



LEGISLATIVE ASSEMBLY OF THE NORTHERN TERRITORY

12th Assembly

Public Accounts Committee

Public Hearing Transcript

10.30am, Monday, 17 December 2012

Litchfield Room, Level 3 Parliament House

Members:

- Mr Peter Styles, MLA Chair, Member for Sanderson
- Ms Lia Finocchiaro, MLA, Member for Drysdale
- Ms Larisa Lee, MLA, Member for Arnhem
- Mr Michael Gunner, MLA, Member for Fannie Bay
- Ms Natasha Fyles, MLA, Member for Nightcliff
- Mr Gerry Wood, MLA, Member for Nelson

Witnesses:

- Mr Jeff Moffet, Chief Executive Department of Health
- Ms Lesley Kemmis, Acting Director, Policy and Services Development
- Mr Stephen Moo, Chief Information Officer
- Ms Jan Currie, Senior Director
- Mr Frank McGuinness, Auditor-General of the Northern Territory

DEPARTMENT OF HEALTH HEARING

Mr CHAIRMAN: Good morning, ladies and gentlemen. Welcome to this hearing of the Public Accounts Committee on Monday, 17 December 2012.

On behalf of the committee I welcome everyone to this public hearing into the grants by the Department of Health to non-government organisations. I welcome to the table to give evidence to the committee Mr Jeff Moffet, Chief Executive; Lesley Kemmis, Acting Director, Policy and Services Development in the Strategy and Reform Division; Mr Stephen Moo, Chief Information Officer; and Ms Jan Currie, Senior Director, Office of the Chief Executive. Thank you for coming before the committee. We appreciate you taking the time today to speak to the committee and we look forward to hearing from you.

This is a formal proceeding of the committee and the protection of parliamentary privilege and the obligation not to mislead the committee apply. A transcript will be made available for use of the committee and may be put onto the committee's website. If at any time during the hearing you are concerned that what you will say should not be made public, you may ask that the committee go into a closed session and take your evidence in private. I will ask each of the witnesses to state their name for the record and the capacity in which they appear. I will then ask you to make a brief opening statement before proceeding to the committee's questions.

Witnesses, could you please state your name and capacity in which you are appearing.

Mr MOFFET: Jeff Moffet, Chief Executive Department of Health.

Ms KEMMIS: Lesley Kemmis, currently acting Director Policy and Services Development, formerly Manager of Non-government Strategic Policy and it is in that capacity that I am appearing.

Mr MOO: Stephen Moo, Chief Information Officer and I am appearing in the capacity of Chief Information Officer for the department.

Mr CHAIRMAN: Is Miss Currie appearing today?

Ms CURRIE: Jan Currie, Senior Director, Office of the Chief Executive and I had responsibility for the Grants Management System from about mid-2010.

Mr CHAIRMAN: Excellent, thank you very much. Mr Moffet would you like to make an opening statement please?

Mr MOFFET: Yes, thank you. We are here today to discuss the Grants Management System and the NGO framework utilised by the department. It appears this issue has been the subject of observation and comment by the Auditor-General since 2004. We have had extensive efforts since 2010, I guess, to bring to fruition two things: one, the actual management framework for the NGO sector; and also the Grants Management System, the software essentially supporting that framework. Ultimately, we will end up with a system that is ready, fit for purpose by the end of January next year, so we will have a system that is rolled out and fit for purpose in the first half of 2013 as we do training and implement across the department and the sector.

We also are going through significant structural change in the department which presents some opportunities for us to overcome some of the barriers we have experienced. One of the ways in which the NGO grant system has been managed in the past has been through divisional structures so we have had quite diluted and differentiated resources. For example, the grants management in health services for our non-hospital sector was different to that in our hospital sector. For the first time, the department will be able to streamline itself to ensure we have a consolidated approach to the grants management as well as use of the GMS itself. We also have implemented through this process stronger risk management around implementation and procurement of systems. I look forward to the opportunity of having a much more planning focus in terms of our use of the NGO sector.

Mr CHAIRMAN: Thanks, Mr Moffet. Perhaps I could just start off with a couple of questions. How does the Department of Health manage its grants program within the various program areas within the department? I notice that you just said that obviously there is a difference between health and non-health, non-hospital and hospital areas, can you just elaborate on that a little bit please?

Mr MOFFET: Sure, that is at the highest level. I might ask Lesley Kemmis. Lesley has been the project officer for several years, she has worked with all of our different system users so Lesley can give us much more granular detail, if you are happy to do that?

Ms KEMMIS: In terms of managing grants within the department, currently, since 2003, when we moved to the existing departmental structure, each of the divisions and the branches or programs within those divisions have responsibility for decision-making around what organisations may be funded to provide grants. They do that in accordance with their program priorities. Sometimes when funding is initially appropriated that decision has basically already been made, other times it might be a matter of programs exploring what options are available and appropriate for service provision. Programs then make a decision around how and who may receive grant funding. They then develop a service plan with that non-government organisation. Most times those service agreements are for a period of three years, occasionally they may be only for 12 months or two years if it is a time-limited project.

Payment of funding and the receipt of acquittals happens within a centralised grants administration unit. That unit is responsible for ensuring that quarterly payments are made to each of those organisations.

Mr CHAIRMAN: My understanding is the divisions and units will negotiate various service agreements ...

Ms KEMMIS: Yes, that is correct.

Mr CHAIRMAN: ... that pertain to their particular area of responsibility. So they will negotiate with them. Do they actually issue the monies through the grants program? Does it go out from the divisions or is there a central place where all the approvals go and then they send the money out?

Ms KEMMIS: The funding sits within the budget or the cost centre for those divisions and programs.

Mr CHAIRMAN: So they will send the money out to whoever the NGO is. Where do the acquittals go?

Ms KEMMIS: The acquittals initially will come into the central grants administration unit. That is largely just around recording purposes. They are then sent out to the relevant program or division for analysis.

Mr CHAIRMAN: So the division will then crosscheck and make sure that what is in the service agreement has actually being achieved ...

