New South Wales Auditor-General's Report
Performance Audit

The Learning Management and Business Reform Program

Department of Education and Communities

audit office
OF NEW SOUTH WALES

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The Legislative Assembly
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The Legislative Council
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In accordance with section 38E of the *Public Finance and Audit Act 1983*, I present a report titled **The Learning Management and Business Reform Program: Department of Education and Communities.**

Grant Hehir
Auditor-General
16 December 2014

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Executive summary

Background

The Department of Education and Communities (the Department) commenced the Learning Management and Business Reform (LMBR) program in 2006. It was expected to be completed by December 2014 at a total cost of $483 million.

The LMBR program aimed to replace various legacy systems with a modern, integrated system to manage student administration, and introduce a single human resources, payroll and finance system across the Department, including implementation in 2,218 schools and ten TAFE Institutes.

The LMBR program is a large scale and complex program, which has been treated as a significant risk to the Department since its inception in 2006.

To manage the scale of the LMBR program, the Department segmented the major components of work and used a pilot implementation approach for schools.

This audit assessed the Department of Education and Communities' progress in implementing the LMBR program, and whether it will achieve expected benefits.

We looked at the Department's progress from the original business case in 2006–07 to November 2014. We examined whether the Department:
- had established and maintained a clear business case for the LMBR program with well-defined outcomes, costs and benefits
- had effective governance and program management arrangements to implement the LMBR program
- is effectively managing the realisation of the planned outcomes and benefits established for the LMBR program.

See Appendix 1 for more information about the audit.

Delivery status

The Department has delivered some components of the LMBR program:
- the finance system to the corporate areas and all TAFE Institutes (2010)
- HR/payroll for all TAFE Institutes (2013)
- finance for a pilot group of 229 schools (2013)
- student administration and learning management (SALM) for the 229 pilot schools (2013), and all TAFE Institutes (2014).

TAFE Institutes have had all planned components of the LMBR program delivered to date.

Exhibit 1 (below) and Exhibit 2 (page 10) provide more details of the LMBR program components delivered to date.

Exhibit 1: Components of the LMBR program delivered as of November 2014

	Department Corporate	TAFE	229 pilot schools	Remaining 2,000 schools
LMBR component				
Finance	●	●	●	○
HR/payroll	○	●	○	○
SALM	n/a	●	●	○

Source: Department of Education and Communities 2014.
Key: ○ Planned;   ● Delivered;   n/a Not applicable

Audit conclusion

Some parts of the three major components of the LMBR program have been delivered to different areas of the Department. However, complete implementation is behind schedule and over budget, and the Department has yet to demonstrate that it will achieve the expected benefits.

The LMBR program started with a measured and staged approach. We found that the work undertaken for the first finance components was well managed. However in 2011, as the LMBR program moved into the more complex environment of student administration and learning management for schools and TAFE Institutes, we found that the Department did not consistently meet time, cost and quality requirements.

The LMBR program has faced all the inherent difficulties expected in trying to manage a large-scale, long-term, and complex program with diverse business requirements and complex commercial arrangements. We found that the Department is not adequately managing these significant issues.

The total expenditure on the LMBR program to 30 June 2014 was $531.4 million ($403.4 million capital cost and $128 million recurrent expenditure). This was $48.4 million over the expected total cost of $483 million to complete the LMBR program. Around 60 per cent of the expenditure on the LMBR program has been spent on contractors and consultants.

The Department expects that it will have spent a total of $573 million on the LMBR program to complete Stage 2 by the end of 2014–15. However, the LMBR program will not be fully implemented by December 2014 as originally scheduled. The Department has commenced planning for further work in Stage 3 of the LMBR program and needs to allocate significant additional funding from its budget to enable it to complete the implementation of all the planned LMBR program components. This includes implementing the HR/payroll system to corporate areas and the pilot schools, and implementing all LMBR program components into the remaining 2,000 schools.

The major causes of the cost increases and delays have been:
- changes in business requirements and scope
- high level of uncertainty in business cases
- weaknesses in governance
- insufficient program management and contract management controls and processes.

The Department has not established an effective benefits realisation process. Since the start of the program the Department has not measured or reported on any benefits that may have been achieved or changed.

In 2012, the estimated value of the benefits that would be realised by fully implementing the LMBR program was $139.2 million per year. In 2014, the Department commenced, but has not completed, a review of the estimated value of benefits. This review indicates that stakeholders and business owners believe many of the expected benefits are currently not achievable, and the value of benefits may be as low as $26.3 million per year. For both estimates, the Department has not validated the benefits' quantity, value or type to demonstrate that the program benefits are achievable.

The Department provided a copy of the draft LMBR program Stage 3 business case to this office on 11 December 2014. Due to the timeframe, we have not reviewed the document. It should also be noted that the Stage 3 business case has not been subject to detailed review within government for funding consideration, so it is not appropriate for us to include specific details.

Major findings

Business cases and business requirements

There have been five business cases for the LMBR program reflecting the Department's regular reviews and business needs. Most of the work completed on the LMBR program to date has been funded under two business cases completed in 2008 and 2012.

The business cases generally applied central agency requirements for business cases, project management and benefits realisation, although some key gaps were identified. For example, the costs of risk management and mitigation are not included in the estimated cost of the program.

