ECONOMICS AND GOVERNANCE COMMITTEE

Members present:

Mr LP Power MP (Chair)
Mr RA Stevens MP (via teleconference)
Ms NA Boyd MP (via teleconference)
Mr ST O'Connor MP
Mr DG Purdie MP (via teleconference)
Ms KE Richards MP

Staff present:

Ms L Manderson (Committee Secretary)
Mr J Gilchrist (Assistant Committee Secretary)

PUBLIC BRIEFING—CONSIDERATION OF THE AUDITOR-GENERAL'S REPORT NO. 10 OF 2019-20, *EFFECTIVENESS OF THE STATE PENALTIES ENFORCEMENT REGISTRY ICT REFORM*

TRANSCRIPT OF PROCEEDINGS

THURSDAY, 23 APRIL 2020

Brisbane

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The committee met at 11.17 am.

FLEMMING, Mr Patrick, Assistant Auditor-General, Queensland Audit Office (via videoconference)

TOMA, Mr David, Director, Performance Audit, Queensland Audit Office (via videoconference)

WORRALL, Mr Brendan, Auditor-General, Queensland Audit Office (via videoconference)

CHAIR: We will move on to the public briefing on the consideration of the Auditor-General's report No. 10 of 2019-20, *Effectiveness of the State Penalties Enforcement Registry ICT reform*. This report was referred to the committee on 6 February 2020. Thank you for appearing to brief the committee this morning. I invite you to make a brief opening statement, after which committee members will have some questions for you.

Mr Worrall: Good morning. Thank you for the opportunity to meet with the committee to discuss report No. 10 of 2019-20, *Effectiveness of the State Penalties Enforcement Registry ICT reform*. We tabled this report in February 2020.

On 25 March 2019 the Under Treasurer wrote to me about concerns with the State Penalties Enforcement Registry—otherwise known as SPER—reform program, which began in May 2014. His concerns were about the delivery of information and communication technology, or the ICT component. I agreed to audit the effectiveness of the governance of the program's ICT component.

The ICT component of the SPER reform program involved implementing new case management software to assist SPER with the recovery of unpaid fines. As part of the program SPER signed a contract with the vendor to supply and implement existing debt collection software with a focus on configuring rather than customising its product to meet SPER's business transformation needs. The vendor was to provide the case management software to SPER through an ongoing arrangement for software as a service, otherwise known as SaaS; that is, the vendor retains ownership and SPER pays an annual fee to use it. SPER originally went to the market for a debt service manager who would also provide a case management software solution.

The government policy for outsourcing changed while the procurement process was underway. SPER continued its original process to procure a casework management software solution but without an outsourced debt service manager. Delayed definition of the operating model meant that SPER and the vendor were not on the same page regarding system requirements. It also appears that SPER's requirements may have changed over time, as it did its business transformation. SPER did not do sufficient due diligence of the vendor's product or conduct reference checks on the vendor's local staff who worked with them on the project. The vendor's local delivery team was different from the international team involved in the procurement process.

We found weaknesses in the procurement process in terms of the independence and objectivity of the program steering committee and the overuse of external consultants and contractors. SPER did not have the right skills and experience to manage project delivery. SPER did not sufficiently mitigate risks raised in assurance reviews and chose to remain overly optimistic rather than make the call to pause the project when it had the opportunity to do so. The program's steering committee was highly reliant on the advice and information provided to it by consultants and contractors because of the skill gaps it had. Because SPER and the vendor were not on the same page in terms of system requirements, the contract required significant changes as evidenced by the pattern of contract variations and change requests. The contract variations in the end increased the vendor's revenue from the project with an additional $10.3 million on top of the original agreed contract value for implementation of $13.8 million.

SPER ended up without an ICT system because it terminated the contract, and the vendor retained ownership of the software because it was a software as a service arrangement. The total cost of the SPER ICT project, based on SPER allocated costs between the business transformation

and the ICT components of the program, was $52.7 million. This included other contractor and consultant costs who supported the project, so that is in addition to the vendor. Another $24.1 million was spent on the business transformation program, bringing the total cost of the SPER reform program to $76.8 million.

