REPORT OF PROCEEDINGS BEFORE

PUBLIC ACCOUNTS COMMITTEE

INQUIRY INTO PROCUREMENT & MANAGEMENT OF ICT SERVICES IN THE NSW PUBLIC SECTOR

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At Sydney on Monday 18 March 2013

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The Committee met at 11.50 a.m.

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PRESENT

Mr J. R. O'Dea (Chair)

Mr B. E. Bassett
Mr M. J. Daley
Dr G. Lee
Mr J. D. Williams

PETER ACHTERSTRAAT, Auditor General, NSW Audit Office,

PETER RIORDAN, Deputy Director General, Corporate Services, and

MICHAEL McMAHON, General Manager, Learning Management and Business Reform Program, Department of Education and Communities, on former oath:

CHAIR: I welcome Mr McMahon and Mr Riordan from the Department of Education and Communities, and the Auditor-General, Mr Achterstraat to the Public Accounts Committee inquiry into procurement and management of ICT services in the New South Wales public service. As the witnesses have previously appeared before the Committee in this inquiry there is no need for them to be re-sworn. The evidence given today will be a continuation of the former oaths of each witness. I remind witnesses that your evidence is given under parliamentary privilege and that you are protected from legal or administrative action that might otherwise result in action in relation to the information you provide.

I note also that any deliberate misleading of the Committee may constitute a contempt of Parliament and an offence under the Parliamentary Evidence Act 1901. I further note that both the Department of Education and Communities and the Auditor General have been provided with a briefing document by the Committee secretariat in order to try and facilitate greater clarity and to get the facts on the table. The intention of this hearing is to clarify the facts rather than engage in a witch-hunt or to necessarily cause conflict. Committee members were somewhat confused and sought greater clarity of information around some of the issues that have been raised. I invite the Auditor-General to make introductory comments or remarks.

Mr ACHTERSTRAAT: The issue we had was that the department in evidence before this Committee said:

> To go on record to make it clear that unfortunately what was factually correct, the Auditor-General reported that the project budget has risen from $153 million to $210 million. In reality this is not actually what happened …

I am reading from page two of the briefing paper. If someone has said to the Committee that what I have said is not factually correct, I am intrigued to find out where we went wrong. My understanding is that phase one went from $153 million to $210 million and phase two went down from $218 million to $176 million. So there was just a minor increase. Our understanding is that we got that data from a letter from Treasury to the department and also we had liaised with the department before we put it in our volume in 2011. I guess I just want to clarify if I have said something wrong to the Parliament.

CHAIR: Thank you for making your comments through the Chair. I remind all witnesses that although there may be a temptation to speak to each other, I ask that any comments be made through the Chair. Mr McMahon or Mr Riordan would you like to make an introductory comment or is there anything you would like to say in response to the Auditor-General's comments.

Mr McMAHON: The only thing I could say in reply to it is, as I stated, it was factually correct that the $153 million had become $210 million; the point I was trying to make was around that it did not show the full picture of the change. As the program manager for Learning Management and Business Reform [LMBR] I work to the total budget, which we agreed the total budget was $386 million. My view is that I certainly did not intend saying that the Auditor-General had factually incorrectly stated to Parliament what was happening; the point I was trying to make was that it did not show the full picture. To take that in isolation it looks like a $53 million overrun but in fact it was not a $53 million overrun; it was a change in the allocation of the buckets. That was the point I was trying to get across.

CHAIR: I should acknowledge also that, without going into detail, in some correspondence to the Auditor-General there may have been a degree of misleading in one context. I ask the Auditor-General in light of some of those clarifications, both now and in some of the correspondence, are you concerned that there are other aspects that still need to be clarified in terms of the overall budget costs—

Mr ACHTERSTRAAT: No. I understand exactly what the department is saying. I guess the written word looks different to the spoken word sometimes. I guess I was a bit concerned that there was a suggestion that we had given factually incorrect data. As the department has said, the overall bucket is still around the $380 million. It appears that, as we are aware, stage one has been beefed up, there is much more to be done in stage one, and stage two has been truncated so overall it is the same. I think we tried to reflect that in the

sentence that was added in 2011 where we did say "The change reflects the review of the status of the project and the decision to deliver the integrated solution rather than separate implementation projects." I think it was an unfortunate misuse of words and I think we are all roughly clarified now.

CHAIR: It seems as though everyone is smiling in furious agreement now, which is wonderful.