Outcomes and benefits were generally defined in each business case. However, not all the costs and benefits expected throughout the life of the program had been clearly defined. Expected benefits, as well as their value, have changed with each business case.

We found that the cost estimates for the implementation of the LMBR program were incomplete. Items such as accommodation were not included in the budget.

The recorded expenditure for the LMBR program to 30 June 2014 was $531.4 million, but this is underestimated because not all costs have been included. In particular the time of many Department staff involved in governance and consultation has not been measured.

There was extensive consultation with users in schools, TAFE Institutes and the corporate areas of the Department as part of the process to develop the business case requirements. However, the system that has been delivered to date has not met all the agreed business requirements, or the expectations of the pilot schools and TAFE Institutes we interviewed.

Governance and program management

We found that the governance and program management arrangements for the LMBR program have not been effective in ensuring that the LMBR program's development and implementation met time, cost and quality requirements.

The Department has invested significant time and resources into developing the governance and program management arrangements for the LMBR program. This commenced in 2006.

Governance groups have not always had the right people or information to effectively oversee activities and make informed decisions. For example, financial reporting was limited until mid-2013 when a financial oversight committee and improved financial reporting were introduced.

The Department has engaged independent quality and assurance advisors since the commencement of the LMBR program to assist it to identify and manage program risks. However, the Department has not always adequately addressed the concerns raised by the independent quality and assurance advisors.

At the time that the LMBR program was established, the Department did not have an enterprise-wide program management office (PMO) or program management framework, nor the skillset within the department to manage a program of this size and complexity.

The first main contract for the LMBR program required the contractor to establish the PMO and program management framework. The contract also required the contractor to provide most of the resources for the PMO. We found that this created a risk that the staff of the PMO may not have been working with the best interests of the Department in mind, as they were managing and reporting on the work being undertaken by their colleagues. There was inadequate oversight by the Department to resolve this conflict.

The organisational change management approach used for the LMBR program has underestimated the needs and capabilities of school users. It also failed to effectively communicate system functionality, and any changes as they occurred.

The Department underestimated the business reform effort that was needed to support the 229 pilot schools to accommodate the complex new systems. We found that TAFE Institutes had taken responsibility for managing the business reform effort that was needed to successfully transition to the new systems.

The system was implemented with known defects. These were managed with workarounds and fixed over time, but caused frustrations and difficulties for users, and delays in the schedule.

Realising benefits

While some elements of the program have been implemented, the Department has not effectively managed the realisation of planned outcomes and benefits established for the LMBR program. The LMBR program established a benefits realisation approach, strategy and plan, but this was not fully adopted by the business or monitored by the LMBR PMO.

A benefits realisation register was developed in 2006, but it did not assign responsibility for achieving benefits and has not been updated to reflect the benefits defined in the 2008 and 2012 business cases. In addition, the documentation that sets out: the activities required to achieve the benefits; how benefits are to be measured; the baseline values of the benefits; and the validation of benefits by the business, is incomplete.

We found that benefits have not been consistently and regularly monitored and tracked against the expected benefits since the LMBR program commenced. For example, the Department cannot report on the value of the benefits that have already been achieved by the LMBR program.

Recommendations

The Department should, by 31 January 2015 for the next LMBR program business case, and by 30 June 2015 for any other projects or programs managed by the Department:

1. a. ensure that business cases comply with all central agency requirements

    b. for large projects, work is segmented so that deliverables are achieved, and benefits commence accruing, within a three-year timeframe (page 11)

2. ensure that, within the business case, the risk management approach quantifies the potential impact of risks and includes appropriate contingencies to manage them (page 13)

3. ensure that governance arrangements are not only robust, but also rigorously applied and monitored, and that there is effective financial oversight (page 19)

4. apply its Program Management Office and frameworks for program management, and the Department's accredited procurement and contract management frameworks and ensure staff are adequately trained in applying these processes (page 22)

5. ensure that there is specific accountability for achieving well-defined outcomes (page 26)

6. for the rollout of the LMBR program to the remaining 2,000 schools, require the Schools portfolio to take stronger responsibility for ensuring that schools are provided with the necessary support for successful implementation (page 26)

7. a. ensure a Benefits Realisation Register is developed

    b. that baseline and benefits measures are defined and validated by those responsible for realising the benefits (page 32)

8. ensure that throughout a program's development and implementation its benefits are regularly reviewed, updated and that achievements are recorded and validated (page 32).

Response from the Department of Education and Communities

Education & Communities
NSW GOVERNMENT

Mr Grant Hehir
Auditor General
Audit Office of NSW
GPO Box 12
SYDNEY NSW 2001

Dear Mr Hehir

I write in response to your letter of 5 December 2014 regarding the performance audit of the Learning Management and Business Reform Program (LMBR) of the NSW Department of Education and Communities.

Please find attached a copy of the Department's formal response for inclusion in the published report. This response has been updated following some late amendments to the audit report on 12 December 2014.

The performance audit has provided the Department with the opportunity to reflect on the achievements of the LMBR program and to focus on lessons learnt and areas for improvement. This has proven to be useful as the program closes Stage 2, and undertakes detailed planning for Stage 3.