We made eight recommendations in the report. Five of the recommendations were to the Department of Housing and Public Works to: develop and implement guidelines to assist entities establishing digital and ICT contracts; develop strategies to upskill staff within the Public Service in delivering and governing ICT projects; ensure major ICT projects are established with appropriate governance arrangements before vendors are engaged; revise investment review and project assurance guidance; and improve transparency of major ICT projects. The three remaining recommendations were to Queensland Treasury to: update guidelines to ensure audit committees are required to monitor risks for major ICT projects; update its own audit and risk management committee charter to improve the monitoring of risks of its own ICT projects; and review its governance structure to avoid conflicts of interest and ensure its governance committees have appropriate skills.

The audit provides many important lessons for ICT projects across government entities. We have reflected on these whilst doing the audit and have produced the *QAO better practice guide: learnings for ICT projects*, which is available on our website. I have personally emailed CEOs across government entities who may lead significant ICT projects in the future to encourage them to review the learnings of the SPER ICT project. There is undoubtedly a need for greater governance and oversight of significant ICT projects in the public sector, including greater transparency on cancelled projects.

My report also provided a brief summary of the training management system project that was cancelled by the Department of Employment, Small Business and Training in 2018 after $34 million was spent over several years. As outlined in the foreword of my SPER report to parliament, I am currently undertaking a preliminary inquiry with regard to the SAP S/4HANA implementation at Queensland hospital and health services. I expect to make a factual report to parliament on this implementation by 30 June 2020 and to then provide further updates through my annual report on the results of financial audits in the health sector. I am happy to take any questions the committee may have.

Mr STEVENS: I have several questions, but the first one I would ask Brendan would be about the weakness of the design of the steering committee appointed to govern the SPER reform program. You noted that the chair of that steering committee also attended the evaluation panel, which may possibly have compromised the independence and objectivity of the challenge to meet the procurement process. Can you explain further to the committee how that would have influenced the outcomes in relation to the process that was finally entered into?

Mr Worrall: I am happy to talk about that and David might jump in as well. I think the first issue we had with the governance was that there were three key players involved in the project and the same players were involved in three different governance committees. This was the project board of the actual SPER report process. There were two people on that committee who were also on the audit risk committee, and at one stage one of those persons was actually the chair of the audit risk committee, and both of those people were also on the Queensland Treasury executive management leadership team. That impacts on the reporting between those two committees. There was little reporting from the project board to the audit committee, and I do not think there was any real reporting to the executive management group either, so that was one conflict-of-interest issue around governance.

The other one that we called out in the report was in relation to the implementation partner. The implementation partner was also involved in the scoping of the project in the first instance and they ended up becoming one of the implementation partners, so to me there was an inherent conflict there because it would have made it difficult for that party to then call out any sort of weaknesses in the initial scope of the project.

Mr STEVENS: You would also scope it to your particular details, I should imagine, if you had that opportunity.

Mr Worrall: That is exactly right. It sort of almost put them into a self-review process. They would have then been criticising their own firm if there were deficiencies in that initial design scope. I do not know if David wants to add anything.

Mr Toma: I agree with Brendan's comments. The only thing I would amplify in terms of what he said is that where it really had an impact was in relation to how project assurance activities were operated. We did find instances where, if warning signals were raised with various people in terms of

the report, because of the way the governance was set up those messages were not getting through to various other governance committees, because we did find duplicate memberships. We were not able to get assurance that there was some independence and objectivity in relation to how those assurance reports were scrutinised.

Mr STEVENS: Brendan, can you also advise if there are similarities between the procurement process for the SPER ICT program—which cost $74 million and ended up with nothing—and the Health payroll ICT procurement process previously entered into? Did you look at that process to compare the same issues?

Mr Worrall: I will throw that question to David, because he is probably more across the Health payroll issue given that that occurred before I came into QAO.

Mr Toma: In making comparisons to the Queensland Health payroll implementation it is important to recognise one fundamental difference between the two projects: the Health payroll was still implemented and did pay employees whereas the SPER solution was stopped during user acceptance testing and it did not collect any debts for the state. Having said that, there are a few things that the two projects have in common.

Firstly, in both instances there was an urgency to replace an old legacy system. Secondly, what we found in common is that the requirements were not well defined from the beginning. The other thing we found in common between the two projects is that there was a very heavy customisation of the vendor's product. In the case of the SPER solution, the state entered into a contract with an expectation and agreement with the vendor that there would be predominantly a configuration of the vendor's product. What ultimately occurred, because SPER found that the solution did not fit its needs, was that there was a requirement for three major contract variations and over 300 change requests which were exchanged between the two parties, which indicates that the two entities were never on the same page to begin with. Not defining those requirements up-front early was a common issue across both of those projects.

