PROCUREMENT AND MANAGEMENT OF ICT SERVICES IN THE NSW PUBLIC SECTOR

Organisation:	Australian National Audit Office
Name:	Mr Ian McPhee
Position:	Auditor-General for Australia
Date Received:	31/10/2012

26 October 2012

Mr Jonathon O'Dea MP
Chair
Public Accounts Committee
Parliament House
SYDNEY NSW 2000

Dear Mr O'Dea

Submission: Procurement and Management of ICT Services in the NSW Public Sector

I refer to your letter of 18 September 2012 inviting the Australian National Audit Office (ANAO) to make a submission to the NSW Parliament Public Accounts Committee's inquiry on the above topic.

The successful delivery of government programs requires the projects that underpin their implementation to be well-managed from the point of inception through to full implementation and subsequent operation. In most cases ICT is a vital element in delivering government programs. However, continued examples of project delays, cost over-runs, and sometimes outright project failure, underline the importance of public sector agencies having a sound approach to managing projects and ongoing operations.

Over recent times the ANAO has reviewed a number of government programs which have included large scale ICT projects. From our audit work, the following five key areas are critical to the successful implementation of ICT projects, and require an increased focus from agencies at the early stages of planning:

- a strong focus on project governance and risk management;

- effective engagement with stakeholders and management of their expectations;

- unambiguous and agreed project deliverables;

- robust and effective project management; and

- appropriate agency capabilities and competencies to deliver the project.

These factors are similar to findings reached by other organisations; for example, the Standish Group identified ten success factors in relation to implementation of large scale ICT projects. I have included these at Attachment 1 for the Committee's information.

Strong and visible executive-level commitment and leadership, combined with effective project management, are critically important and increase the likelihood that ICT projects will achieve the best possible outcomes.

In addition, risk management remains an important issue. In general we have found that the larger the project and the greater the level of integration involved then the higher are the risks to project success. Problems often arise when:

- insufficient attention is given to risk identification – sometimes some categories of risk are well covered, but other categories are not covered;
- insufficient consideration is given to the risk that key assumptions made at the beginning of projects may not be well-founded;
- projects are not established in manageable components to effectively manage risks;
- the sequencing of activities is not designed to give maximum early warning on the more risky parts of the project; and
- the monitoring of, and responsiveness to, emerging risks is insufficient.

There are also benefits in public sector agencies developing a longer-term strategy, and then placing individual project proposals into a broader strategic context. For example, the Australian Department of Defence (Defence) developed an ICT reform program in conjunction with the Government's Defence White Paper 2009 and the 2009 Strategic Reform Program. Progress on the ICT reform program was examined in ANAO Report No.19 2011-12, *Oversight and Management of Defence's Information and Communication Technology*. The audit highlighted that long-term planning is both desirable and practical; and also that an ongoing effort is likely to be needed to achieve those long-term plans.

It is also important that for major projects, appropriate independent assurance mechanisms are adopted. Within the Australian Government, an important approach to gaining assurance on the planning and management for major projects – including ICT – is the Gateway Review process. Gateway involves short, intensive, independent reviews at critical points in the project/program's lifecycle. This provides an arm's length assessment of the project/program against its specified objectives, and an early identification of areas requiring corrective action. This process was reviewed in ANAO Report No.22 2011-12, *Administration of the Gateway Review Process*, which found that overall, Gateway had been effectively implemented within the Australian Government. In the first three years of implementing the review process, about one in every five reviews identified significant issues that needed to be addressed before the project proceeded further. In the following two years of implementation, there were no reviews that identified major issues requiring urgent action. While the Gateway Review process has been implemented, the audit encouraged the Department of Finance and Deregulation to assess the contribution Gateway is making to improved project delivery by agencies, and to identify opportunities for improvement in the application of Gateway.

The ANAO also produces Better Practice Guides to assist public sector bodies improve their performance and management practices. A number of our guides are applicable to the management of ICT projects by public sector agencies, particularly a 2010 guide on planning and approving projects. A brief outline of three relevant guides is included at Attachment 2.