I would like to thank the Audit Office review team for their work on this audit and their willingness to liaise with the Department prior to finalising the report.

Yours sincerely

Peter Riordan
R/SECRETARY
DEPARTMENT OF EDUCATION AND COMMUNITIES

14 December 2014

Department of Education and Communities Response

BACKGROUND TO LMBR

The LMBR program was established in 2006 to deliver three large-scale enterprise solutions, including a single finance and a single human resources/payroll system for the entire department, as well as new student administration systems for both schools and TAFE. It is one of the largest change programs in the public sector. The program has successfully delivered a comprehensive human resources and payroll system (20,000+ TAFE employees), and one of the most significant education administration systems in the world (500,000+ students). It has a significant technology component, as well as an agency-wide reform agenda and associated change activities.

As with any program of this size, complexity, and timeframe, planning at the outset could never have provided a detailed forecast of all requirements for the solution. The business cases focussed on the major capital investment required, and this has proven to be reasonably accurate given the significant reforms implemented in the education and training sector since the program commenced eight years ago. In addition, all business cases have been clear about the level of uncertainty associated with the recurrent expenditure of the program. This uncertainty has been effectively managed throughout the life of the program with thorough reviews conducted by external experts to validate and identify costs as the program delivered solutions to the Department.

The Department has successfully managed the challenges faced by the program and has deployed the full suite of products to TAFE NSW and major components to the Department's corporate offices. The schools solution has been developed and piloted in a small group of schools. The pilot of the schools solution has proved to be the most challenging aspect of the program to date. Based on the experiences from the pilot, the program has modified its approach to future deployment to schools, substantially increasing resources to provide training and support for school staff. The Stage 3 Business Case will build on the lessons learnt to date, and provide a solid approach for successfully completing the program, positioning the Department to realise the full benefits of the program.

DEC RESPONSE TO RECOMMENDATIONS

The Department accepts all eight recommendations in the audit report and has already implemented many of them during 2014.

DEC RESPONSE TO THE AUDIT CONCLUSION

A number of the conclusions presented by the Audit Office and summarised on page 3 are not accepted by the Department.

Management

The Department rejects the finding that it is not adequately managing the issues associated with the large scale, long term and complex nature of the program.

The Department has appropriately managed the challenges of the program from its commencement in 2006 and has successfully delivered major components. The cost of the program reflects its the size and complexity and the fact that the Department's business requirements have had to change over the years to cater for new education reform initiatives such as Local Schools, Local Decisions and Smart and Skilled.

The Department acknowledges that Stage 3 will incur additional costs that were not quantifiable in the original business case. The pilot program allowed the Department to test the original deployment approach for schools, and as a result of the challenges experienced by the pilot schools in adopting the new solutions, it was determined that a new approach was required to ensure the success of future deployments. Ultimately this new approach will

not only provide better support for school staff, it will reduce risk and be more cost-effective. The Department asserts that this is evidence of a mature program that is able to respond and adapt, and to learn from experience.

Benefits

The Department agrees that Benefits Realisation Management could have been better managed through the life of the program and will ensure that a stronger benefits management approach is taken in Stage 3 and for other Department projects and programs.

The conclusion drawn by the Audit Office that the benefits have been eroded from $139.2 million is based on the view of some business owners and stakeholders at a point in time prior to the completion of the program. The estimated benefits remain at $139.2 million for Stage 2. They will be reviewed as part of the Stage 3 Business Case which will complete the program.

DEC RESPONSE TO THE KEY FINDINGS

The Department disagrees with the way some of the information has been interpreted which affects the conclusions drawn.

1. Business cases and business requirements

In general the Department agrees with the findings in this section of the report, however it disagrees with two of the findings.

Cost

The Audit Office implies that the cost was underestimated because the time of departmental staff involved in governance and consultation were not measured. The Department refutes this. With the exception of accommodation costs, the program has followed accounting standards (AASB 138) in reporting cost. The LMBR program confirmed with Independent Quality Assurance that the industry standard for non-program staff involved in governance and consultation is not a program cost as it is considered to be a cost associated with their normal role.

Business requirements and expectations

The Audit Office states that the program to date has not met all the agreed business requirements or the expectations of the pilot schools and TAFE institutes.

The Department disagrees with the statement that it did not meet all agreed business requirements. As with any program, agreed requirements are developed taking into account the initial requirements gathered from the business, the current capability of the market to deliver to these requirements and budgetary and time constraints. To date the program has delivered to documented business requirements.

2. Governance and project management

The Department acknowledges there is room for improvement. Through the life of the program, the governance and program management arrangements were reviewed and strengthened. The current arrangements, implemented since February 2014, were confirmed as appropriate by Independent Quality Assurance and external NSW Government and industry advisors.

The success of the current governance and program management arrangements is evidenced by the successful delivery of the 2014 program of works which were on-time and on-budget.

Key findings

1. Business cases and business requirements

Finding: There have been five business cases for the LMBR program reflecting the Department's regular reviews and business needs. Most of the work completed on the LMBR program to date has been funded under two business cases completed in 2008 and 2012.

The business cases generally applied central agency requirements for business cases, project management and benefits realisation, although some key gaps were identified. For example, the costs of risk management and mitigation are not included in the estimated cost of the program.

