



Education and Health Standing Committee

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Auditor General's report on *Health Department's Procurement and Management of its Centralised Computing Services Contract*

Report No. 10
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Legislative Assembly
Parliament of Western Australia

Education and Health Standing Committee

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Presented by

Dr G.G. Jacobs, MLA

Laid on the Table of the Legislative Assembly on 22 September 2016

Chairman's Foreword

It was with some interest that in February 2016 I attended one of the regular briefings the Auditor General presents to members of Parliament on reports prepared by his Office; in this case on the *Health Department's Procurement and Management of its Centralised Computing Services Contract* report.

This particular briefing sparked my interest as the Chairman of the Education and Health Standing Committee as we had previously inquired into the Department of Health's difficulties in commissioning the new Fiona Stanley Hospital. These difficulties were largely related to information and communication technology and how to achieve a 'paperless' hospital. The computerisation of the hospital and the challenges that the Department of Health failed to meet led to the Committee's report *More than Bricks and Mortar: The report of the inquiry into the organisational response within the Department of Health to the challenges associated with commission the Fiona Stanley Hospital*. The issues identified with the Department of Health's Centralised Computing Services Contract had the potential to impact on the running of the Fiona Stanley Hospital.

As the Auditor General's damning report indicates, there was significant mismanagement of this contract. The contract management did not adhere to accepted practices, had less than satisfactory outcomes and, above all, cost taxpayers money.

For these reasons we thought this short report was a necessary and appropriate 'addendum' to our previous work; to highlight this mismanagement to Parliament and to ensure that the issues are corrected and the Government is held to account. I commend this report to the Parliament.



DR G.G. JACOBS, MLA
CHAIRMAN

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Ministerial Response

In accordance with Standing Order 277(1) of the Standing Orders of the Legislative Assembly, the Education and Health Standing Committee directs that the Minister for Health, Minister for Finance and Minister for Culture and the Arts report to the Assembly as to the action, if any, proposed to be taken by the Government with respect to the recommendations of the Committee.

The Committee requests that the Ministers respond prior to Thursday, 17 November 2016.

Findings and Recommendations

Recommendation 1

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That the Minister for Health report to the Assembly on disciplinary proceedings or performance improvement action undertaken, if any, which arose from the actions of Employees A and B as set out in the Auditor General's report *Health Department's Procurement and Management of its Centralised Computing Services Contract*, including as a result of an investigation into this conduct undertaken by the Public Sector Commission or other body.

Finding 1

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The Department of Health has been inconsistent in its use of the Gateway review process for major ICT procurement projects, which reflects a disregard for the value of the process in improving project delivery performance.

Finding 2

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The Department of Health has not utilised the Gateway review process as recommended by the Department of Finance.

Recommendation 2

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That the Minister for Health report to the Parliament on the reasons the Department of Health has failed to utilise the Gateway review process for ICT procurement projects with an investment value of greater than \$10 million.

Recommendation 3

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That the Minister for Finance and the Minister for Culture and the Arts report to the Parliament on the State Supply Commission and State Records Commission's consideration of available penalties or actions for the Department of Health's breaches of agency obligations.

Recommendation 4

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That the Minister for Health reports to the Assembly on the Department of Health's progress in implementing the recommendations made by the Auditor General in the report *Health Department's Procurement and Management of its Centralised Computing Services Contract*.

Chapter 1

The Centralised Computing Services Contract

The Department of Health’s mismanagement of its Centralised Computing Services Contract highlights the great risk and significant cost to the taxpayer of a systemic failure of governance and lack of expertise in managing high value contracts.