In conclusion, the practices associated with successful ICT projects are now reasonably well understood. However, the availability of the requisite skills is not uniform across public sector agencies. This suggests that agencies can benefit from developing their relevant capabilities – including in selecting private sector partners with appropriate capabilities; and in setting priorities in project definition and selection to remain within the bounds of available capability.

Furthermore, many projects, due to an inherently innovative or uncertain nature, cannot be certain of success. Good practice for such projects will include ensuring that decision makers are aware of the risks, and managing the project as a series of sensibly sequenced modules to assist in the prompt

identification and correction of problems, or termination of the project in a way that reduces avoidable losses.

Implementing improved practices is likely to take time, effort and commitment, but can be expected to provide definite improvements in project success rates.

The ANAO's contact officer for this submission is Mr Stuart Turnbull, Executive Director, Performance Audit Services Group. Mr Turnbull can be contacted on 02 6203 7346, or email stuart.turnbull@anao.gov.au.

Thank you for the opportunity to make a submission to the inquiry.

Yours sincerely

Ian McPhee

Attachment 1: Key Success Factors in the Implementation of Larger Scale ICT Projects – Relationship between the Standish Group Top Ten Success Factors and ANAO's Key Area of Focus

This table represents the strong correlation between the Standish Group's top ten success factors for project success[1] and the five key success factors identified by the ANAO for implementing larger scale ICT projects. It indicates a clear relationship between the two and reinforces the need to focus on project governance and risk management, effective engagement with stakeholders and management of their expectations, the need for unambiguous and agreed project deliverables, robust and effective project management, and the requirement to ensure agency capabilities and competencies exist to deliver the project.

Key areas of focus to improve ICT projects implementation	Standish Group Top Ten Success Factors									
	User involvement	Executive support	Clear business objectives	Emotional maturity (managing over-ambition)	Optimisation (managing over and under building)	Agile process	Project management expertise	Skilled resources	Execution	Tools and infrastructure
Strong focus on project governance and risk management		✓		✓	✓		✓			
Effective stakeholder engagement and expectation management	✓	✓	✓	✓	✓			✓	✓	
Unambiguous and agreed project deliverables	✓	✓	✓	✓	✓		✓			
Robust and effective project management	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Appropriate agency capabilities and competencies to deliver the project	✓	✓			✓	✓		✓		✓

---

[1] Available from http://standishgroup.com by registering for sample research or for example, from http://www.projectsmart.co.uk/docs/chaos-report.pdf

Attachment 2: ANAO Better Practice Guides relevant to Procurement and Management of ICT Services in the Public Sector

The ANAO has three current better practice guides[2] relevant to the inquiry:

Developing and Managing Contracts (February 2012)	Contracting is an integral part of doing business in the public sector, and the delivery of many, if not most, government programs involves some contracting with the private sector. This guide covers the process of developing a contract to provide an effective foundation for subsequent contract management; agency arrangements for contract management in general; and managing and ending individual contracts.
Strategic and Operational Management of Assets by Public Sector Entities (September 2010)	Asset management is an essential component of good governance in both the public and private sectors, and should be aligned to, and integrated with, an entity's strategic, corporate and financial planning. ICT systems are an important category of asset and of capital expenditure planning. The Guide aims to provide a practical asset management framework that can be adopted by Australian Government entities to assist in the effective management, maintenance, and use of assets to achieve their goals and agreed program delivery outcomes.
Planning and Approving Projects – an Executive Perspective (June 2010)	This Guide has been prepared as a reference document to assist those senior executives who are responsible for the planning, approval and subsequent implementation of projects. The Guide provides insights and better practices that are supplemented by check lists and examples with a focus on projects that are underpinned by a significant ICT component.

---

[2] Electronic copies are available from <http://www.anao.gov.au/Publications/Better-Practice-Guides>.