Outcomes and benefits were generally defined in each business case. However, not all the costs and benefits expected throughout the life of the program had been clearly defined. Expected benefits, as well as their value, have changed with each business case.

We found that the cost estimates for the implementation of the LMBR program were incomplete. Items such as accommodation were not included in the budget.

The recorded expenditure for the LMBR program to 30 June 2014 was $531.4 million, but this is underestimated because not all costs have been included. In particular the time of many Department staff involved in governance and consultation has not been measured.

There was extensive consultation with users in schools, TAFE Institutes and the corporate areas of the Department as part of the process to develop the business case requirements. However, the system that has been delivered to date has not met all the agreed business requirements or the expectations of the pilot schools and TAFE Institutes we interviewed.

All agencies must demonstrate they achieve value when spending public money. Preparing a rigorous business case is vital to inform government decision-makers that a proposal is necessary, consistent with government priorities, offers value for money and the nominating agency has the capacity to deliver the service delivery benefits outlined.

Central agencies publish requirements and guidelines which set minimum requirements for agencies in preparing business cases and submitting them for funding consideration. Gateway reviews are also required for projects that are estimated to cost more than $10 million. See Appendix 2 for a list of government requirements relevant to the LMBR program.

Over time, there have been changes in business case requirements from NSW Treasury and the Office of Finance and Services (OFS). We used the requirements and guidelines applicable to the LMBR program business cases and gateway reviews at the relevant times to assess performance.

1.1 Business cases

In May 2005 the Minister for Education approved the LMBR program. The LMBR program was 'to transform the way the Department manages and delivers student administration, human resources and finance services.'

The Department has consistently stated that the reasons for proceeding with the LMBR program were that the existing finance, human resources, payroll and student administration systems were over 15 years old, technically obsolete, complex, costly to maintain, and did not meet the Departments business requirements. There were over 100 technology applications being used with an indeterminate number of databases and small accounting systems used by schools and TAFEs to meet their business needs because of the existing systems deficiencies. This meant there was duplication of effort and inefficient and inconsistent manual processes across the Department. The LMBR program was designed to address these issues.

We reviewed five business cases prepared for the LMBR program since commencement, as well as the documentation for gateway reviews completed at various stages. Most of the work completed on the LMBR program to date has been funded under two business cases completed in 2008 and 2012. See Appendix 3 for a summary of the business cases and gateway review documentation.

Exhibit 2: LMBR program business cases and components delivered

Year							
2006	Planning begins						
2007	Original program proposal	Finance system to corporate, TAFE and all schools	HR/Payroll system to Corporate, TAFE and all schools	Student Administration (SALM) system to TAFE and all schools	Not progressed		
2008	Business case	Finance system to corporate, TAFE and all schools	HR/Payroll system to TAFE	Progressed			
2009	Work progresses						
2010	Delivered	Finance system to corporate and TAFE					
2011	Work progresses						
2012	Business case	Finance system to 229 pilot schools	HR/Payroll system to TAFE and 229 pilot schools	SALM student wellbeing system to 229 pilot schools	SALM student management system to 229 pilot schools	SALM system to TAFE	Progressed
2013	Delivered	Finance system to 229 pilot schools	HR/Payroll system to 4 TAFE	SALM student wellbeing system to 229 pilot schools	SALM student management system to 229 pilot schools		
2014	Delivered	HR/Payroll system to 6 TAFE	SALM system to TAFE				

Source: Department of Education and Communities 2014.

There was extensive consultation with users in schools, TAFE Institutes and the corporate areas of the Department as part of the process to develop the business case requirements. However, the system that has been delivered to date has not met all the agreed business requirements or the expectations of the pilot schools and TAFE Institutes we interviewed.

It was clear from the business cases that, due to the size, complexity and timeframe of the LMBR program, planning at the outset involved a lot of uncertainties about the detailed requirements of the system, and the associated cost and timeline. The business cases focussed on the major capital investment required and indicated that there was uncertainty associated with the recurrent expenditure of the program. See section 1.4 for more details on the budgeted and actual costs of the LMBR program.

The anticipated timeframe for implementing the LMBR program was eight years. A NSW Parliamentary Committee review in 2013 felt that eight years is too long for any ICT project. They recommended that the government adopt as best practice, a more useful timeframe of two to three years. This was following input from an ICT professional who advised: 'if a project takes longer than two years, it was virtually guaranteed for failure. Greater success at a lower cost can come from evolutionary change that is more adaptive and reactive and involves more frequent smaller tenders.' In 2000, the New Zealand Auditor-General recommended that agencies should have strategies to protect their large IT projects from technology and business changes, if the life of the project was more than two years.

Recommendation: The Department should, by 31 January 2015 for the next LMBR program business case, and by 30 June 2015 for any other projects or programs managed by the Department:

a.   ensure that business cases comply with all central agency requirements
b.   for large projects, work is segmented so that deliverables are achieved, and benefits commence accruing, within a three-year timeframe.

In April 2006, ministerial approval, endorsed by the Department of Commerce, was given to the Department to enter into direct negotiations with the government-preferred integrated management system supplier. In September 2007 contract negotiations commenced.