Background

- 1.1 In November 2010, the Department of Health (DoH) entered into a contract (Contract) with Fujitsu Australia Ltd for the provision of centralised computing services. This entailed the provision of primary and secondary data centre facilities, as well as “management and support of the computer and network infrastructure in the data centres and support to the data rooms at teaching, regional and other metro hospitals.”¹ The Contract was valued at \$44.9 million at its commencement.
- 1.2 In late 2014, the DoH’s then Acting Director General raised with the Auditor General concerns arising out of DoH internal reviews regarding the structure and performance of the Contract. The Auditor General decided to audit the procurement and management of this Contract as well as the financial and asset control arrangements for goods and services purchased under the Contract.
- 1.3 The report on this audit was published in February 2016 with key findings demonstrating failings in governance, contract management and financial management.² Due to contract variations and possible extensions, at the time of the audit report the Contract value had the potential to exceed \$175 million.
- 1.4 A supplementary report was published by the Auditor General in June 2016, which included additional information about the nature of the contract variations and contract management practices within the Health Information Network (HIN).³ It found that the variations entered into by ‘Employee C’ were in fact not variations at all, rather confirmations of work performed, and related to an entirely different contract.⁴ Given this, the current value of the contract is unclear.

1 Office of the Auditor General, *Health Department’s Procurement and Management of its Centralised Computing Services Contract*, 1 February 2016 p5

2 Office of the Auditor General, *Health Department’s Procurement and Management of its Centralised Computing Services Contract*, 1 February 2016.

3 Office of the Auditor General, *Supplementary Report: Health Department’s Procurement and Management of its Centralised Computing Services Contract*, 8 June 2016.

4 Office of the Auditor General, *Supplementary Report: Health Department’s Procurement and Management of its Centralised Computing Services Contract*, 8 June 2016.

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- 1.5 The Education and Health Standing Committee held public hearings with the Auditor General and the DoH on 21 and 23 March 2016 respectively, to discuss the report's findings and recommendations. The Committee has also benefitted from reviewing transcripts of evidence given to the Public Accounts Committee as part of its inquiry into Information and Communications Technology (ICT) Procurement and Contract Management.
- 1.6 This report is not intended to revisit all of the issues raised or findings made by the Auditor General. Rather, it highlights the Committee's major outstanding concerns with the DoH's management of this Contract and other major ICT projects.
- 1.7 The standard period for ministerial response is three months from the date of tabling and the Committee believes that the Parliament will be prorogued shortly after the final sitting day of the Assembly. In this case, the Committee requests that the Ministers respond to the Committee's recommendations by the final sitting day of the Assembly.

Governance and financial management

- 1.8 The Auditor General's report highlighted significant governance and organisational failings within the DoH, and particularly within HIN, which created an environment without proper processes, in which individual officers could take action significantly exceeding their authority without appropriate oversight or approval.

Employee actions exceeding authority

- 1.9 The Committee was astonished and extremely concerned to learn that DoH employees signed off Contract variations well in excess of their authority, at times exceeding their delegation limit by 20,000 per cent.
- 1.10 The Committee wrote to the Public Sector Commission to better understand what, if any, investigations or actions it was taking in relation to these employees and what, if any, recourse was available against these employees for their excessive actions. The Commissioner advised that a "preliminary assessment of the facts and circumstances intended to advise and assist the Director General... to determine what, if any, further disciplinary or performance improvement action may be appropriate" had recently been completed and that the Director General was planning to shortly meet with the Commissioner to discuss "next steps".
- 1.11 The Commissioner also advised that "there are a range of avenues that can be taken against public officers who have exceeded their authority, depending on the severity of their actions and any mitigating circumstances that might be identified", from performance management to criminal action. These options are somewhat limited if a public sector employee resigns and leaves the public sector.

- 1.12 Though the Auditor General referred the matter to the Corruption and Crime Commission (CCC) for review as a routine matter, the CCC found no basis to suspect serious misconduct on the part of the individual public officers and will not be undertaking a separate investigation.⁵

Recommendation 1

That the Minister for Health report to the Assembly on disciplinary proceedings or performance improvement action undertaken, if any, which arose from the actions of Employees A and B as set out in the Auditor General's report *Health Department's Procurement and Management of its Centralised Computing Services Contract*, including as a result of an investigation into this conduct undertaken by the Public Sector Commission or other body.