Ms KEMMIS: Yes, that is correct

Mr CHAIRMAN: ... and the monies are acquitted in a proper manner?

Ms KEMMIS: Yes, that is correct.

Mr CHAIRMAN: Where does that go? Does it go back to the central holding area or does that information stay with the division?

Ms KEMMIS: That information basically remains within the program area and the division.

Mr CHAIRMAN: So when it comes back in, it comes back into this central area ...

Ms KEMMIS: Yes

Mr CHAIRMAN: ... then it is sent out to the division and it stays there. So the acquittals actually stay with the division; is that correct?

Ms KEMMIS: The reason that the acquittal information comes into the central grants administration area is for recording purposes. A copy of all documentation in relation to each particular grant will be held in that central grants administration unit. But, they do not have any responsibility for ensuring that the outcomes have been achieved by that organisation.

Mr CHAIRMAN: That is the division's responsibility?

Ms KEMMIS: That is the Division's responsibility, yes.

Mr CHAIRMAN: What resources are allocated to the recording and the processing? Do you have a figure of how much it costs them to administer that part of the system where it goes out, comes back in, and goes back out in the acquittals - virtually from receipt to acquittals? Is there a cost? I note that the latest figure I have is \$123 503 00, roughly, of grants as at 13 December this year, and there is a whole lot of them, obviously. Do we know how much it costs to administer those grants?

Ms KEMMIS: Those figures are only for grants that have been paid or awarded to NGOs. They do not include our own costs in administering the provisions of grants. The central grants administration unit - I can only give you estimates at this stage - but I would think that is probably in the order of about \$500 000 for the staff and some other operational costs. Every division and program area has a differing number of staff who are responsible for that negotiation and relationship with NGOs. I am unsure how much that would be. It does vary considerably between program areas.

Mr MOFFET: We could provide details. In our drug and alcohol area, for example, there are no service development managers that manage the contracts themselves. We would need to obtain the detail to give you something accurate.

Mr CHAIRMAN: If you could - not down to the latest dollar but some indication as to how much it actually costs to administer the grants process.

Perhaps we will move on. Does anyone want to talk about that particular ...

Mr GUNNER: I can jump in there. So you are moving to the grants management process because of risks that were identified under the previous administration. This is meant to be one where there is

meant to be less risk, better able to check on the quality service of the NGO you are working with. Is it also going to reduce or affect the administration costs? I imagine in the past, the previous way you were doing it, it was a bit splintered and you were not always checking up. A unified system will be cheaper, more efficient or effective to run?

Mr MOFFET: Yes, it certainly should be more efficient. The Grants Management System is an electronic system that is largely automated, so there will be efficiencies in use of the Grants Management System itself. I gather the efficiencies we are looking for is bringing into line a lot of our policy and service development areas over the next six months as part of the department's new structure. That in itself will also deliver some efficiencies. We do not have a specific number on that as it stands, but certainly consolidation of those functions should realise efficiencies.

Mr GUNNER: Do you think, looking at cause and effect, if we do all this, we get the better grant program, better administration? Is it actually going to lead into getting more and better out of our NGOs? You will be able to work more closely with them and understand better what they are doing, where there might be people doing overlap and, maybe, undoing some of that?

Mr MOFFET: Certainly, there will be specificity around the outcomes we are expecting and better measurement of that. The timeliness of acquittals and the detail involved inside those acquittals will be improved. I guess the broader issue for the department as well, is as we move to a new structure that involves the department centrally contracting with health and hospital service boards, the level of sophistication required in our contracting needs to be much improved, including our management of grants.

This is a much broader strategic initiative; where the department will, I guess, look at a more sophisticated way of managing volume, services, inputs and outputs.

Mr GUNNER: Your risk management committee is working with you through the implementation of this? I imagine this is something they have recommended? They are keeping an eye on it as well?

Mr MOFFET: They are in this process. Yes, they are.

Mr GUNNER: Is Ian still your Chair of that?

Mr MOFFET: Yes, Ian Summers, yes.

Mr WOOD: From an NGOs point of view, I presume some of them are small and some of them are quite large. You just mentioned you are going to upgrade the sophistication of the requirements. Is

that going to be a problem for the NGOs, especially the smaller NGOs? Are they going to have a problem (1) for expertise in trying to fill out the requirements of the Grants Management System; and (2) what will that actually cost them in relation to time and money doing those sorts of things?

Mr MOFFET: Thank you. As we have developed the framework we have consulted with the sector and there have been some questions and concerns about the level of compliance required around some of our mandatory requirements such as criminal record screening and the like. I guess we have set the minimum we have negotiated with the sector. It is fairly well accepted we need to have a contemporary approach to grants management. Lesley can probably provide a bit of detail and more examples.

Ms KEMMIS: I believe there have been reforms which have been ongoing for some time. For example, one of the changes the department made last year was to provide NGOs with a standard template to enable them to do their financial acquittals. We provided a help desk function for NGOs when we did that. Most of the organisations have been able to do that, I understand, without too many difficulties.

The other thing we will be doing when the new Grants Management System goes live is provide the capacity for NGOs also to be able to do all their acquittals online, to get information about their grants online, and it will give them historical information. The organisations we have consulted with so far, both small and large, are quite pleased with that development and are looking forward to it.

Mr WOOD: You have just mentioned criminal record. Is that just a straight across-the-board criminal record? Would it not depend a little on what role NGOs were playing as to what is required as a criminal record?

Mr MOFFET: It does depend on the role. Probably the working with children clearances are the best example of that. So, it is obviously relevant to the service or the function they are providing. We keep those requirements to a minimum, but consistent with the legislative requirements.

Mr WOOD: This might be slightly out of left field, but I know I have had complaints about people having to apply for Ochre Cards, and that is not suitable for some of the things which other departments want. I just do not know whether we could get some uniformity in the requirements for people who need criminal checks so people only have to apply once. There are people getting Ochre Cards and perhaps that is not good enough for one of your department's requirements. I do not know whether there is any discussion about having some sort of uniformity in those requirements.

Mr MOFFET: Certainly in terms of the Ochre Card, once someone has received an Ochre Card we recognise that. That is a one-off process, I think.