A preliminary business case prepared in 2007 required more capital funding than was available within the Department or through central agencies. In response, the Department decided to delay, re-sequence and extend its releases within a revised framework of two implementation stages. This led to the 2008 business case which received capital funding to progress the program.

In the 2008 business case, the Department reported that the impact on resourcing levels were not known, and wouldn't be known until the program was completed. This meant that there was not a clear estimate of the costs that would be incurred.

The risk register developed in the 2008 business case included many of the risks expected in managing a large scale, complex and long term program. We found that most of the risks have occurred.

The Department had delivered a replacement finance system for the Department's corporate areas and TAFE Institutes as planned by December 2010. However, not all of the other planned components of the 2008 business case had been implemented by the expected date. These components were then added to later business cases. For example, the finance system was not implemented in schools, and the TAFE HR/payroll implementation was not achieved as planned. This may indicate that the time to implement the program was underestimated.

In 2010–11, the NSW Treasurer approved increasing the LMBR program capital budget to $386 million. At the same time, the 2008 business case cost estimate was revised from $153 million to $210 million and the cost estimate for future implementations was revised from $218 million to $176 million. This overall increase was for matters not considered in the original business case, including funding additional staff and training to deliver an integrated solution.

During 2010, the Department developed separate business cases for the HR/payroll and the Student Administration and Learning Management (SALM) components of the LMBR program, rather than a single business case. Both the HR/payroll and SALM business cases went through the gateway review processes, but did not progress. In late 2012, the Department decided to merge these components into one business case and incorporate the remaining components of the LMBR program. The Department advised this business case did not go through a gateway review, as it was a merge of the HR/payroll and SALM business cases. See Exhibit 2 for a timeline of business cases and implementations.

In January 2011, the independent assurance advisor engaged for the LMBR program reported that a budget had not been allocated to establish the Department's capability to support the finance solution once it had been rolled out. The Department had also not clarified the separation point for ongoing operations (referred to as 'business as usual' or BAU), and the necessary structures to provide this support.

The initial timeframes for implementation of many of the components of the LMBR program have not been met. This has generated shifts of work between business cases, and increased costs, to implement different aspects of the LMBR program. Appendix 4 lists the planned deployment schedule for each of the LMBR components reported in the business cases and the actual deployment schedule.

Current Status

Following a review of progress in January 2014, approval for additional funding was required for the completion of work in progress. The Department recognised that the existing funding allocation would be spent before the work would be completed. More than $50 million of additional internal funding was allocated to complete this work during 2014–15. This review also identified that there were significant components that would not be implemented by the end of 2014, including the implementation to the remaining 2,000 schools.

Exhibit 3: Components planned and delivered by funded business case

	Department Corporate	TAFE	229 pilot schools	All schools
2008 business case				
Finance	●	●	n/a	◉
HR/payroll	◉	◉	n/a	◉
SALM	n/a	◉	n/a	◉
2012 business case				
Finance	◆	◆	●	○
HR/payroll	◉	●	◉	○
SALM	n/a	●	●	○
2015 proposed business case				
Finance	◆	◆	◆	◉
HR/payroll	◉	◆	◉	◉
SALM	n/a	◆	◆	◉

Source: Department of Education and Communities 2014.

Key: ○ Not planned;   ◉ Planned;   ● Delivered;   ◆ Already in place;   n/a - Not applicable

The Department has prepared a draft LMBR program Stage 3 business case to identify a source of funding to complete the full implementation of the LMBR program across all schools and corporate offices .

1.2   Central agency requirements

In reviewing all five business cases for the LMBR program, we assessed whether the Department had complied with central agency requirements and guidance.

The business cases generally applied central agency requirements for business cases, project management and benefits realisation, although some key gaps were identified.

The Treasury requirement for the ICT Capital Investment Process applied to all the business cases. The business cases generally complied with this requirement. However, no Pre-Tender Estimate Report or Post Tender Review Report was provided, or compared in the Business Cases.

The Department generally applied NSW Treasury and OFS requirements. The Department advised that a Procurement Strategy Report and Post Tender Review Report were prepared for the SALM solution. However, we found that no quarterly status or quality assurance reports were provided to NSW Treasury for the implementation of the SALM solution as required.

We found that changes to the scope, timeframe, implementation plan and financial data were included in the 2012 business case, but the reasons for the changes between the business cases were not clear.

Across all business cases, we found the following weaknesses in complying with Treasury requirements and guidelines for capital business cases:

- there is no mention of the financial impact on the agency, nor of the funding strategy, nor a discussion of the assumptions made for the financial appraisal
- key dependencies that affect the potential performance are not documented
- value for money is not mentioned in the procurement choice. The cost of procurement, risks and management methods are not mentioned. There is no statement of the capacity and resources to manage the procurement process and responsibilities under the contract
- neither an economic appraisal nor value management study report were included.

The business cases substantially met OFS' Project Management Guideline. Some of the gaps identified were:

- no evidence of a preferred project management methodology being implemented
- no evidence of review by the project sponsor
- there is no evidence of a tactical plan for the realisation of benefits, or an independent audit of compliance against the benefits targets, or of corrective actions to ensure benefits are achieved.