Lack of internal controls

- 1.13 The Auditor General told the Committee that basic and normal organisational controls, such as internal audits and staff checking accounts and invoices, "failed dismally".⁶ The DoH has acknowledged this, admitting that its internal checks and balances were weak.⁷
- 1.14 The Auditor General also told the Committee that HIN was, at the relevant time, a:
- very big spending group... operating in a relatively autonomous fashion in that it had its own finance area and its own records area, so that it was able to process payments and contractual arrangements without that external scrutiny that exists in other parts of Health and in other parts of the public sector.*⁸
- 1.15 Limited oversight and contract management processes were in place, and those that existed were deficient and not followed in any event. Further, HIN "could simply provide their own reporting and conduct their own affairs without having to go to a third party."⁹ It is alarming and not at all clear to the Committee how the structure of HIN evolved to be allowed to operate in this way, nor for how long its actions went unchecked.

5 Corruption and Crime Commission, *Poor Management Short of Serious Misconduct*, 17 February 2016. Available at: <http://www.ccc.wa.gov.au/publications/media-releases/page/poor-management-short-serious-misconduct>. Accessed on 2 September 2016.

6 Mr Colin Murphy, Auditor General, *Transcript of Evidence*, 21 March 2016, p3.

7 Mrs Rebecca Brown, Deputy Director General, Department of Health, *Transcript of Evidence*, 23 March 2016, p4.

8 Mr Colin Murphy, Auditor General, *Transcript of Evidence*, 21 March 2016, p2.

9 Mr Colin Murphy, Auditor General, *Transcript of Evidence*, 21 March 2016, p4.

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- 1.16 The Auditor General went on to describe “a culture and a style and approach that was relatively cavalier”,¹⁰ which is an ongoing source of concern “because [these issues] take a lot more time and effort to address than simply procedural issues.”¹¹

Lack of oversight by accountable bodies

- 1.17 As early as 2012, alerts were raised by DoH staff,¹² and internal reviews were conducted, which identified a variety of issues with the Contract.¹³ Poor recordkeeping made it difficult for the audit to determine where this information went and whether it was acted upon. Further, it is unclear what information was presented to the various accountable bodies, such as the State Health Executive Forum (SHEF), the SHEF ICT Committee and the HIN Executive.¹⁴ Generally, it seems that reviews of the Contract “did not get enough attention or go high enough in the organisation.”¹⁵ Yet, in some instances, information was presented to accountable bodies and ignored.
- 1.18 For example, a mid-term review of the Contract was conducted by The Birchman Group in November 2013. This identified significant issues such as a \$26.7m overspend, excess data centre capacity and a lack of overall ownership and understanding of the Contract. The audit identified that this review report was provided to the SHEF ICT Committee but the Acting Chief Information Officer at the time disregarded the report as incomplete.¹⁶
- 1.19 The Auditor General also gave evidence that he would have expected to see “dashboard reporting” to the accountable bodies on contract spending so that “a red light comes on... when a contract achieves double its value, it is pretty hard to say that that should not be a circumstance in which a flag should go up or a light should go on.”¹⁷ However, it is unclear whether the organisational structure at the time necessarily required expenditure of this type to be reported to the accountable bodies.¹⁸ Also, to the extent that reporting occurred, the accurate visibility of this expenditure would not have been guaranteed on account of several factors:

10 Mr Colin Murphy, Auditor General, *Transcript of Evidence*, 21 March 2016, p2.

11 Mr Colin Murphy, Auditor General, *Transcript of Evidence*, 21 March 2016, p7.

12 Office of the Auditor General, *Health Department’s Procurement and Management of its Centralised Computing Services Contract*, 1 February 2016 pp 25,29

13 Office of the Auditor General, *Health Department’s Procurement and Management of its Centralised Computing Services Contract*, 1 February 2016 pp 15-16

14 Mrs Sandra Labuschagne, Assistant Auditor General, Information Systems and Performance Audit, Office of the Auditor General, *Transcript of Evidence*, 21 March 2016, p3.