Mr WOOD: I have had people say to me it is not accepted in another – where they were asked for a criminal record compliance.

Mr MOFFET: Jan Currie was just advising me that there were some early implementation issues in relation to the use of contractors, but we have resolved those. So, for example, with the use of DCI contractors, but that is not in the grants management space.

Mr CHAIRMAN: Thanks, Mr Wood.

How are decisions made to continue with a program with a particular NGO or to alter or cease a grant due to non-performance or changing priorities?

Mr MOFFET: I am sorry; I just missed the beginning of that question.

Mr CHAIRMAN: How is the decision made to continue with a program with a particular NGO or to alter or cease a grant due to non-performance or changing priorities? What are the guidelines around how you do that?

Mr MOFFET: This is one of the areas where the actual new management framework for the NGO sector will have more detailed guidelines. They are currently in draft form as there has been some variability, but fundamentally it is about a judgment from the program area as to whether the core requirements of the program are being met. There is opportunity to renegotiate outputs, obviously in a timely way, and reconciliations on at least an annual basis to ensure that has occurred; but fundamentally it is currently at program level, but in the future we will have stronger operating guidelines for those officers.

Mr CHAIRMAN: Can you tell me who in the department actually has the final say on these? Does that go back to divisions or is there someone in the division who is responsible? Who says, yes, we continue this grant or no, we are not going to continue that grant?

Mr MOFFET: There are levels of delegation. We could certainly provide our delegation schedule. It is primarily within the program area unless it is a very significant issue.

Mr CHAIRMAN: Could you do that? Mr Clerk, the delegation list of who has authority to either continue or cease particular grants to NGOs.

And you say those guidelines are in draft form at the moment?

Mr MOFFET: Yes, that is correct.

Mr CHAIRMAN: When do you think they will be available, please? Soon?

Ms KEMMIS: They are going to be finalised to take account of the new direction of the department and that significant organisational change, so it is difficult to say at this time. Within six months.

Mr MOFFET: Once the GMS is fully implemented. There are aspects of the Grants Management System that are relevant to the guidelines as well, but once they are implemented that should – so the GMS will be implemented in January, so by the end of this financial year they should be fully in place.

Mr CHAIRMAN: So as you said earlier, it will be online and ready to go at the end of January?

Mr MOFFET: Yes, and then we will commence training and roll out.

Mr CHAIRMAN: Yes.

Mr MOFFET: I am not sure what the implementation time frame is. Stephen?

Mr MOO: Yes. We have broken it up into three phases. The first group of grants will go live in January with an initial set of programs. Then there are phases two and three which will be progressive up to the middle of the year. The idea is to just bring on clusters of grants. We are also providing services to the Office of Children and Families and, in fact, they are the third phase. That is to provide support to that agency, but the second phase will be then the rest of Health grants and then progressively move onto Children and Families.

Mr CHAIRMAN: Are your grants running per calendar year or financial year?

Mr MOFFET: Financial year.

Mr CHAIRMAN: So basically when you say you are going to go live in January you are going to have the second half of a financial year. Are there two quarters of payments to NGOs? Are payments generally quarterly to NGOs?

Mr MOFFET: Yes.

Mr CHAIRMAN: So there will be two quarters done on the new system?

Mr MOO: What we will do is progressively as contracts – for example, the first group of contracts that are phase one, we have already worked out which organisations ...

Mr CHAIRMAN: Yes.

Mr MOO: ... and we are going to time it that they will have new contracts on the system as part of phase one and then iteratively, as contracts become due for renewal, they will come onto the new system. They have already got existing contracts, but we will bring the new types of contracts which are – there are three types of contracts that will be on the new system covering the different types of grants and they will be full end-to-end electronic service agreements.

Mr CHAIRMAN: Does that mean that next financial year everyone will be on the system?

Mr MOO: The intention is to try and get all of them on by the middle of the year. That is the plan.

Ms FINOCCHIARO: Can I peel it right back? Back in 2004, this idea of a Grants Management System was conceived, is that right?

Mr MOFFET: This goes past my recollection, obviously, but my understanding is in 2004 there were observations from the Auditor-General at that stage that we needed to improve the actual management of the NGO sector - our framework of administering grants. Out of that came this requirement for a Grants Management System - good integrated software to facilitate good management of the NGO service framework.

Ms FINOCCHIARO: And that has still not happened, since 2004, until January next year?

Mr MOFFE: No, that is correct. The project did not start in its formality until 2010 from what I can see.

Mr MOO: Can I just answer that one? We did have a system in the agency, an initial Grants Management System that was developed.

Ms FINOCCHIARO: An electronic ...

Mr MOO: An electronic system, but it did not cover the range of functions that the new system did. It managed the basic contracts and that is the system we are still using today. We have had a system in place but what the reviews have identified is that that system needed significant enhancing and wasn't meeting the requirements.

Ms FINOCCHIARO: So it has been a process of refinement, review, refine, review, refine. Okay. So when did Fujitsu come on board?

Mr MOFFET: Late 2010 was it?

Ms KEMMIS: The contract was signed in June 2011.

Mr CHAIRMAN: That is 2011, is that correct?

Mr MOFFET: Yes

Ms KEMMIS: Yes, that is correct.

Mr CHAIRMAN: That is when Fujitsu came on board?

Ms KEMMIS: Yes.

Ms FINOCCHIARO: Will this Grants Management System centralise everything? You talked about the divisions, the individual teams and the project areas having a lot of control over which NGOs they give money to so that it serves their purpose. Will that remain the same under this system or it will be more like the acquittal process where that is a centralised area?

Mr MOFFET: We are still going through the detail and design in terms of the new structure for Health. But to the extent possible, we will be consolidating with some planning and service development functions that will either sit inside the department centrally or where possible, inside the new hospital, and health board and service framework.

Mr MOFFET: Can I just add to the response about Fujitsu?

Ms FINOCCHIARO: Yes.

Mr MOFFET: So we formally contracted with them in mid-2011 but we commenced engagement with them in about February 2011.

