agencies also have the option to submit a Performance Report on any Service Provider for engagements other than those circumstances mentioned above.

A standard form of the Performance Report is set out at Schedule 3 of the Scheme Conditions. Agencies are to provide a copy of the Performance Report to the Service Provider and NSW Treasury, NSW Procurement.

If the Service Provider disagrees with the Performance Report, the Agency and the Service Provider must attempt to resolve the disagreement in the first instance. Following an unsuccessful attempt to resolve a disagreement, the Service Provider may refer the Performance Report, with written reasons for the disagreement, to NSW Treasury, NSW Procurement.

***Can I be removed from the Scheme?***

Yes. A service provider may be removed as a member of the Scheme at any time for a number of reasons, including where the service provider:

* has breached any term of the Scheme Conditions or the NSW *Government Procurement Policy Framework;*
* has been the subject of substantiated reports of unsatisfactory performance from NSW Government agencies; or
* has been determined by the Department as not suitable for future work;
* has experienced an adverse change in capacity or capability; or
* has experienced an adverse change in business status.

Before a Service Provider is removed from the Scheme, NSW Treasury, NSW Procurement will advise the Service Provider of the matters prompting the proposed action and will give the Service Provider the opportunity to provide reasons as to why the removal should not occur

A Service Provider may also have their membership suspended if they have not complied with the Scheme Conditions or they have demonstrated unsatisfactory performance. NSW Treasury, NSW Procurement will advise the Service Provider of the reasons for the suspension and of any actions by the Service Provider required to lift the suspension. A Service Provider that has been suspended from the Scheme must inform NSW Treasury, NSW Procurement if and when the actions required to lift the suspension have been undertaken

If the action taken by the Service Provider is considered by NSW Treasury, NSW Procurement to be insufficient, the suspension period may be extended and the Service Provider will be notified accordingly. NSW Treasury, NSW Procurement may remove the suspension if it is satisfied that the Service Provider has taken appropriate action to address the reasons for the suspension

# *What are the other requirements from a Service Provider?*

The Service Provider must grant NSW Treasury, NSW Procurement the right to access to the Service Provider’s premises during normal business hours for the purpose of monitoring and auditing the performance of the services provided under the Scheme, including but not limited to:

* personnel being used to provide the Services;
* security and access to Assessment Material and commercially confidential information;
* destruction or return of Assessment Material and commercially confidential information;
* operation of information management and control systems; and
* assessment methods being used.

# *How long will the Scheme operate for?*

The Scheme will be effective up to 18 March 2024 and may be extended. Modifications to the Scheme may be made at the discretion of NSW Treasury, NSW Procurement during the life of the Scheme.

# *Who can I contact regarding the Scheme?*

For matters related to the operation of the Scheme, Service Providers can contact:

The Category Manager

Prequalification Scheme: Financial Assessment Services

NSW Treasury

NSW Procurement

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