15 Mr Colin Murphy, Auditor General, *Transcript of Evidence*, 21 March 2016, p11.

16 Mrs Sandra Labuschagne, Assistant Auditor General, Information Systems and Performance Audit, Office of the Auditor General, *Transcript of Evidence*, 21 March 2016, p12.

17 Mr Colin Murphy, Auditor General, *Transcript of Evidence*, 21 March 2016, p3.

18 Mrs Rebecca Brown, Deputy Director General, Department of Health, *Transcript of Evidence*, Public Accounts Committee, 6 April 2016, p5.

- The two major Contract variations (Data Centre Expansion and Non-Production Environment) should have gone to market due to their size and scope outside the initial Contract. This would have required involvement of the Department of Finance (DoF) and publication on Tenders WA, which gives the DoF visibility over agency expenditure. Failure to do this inhibited the transparency of the spending and breached the DoH's partial exemption from State Supply Commission (SSC) requirements.¹⁹
- Despite the fact that these major variations were out of scope, the initial Contract was nonetheless intended as an operational Contract to provide day-to-day data services. Operational spending receives less oversight than project spending.²⁰
- Some Contract variations were incorrectly and dually labelled, as found in the Auditor General's supplementary report. These variations were incorrectly attributed to this Contract when they actually related to an entirely different Contract.
- Many of the Contract variations had a financial impact into the future that, without robust contract management controls, would not have been picked up in monthly budget reporting.²¹

This lack of clarity is both frustrating and unacceptable because it hinders accountability, which is a foundation of good government.

- 1.20 Another factor highlighted by the Auditor General was the "considerable churn" amongst staff and HIN leadership during the relevant period, which resulted in lack of ownership and accountability.²² Most notably, the position of Chief Information Officer of HIN was filled by a series of acting appointments for more than five years. The Committee has previously expressed the view that this arrangement was undesirable, particularly during a period when HIN was supposed to be leading its most ambitious and challenging program of work undertaken to date.²³

19 Office of the Auditor General, *Health Department's Procurement and Management of its Centralised Computing Services Contract*, 1 February 2016, pp7, 17-18. See also Mrs Rebecca Brown, Deputy Director General, Department of Health, *Transcript of Evidence*, 23 March 2016, p14.

20 Mr Colin Murphy, Auditor General, *Transcript of Evidence*, 21 March 2016, p5.

21 Mrs Rebecca Brown, Deputy Director General, Department of Health, *Transcript of Evidence*, Public Accounts Committee, 6 April 2016, pp2, 5.

22 Mr Colin Murphy, Auditor General, *Transcript of Evidence*, 21 March 2016, p4.

23 Education and Health Standing Committee, *More than Bricks and Mortar: The report of the inquiry into the organisational response within the Department of Health to the challenges associated with commissioning the Fiona Stanley Hospital*, 10 April 2014, pp123-125.

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Poor recordkeeping

- 1.21 The audit was unable to locate crucial procurement and contract management documents, such as the signed procurement plan and business cases. The DoH's failure to keep accurate records breaches the requirements of the *State Records Act 2000*. Such was the deficiency in recordkeeping that the Auditor General found it necessary to enlist the assistance of the WA Police in analysing large volumes of DoH data to find the basic financial and business records they were looking for. The Committee agrees with the Auditor General's statement that:

*it should never have been necessary for us to go to those extreme lengths simply to try to identify what a basic financial and procurement transaction is going on in a major state government agency.*²⁴

- 1.22 The difficulties created by poor recordkeeping were illustrated in the Auditor General's supplementary report, as discussed above. Not only did it find that some variations attributed to the Contract related to an entirely different DoH contract, they were also found to not be contract variations at all. Rather, they were acknowledgements of work already completed and equipment provided under previously authorised variations. This confusion simply highlights the depth of the problems with the DoH's recordkeeping and contract management practices.

- 1.23 As a result of poor recordkeeping, the audit was also unable to determine how the variations arose:

*Was it a service that Health desperately needed and were seeking? Was there a sound business case from Health to say, "This is a service we need", or was the vendor saying, "We have a product that you might like to procure."*²⁵

- 1.24 The Director General of the DoH also agreed that there was an imbalance between the technical expertise of contractors and public servants.²⁶ The Committee holds concerns that this imbalance will be exploited unless technical and contract management capability can be built and maintained within the DoH.

