Government of Western Australia
Department of Finance

Our ref   : 2015/00007 (01610394)
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Hon S K L'Estrange MLA
Chairman
Public Accounts Committee
Parliament House
PERTH WA 6000

Dear Mr L'Estrange

INQUIRY INTO INFORMATION AND COMMUNICATION TECHNOLOGY PROCUREMENT AND CONTRACT MANAGEMENT – INVITATION TO MAKE A SUBMISSION

I am pleased to provide a response to the Public Accounts Committee's *Inquiry into Information and Communications Technology (ICT) Procurement and Contract Management*.

As agreed, the Department of Finance has prepared a response to the relevant questions relating to the Delivery of ICT. Specifically:

- What are the common problems witnessed in public sector delivery of ICT goods and services?

- What elements represent best practice in ICT delivery?

  - ICT delivery includes: Project Planning, Contract Management, Project Management, project Status Reporting and Reviews.

- How do we best measure or define success in ICT delivery?

The Office of the Government Chief Information Officer (OGCIO) will provide a separate submission addressing the questions relating to Delivery of ICT and Government ICT Solutions for Western Australia.

If the Committee requires further information, please contact Ms Stephanie Black, Executive Director, Government Procurement on

Yours sincerely

Anne Nolan
DIRECTOR GENERAL

25 August 2015

Department of Finance

Response to the Public Accounts Committee

'Inquiry into Information and Communications Technology (ICT) Procurement and Contract Management'

August 2015

Introduction

This submission has been prepared by the Department of Finance to assist the Public Accounts Committee with its *Inquiry into Information and Communications Technology (ICT) Procurement and Contract Management.*

The submission has been developed primarily by the Government Procurement business unit of the Department of Finance and addresses questions from the Committee.

The submission addresses questions relating to the Delivery of ICT and Government ICT Solutions for Western Australia, specifically, the three questions relating to the Delivery of ICT:

- What are the common problems witnessed in public sector delivery of ICT goods and services?

- What elements represent best practice in ICT delivery?

  - ICT delivery includes: Project Planning, Contract Management, Project Management, Project Status Reporting and Reviews.

- How do we best measure or define success in ICT delivery?

Delivery of ICT

The following comments, observations, and recommendations are based on the Department's interaction with public sector agencies undertaking procurement for large ICT programs in Western Australia.

Government Procurement provides services and support to agencies in the following areas:

- strategic procurement planning;

- program procurement risk assessment and risk management;

- ICT program procurement planning;

- tendering and contract award;

- contract management; and

- Gateway review.

The general observation would be that agencies' focus has been on the processes for tendering and contract award. Agencies are generally risk averse and consider these processes present the highest risk to the achievement of their goals. While having robust decision-making processes around contract award is important, there is a need for agencies to engage more in planning and risk assessment before going to market; and in contract management after award.

The utilisation of the Department's Gateway review services is significant but a number of large ICT projects have not considered this service.

What are the common problems witnessed in public sector delivery of ICT goods and services?

1. Lack of understanding of objectives and required outcomes; under-estimation of the complexity of the proposed solution; over-reliance on the supplier

Government Procurement finds that agency buyers sometimes seek support in preparing to go to market and award contracts before they have completed sufficient market research and planning. This has resulted in an inability to consider all options and to procure the right solution. In turn, this can result in an over-reliance on the supplier and an inability to appropriately manage the contract and the supplier performance.

A recent example occurred when a large department undertaking a high-value, high-risk and very complex ICT program had a need to resolve inadequate in-building mobile phone coverage.

The agency specified its requirements and then relied on suppliers to provide suitable solutions. It was not discovered until much of the installation had been completed that not all the buildings had been included in the agency's specification. Coverage was therefore deficient for the agency's needs. It was also found towards the end of the process there was a requirement for other telecommunications providers to undertake work on site. This delayed the successful completion of the installation plan.

A thorough risk analysis and assessment at the commencement of the procurement process is likely to have identified a lack of understanding of the technical requirements and potential solutions.

A more strategic approach using expertise in both telecommunications and procurement during the planning process would have identified and addressed the risks; and therefore resulted in better and more suitable specifications. It would also have led to a better understanding of the process for solution installation and a more timely outcome.

When agencies take the time at the beginning of the procurement process to plan and manage risks, their outcomes are very good.