Mr WOOD: As you know, the Asset Management System is also run by Fujitsu. Did anyone have any qualms about contracting Fujitsu for this particular program considering the issues that have arisen from that other contract or had that not been alerted to at that stage?

Mr MOFFET: My understanding, and other members can contribute here, is they were parallel processes. They are completely separate arms of Fujitsu that we are dealing with. We have kept in liaison with NRETAS which also uses Fujitsu for a grants management approach, and with DCI from time to time. But, they are quite separate arms of Fujitsu and very different solutions are required.

Mr WOOD: So when you say that they are different arms of Fujitsu what do you actually mean? Do you know what ...

Mr MOFFET: Business arms. Stephen can you explain the business?

Mr MOO: Yes, Fujitsu is a large multi-national company and this project, the Grants Management System, is being provided out of Perth and Darwin in terms of the development resources for this project, and supported out of Brisbane, whereas that Grants Management System has a separate project group. My understanding is that we have no relationship with that project as such, it is a separate initiative. I guess Fujitsu is a large multi-national company that has significant offices all round Australia and they run multiple projects.

Mr WOOD: Was this program required to start from scratch or do other states have Grants Management Systems in place and could they have been piggy-backed on to achieve something for the Territory?

Mr MOO: The initial approach was to look at one of the systems which was already being used in the Northern Territory, and to try to piggy-back on the use of that system. That was the approach, and the procurement process selected to develop that system.

What happened was, during the course of the project we and Fujitsu came to the conclusion the contractor, which is a company called ICS based in Tasmania, were not going to meet the requirements for the grant system we had specified. There were several high-level meetings to try to get to the bottom to ask whether they were going to be able to deliver. The conclusion both from Fujitsu, who was the contractor, and ourselves, was this company just did not have the resources and the expertise to deliver the type of system we were looking for.

Mr WOOD: What happened then?

Mr MOO: Within the contract with Fujitsu there was a clause that said Fujitsu could either supply through a third party product or they could potentially develop a product to meet this requirement.

Jointly with them, we chose to invoke that option, which was to do the bespoke development. One of the things we did during that exercise to assess whether the company in Tasmania could do the job is, with Fujitsu here locally, develop very detailed specifications right down to the nth degree, which we felt then we had some very significant collateral to build a new system. That is why we felt we were in a strong position. In fact, in system development, this system is going to actually be built in three months from go to whoa which, in the industry, is quite significant. You do not quite often see systems built in three months from go to whoa. Because we had such good specifications developed, the assessment we did with this company in Tasmania was they could not build to those specifications; they did not have the capabilities. The feeling was Fujitsu did have the expertise to do it.

Mr WOOD: So, you are only dealing with Fujitsu, no subcontractors?

Mr MOO: No subcontractors. The difference in this approach also was, because it is bespoke development for the Northern Territory, there were other Northern Territory government agencies that are also interested in the system. The feeling was if we did a bespoke development and got a configurable system, there would be advantages, economies in potentially making that system available for other Northern Territory agencies.

The other thing we did agree is there would be intellectual property that would arise, and that could also be negotiated around getting some benefits from that.

Mr CHAIRMAN: Can I just jump in there. The Tasmanian company, was it IC ...

Mr MOO: ICS.

Mr CHAIRMAN: ICS. I think it was in mid-2011 when the contract was signed, talking to them in February? How long was it before you made that decision that ICS was not capable of actually producing the system that was specified?

Mr MOFFET: We commenced in mid-2011 and it was in August this year we finally chose to go with a different option, as per the contract.

Mr CHAIRMAN: Can you tell me how much the actual contract – was there a contract price with Fujitsu to produce the system?

Mr MOFFET: Yes, there was. The original contract for the capital, for the development, was \$684 070.

Mr CHAIRMAN: That was to develop the Grants Management System?

Mr MOFFET: Yes.

Mr CHAIRMAN: So that is the contract price for Fujitsu?

Mr MOFFET: Yes.

Mr CHAIRMAN: Any idea how much it has cost to date?

Ms KEMMIS: That is actually how much we have paid.

Mr MOFFET: So, to date, we have paid \$319 220.

Mr CHAIRMAN: Regarding the decision in August 2012 not to use ICS, I am assuming that Fujitsu wears the brunt of the cost of all of that?

Mr MOFFET: Yes.

Mr CHAIRMAN: But we are still only obligated - there have being no variations approved?

Mr MOFFET: No, so there has been a variation both in terms of the specifications - so, as Stephen was saying, we have moved from an off-the-shelf process to a customised model using different methodology. So the new contract is for \$919 220. There is a change of \$230 000 or approximately \$230 000.

Mr CHAIRMAN: I want to get that clear. Instead of buying an off-the-shelf thing, were we going to buy an off-the-shelf thing from ICS in Tasmania?

Mr MOO: Yes, but it was going to be customised to our requirements. It was their product but it would be customised for use in the NT, and we realised that they could not customise it to make it to support our needs.

Mr CHAIRMAN: So is it just that they could not customise it or could no one customise it to meet our needs?

Mr MOO: They could not customise their product to meet our requirements so when we did a detailed gap analysis we went through it and it was going to fall well short of what we needed, so it was the capability of their product to meet our requirements. Even with significant development the assessment was it still was not going to meet our requirements.

Mr WOOD: What was the original specification then?

Mr MOO: The specifications were - we had worked with them, we put out a tender, we did have requirement specification. When they started to do the design work we started realising that there was a gap between what we believed, their product could do and the changes that needed to be done. We realised then that there was a significant gap in terms of capability.

Mr WOOD: Was there a failing in the specification or a failing in that the company said it could do something and then realised it could not? Are we actually paying that extra amount of money because of that?

Mr MOO: I think the assessment was that the company said they could do it and they would deliver but when we got to the bottom of it, when we went down through the detail, at the end of it they were not prepared to deliver on the changes that we were seeking to their product. I think they probably underestimated just what was required to turn their product into a product that we could use in the Northern Territory.

Mr WOOD: So they were fully clear about what you wanted. They put in a tender price to build a product that you wanted ...