The guideline for capital business cases requires a risk assessment to be undertaken. Office of Finance and Services has issued the Project Risk Management Guideline which we used to identify the following gaps in the business cases:

- the risk context is not identified
- no contingency plan for risks
- the costs of risk management and mitigation are not included in the estimated cost of the program
- no mention of risks that are so severe the viability of the project may need reassessment.

Recommendation: The Department should, by 31 January 2015 for the next LMBR program business case, and by 30 June 2015 for any other projects or programs managed by the Department, ensure that, within the business case, the risk management approach quantifies the potential impact of risks and includes appropriate contingencies to manage them.

1.3   Outcomes

In reviewing all the business cases for the LMBR program, we assessed whether the expected outcomes were well defined.

We found that the business cases clearly stated the outcomes and outputs that were to be achieved.

The purpose generally remained consistent between the original, the 2008 and the 2012 business cases.

The LMBR program is to deliver and manage a change program covering student administration for schools and TAFE Institutes, and HR/payroll and finance management across the Department. It will also:

- improve the range of delivery channels for these services to include online, direct support, contact centres, transaction processing and access to specialists
- improve service delivery to parents, students, staff and business, and to deliver operational efficiencies by reallocating back-office resources to the frontline
- improve access to services from any internet anywhere in the world
- introduce new standardised processes across the Department
- improve data integrity and consistency of information on employees

- provide teachers with better access to teaching and learning resources and allow them to use a greater variety of sophisticated learning management solutions
- provide administrative staff with improved tools giving more opportunity to support teaching and learning activities
- build a comprehensive portfolio of each student's achievement, making it securely and effectively available to staff, parents and employers, and allow better targeting of resources to improve student outcomes
- assist in managing student wellbeing by providing tools to case manage learning, health and/or behavioural needs, identify children at risk and share information with other agencies dedicated to ensuring the safety of children in New South Wales.

1.4   Costs

In reviewing all the business cases for the LMBR program, we assessed whether the costs were well defined.

It is not clear what the approved budgeted costs for the implementation of the LMBR program were at the various stages and phases, nor what the total budgeted cost is for the complete implementation of the program. This is because the cost estimates for the implementation of the LMBR program were incomplete. Items such as accommodation were not included in the budget.

We also found that the estimates of costs included in the business cases were not detailed enough to allow us to check that all reasonably anticipated costs had been included in the budget. For example, the Department reported that the impact on resourcing levels and costs for change management and staff training, were not known, and would not be known until the LMBR program was completed.

The complexity of the program was not reflected in the costing of risks and contingencies.

The capital and recurrent costs estimated for the LMBR program were revised from the 2008 business case to the 2012 business case. Limited information is provided on the revised estimates and the impact that the change to the implementation approach had on the cost of the LMBR program.

We found it difficult to analyse the budgeted costs in the various business cases because they have not used consistent timescales to estimate the cost elements. For example, the resource estimates in the 2008 business case are calculated over a four year period, whereas the implementation period is less than three years.

The shared services function was outside the scope of the LMBR program implementation, even though it was considered to be critical to its delivery. We found that the benefits from implementing a shared services function, worth over $7 million, have been included in the LMBR program's cost benefit analysis even though the cost of establishing the shared services function was not.

The estimated costs for the LMBR program outlined in the 2008 and 2012 business cases was $483 million.

Exhibit 4: Estimated costs and timeframe for implementation of the LMBR program in each business case

	Original (over 8 years) ($ million)	2008 (over 4 years) ($ million)	2012 (over 3 years) ($ million)
Recurrent	31	18	53
Capital	299	153	212
Additional (internally funded)			47
Total	**330**	**171**	**312**

Source: Audit Office research 2014.

The total expenditure on the LMBR project to 30 June 2014 was $531.4 million: $403.4 million capital and $128 million recurrent expenditure. This is $48.4 million over the estimated cost, and the planned work was not completely implemented.

Exhibit 5: Actual Costs incurred in each stage to 30 June 2014

	2008 ($ million)	2012 ($ million) Project not yet complete	Total ($ million)
Recurrent	5.3	122.7	128
Capital	199.5	203.9	403.4
Total	**204.8**	**326.6**	**531.4**

Source: Audit Office research 2014.

NB: Numbers do not add up due to rounding

We found that the actual expenditure recorded for the LMBR has been underestimated because not all costs have been included. In particular, the time of many Department staff involved in governance and consultation has not been measured. Also, actual expenditure figures do not include $4.9 million for accommodation costs to house the LMBR program staff.

The LMBR program to date has involved a significant commitment of resources by the Department that are not included in the direct costs of the LMBR program. Hundreds of people from across the Department, including from schools, TAFE institutes and corporate users, have been involved in many aspects of the LMBR program, including:

- consultation and workshops to define business requirements
- participating in governance committees
- evaluating tender responses
- reviewing functional specifications
- user acceptance testing
- preparing for the implementation of system components
- attending training sessions
- patiently and diligently working with system components and applying manual work-arounds while waiting for defects to be fixed and other enhancements.

1.5   Benefits

In reviewing all the business cases for the LMBR program, we assessed whether the expected benefits were well defined.

We found that the LMBR program business cases have variously estimated the annual value of benefits to be achieved at between $7.5 million and $139 million. This variation in value reflects changes in anticipated benefits, changes in business requirements and the business cases, and the inclusion of both tangible and intangible benefits for the Department as well as the wider community.