Mr ACHTERSTRAAT: It is thanks to the secretariat for putting it all together because sometimes these things can fester and it can cause relationships to be strained, particularly when the word "inaccuracy" is used et cetera. I think the secretariat has done a great job to alleviate that and we are all on the same page—that is my view.

CHAIR: In light of that, unless my fellow Committee members have any questions on that specific issue, there is one other area I would like to touch on. We will treat the briefing note matter as resolved. I note that there was an agreed budget increase of about $14 million, which is on record and the Committee has had evidence on that. One area that we did not go into in great detail, and which caused some further discussion in the Committee environment on the last occasion on which you were able to give evidence, was the fact that the project is going on for such a long time—an eight-year time frame.

While it seems as though the initial approval in terms of budget and time frame have been more or less stuck to, any project being approved to take that period of time has been and continues to be of concern to the Committee and a topic of further discussion. I would like to probe a little more, firstly, in terms of whether that was an issue at the time that the project was approved to go for such a long time. With the benefit of hindsight, do you think it is wise for any IT project to take that long?

Mr RIORDAN: It is about mitigation of risk. I accept the comments the Chair has made. The project is a very large project. The department is one of the largest, with Health, in the State budget. The back office systems that have been in place in the department have been there for very lengthy periods of time. I think the finance system had been in place for some 25 years and the payroll system for close to 20 years. The emerging technology meant that an enterprise resource planning system could be put in place to cover all of that. Could it have been split into two? It possibly could have been. The decision at that time was based on the advice received from Accenture—that was the organisation brought in to build the business case for the department because we did not have expertise to do it internally—that the project should be done in a consolidated way, broken up into a number of waves of releases over a period of time.

It remains the number one risk on the department's enterprise risk register. It is a topic on every audit management committee meeting. It is discussed. There is a separate subcommittee of the audit committee that deals with it and meets on a monthly basis, every month. It is the particular committee for the LMBR project. The wisdom of eight years, that is just how long it is taking. We knew that at the outset. We embarked upon the journey at the outset knowing there would be significant risks and we put in place a governance process and updated that process all the way through to ensure we manage the risk. It is an IT project; it is also about changing the way the department does things so that it is more effective and efficient in how it delivers its services to students and other consumers in New South Wales who use educational services both at the school level and at the TAFE level. It is further complicated by the fact that it involves both schools and TAFE, which are fundamentally different businesses.

They do different things with different groups of students and therefore have different needs. On top of that, it is a fairly significantly sized corporate environment that needs to be catered for as well. So it has presented its challenges. One thing is that over an eight-year-period things are not static. The needs of the organisation changed over that period of time so we set upon our path, a journey of eight years, mapping out what the needs are at that particular point in time and then we need to adapt as the needs of schools and TAFE have changed over that period of time. That adds extra complexity to it. In hindsight, would we have done it differently? I think so. I think it was an ambitious project. We are still on track. Some of the time lines for releases have slipped a little but we are on track to deliver an upgrade to the back office systems across the organisation by December 2014, which was our initial time frame.

Mr JOHN WILLIAMS: Further to that, are there any aspects or components of the system that have been introduced? I am mindful of the decision that was made by the Government, between here and the previous Government, in relation to staff at schools, administrative staff, that the introduction of this primarily financial and administrative package would see 600 jobs removed across the State. Obviously some aspect of it has been introduced, is that right?

Mr RIORDAN: We have introduced the finance system in TAFE and the corporate areas of the department. There has been no impact on schools at this stage. The agreement that was entered into by the previous Government, with the approval of the Public Service Association, would utilise the efficiencies coming from the LMBR project to mean that less work needs to be done at school level, which could result in a reduction in the number of administrative staff. That will not start having an impact until 2014 once we roll out the new systems into the school environment.

Mr JOHN WILLIAMS: When you look at what we are doing here, through the process of introducing this new technology, do you look at other jurisdictions and the way they have done it and may be fast-tracked the introduction?

Mr RIORDAN: We certainly always kept an eye on what is happening elsewhere. We are very conscious to avoid a situation like occurred in Queensland Health where staff could not get paid correctly over a lengthy period of time. I understand there is an inquiry being conducted now in Queensland about that. We do not want to rush something as complex as this. We set upon a path which meant that we would go to schools once. We would not roll out finance and HR and payroll in a different time frame so the school went through a change process multiple times. In consultation with my colleagues in the schools portfolio of the department, it was agreed that that was not the best outcome for schools; they were best off having one touch, one lot of training and introducing an integrated system at that point in time. I think it is fair to say that when we took advice from Accenture back in the period 2006-07 as the business case was being built, they did look at other jurisdictions. We have not gone back and looked at others since then. We have certainly kept a close eye on the negatives that may have flowed from rushing something or putting something into a go live situation when it has not been fully tested and ensure that it meets the requirements of the employees who will be utilising it.