Mr MOO: Yes.

Mr WOOD: ... found out they could not do it and now to get what you want you are going to have to pay extra money. Is that correct?

Mr MOO: Yes, there are some extra costs involved. With the original proposal we were aware that even though it was a customised product we would essentially be able to meet most of our requirements. What happened with the reworked proposal was, actually, we identified some gaps that the original product was not going to be able to meet, particularly around improved reporting and more streamlined interfaces with some of our systems. So, yes, in essence the reworked proposal was actually to increase the scope of the project and we were getting a tailored solution that was more in keeping with what we need and with additional functionality.

Mr GUNNER: So when you were taking a product off the shelf, essentially, and trying to customise it for the Territory, you were prepared to accept that there might be some small things you would not be able to do but it would basically get you there. Then you found out there were gaps and by going to the tailor-made one you are saying well we do not want any bits missing it is not going to cover. So it is actually going to be a better product than initially you were ...

Mr MOO: Yes, a lot more comprehensive. The other things we have done as part of the redevelopment is we have put together what is called a 'super user group' that has been involved. As the project is being built they are doing reviews every couple of weeks to make sure it is on track and that the response we are getting from that group is that we are going to get a much better product all round. It is being built and we have got a very good set of requirements to build to, which means that the chances are we would get exactly what we need.

Mr GUNNER: So they are alpha testing it essentially?

Mr MOO: But we are doing what we call beta testing before we even take delivery, using a process called Agile which means as they are building the product you are doing testing as you go along, initial user feedback.

Mr WOOD: Was there a requirement or was there any thought going back to another tenderer, a second tenderer, or was there any thought about having to retender? I do not know what the guidelines are for an increase in the amount of money that this particular program is going to have but what happened in that case?

Mr MOO: Yes, the original contract did have provision for variations and this was one of the options we did consider seriously at the beginning. But the feeling of the panel at the time was that modifying a custom development was the way to go. As it turned out, we believe that in the end it probably was not the right decision because the company could not deliver. But we also felt that to take that collateral which we developed with Fujitsu to build a new product was still going to be the most cost effective and best way to deliver the solution.

Because Fujitsu also invests a lot of people into this process - they had three people full-time developing the requirements and working with us - the view was that the collateral we had developed to build this system was significant and the chances of getting a successful system at a reasonable price were going to be best achieved through that process.

Mr CHAIRMAN: Can I just jump in there? So, we sign a contract with Fujitsu for \$684 000 to provide some specifications?

Mr MOO: No, to supply a system.

Mr CHAIRMAN: To supply a system?

Mr MOO: Yes.

Mr CHAIRMAN: So Fujitsu talks to us - obviously you guys, who are not part of that, say, 'Can you do this?' They say they can. So 12 months later we find out they cannot and we still do not have a system. Then what happens? Does Fujitsu say, 'That does not work. We are going to have to increase and vary the price because no one can do this for an off-the-shelf product. We are going to have to build something up.' What is the \$235 000 extra? What does that give us and what do we get for the extra \$235 000.

Mr MOO: Essentially, the line we have run with Fujitsu is that they chose ICS as their preferred supplier. In terms of the cost of this project we have definitely screwed them down and said, 'You have to carry some of this yourself because, ultimately, you chose that supplier'. In reality, for the extra \$200 000, we believe we are getting a much more substantial product in terms of its overall capabilities and functionality. We don't believe the \$200 000 actually represents a premium on the development, it represents getting a much better product with much more functionality that will be a much more sustainable product into the future. We have essentially said that the money that we had set aside for this project would be – they certainly were looking for a much bigger figure. I would say they are wearing a very significant loss on this project, but they believe they had to make good.

Mr GUNNER: Did Fujitsu, when they tendered, already know about ICS or after they won the tender did they go ...

Mr MOO: No, the tender was built around ICS as a subcontractor and that was the product being put forward as the solution. That was the one we did work with them on.

Mr GUNNER: Yes.

Mr CHAIRMAN: Did you, as the Chief Information Officer, have any contact with ICS?

Mr MOO: Yes, our staff did and we have had contact along the way with ICS. Essentially, because it is a managed contract, we did not have direct business dealings with ICS because they were a third party provider. We did have a project manager that worked with the project manager for Fujitsu and they certainly had lots of contact with ICS, but at the end of the day the commercials for this project were between Fujitsu and ICS.

Mr GUNNER: You would not have had contact with ICS until after Fujitsu had won the tender?

Mr MOO: No.

Mr GUNNER: So, no contact with ICS before Fujitsu tendered?

Mr MOO: No.

Mr GUNNER: So Fujitsu tendered with ICS as their preferred third party?

Mr MOO: Yes.

Mr GUNNER: So they tendered with a software program right from the start that was not actually going to be able to do the job?

Mr MOO: Yes.

Mr MOFFET: They tendered with a core program they believed was capable of customisation. I think what subsequently turned out was (a) it was not capable, and (b) they did not have the skills and resources to bring that to bear.

The other thing I wanted to comment on: at all steps along the way we have had legal and procurement advice - just going back to your point - so we have had solid advice. At the decision point in August this year, we had solid advice around that as well.

On the broader question of value, I guess my questions have been irrespective of the process in the final product and value, given we do a lot of systems development and we own a lot of software, was this value? I have certainly been advised that, yes, this is value. Fujitsu has, I guess,

through this process done as much as we think they reasonably could have done to ensure we got the value we wanted, to the extent they probably had to wear a fair bit of it.

Mr CHAIRMAN: I just want to refer you to the Auditor-General's report in October 2012. It is on page 45 of the report and it is the second last paragraph. If you have that report in front of you, you may be able to follow it. At the end of line three it says:

As a consequence, neither DoH, the consultancy firm, nor that firm's subcontractor, appeared to have understood clearly the fitness for purpose of the product that was selected to meet DoH's requirements.

I just wanted to get some comment on that. There has been a bit of comment, and Mr Gunner has asked a question in relation to that. I would like to get on the record that right from the start Fujitsu appear to have, perhaps, not had the right scope, or not understood the scope of their subcontractor's ability to perform? Is that a fair comment; that they have misjudged?