Contract management

Lack of dedicated and experienced contract managers

- 1.25 Although it is not clear why such poor contract management processes were common at the HIN, one contributory factor cited to the Committee was that ICT technical

24 Mr Colin Murphy, Auditor General, *Transcript of Evidence*, 21 March 2016, p15.

25 Mr Colin Murphy, Auditor General, *Transcript of Evidence*, 21 March 2016, p6.

26 Dr David Russell-Weisz, Director General, Department of Health, *Transcript of Evidence*, 23 March 2016, p2.

employees were performing contract management roles without the requisite skills or experience.²⁷ Also, no dedicated contract manager was appointed until June 2014, three and a half years after the Contract commenced. Until then, a senior officer oversaw the Contract in addition to performing several other significant roles, which compromised his time and independence to manage the Contract effectively. Further, the HIN's Procurement and Contracts Group comprised only three staff who administered more than 300 HIN contracts.²⁸

- 1.26 The DoH acknowledges that there was “not a broader knowledge or frameworks in place to support robust contract management and administration.”²⁹ It has since separated the roles of technical ICT staff from those who perform procurement, contract management and financial management, which is intended to form a stronger network of checks and balances:

*So we have a separation of those responsibilities that will ensure that the people who are authorised to sign those variations are aware of their limits, we have another officer responsible for managing the contract who can check whether that officer would have that authorised level before anything will happen, and we have financial controls to check that there is available funding to progress a contract variation.*³⁰

Lack of contract management plan

- 1.27 Despite the Contract's complexity and high level of risk, the DoH did not implement a contract management plan for this Contract. Contract management plans are a policy requirement of the SSC for contracts valued over \$5 million, and compliance with supply policy is required by the *State Supply Commission Act 1991*. A contract management plan is such a central feature of contract management that the Executive Director of Government Procurement at the DoF gave evidence that she could not honestly think of a reason to not have one.³¹ This is dumbfounding because it is a fundamental breach of the most basic principles of contract management.

27 Mrs Rebecca Brown, Deputy Director General, Department of Health, *Transcript of Evidence*, 23 March 2016, p6.

28 Office of the Auditor General, *Health Department's Procurement and Management of its Centralised Computing Services Contract*, 1 February 2016, p21.

29 Mrs Rebecca Brown, Deputy Director General, Department of Health, *Transcript of Evidence*, 23 March 2016, p6.

30 Mrs Rebecca Brown, Deputy Director General, Department of Health, *Transcript of Evidence*, 23 March 2016, p4.

31 Mrs Stephanie Black, Executive Director, Government Procurement, Department of Finance, *Transcript of Evidence*, Public Accounts Committee, 23 March 2016, p3.

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Gateway reviews

- 1.28 Although the Committee did not receive specific evidence about Gateway reviews (Gateway), it has been interested to read the evidence gathered by the Public Accounts Committee in relation to the implementation of this process within the DoH. Gateway is a project assurance methodology available to agencies through the DoF. It involves short, intensive reviews at six critical decision points in a project's life cycle conducted by an independent review team. The reviews examine the robustness of methods used by agencies to plan, manage and deliver major projects and assist early intervention on issues that may affect cost and time delays.³²
- 1.29 Gateway is recommended for ICT projects with an investment value greater than \$10 million and for other projects or programs valued at \$100 million and above. Although the DoF has considered mandating Gateway for projects over these thresholds, it gave evidence that it would prefer to work with agencies to convince them of the merits of the process. Reasons for this include resourcing, a desire to avoid it becoming a "tick-and-flick" exercise, and increased frequency reducing the willingness of independent reviewers to participate.³³ The DoF is also amending its procurement tools, templates and publications to require consideration of Gateway during procurement processes.³⁴
- 1.30 The DoH has used Gateway for a range of significant ICT and infrastructure projects. It gave evidence that it has found this process to be very useful and would have no difficulty with the process being mandated.³⁵ However, its actual usage of Gateway is inconsistent. Despite having an initial value of \$44.9 million, no Gateway review was undertaken for the Contract.³⁶ Other significant ICT projects for which the DoH has not conducted a Gateway review include:

Table 1.1: ICT Procurement Projects for which the Department of Health has not conducted a Gateway review: March 2014 to March 2016³⁷

Procurement Title	Estimated Value	Date Awarded
Core ICT Network Hardware Implementation and Commissioning	\$13,123,000	January 2015
Integrated Health Solution and Services	\$47,800,000	All offers declined

32 Department of Finance, Government Procurement, *Gateway*. Available at: https://www.finance.wa.gov.au/cms/Government_Procurement/Gateway/Gateway.aspx. Accessed on 29 August 2016.

33 Ms Anne Nolan, Director General, Department of Finance, *Transcript of Evidence*, Public Accounts Committee, 23 March 2016, p6.

34 Mrs Stephanie Black, Department of Finance, Letter to Public Accounts Committee, 6 April 2016, p1.

35 Dr David Russell-Weisz, Director General & Mrs Rebecca Brown, Deputy Director General, Department of Health, *Transcript of Evidence*, Public Accounts Committee, 6 April 2016, pp8-9.

36 Dr David Russell-Weisz, Department of Health, Letter to Public Accounts Committee, 12 May 2016, p2.

37 Mrs Stephanie Black, Department of Finance, Letter to Public Accounts Committee, 6 April 2016, p3.

Medical Imaging Platform Solution	\$75,000,000	In progress
Information System for WA Country Health Service	\$10,600,000	In progress

Finding 1

The Department of Health has been inconsistent in its use of the Gateway review process for major ICT procurement projects, which reflects a disregard for the value of the process in improving project delivery performance.

Finding 2

The Department of Health has not utilised the Gateway review process as recommended by the Department of Finance.

- 1.31 While the Committee appreciates that Gateway is not by any means a “cure-all” solution for project management deficiencies, it is concerned that project delivery performance will continue to be compromised unless the DoH utilise this valuable tool as recommended.

Recommendation 2

That the Minister for Health report to the Parliament on the reasons the Department of Health has failed to utilise the Gateway review process for ICT procurement projects with an investment value of greater than \$10 million.

A poor track record on improvement

- 1.32 The Auditor General’s report was not the first to identify such deficiencies in the DoH’s ICT procurement, governance and management. The Auditor General’s previous reviews of the Patient Administration System (PAS) and Identity Access Management (IAM) projects identified exactly the same problems:

Governance and financial management

- Unstable governance arrangements impacted on the DoH’s ability to effectively deliver the PAS. High turnover amongst senior personnel, including the HIN, would have further unsettled governance arrangements.³⁸
- Key roles and responsibilities were not clearly established.³⁹
- The DoH did not track its financial performance against planned progress over the full life cycle of the PAS procurement.⁴⁰

38 Auditor General’s Report, *ICT Procurement in Health and Training*, October 2010, p19.

39 Auditor General’s Report, *ICT Procurement in Health and Training*, October 2010, p20.

40 Auditor General’s Report, *ICT Procurement in Health and Training*, October 2010, p26.

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- Although project governance requirements were defined and documented for the IAM project, the HIN never implemented them. As a result, the DoH lacked critical oversight of the project.⁴¹

Contract management

- Scope changes were not properly documented or authorised.⁴²
- The DoH delayed engaging a permanent project manager until four years after the IAM project had started, and other key positions were filled by contract staff.⁴³
- Monthly project monitoring and reporting on the IAM project was inadequate, which meant management could not identify and address key issues in a timely manner.⁴⁴

Recordkeeping

- The DoH failed to implement adequate recordkeeping practices at the HIN, despite having a Recordkeeping Plan since 2004. This impacted on the capacity to establish accountability.⁴⁵