Exhibit 6: Anticipated benefits reported in business cases

Original	2008	2012
$247 million over 15 years ($16.5 million per year)	$112 million over 15 years ($7.5 million per year)	$139 million per year for 8 years
1,652 FTE staff per year to frontline delivery	680 FTE staff per year to frontline support	680 FTE staff per year to frontline service delivery

Source: Audit Office research 2014.

FTE - full-time equivalent.

The LMBR program has had a detailed benefits management strategy developed. However, not all of the established metrics used to evaluate a benefit are clear and detailed to allow suitable monitoring and measurement of their delivery. Also, responsibilities are not always assigned for achieving the benefits.

Some of the anticipated benefits from the program are:

- a reduction in time required to prepare material for parent interviews
- single data entry of attendance records and automated issue of related letters
- reduction in hours of work lost by TAFE applicants during peak enrolment periods
- reducing the use of additional casual teaching staff during TAFE peak enrolment periods.

As not all of the anticipated savings are cash benefits, the Department reported it would redirect capacity to improve learning outcomes through enhanced frontline services supporting students, parents, employers and teachers. It is not clear how the Department intends to demonstrate the improved learning outcomes.

One of the stated benefits in the 2012 business case is a redirection of 680 FTE staff resources from back-office functions to frontline service delivery. This will be replaced with 680 staff in a centralised corporate shared services centre. The Department has calculated this as cost neutral for the economic appraisal for the LMBR program but expect it to provide efficiencies for the Department.

In 2012, over half ($78 million) of the benefits were anticipated from frontline service improvement by releasing teaching and non-teaching staff from low-level back office functions. The largest contributor to the benefits is reduced time spent by teachers preparing material for parent interviews, worth $35 million per year. A further $29 million in annual benefits is expected from efficiencies in accounts payable, finance reporting, cost management and improved access to consistent and accurate data, Treasury compliance and vendor management capability. Community benefits of $11 million per year are expected from reduced hours of work lost by TAFE applicants during peak enrolment periods because of online enrolment access.

See Chapter 3 for further discussion of the LMBR program benefits.

2.   Governance and program management

Finding: The Department has invested significant time and resources into developing the governance and program management arrangements for the LMBR program. This commenced in 2006.

We found that the governance and program management arrangements for the LMBR program have not been effective in ensuring that the LMBR program's development and implementation met time, cost and quality requirements.

Governance groups have not always had the right people or information to effectively oversee activities and make informed decisions. For example, financial reporting was limited until mid-2013 when a financial oversight committee and improved financial reporting were introduced.

The Department has engaged independent quality and assurance advisors since the commencement of the LMBR program to assist it to identify and manage program risks. However, the Department has not always adequately addressed the concerns raised by the independent quality and assurance advisors.

The organisational change management approach used for the LMBR program has underestimated the needs and capabilities of school users. It also failed to effectively communicate system functionality, and any changes as they occurred.

The Department underestimated the business reform effort that was needed to support the 229 pilot schools to accommodate the complex new systems. We found that TAFE Institutes had taken responsibility for managing the business reform effort that was needed to successfully transition to the new systems.

The system was implemented with known defects. These were managed with workarounds and fixed over time, but caused frustrations and difficulties for users, and delays in the schedule.

At the time that the LMBR program was established, the Department did not have an enterprise-wide program management office (PMO) or program management framework, nor the skillset within the department to manage a program of this size and complexity.

The first main contract for the LMBR program required the contractor to establish the PMO and program management framework. The contract also required the contractor to provide most of the resources for the PMO. We found that this created a risk that the staff of the PMO may not have been working with the best interests of the Department in mind, as they were managing and reporting on the work being undertaken by their colleagues. There was inadequate oversight and input by the Department to resolve this conflict.

2.1   Governance

Program governance is the management arrangements that are put in place by an organisation to achieve a program's objectives. It sets out the roles and responsibilities for decision making, direction, and control of the program's development and implementation.

An effective governance structure ensures that there is:
- a single point of accountability for program success
- internal program management
- control over suppliers
- separation of stakeholder management and decision making
- independent review and assurance.

In a large program, such as the LMBR program, which is broken down into multiple projects to achieve the overall program, the governance structure should clearly set out who is accountable for the success of each project, as well as the overall program.

Exhibit 7: NSW Treasury guidelines on program governance arrangements

Agencies will need to document the proposed governance model for implementing the project or program.

Governance arrangements for managing the delivery of a project or program can begin when a service need has been identified and continues during the project's lifecycle. Governance is not static as agencies must ensure there are appropriate mechanisms in place to achieve key deliverables such as time, cost, quality, risk, procurement, safety, change management and service benefits.

It is critical for agencies to consider the appropriate governance arrangements based on the scale, risk and complexity of the project or program. Agencies must identify at the earliest stage the skills and seniority required as part of the governance arrangements.

Source: NSW Treasury 2008, TPP 08–5 Guidelines for Capital Business Cases.

Large, complex and long-term programs may encounter problems if they are approached as siloed technology upgrades rather than as business transformation programs. We found that the LMBR program has been treated as a significant business transformation program, and the governance arrangements have been inclusive of business representatives for consultation and decision-making.