The same agency established a panel contract for computer network services. The project was well-planned, timelines were not rushed and there was a good mix of expertise in planning. Risk assessment was thorough and risks were well managed.

A good mix of vendors was appointed and all have received work under the contract. The vendors have been able to provide end-to-end solutions and small individual work packages because the arrangements allow for flexibility.

The turnaround times to procure services were shortened because the panel arrangements facilitate streamlined procurement processes.

2. Lack of collaboration and learning from others' experiences

Although the Department provides some opportunities for agencies to benefit from collaboration, aggregation and standardisation, the public sector would benefit from more cooperation and learnings from the experiences of different agencies.

Currently, there are seven agencies seeking to replace their human resource systems. The agencies were planning to go independently to market. Government Procurement has assisted in bringing the group together and developing a common set of specifications.

Through collaboration and sharing of resources, the agencies have been able to undertake a higher level of market research than they would have independently. Government Procurement has facilitated organised demonstrations from potential providers; and coordinated the development of a set of common specifications. The agencies will also now be able to use aggregated buying power to achieve optimum pricing.

What elements represent best practice in ICT delivery?

1. Take advantage of the assistance, support, and standardised arrangements in place

Agencies are accountable for their ICT project delivery and the governance frameworks that control and monitor their programs. Procurement is a key activity within ICT project delivery. The Department of Finance, through Government Procurement, provides support, guidance, assistance in procurement practice, and a policy framework which can contribute significantly to excellent outcomes.

Government Procurement maintains a number of Common Use Arrangements (CUAs) that agencies can use to source expertise to assist in delivering ICT projects. These include panels of suppliers for data centres, telecommunications, networks, and ICT Services (including specialist expertise in most technical elements of ICT).

In addition, agencies can request specialist procurement support from Government Procurement in all facets of buying, including procurement planning, risk assessment, market research, development of specifications, going to market, evaluation of submissions, contract award, and contract management.

The establishment of the Office of the Government Chief Information Officer (GCIO) in July 2015 aims to improve ICT project outcomes across government. Government Procurement is working in collaboration with the GCIO to take a proactive part in agencies' development of business cases, procurement strategies and plans, and in the management of contracts.

2. Increase understanding that excellence in procurement results in higher quality outcomes

Government recognises the need to leverage the benefits that technology can deliver. However, ICT project delivery in Western Australia (and other States) has often been problematic. There is a need to build trust with the community by addressing issues that have been identified.

A number of reports into ICT programs and procurement have highlighted project failures, and identified poor planning and governance have contributed to significant cost overruns in WA ICT projects. These include:

- *ICT Procurement in Health and Training (2010 Auditor General Report)*
- *Second Public Sector Performance Report (2011)*
- *Systems Audit Report (2014 Auditor General Report)*
- *Inquiry into the Department of Health's Response to Challenges Associated with Commissioning Fiona Stanley Hospital (2014)*

While the Auditor General has stated the Department administers the CUAs well and there is confidence that ICT contractors listed on CUAs have undergone a rigorous assessment process, many agencies do not yet understand the link between good outcomes and high quality procurement.

3. ICT Project Oversight and Monitoring

The Gateway project assurance process offered by Government Procurement provides valuable insight for governance groups overseeing ICT projects. Reviews are designed to support effective development, planning, management and delivery of major projects and programs.

Gateway is used in all Australian jurisdictions. It is not mandatory in Western Australia and approximately half government's approved high-risk/high-value projects are submitted by agencies for a Gateway review. Gateway is most often used for infrastructure projects and is under-utilised for ICT projects in Western Australia compared to other Australian jurisdictions.

Agencies are accountable for managing the contracts they establish. They are required to plan for contract management for all contracts valued over $5 million.

While Government Procurement assists in the process of contract management planning, and provides training in contract management disciplines and processes, once an agency has a contract established, Government Procurement is not often involved in the day-to-day management.

> *In 2013, a large ICT project to deliver a system for a large agency was found to have failed to realise any deliverables resulting in an estimated cost of $6 million.*
>
> *While there were a number of contributing factors to this failure, one of the most significant was the performance of the contractors responsible for the project. They were inadequately managed. Their work was not properly checked against the contract, and their performance was not regularly assessed.*
>
> *The Office of the Auditor General found that there was no suitable project governance structure; project milestones were not used to track the project; and there was a lack of oversight of the project and its risks.*

4. Agencies need to build skills and capability in procurement

Government agencies need to build their capability in the fundamentals of procurement. The Department provides education, training, documentation, and standardised processes to assist.