- 1.33 Additionally, similar findings have been made by the previous Public Accounts Committee⁴⁶ and this Committee⁴⁷ in relation to the DoH's management of the Facilities Management Services Contract and commissioning project at Fiona Stanley Hospital, which involved significant ICT elements.
- 1.34 The consistency of the issues raised in these reviews indicates that the DoH has repeatedly failed to properly implement these recommendations. While the Committee acknowledges that health is a complex sector, this is no excuse for poor management and wasted public funds.
- 1.35 The DoH was quick to assure the Committee that it had made significant changes and investment in its improving procurement and governance processes, and it is confident that the right systems are now in place. In addition to separating the governance of

41 Auditor General's Report, *Information Systems Audit Report*, June 2014, p15.

42 Auditor General's Report, *Information Systems Audit Report*, June 2014, p14.

43 Auditor General's Report, *Information Systems Audit Report*, June 2014, p7.

44 Auditor General's Report, *Information Systems Audit Report*, June 2014, p16.

45 Auditor General's Report, *ICT Procurement in Health and Training*, October 2010, p28.

46 Public Accounts Committee, *Building Foundations for Value: An analysis of the processes used to appoint Serco to provide non-clinical services at Fiona Stanley Hospital – Western Australia's largest ever services contract*, 21 June 2012.

47 Education and Health Standing Committee, *More than Bricks and Mortar: The report of the inquiry into the organisational response within the Department of Health to the challenges associated with commissioning the Fiona Stanley Hospital*, 10 April 2014; Education and Health Standing Committee, *Managing the transition? The report of the inquiry into the transition and operation of services at Fiona Stanley Hospital*, 26 November 2015.

technical, contract management and financial management responsibilities, some of the remedial actions cited by the DoH include:

- A new governance structure in place since April 2014 comprising various groups with defined terms of reference.
- An updated procurement delegation schedule, following on from the operational directive in June 2014 which brought procurement delegations into “sharp focus” and gave “a clear set of instructions that all health services and the Department of Health have to follow and have followed since then.”⁴⁸
- Under the governance arrangements in place since April 2014, ICT Business Cases with a total lifetime cost of greater than \$250,000 must be referred to the top tier accountable body, the ICT Executive Board, chaired by the Director General.⁴⁹
- Establishment of the Office of the Chief Procurement Officer in January 2014, which oversees procurement and contract management across all areas of the DoH.⁵⁰
- Movement of the HIN into Health Support Services which, following the passage of the *Health Services Act 2016*, became a statutory authority governed by a Chief Executive reporting to the Director General.⁵¹

1.36 It is also worth noting that SSC policies and guidelines were updated in May 2016 to explicitly include contract variations in the instances where agencies have to involve the DoF:

- The DoF must now be involved in all purchases and contract variations valued at \$250,000 or more
- Contract variations of \$50,000 or more must now be published on Tenders WA
- For contract variations valued at \$5 million or more (either individually or cumulatively), partially exempt agencies such as the DoH must submit a contract variation memo and business case to the State Tender Review Committee. This includes purchases made pursuant to a Common Use Arrangement.⁵²

48 Dr David Russell-Weisz, Director General, Department of Health, *Transcript of Evidence*, 23 March 2016, p5.

49 Dr David Russell-Weisz, Department of Health, Letter to Public Accounts Committee, 12 May 2016, p1.

50 Dr David Russell-Weisz, Director General, Department of Health, *Transcript of Evidence*, 23 March 2016, p8.

51 Dr David Russell-Weisz, Director General, Department of Health, *Transcript of Evidence*, 23 March 2016, p10.

52 Department of Finance, *Overview of State Supply Commission Policy Changes*, 2 May 2016. See also Mrs Stephanie Black, Executive Director, Government Procurement, Department of Finance, *Transcript of Evidence*, Public Accounts Committee, 23 March 2016, p3.