Mr JOHN WILLIAMS: So the introduction of this program will happen over a period of time or will you switch over overnight?

Mr RIORDAN: No, it will be over a period of time. We are hoping to do 229 schools before the end of this year, which are the schools in the Commonwealth Government's Empowering Local Schools National Partnership and then we will have a rollout strategy across the remaining 2,000 odd schools throughout 2014. So there will be staged implementation with the final schools rolling out by the end of 2014.

Mr JOHN WILLIAMS: That will be fully integrated.

Mr RIORDAN: That is correct.

Mr BART BASSETT: You have just answered my question except I will add this: Does that include TAFE 2014?

Mr RIORDAN: The plan at this stage is to ensure that TAFE is rolled out this calendar year so the end of 2013. There will be some further enhancements coming I think in the April-May period of 2014 to student administration not only to management in TAFE but the finance, HR and payroll systems are intended to be all operational across all 10 TAFE institutes by the end of this calendar year.

Mr BART BASSETT: So by December 2014, that calendar year 2014, you expect all of your objectives that you started out with at the beginning of the eight years to be completed?

Mr RIORDAN: That is correct.

CHAIR: Obviously you have indicated that there are some changed objectives or needs that have emerged in that time as well. To that end and with the benefit of hindsight, which is always easier, I note that things might have been done a little bit differently. We received evidence from an expert IT source suggesting that any IT project should not go for more than four years. If the Committee was to accept that view—four years is still a long time in IT in my view—do you think that that would be a reasonable view moving forward and that eight years is too long, that four years is a more reasonable maximum period albeit perhaps requiring projects to be broken down into more discrete projects?

Mr RIORDAN: We tend to deal with that, as the Auditor-General has pointed out, by breaking the project into two stages. We were conscious of the fact that eight years is a long period of time and things would

change in that period of time. So we have been trying to be fairly adaptive. I am not an IT expert so I will not get into whether a project should be four years, eight years, five years and three months or whatever. Good governance in any project is critical. If you have good governance in a project, whether it is two years, four years or five years, the time of the project will depend on the amount of work that needs to be performed. What I would not like to see is a project that requires five years or six years getting squeezed into four years just to meet some arbitrary time line. I am not an IT expert, I just think we need to take each program on its merits, look at the complexities and ensure that there are very good governance arrangements in place to manage the project objectives, the resources required and the budgetary outcomes.

CHAIR: I am not sure whether you have more direct IT experience to draw on, Mr McMahon?

Mr McMAHON: I agree with what Peter has said. I would only add that it is very difficult and subjective to call something an IT project, because what does that mean? If you are implementing just software off the shelf, then yes, you can do it in short time frames but when you start to get into actual transformation and business transformation, then it becomes a much longer activity. It does not necessarily need to be a single program. You should have a multi-year strategy around the development of your business and out of that will flow many IT projects. That is something that we are looking to do within the department as well, rather than a bold statement of: "An IT project should be four years". You can debate back and forth as to what an IT project is.

CHAIR: Can I ask you then whether or not, in hindsight, it would have been wise to break this huge project into more discrete, separate projects.

Mr McMAHON: I would not like to say yes or no, because I was not there at the time and six or eight years ago it was a completely different environment with regard to IT and the industry in this region and with business changing and reform. In the last six years it has become much more of a focus, much more expertise has come into this region from overseas with different ways that you can do things more efficiently. But six years ago my view would be that it was not there. With hindsight, to be honest, I cannot really say if I would have done it differently.

CHAIR: I invite the Auditor-General, if he has anything to contribute on this topic.

Mr ACHTERSTRAAT: On a couple of occasions this Committee and I have discussed IT projects which have had a long timeframe and the departments have basically said: In three or four years' time we are going to do this or that but when the three or four years came up, not a lot was done. On a couple of occasions this Committee has suggested that we draw a line in the sand on some projects. If I could give the Department an opportunity to prove me wrong on something, we have got the timeframe here in my volume for phase two of the project, at page 13. I am more interested in the future, rather than the past, but we should be able to learn from the past.

It may well be appropriate that, rather than wait until 31 December 2014 and the Committee then asking the Department what has been done, the Committee may wish to look at some of the sub-milestones and then decide, say, in February next year, where a couple of things would have been achieved. For example, the roll-out to the 229 schools is to be done by the end of a certain date and the TAFE Payroll by another date. It may be that, instead of waiting until December for the Committee to look at it, the Secretariat might want to consider asking the Department in February what has happened.