Mr STEVENS: That leads me to my final question. About 18 months ago when the parliament changed the SPER legislation, did that have any impact on the vendor ICT program or the cost at all?

Mr Toma: The legislative changes would have placed some pressure on the program in terms of implementing an ICT solution in time for that, although we saw ultimately that they did make the call to terminate it.

Mr Worrall: I think the point David was making when contrasting the two projects is that both projects were highly customised. SPER had gone into a contract for a configuration and not a customisation, but because due diligence on the product was not done properly they realised after some time that the SPER product as configured was not going to meet their needs, so it moved from a configuration arrangement to a customisation arrangement. This was really what caused all of the significant cost blowouts and time overruns. They never defined their needs properly in the first place.

Ms RICHARDS: Obviously there have been a lot of learnings taken from this process, and I note that you are preparing an insights report to parliament. Are there other methods that can be applied to ensure a more consistent approach and to ensure that we share that knowledge? Have any other departments contacted the QAO with regard to guidance in implementing significant ICT projects?

Mr Worrall: If you look at the recommendations we made, we are really looking for more intervention from lead agencies around major projects. Given the complexities of major implementations, I think it is difficult for one entity alone to progress these. At the time of this implementation there was the QGCIO. That has now been reformed to have different powers, and that is what we are really saying. Agencies like that need to play more of a role in providing oversight around projects, but there also needs to be a role in skilling people across the public sector to better manage ICT deliverables.

I think part of the failing here was that SPER staff, if anything, were probably overwhelmed. The project manager still had a day job to do at SPER and then was tasked with managing the entire SPER reform project, which had both an ICT component and a broader reform process. That in itself made it very difficult for that person to have the necessary line of sight on all matters, so there definitely needs to be more intervention and a stronger hand on these projects. I also think there needs to be greater transparency on the ICT dashboard. We did that review a couple of years ago now and pointed out some shortcomings with that. What we have said in this report is that projects can still just disappear off that dashboard—they just sort of close down and disappear—but there is not the line of sight that there needs to be around projects generally.

Have agencies reached out to us? I am pretty sure that at least one agency has. As I said in my opening remarks, we are taking every opportunity to drive the message home. I have personally emailed every chief executive in the state and local governments with regard to this. David has been busy on the speaking circuit ever since this report was tabled in parliament, and we will continue to do that. We really do not want the lessons from this to be lost, because there is a bad outcome for the public when that happens.

Mr O'CONNOR: Just to clarify, the total cost of the failed project was $76.8 million?

Mr Worrall: Yes, that is right. Our audit only focused on the ICT component, but the ICT component was really a subcomponent of the broader business reform process of SPER. The ICT component was $52.7 million. The remaining balance, the $24 million-odd, was spent on the broader business transformation. We have not done any work in that space. SPER would argue that some of that is recoverable, but we have done no work to validate any of that. The big number—$76 million—is what has been spent on the reform process to date.

Mr O'CONNOR: Can you comment on where SPER is going with it now—what the next step is for them in this space?

Mr Worrall: They have actually looked at putting the reform process on the backburner. That is what I understand at the moment.

Mr Toma: I understand they have stabilised the existing system and upgraded some of their supporting infrastructure so they can continue improvements with their legacy product. I understand they are looking at a project for a new solution using a different platform.

Mr O'CONNOR: You mentioned that at least one other agency has reached out. Our briefing paper states that there are $2.6 billion worth of ICT projects across government over the next four years. Which agency has reached out? Can you give us an idea of what that $2.6 billion includes in other projects?

Mr Toma: Queensland Shared Services reached out to us. I went to one of their board meetings and gave a presentation about the key learnings in this report. I am open to doing that for other agencies that want to have a similar briefing.

Mr Worrall: The $2.6 billion would be a number that would have been derived from the budget papers, I expect.

CHAIR: You said that one of the major problems was identifying the need at the beginning of the process and then, because of a failure to identify the need, being overly optimistic that the needs identified through the process would somehow be fixed or incorporated. Will the better practice guide help in that process? Given the information you have given us about them continuing to use the legacy system, does the better practice guide emphasise that the option of continuing the legacy system is one that should be evaluated against change?