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Breaches of agency obligations

- 1.37 As discussed above, the DoH's failure to manage this Contract resulted in breaches of policy and legislative requirements. Compliance with government policies and procedures also form part of performance assessment reporting for Directors General and Chief Executives.⁵³ Penalties for breaches are also prescribed in the relevant legislation, although both the Auditor General and the DoF gave evidence that it is extremely rare for these to be applied.⁵⁴
- 1.38 The Committee questions how serious an agency's mismanagement would have to be before enforcement of these penalty provisions would occur. In light of the DoH's history of mismanagement of significant projects, the Committee would urge the SSC and the State Records Commission to revisit the penalty provisions and consider whether it would be appropriate to apply them.
- 1.39 In particular, provision exists for the SSC to appoint an officer, employee or representative of the Commission to supervise and advise the DoH on its supply procedures and require the agency to reimburse the Commission for the costs of providing those services.⁵⁵ The Committee considers that this option warrants some consideration, particularly in light of evidence from the DoH that they would value secondments or support from the DoF on building capacity around contract management.⁵⁶ The Auditor General also agreed that his own staff or staff from the Department of Treasury could be seconded to the DoH to provide assistance for "a problem that is screaming out for attention for some sort of solution."⁵⁷

Recommendation 3

That the Minister for Finance and the Minister for Culture and the Arts report to the Parliament on the State Supply Commission and State Records Commission's consideration of available penalties or actions for the Department of Health's breaches of agency obligations.

53 Mrs Stephanie Black, Executive Director, Government Procurement, Department of Finance, *Transcript of Evidence*, Public Accounts Committee, 23 March 2016, p4.

54 Mr Colin Murphy, Auditor General, *Transcript of Evidence*, 21 March 2016, p14;
Mrs Stephanie Black, Executive Director, Government Procurement, Department of Finance, *Transcript of Evidence*, Public Accounts Committee, 23 March 2016, p4.

55 *State Supply Commission Regulations 1991* (WA), r.5(c).

56 Mrs Rebecca Brown, Deputy Director General, Department of Health, *Transcript of Evidence*, 23 March 2016, p13.

57 Mr Colin Murphy, Auditor General, *Transcript of Evidence*, 21 March 2016, p12.

Looking forward

- 1.40 The Committee is encouraged by the Auditor General’s evidence that he is “very, very hopeful” that the establishment of the Office of the Government Chief Information Officer will lead to improved ICT procurement and project management across government.⁵⁸ Nevertheless, the Committee holds concerns for other significant DoH ICT contracts that have the potential to spiral out of control if the DoH does not address the deficiencies discussed above. The Auditor General gave evidence that it is very common for his office to perform follow-up inquiries with an agency after a period of time to monitor their progress in implementing reforms,⁵⁹ and the Committee would strongly support such action.

Recommendation 4

That the Minister for Health reports to the Assembly on the Department of Health’s progress in implementing the recommendations made by the Auditor General in the report *Health Department’s Procurement and Management of its Centralised Computing Services Contract*.



DR G.G. JACOBS, MLA
CHAIRMAN

58 Mr Colin Murphy, Auditor General, *Transcript of Evidence*, 21 March 2016, p11.

59 Mr Colin Murphy, Auditor General, *Transcript of Evidence*, 21 March 2016, p12.

Appendix One

Committee's functions and powers

The functions of the Committee are to review and report to the Assembly on:

- a) the outcomes and administration of the departments within the Committee's portfolio responsibilities;
- b) annual reports of government departments laid on the Table of the House;
- c) the adequacy of legislation and regulations within its jurisdiction; and
- d) any matters referred to it by the Assembly including a bill, motion, petition, vote or expenditure, other financial matter, report or paper.

At the commencement of each Parliament and as often thereafter as the Speaker considers necessary, the Speaker will determine and table a schedule showing the portfolio responsibilities for each committee. Annual reports of government departments and authorities tabled in the Assembly will stand referred to the relevant committee for any inquiry the committee may make.

Whenever a committee receives or determines for itself fresh or amended terms of reference, the committee will forward them to each standing and select committee of the Assembly and Joint Committee of the Assembly and Council. The Speaker will announce them to the Assembly at the next opportunity and arrange for them to be placed on the notice boards of the Assembly.