Mr MOO: No, I do not believe so. I believe we were confident, even when we entered into the arrangement, that ICS could deliver. In the first month - even in the first three or four months - things looked like they were going to deliver.

It was not until we started to get into some of the detailed build of the system and the specific customisation that we realised there was a problem. When we started to do some of the initial reviewing of the product as it was being built, we started to say this did not seem to be meeting the requirement we have. I believe the decision at the time was based on the fact that this company could deliver and had a product which was capable of being customised. Certainly, that was our belief; that it was a suitable product and it could be used.

Mr CHAIRMAN: To perhaps wrap this bit of it up, we have a product you people really believed was off the shelf, could be customised, and Fujitsu, obviously, accepted that as well. So, the tender has been awarded for \$684 000. We have gone along, the product is not up to scratch, the people are not up to scratch, we need some extra stuff we found whilst trying to develop it - we thought, we need this, this and this - so we had a variation of \$235 000 to Fujitsu to actually get a product we can use. Is that it in a nutshell?

Mr MOO: Yes. The other point I make is also this product was being used by NRETAS in the Territory. In fact, that was where the product first was implemented and they were the first Northern Territory government agency that actually made the decision. So, Fujitsu was supporting NRETAS, so it was not as if this product was not seen in the Northern Territory.

Mr CHAIRMAN: This ICS product?

Mr MOO: Yes, the ICS product.

Mr CHAIRMAN: This is off the shelf, that NRETAS was using. However, it appears the Department of Health has had some extra issues they needed to resolve.

Mr MOO: When we got to the bottom of the complexity of what we were wanting in the system and what NRETAS was using, we believe ours was significantly more complex, and the functionality we were seeking was much greater than NRETAS had signed up for, for their system.

We still believe the system was capable of being customised to meet our requirements. It was not until we got into the detailed build of the system and started to review their system, their company, the people and their capabilities that we realised they probably were not going to succeed.

Mr GUNNER: To clarify something Mr Moffett said, it was \$680 000 for an off-the-shelf, but customised, software program. That was value. But when you made the decision to vary it and go to a custom built one, \$900 000 was value for that. Is that correct? You said both figures were value for what they were meant to be at the time?

Mr MOO: Yes, and we accepted that, when we did the original agreement with ICS, there were things that we were not going to be able to achieve but when we did the revision with Fujitsu we said we wanted the whole package that we envisaged. That is why we got into pricing. Their original pricing was way more than what that figure is. We just said no, you have to wear some of this cost.

Mr GUNNER: So it was a trial and error question then in working through Fujitsu and ICS to try to build a customised off-the-shelf product to fit. As you worked through that and realised more what you were going to need, then obviously you had identified the gap so you got a better understanding of exactly what you needed. Therefore, when you went and developed the custom-built one, the 100% custom-built one, you had a better understanding of exactly what you want and how you want your Grants Management System to work.

Mr MOO: Yes. The other thing that we managed to do is bring in a new project manager who was very experienced in doing system development. He had much more ICT experience in terms of project management. He was able to pick up the specification work with the vendor and turn those specifications into, basically, the whole package of the system. That is why the other essence for us was to get a system delivered very quickly because we had already lost significant time. That is why we also set a very stringent time frame for Fujitsu to deliver. In fact, they had two development teams

working on this project, working on the different models. They had one in Perth and one in Darwin working together. So they have a large team, two teams, working on this development because we said we need this system to be delivered early in the new year and we do not have 12 months for you to deliver this system.

Ms FINOCCHIARO: When did you bring on the new project manager?

Ms KEMMIS: April.

Ms FINOCCHIARO: Of this year?

Ms KEMMIS: Yes.

Ms FINOCCHIARO: And that is a departmental person? Or that is an IT expert?

Mr MOFFET: Yes, a departmental person.

Ms FINOCCHIARO: Prior to that you had a departmental person managing it as well?

Mr MOFFET: Yes.

Mr CHAIRMAN: So who from Fujitsu is project managing this?

Ms KEMMIS: Previously, you mean?

Mr CHAIRMAN: Well, who is in charge from Fujitsu? It would appear to me that you have a project manager overseeing this and there have been two, is that correct? Two project managers?

Ms KEMMIS: Within this department, within our department, yes that is correct.

Mr CHAIRMAN: So from the time we signed in June 2011, through to August 2012 when the decision was made there have been two project managers, is that correct?

Mr MOO: Fujitsu has brought on a new project team to manage this build. They recognised what they did not have and they needed some different skill sets so they have brought on additional resources; a new project manager, and we had a project manager who was seconded from Queensland Health that had worked in the grants area. He had a 12 month secondment to work on the project. When his secondment came due, we identified a suitable project manager who had a different skill mix and had more ICT big project experience. He came on and then started to work with the Fujitsu team. Then it was him working with the new project manager from Fujitsu that really got to the bottom of ICS. They went and spent a couple of weeks down there with ICS in Tasmania and did a very detailed review of their capabilities and functionality. It was after that the decision was made to say that these guys were not going to get there.

Mr CHAIRMAN: To clarify, in relation to project managers, obviously the contract is signed and the Department of Health is the prime recipient of this particular thing. Does the Department of Health nominate a project officer to oversee this project?

Mr MOO: Yes, so we had a project manager, a full-time project manager.

Mr CHAIRMAN: How many project managers has the Department of Health had on this project up until today?

Mr MOO: Two.

Mr CHAIRMAN: Two. When Fujitsu sign, do they assign a project manager?

Mr MOO: Yes.

Ms KEMMIS: Yes

Mr CHAIRMAN: Do we know how many project managers they have had on this project?

Mr MOO: Two, I believe.

Mr CHAIRMAN: Two, so it is two all, so to speak.

Ms FINOCCHIARO: When would the project have been finished had ICS had the capacity to do what they were contractually obliged to deliver? When would this have all been implemented?

Ms KEMMIS: December 2011.

Mr CHAIRMAN: So it is, basically, a six-month contract? To develop this within six months ...