Procurement Strategy and Planning

Procurement strategy and planning for ICT projects will lay the foundations for success. Agencies need to:

- establish suitable governance arrangements to maintain probity and accountability;

- take the time to research similar projects in the past; discuss potential and existing solutions with other agencies; test the market to see if there is a solution already available; and use subject-matter specialists to advise on potential solutions and risks;

- create a detailed plan outlining the procurement requirements, stages and purchasing processes; and

- establish an evaluation panel that includes the necessary skills, expertise, and experience to make decisions.

Procurement Practice

The development of the request and specification requires significant effort and expertise. The request may be interpreted as part of a legally binding contract and therefore should be clear and precise. Before finalising a specification and request, agencies should:

- identify user needs (refer to the procurement plan and business case);

- apply the research undertaken during planning;

- conduct a risk analysis on the proposed solution;

- lock down the scope for delivery; and

- determine evaluation criteria.

The tender process is well understood in the public sector and Government Procurement is involved in all tenders above $50,000 in value. Government Procurement provides guidance, standardised documentation, and assistance with the mechanics of TendersWA.

Agencies can build their skills in contract management through engagement with Government Procurement.

Risk Management

A robust framework for the management of procurement and project risks needs to be implemented as part of the process. Risk identification and analysis need to be ongoing and include risks in procurement processes, the solution itself, the implementation project, and management of the contract.

Project Management Skills

While project management skills in the public sector have improved over recent years, many agencies continue to appoint relatively inexperienced, internal project managers for large and high-risk ICT projects. This can lead to sub-optimal outcomes as not all options may then be considered.

Government Procurement and WA Police applied innovative project processes to manage a complex procurement for a CAD project. By splitting the procurement into two stages and applying project management discipline to each stage, risk was significantly reduced.

Governance Principles

It is critical to the success of any project, but particularly complex ICT projects that good governance principles are applied. This usually involves establishing and documenting responsibility and accountability for the success of the project. The governance oversight group is responsible for decision-making; understanding the required outcome; giving direction to project teams; and robust monitoring of project progress and risk management.

Conclusion

The Department thanks the Public Accounts Committee for the opportunity to provide a submission into the *Inquiry into ICT Procurement and Contract Management*.

The Department through its Government Procurement business unit is responsible for leading a whole-of-government approach to goods and services procurement. The Department provides policy and practice advice; the development of common use arrangements; assisting agencies to develop and manage agency specific contracts; and providing strategic procurement advice.

Most government agencies are required to involve Government Procurement in contracts greater than $50,000 in value. Therefore, the unit is well placed to make observation and comment about procurement practice in major ICT projects. The information gathered by Government Procurement while working with agencies on their ICT procurement is used as a basis for future planning of education and training; review of the service delivery model; policy review; and standardisation and documentation.

The common problems in public sector delivery of ICT goods and services arise when agencies do not adopt best practice in the procurement of goods and services.

Specifically, sub-optimal outcomes result from poor procurement practice:

- incomplete or deficient business cases arising from lack of strategic procurement planning and ICT project specific planning;
- failure to fully identify and assess the risks associated with their ICT project. There are significant potential risks related to procurement and these require robust management and oversight;
- inadequate governance and oversight of procurement processes; and
- failure to properly manage contracts.

Furthermore, agencies could enhance their procurement outcomes through:

- better understanding of their objectives and research into potential solutions;
- proper understanding of the complexity of the project and the solution; and
- collaboration with other agencies in projects and learning from other agencies' experiences.

Government Procurement can assist through:

- provision of expertise in procurement into agencies for large, complex and high-risk projects (secondment). Specialist support is available in planning, risk assessment, market research, development of specifications, evaluation, and contract management;
- day-to-day support, guidance, practice assistance and policy framework;
- maintenance of Common Use Arrangements which allow agencies to easily source goods and services required for large ICT projects; and
- Gateway review service offers assurance and valuable insight for projects.

The Department is working to continuously improve its assistance to agencies and to provide high quality services which facilitate optimum outcomes in large ICT projects.