CHAIR: The practicalities of our Committee are such that we are going to wrap up this report and table it in Parliament well before that date. Certainly, to the extent you have not already provided up-to-date information on the status of the project and milestones that have or have not been met then, to the extent that it has not already been forthcoming, we would appreciate it if you could provide an update along those lines. We can reflect that in our report and in due course the Auditor- General—even if it is not this Auditor-General— will have plenty of opportunity to revisit, next year, the status of the project otherwise. If there is nothing else either of you wanted to touch on in that particular topic, I have one final question from my perspective but before I go on to that, Mr Williams had a question that is more related to the discussion we have just undertaken.

Mr JOHN WILLIAMS: From a practical sense and observing the sum of money that is involved in this investment, you have currently got a system that is running in parallel with your planned systems, so you are developing a system alongside the system that you are running. Are you confident that the half a million dollars is well spent in relation to the next situation that you will create with this new system? At the moment

obviously your current needs have been met with the systems that you are running within the Department of Education. You have now got another agency that you have employed to develop a whole new system and they are currently running in parallel with the development. Obviously, there are some basic requirements of any system but this other system is obviously going to have to create a lot more enhancements for that sum of money. I am asking, are you comfortable with half a million dollars and the end result?

CHAIR: I suppose Mr Williams is asking, are we getting value for money?

Mr McMAHON: Certainly I believe we are getting value for money. The legacy environment that is there, as Peter explained, has been around for a long time. Just the money that we are spending in this program will enable future changes that were impossible in the Education Department, due to the landscape that we had. It is a lot of money but it is a large and complex organisation, so when it comes to the cost of programs of this size, from the experience I have obtained overseas, it is not actually a huge amount of money compared to the size of the organisation and the work that needs to happen and what it will enable for the future. If we had been maintaining the system for the last 20 years, it is not a lot of money. The problem is, there has not been a lot of maintenance of a legacy system over those 20 years because it is complex and difficult to change. If you think of the analogy that, if you do not maintain and look after your house, after 20 years you have a big bill to fix it.

Mr BART BASSETT: You have just prompted me to ask another question. While we have acknowledged that IT is a changing industry and the technology is changing rapidly, you said it is hard to maintain the old system or it was not maintained. To qualify your answer, do you think that, from December 2014, the new system is going to be easier to lift to the next level of IT as it becomes available?

Mr McMAHON: Thank you for that qualification. I did not mean that it has not been maintained. I meant that it is difficult to maintain and therefore you have to prioritise what you maintain. By implementing modern enterprise resource planning [ERP] systems, we then have the capability to adapt them, to adapt them quickly and to deal with more complex environments from a business perspective. We do not have that flexibility in the old legacy systems. I think it would be easier, and a lower cost of ownership, for our IT systems going forward.

Mr JOHN WILLIAMS: Further to that, if we look at two of the aspects of Financial Management and Human Resources Management, one would think that we would be able to find some affordable packages that meet the need, with a few changes or a few rewrites on the software. It seems amazing that we are now going to develop a system from the ground up when I believe some of that might already have been done.

Mr McMAHON: We are not developing a solution from the ground up, we are actually using the world number one product SAP for Human Resources and Finance and then some integration work using a product called Tribe in the front end. So we are using an off-the-shelf product but then adapting it to our business needs. One of the key principles around that is standard, where possible. That is where the reform part comes in and we are trying to utilise the off-the-shelf product. We are not building something from scratch.

Mr JOHN WILLIAMS: Do you take the view that on the financial side of it you might develop a management tool that can integrate directly with Treasury?

Mr McMAHON: Yes. I know there is a desire to do that within the wider whole of government. Given we are using an SAP product it would be easier to do that than with a custom built product. It is something we are looking at for the future after Learning Management and Business Reform [LMBR] as to how we can get that integrated automation into Treasury.

Mr JOHN WILLIAMS: So as a pre-requisite you probably would have consulted Treasury as regards the direction you are taking in the introduction of this software?

Mr McMAHON: We update Treasury regularly around the project.

CHAIR: The final area I want to get your opinion on relates to the Queensland Health IT project. We have probably all seen reports of the huge blowout in expense on that project. It struck me that the figures the Queensland Government quoted included internal expenses rather than just easily quantifiable external or project expenses. They seemed to have a more expansive view, on my reading, in terms of what the cost of the project might be. Do you have a perspective on that and to what extent do you think the costs of your project, LMBR, have properly accounted for all the related internal expenses that go with the project? It is a question

about methodology and how you calculate costs. Can you give us some insight on your project and your observations on the Queensland Health IT project?