Ms KEMMIS: It was.

Mr CHAIRMAN: ... and by the time we get there, it is going to be probably nearly two years?

Ms KEMMIS: That is correct, yes.

Mr CHAIRMAN: By the time we go through the training, as Mr Moo said, and the implementation. Everyone should be on the system for the start of the 2013-14 financial year?

Ms KEMMIS: Yes.

Ms FINOCCHIARO: Why did it take the department six years to get to this point of realising you needed an electronic system after much advice/criticism from internal audits, the Auditor-General, and things like that? Why?

Mr MOFFET: Lesley can add more detail, but I have asked this question as well. I guess there are a couple of key things. One is that from a project management methodology perspective we did not have enough dedication to the project in either identifying it as a discrete project, describing it, and then having management processes against it or, in fact, resourcing it effectively. There was no dedicated resource prior to 2009. Is that right?

Ms KEMMIS: There have been, but there have certainly been changes in personnel that have been involved in our grants management. In relation specifically to a Grants Management System, I do not think it is strictly accurate to say it has taken six years. There have been a number of processes that have occurred along the way. For example, there have been projects which have examined, firstly, how we have managed our grants. There have been projects which have looked at the quality of our information systems for managing grants. The major project which first recommended one overall Grants Management System occurred in 2007. Since then, the department has slowly been chipping away at some of those things.

Mr GUNNER: It could be fair to say solutions were put in place then, in hindsight, you thought these were just patches and needed to develop a whole system?

Mr MOO: We did have a good system that was developed locally and was supported by one of the local contractors. It was not as if we did not have a system. The strategy at the time was that we would develop a system and support it. What we realised over that time is we needed a much bigger, more comprehensive system.

Mr GUNNER: So, you put a solution in place. In hindsight you saw it was actually more of a bandaid and would need to put another solution in place eventually. So, you actually had to ...

Mr MOO: Yes, we had to cut out and go for a new system.

Ms FINOCCHIARO: My read of it is more that there was a clear lack of leadership from the top; that this was an absolute priority. I notice you are nodding, Jeff. That appears to be the problem where you mentioned, Lesley, that there was some staff turnover and things like that. Now, obviously, this is back on the boiler. Jeff, you have made inquiries into it since you took over in 2010. But, it seems pretty clear from the Auditor-General that this was not taken seriously enough, or allocated enough resources, or whatever was necessary to pull this together and whip it into shape.

Mr MOFFET: Yes. My observation is it has executive sponsorship now through Jan's area. That has only occurred in the last few years. I am just clarifying with Lesley why there might have been resources at various times. Prior to 2010, there was no dedicated project director so the resourcing was inadequate prior to 2010. I would say the structure of the department and the various divisional dilution of resources has meant it is a difficult project to pull into one place without executive sponsorship. So, that has changed.

Ms FINOCCHIARO: Yes, I understand.

Mr GUNNER: What was the Internal Risk Committee saying through that process, in 2008-09? Were they identifying this as a risk that needed to be prioritised over other areas in the department that needed to be addressed?

Mr MOFFET: I have just been advised it has been on the Audit Committee agenda. I have not actually seen any commentary for the Audit Committee, except in the past few years, so I do not know. I will have to check as to what was the case in 2008-09.

Mr GUNNER: In previous meetings of the PAC, we have met with the Health CEO prior to discuss the Internal Risk Committee structure on a previous reference. You have one of the better Internal Risk Committee boards, I would say, with an ex-Auditor-General in charge. I know they have, in the past, highlighted things the department has prioritised and addressed. I am just wondering where this might or might not have sat within what they were doing?

Mr MOFFET: I do not know. I am happy to provide that information. More recently we have taken it to the Risk and Audit Committee and they have been quite interested in making sure this does get delivered in this final time frame it has been committed to. In terms of 2008-09, I can find that detail and get it back to the committee.

Mr CHAIRMAN: Yes, please. Gerry, do you have any questions?

Mr WOOD: I have a feeling it might be down the line, you are going to ask, about the department ...

Mr CHAIRMAN: I would like to get the Auditor-General across to make comment. We have to try to wrap this up around about the 11.45 am mark.

Mr WOOD: I will ask a general question then, if it is all right, while the Auditor-General is coming up?

Mr CHAIRMAN: Yes.

Mr WOOD: It is about the Auditor-General's report. If you get this Grants Management System into place, Jeff, how many of those recommendations the Auditor-General has put down here in the 2012 report will be nullified, if I can put it that way, by that?

Mr CHAIRMAN: Just on that, Gerry, I am about to ask them to give us a written report ...

Mr WOOD: All right.

Mr CHAIRMAN: ... on all of those things. Would that be suitable?

Mr WOOD: That will be fine, yes.

Ms FYLES: I just have one question, but it might be covered in what you are about to request. Looking at the other side, this whole product is designed to help the Territory and help our NGOs deliver services. How will that happen?

Mr MOFFET: I will ask Lesley to comment in detail, but my feedback, turning to the stakeholder consultations, is consistent templates, consistent reporting requirements and an opportunity through the broader framework to contribute to the continuing development of the system has been welcomed by the sector. Lesley can give you more detail.

Ms KEMMIS: Sorry, I missed the ...

Ms FYLES: Do you want me to repeat it for you?

Ms KEMMIS: Yes, thank you. I apologise.

Ms FYLES: In terms of NGO governance – because our role is to make sure Territory monies are spent appropriately and services are delivered, how will this product, as a whole, help the NGO sector with governance, etcetera?

Ms KEMMIS: The information system product will actually enable a lot of the other reforms the department has been working on and will be putting in place as part of the new departmental structure. For example, we are having the development of the new information system, but along with that there have been other changes the department has been implementing. For example, the new information system has been structured on a new set of service agreement documents which have also been developed, so it will enable us to have much clearer obligations, responsibilities, etcetera, implemented with NGOs. In addition to that, things in the past that NGOs have found very difficult are the lack of standardisation in agreements in the outputs that have been funded. Having the system will enable us now to standardise those outputs and the outcomes that, across the department, we are now looking for with NGOs.

