

**Friday 1 February 2013**

**Peter Flanagan's Opening Remarks**

**Health Payroll Commission**

Mr Commissioner, this inquiry concerns a contract which the State of Queensland entered into with IBM Australia Limited on 5 December 2007.

That contract was for the provision by IBM of 'ICT' services, which were to be further defined in a Scope of Works.

The contract was awarded following a 'closed' tender process to which three companies submitted responses. The successful tenderer was IBM.

After some 're-scoping' of the contract in September 2009, the services which IBM was required to provide were predominantly focused on Queensland Health's payroll system. That involved replacing a system with Queensland Health, known as 'LATTICE'. That system is said to have required replacement because its supplier would no longer support it.

The nature and scope of the contract means that there is some relevant history, including as to the selection of the software and the implementation of a similar system in the Department of Housing. Also relevant is the involvement of government agencies other than Queensland Health, and in particular CorpTech, a special commercialized business unit established in 2003 initially with Treasury and ultimately within the Department of Public Works.

In March 2010, the new Queensland Health payroll system 'went live', after a number of deferrals. Delivery of the system was very delayed. Problems became apparent immediately. A very large number of staff were not paid at all, and many were over or under-paid.

The system continues to prove costly and labour-intensive to operate.

Mr Commissioner, you have already referred to the Terms of Reference. They expressly require you to have regard to previous reviews of the Queensland Health Payroll System Implementation. Those reviews include the KPMG Implementation Review dated 31 May 2012 and the Auditor-General of Queensland's report titled 'Information Systems Governance and Control, including the Queensland Health Implementation of Continuity Project (2010)' dated June 2010.

There are other reviews that will be tendered in due course.

Since the announcement of the Inquiry in December 2012, and prior to the formal commencement of the Order in Council, namely 1 February 2013, steps have been taken to establish the Inquiry. These steps include not only the necessary administrative arrangements, but preparatory work in terms of indentifying relevant witnesses, and categories of documents which will be necessary for the conduct of the Inquiry.

Given the Terms of Reference, may we make it clear that Counsel Assisting are aware that there have been previous reviews and we are familiar with them.

Preparatory work has been undertaken in identifying, on a preliminary basis only, the primary issues which the Inquiry might investigate. These issues, which I will shortly outline, demonstrate that the Inquiry does not seek to repeat the work of the various Reviews, but will go deeper with its additional powers and direct its efforts to shedding light on key decisions that were made in relation to the tendering process, implementation of the contract, changes to its scope, the decision to 'go live' made in March 2010, and the decision to compromise any potential action against IBM by the State of Queensland.

This analysis will be conducted with a view to establishing, as chronologically as possible, the underlying facts which led to these decisions. This issues-based approach will also have regard to whether laws, contractual provisions, codes of conduct or other government

standards may have been breached during the procurement and/or the implementation process and identifying who, if anyone, is accountable for these breaches.

Ultimately, a chronological approach to the underlying facts which led to the relevant decisions will be examined for the purposes of this Commission making recommendations about changes to existing procurement contract and project management policies, processes and standards and contractual arrangements for major Queensland Government information and communications technology projects.

Whilst this approach may be suggestive of a rather arid review of facts, we wish to note that the failure of the system after the go live date had real and ongoing human consequences for many staff of Queensland Health. The impact that the failure of the system had on individuals is not a part of this inquiry, but we wish to acknowledge that the failure had this effect and its reality.

Might I outline now the main questions which, at this early stage, seem to be ones which warrant particular attention as part of the present Inquiry.

1. Was the tender process fair and proper?
2. As to contract management and implementation:

- a. Was it right to select the software that was used?
  - b. Were the governance arrangements for the project adequate and clear?
  - c. What did IBM know about what was required, from the tender, from its previous involvement with Government, and from its own investigations and inquiries as part of this particular project?
  - d. How and why did the Contract change in scope and was the scope clearly stated?
  - e. Why was the decision made to go live when it was? The decision to go live, and in particular what testing was done beforehand and whether the decision to do so was one which ought to have been made, and who was involved in making that decision?
  - f. In a more general sense, how did all parties perform their obligations under the contract?
3. Generally, the State's settlement with IBM.

Finally, we are aware of earlier reports published by the ABC and the *Courier Mail* in which persons have indicated they have knowledge of irregularities and problems which affected the tender process and the contract implementation. We have written to both the ABC and to the

*Courier Mail* inviting those media organisations to draw to the attention of those informants, the establishment of this Commission and to invite those persons to make contact with Commission staff.

We would encourage any such persons to make contact with Counsel Assisting to give any information or documents they might have about matters within the Terms of Reference.

Contact with the Commission and with Counsel Assisting can be made by using the details on the Commission website:

[www.healthpayrollinquiry.qld.gov.au](http://www.healthpayrollinquiry.qld.gov.au)

or in person with Mr David Mackie, the Secretary to the Inquiry on 3109 1734.