Mr McMAHON: With regard to my own project, all our costs are tracked around resources required to do the activities of the program, expenses related to those resources, any hardware infrastructure and any costs associated with the running of the program, so it is ring-fenced as an individual cost. I am not across the detail you are talking about in relation to how Queensland Health—are you suggesting they have included a lot of internal costs in the cost of that program?

CHAIR: That is my perception based on the reports but it is not based on a close knowledge of the project.

Mr McMAHON: I cannot comment on that because I am not across that detail. From an LMBR perspective we are ring-fenced as a program and only the costs related to the program are included in that cost. There are certain rules we have to follow around finance and whether something is opex or whether it is capex. Mine is all around the capex component so that is how the cost is controlled.

CHAIR: Do you monitor or track the opex expenses that relate to this project—I am not talking in a purely operational rollout sense but in terms of internal resources that are dedicated to this project and its development?

Mr McMAHON: Yes, if they are working on the LMBR program that cost is captured, so any expenses associated with that.

CHAIR: Within that figure of 386?

Mr McMAHON: Yes. That is correct. I will ask Peter to elaborate around the financial aspect.

Mr RIORDAN: If I am right about where you are going with this question it is my time, the head of human resources' time and that of the head of finance who are participating in various workshops to help develop and refine it. That is considered to be part and parcel of their normal activities and is not costed against the project.

CHAIR: How do we quantify that if we wanted to or is it too hard to do so?

Mr RIORDAN: I think we would need to introduce an activity-based costing methodology, which we do not have in the department at the moment. We have not tried to capture that cost. We have just treated that as being part of—the general manager of human resources is responsible for human resources system and they have a very intimate desire to ensure that the solution from LMBR meets the needs of the organisation so they put their time into it as part of their normal job.

CHAIR: I take it from Mr McMahon's response and yours that you do not have any close knowledge of the Queensland Health IT project or any observations or lessons learnt from afar?

Mr RIORDAN: I think it would be unwise at this stage to make any comment about those sorts of things. What I do know—my understanding is that they failed to do appropriate parallel payroll runs before they went live with their system. That is, they did not run the old system and the new system together to test that the outcome was going to be correct before they went live. In my view we certainly will not make that mistake; we never intended to make that mistake and the learning we have taken from that exercise is that the consequences are very serious for employees and for governance. For the department itself not to be able to pay its people appropriately is a very challenging issue to overcome.

Mr McMAHON: I thought you meant specifically about the handling of internal costs and stuff.

CHAIR: Not just in terms of the outcomes but also the cost control.

Mr McMAHON: In general, another key lesson learnt from the Queensland Health situation was around the change in the roles and activities because a shared service model was implemented there and in my opinion, reading the reports, there was a lack of understanding of the users themselves and how they carried out the processes. One of the key aspects that we have in our change management approach is change impact

assessments, at the detailed level of individuals right down to a teacher, an admin or a principal understanding what they do today versus what they will be doing with the new solution and then testing that before they actually deploy. If you like, we are going live in the background and understanding the impacts. That was a key lesson.

CHAIR: Auditor-General, do you have any input?

Mr ACHTERSTRAAT: No.

Mr JOHN WILLIAMS: You have sort of set up virtual reality and you have got this program to a point where you are running it.

Mr McMAHON: That is what we will do. We call it "a day in the life". It is almost like you go through the process of people doing what they would be doing as soon as they go live. It enables you to iron out any last-minute problems: Is there a gap or has somebody misunderstood? It gives you a chance to evaluate the training effectiveness and stuff like that, so that is the plan.

Mr JOHN WILLIAMS: Have you put this in situ in a single school to start with to test it?

Mr McMAHON: A school or a TAFE institute.

CHAIR: I thank all those who have attended today for their patience and for returning to what is no doubt a somewhat uncertain environment but one which I think has ended with a good outcome in the sense that we have been able to clarify some matters and elicit some further information that we might not otherwise have been able to do. The Committee may wish to send you some additional questions in writing the replies to which would form part of your evidence and be made public. Would you be happy to provide a written reply to any further questions should there be some?

Mr McMAHON: Yes.

Mr RIORDAN: Yes.

CHAIR: Thank you for appearing before the Committee.

(The witnesses withdrew)

(The Committee adjourned at 12.28 p.m.)