Ms FYLES: Can I ask a further question? Obviously, over time, this product has changed and we would have seen various Coronial inquests, reports, etcetera, to the department, which will be all encompassed to make sure this system delivers for Territorians, I guess, is the ...

Ms KEMMIS: I am not sure the issue of Coronial is relevant in this case.

Ms FYLES: With the product, we started off looking towards one product and that has now changed scope. I guess time has moved on in that period and the department, as a whole, has had various recommendations made to it, so the product will be able to encompass that and support the NGO sector? That is my question.

Ms KEMMIS: Yes.

Mr GUNNER: Is it going to be reducing the administration and overhead costs for NGOs so they need to spend less time doing the paperwork?

Ms KEMMIS: Yes.

Mr GUNNER: That would be one of the outcomes of this?

Ms KEMMIS: Yes.

Mr GUNNER: They engage with the system electronically, rather than filling out actual paper? They actually can log in and ...

Ms KEMMIS: Yes, they will be able to do that.

Mr GUNNER: Yes.

Ms KEMMIS: They are not obliged to ...

Mr GUNNER: Not obliged.

Ms KEMMIS: ... but certainly most of them are very keen to do so.

Mr GUNNER: Ultimately, that makes it much easier for them, so it is a much more timely system as well as everything else.

Ms KEMMIS: Yes.

Mr CHAIRMAN: Mr Moffet, I refer you to page 47 of the October 2012 report of Auditor-General for the Northern Territory where it is headed 'Recommendations to the Department of Health'.

Given that we have a time constraint today, would you be able to give written responses to the Auditor-General's recommendations?

Mr MOFFET: Yes.

Mr CHAIRMAN: We can then distribute them to the committee and read them at a later time. Do you have that Mr Clerk?

I would now like to ask the Auditor-General if he would like to comment on anything that has been discussed here this morning in relation to his 2004, 2010 and 2012 reports on this matter.

Mr McGUINNESS: Thank you, Mr Chairman. As the committee is now aware, this has been an ongoing process over a number of years, probably with small incremental gains.

This morning's discussion was interesting from my perspective because the jettisoning of ICS is something that has occurred since the audit was undertaken and is particularly interesting given that the project manager at the time, having just returned from Hobart, seemed quite confident that the ICS product could be made to work. Clearly that is not the case.

The Auditor-General, ever the optimist I think, has a lot of confidence in the department and its ability now to get to a successful end result but it is one I do have an abiding interest in, given that the amount that flows out to NGOs is larger than the budgets for a number of departments. I do have a vested interest in making sure that the system delivers what it is supposed to. It is functioning effectively but the next step really is to make sure that the integration within the department and NGOs is good and that the outputs that NGOs are being asked to deliver are consistent with the department's own strategic objectives.

So while we have finished the IT audit for this year, we will want to come back and have a look at the new system, particularly given this shift that has occurred in the last few months, but also to again revisit this question of integration between NGOs and the department's objectives.

Mr CHAIRMAN: Mr Wood.

Mr WOOD: Thank you Mr Chairman. Mr McGuinness, you also have the power to go and investigate money that NGOs use. Would you be looking at perhaps auditing a number of these NGOs after the system comes into place, to see whether the promises that it will make life a bit easier for these NGOs is actually the case? Does it save them some money at times and is it a more efficient system for the NGOs?

Mr McGUINNESS: Well it is not on the program at the moment, Mr Chairman, but it is one that can be easily put on the program. I would like to give it time for the system to be implemented, rolled out,

training to be complete and to give NGOs an opportunity to actually have some experience in using the system before going in and looking at how it is used and whether it is delivering the efficiencies and benefits which are claimed.

Mr CHAIRMAN: Mr McGuiness, what time frame would you be looking at, perhaps going and having a look at this again?

Mr McGUINNESS: Well it certainly will not be in 2013-14. With budgetary constraints as such at the moment, I am looking at scaling back my audit programs a little, so I am probably looking now at 2014-15.

Mr CHAIRMAN: All right. I endorse Mr Wood's comments that we really do need to have a look and see if we are getting value for money out of that and if there has been some advantage. Some stakeholder feedback would be very good. I would like to see this and Mr Clerk will put on the list that we revisit this at some stage and have further deliberative discussions in meetings of the committee to see if we can go back and revisit that slightly earlier to ensure the agreements are up to scratch, the KPIs are being met, the acquittals are being done, and that the system works.

Mr WOOD: Mr Chairman, there is nothing to stop us asking one of the NGOs to come before the PAC.

Mr CHAIRMAN: Absolutely. I think in some of our deliberative meetings we can pick one off the list and ask them if they would like to come and give us some evidence as to how they see it.

Has anyone got any more questions?

Given that we are just a couple of minutes early, is there anyone here who would like to have more to say? Mr Moffett, would you like to have any closing remarks?

Mr MOFFET: Just a few, if that is okay. Just picking up on Frank's comments in relation to planning, the department again, through a new service framework, needs to do quite a bit of planning next year. It is a fair comment to say we need to ensure that both the NGO sector - but service partners more generally - are well reflected in our corporate objectives and clinical objectives. We will be picking that up as part of our planning process in the new service framework.

Just in closing comments, this has been a long journey in observation from 2004, but clearly has changed in expectations along the way. I guess I am mainly confident now we have value for money. I have been assured by my team - and I was obviously briefed extensively in August and we had some

pretty difficult negotiations with Fujitsu - but I am satisfied we are going to get value for money at this stage. We will absolutely implement this as we have said we will, from late January onwards.

Mr CHAIRMAN: Excellent, anyone else? Mr McGuinness?

Mr McGUINNESS: No further comment from me, Mr Chairman.

Mr CHAIRMAN: Committee members? All right. I thank you all very much for appearing today. It has been very constructive and it has given us a far clearer picture of where we are at the moment. We hope this can be concluded to a happy ending. Thank you very much and thanks for your time, have a great day.

The hearing into the Health matters on today's agenda is now concluded; that being Item 5. We will now have a break and we will move to Item 6 shortly.