Mr Worrall: In this case the legacy system, from what I understand, is 19 years old and it is well past its useful life. It requires a lot of intervention to keep the platform stable, so there is obviously a business risk decision that needs to be made in relation to that. In terms of the guidelines, understanding what the business's needs are from the outset is imperative. That has not really happened in this case. If you do not understand what your business needs are, you cannot really design a solution for those needs. It sounds pretty basic, but that is fundamentally where they went wrong from the get-go. They did not fully articulate what their business requirements were internally, let alone to any other parties outside of SPER who may have been able to help them deliver on their needs.

If I had to say what were the two fundamental things they did wrong, one was the design of the government's arrangements and the other was that they just did not articulate what their needs were. Because they were never articulated properly, the needs kept on changing. It went from software as a solution to an ICT in-house solution. It went from a configuration to a customisation. It was pretty much a moving target the whole way through.

Mr O'CONNOR: Towards the end of our briefing from Treasury and the Department of the Premier and Cabinet it states that implementation has been put off until the fourth quarter of 2020-21. Is that unusual? It just seems like a long time. Recommendation No. 3 states—

works together with Queensland Treasury and the Department of the Premier and Cabinet to ensure that major ICT projects are established with appropriate governance arrangements before vendors are engaged

The implementation for that is quarter 4 of 2020-21. Is that a long time? Can you comment on that?

Mr Toma: In terms of the eight recommendations, that is the one that probably stands out as being one of the really critical recommendations in terms of effecting the change we want to see in this space to prevent these sorts of things happening again. The time frame does look a bit generous, but as part of our ongoing process we have a team that monitors the implementation of recommendations across the sector, and that is something that we will certainly be keeping an eye on in terms of what progress is made against that.

Mr Worrall: The other thing to bear in mind is that, as we were doing this audit, changes were already being made to the functions of the QGCIO because already there was a realisation that the way it was set up was not really assisting major projects like this. Since we started the audit and since we finished the audit, those changes started to filter through. Although that recommendation is targeted at the Department of the Premier and Cabinet and Queensland Treasury, in reality we will see practical changes being driven out of the new QGCIO as well which will also impact on the government's arrangements for major projects.

There is one thing I would like to mention which is something I learned since this report was tabled. I happened to hear a presentation by the chair of Sydney Water, and this is just to provide a bit of context. I think major ICT projects are a struggle for all entities, not just public sector entities. Sydney Water embarked on an ICT project to replace its billing system across the Sydney region. It was a 35-year-old legacy system, it has four million users, and it gave very little information for them to manage the actual supply of water let alone the billing system. The project was a lot more than a billing system. It was a $102 million project, and they were able to manage that project both on time and on budget.

A few of the things the chairman mentioned they were able to do to achieve that were really interesting. Initially they started on two projects running in parallel. They quickly realised that the business was not able to manage two projects, so they parked one project and just focused on this project. It became the No. 1 agenda item for their board meetings. The board also engaged its one subject matter expert, who shadowed the project over that 18-month to two-year period and reported directly to the board so they had their own source of proof. There were a whole lot of other things they did and some interventions they had to do along the way. It was a good news story which showed that ICT projects can be implemented.

They implemented that project and people in the Sydney region would not have even known this happened. It all happened in the background. From their point of view, the bills they received still looked the same. There was no time lag or anything like that, so to me it was a good news story that we should not lose sight of, either.

Mr STEVENS: Mr Chair, I think it is very important that our committee, the Economics and Governance Committee, notes and takes advice from the Auditor-General. I wonder if the Auditor-General would be able to prepare a précis of that successful outcome for ICT provision to the committee.

Mr Worrall: I will try to. Since hearing that presentation I looked in the public domain. There is basically nothing in the public domain around that, but I can make a direct approach to Sydney Water to see whether they may be able to share some learnings in a bit more detail and be comfortable I can at least report that back to you.

Mr STEVENS: Thank you. Chair, that will be something for further discussion on direct contact between Sydney Water and the committee itself.

CHAIR: That concludes today's briefing. Thank you for all the information you have provided today. Thank you to our Hansard reporters. A transcript of these proceedings will be available on the committee's webpage in due course.

The committee adjourned at 11.46 am.