The Department established a governance structure for the LMBR program when planning commenced in 2006. The Department has regularly reviewed and revised the governance structure of the LMBR program at key stages such as:

- when the program had progressed from design to implementation stages
- when the LMBR program leadership changed
- with each new business case that was developed.

The revisions to the governance arrangements are an appropriate response to changes in the LMBR program environment over time. We found that the governance arrangements for the LMBR program have changed nine times over the last eight years. In particular, the LMBR program leader has changed four times in eight years, the most recent commencing in February 2014. Each new leader brings different skills and methods of managing the program. While these reviews may be expected for a program that has been running for a long period of time, this can lead to disruptions and loss of momentum.

The governance structures and arrangements for the LMBR program are very detailed. They have included governance groups at strategic, design and implementation levels with membership reflecting the roles and responsibilities of these groups. Examples of governance groups have included:

- the steering committee
- project control groups
- implementation groups for specific system releases
- an audit sub-committee on the LMBR program
- a business transformation executive steering committee to oversee the shared services centre implementation.

Unfortunately, the governance arrangements for the LMBR program have not always been effective. For example, a review in 2010 identified the following limitations that led to changes to the people attending governance meetings and the terms of reference for governance committees:

- overlapping meeting topics
- people are members of multiple governance committees
- some governance missing
- some agreed governance not in place as yet

- most governance forums not making decisions, but for information only
- attendance at some forums was very low
- participation rate of individual members in some forums was low.

We also found that the governance committees have not always had effective oversight of the program. For example, a review in 2013 found that there was not effective financial reporting of the progress of the LMBR program to the LMBR Steering Committee. While expenditure on the program was regularly reported, there was no analysis of estimates to complete work streams against the approved budgets. A financial oversight committee was established in July 2013 to give better financial oversight of the LMBR program.

Recommendation: The Department should, by 31 January 2015 for the next LMBR program business case, and by 30 June 2015 for any other projects or programs managed by the Department, ensure that governance arrangements are not only robust, but also rigorously applied and monitored, and that there is effective financial oversight

There is no evidence that action was taken in addressing the risks, or that matters were being reported to the appropriate governance structure. While a detailed governance structure was established, it was not effective in its oversight and management of the LMBR program.

For most of the life of the LMBR program, the governance structures were aligned with the major system function streams: finance, human resources and payroll, and SALM. The governance roles and responsibilities tried to address how the diversity of business requirements and competing priorities of business users would be resolved in developing the functional streams. However, this was not always effective. For example, the LMBR program did not have a workable timetable function for high schools included in the schools SALM system that was implemented at the end of 2013 despite this being a core requirement of the LMBR program.

The Department acknowledged that schools expectations around timetabling were not managed effectively by the LMBR program leading to dissatisfaction by some staff.

The Department advised that it chose an off-the-shelf product for its student administration system. It later found that this product did not meet timetabling requirements for high schools. It decided to proceed with implementing the product with an interim solution to address the gap (by enabling integration with schools' existing third party software applications) and proposed a future enhancement to incorporate the missing functionality. We found that the interim solution does not appear to have been implemented. The Department advised that it is taking action to meet the requirements for high school timetabling, which should be implemented by mid-2015.

The most recent review of governance structures occurred in 2014 when a new LMBR program leader was appointed. This review recognised that better outcomes would be achieved if consultation and decision making were aligned with each of the main business streams: schools, TAFE and corporate. Program managers were appointed and made accountable for each of these business streams. They are supported by project managers who are responsible for the functional stream (finance, HR/payroll and SALM) within each business stream.

We recognise that the Department has regularly reviewed and changed its governance arrangements to manage the complexities of the LMBR program. It should use its learnings and experience from the LMBR program to inform future project and program governance arrangements.

2.2 Program management

A program management framework defines the processes that are used throughout the life of a program to manage people and activities. An effective program management framework ensures that the objectives, milestones and system requirements of a program will be achieved.

We examined various elements of the program management framework that have applied to the LMBR program from its commencement. These elements include:

- the program management office, methodologies, policies and procedures
- managing business requirements, resources and implementation
- governance and performance management
- organisational change management
- procurement and contract management.

The LMBR program's program management framework was developed as part of the major LMBR program contracts.

Program Management Office (PMO), methodologies, policies and procedures

A PMO is the primary support group for project and program management within an organisation. Large organisations that regularly manage multiple projects establish PMOs to standardise processes across its portfolio of projects.

For very large projects or programs, a program-specific PMO provides services as a temporary entity established to support a specific project or program. To be effective, this PMO should apply the organisation's PMO standards and methodologies, and be appropriately resourced to manage the scale and duration of the program. The primary goal of a PMO is to achieve benefits from standardising and enforcing its project management methodology, policies and procedures.

An effective program management methodology helps guide a program from commencement to successful implementation. It sets clear policies and procedures for:

- work planning and scheduling
- monitoring and reporting on progress
- controlling resources and the work being done
- verifying that completed work complies with business specifications (quality control)
- managing communications and stakeholder consultation
- managing scope changes (change control)
- managing risks and issues.

A well-structured PMO, program management methodology, policies and procedures are particularly important for the LMBR program which is complex, long-term and has many Department and contract staff working on the team, as well as myriad internal and external stakeholders.

The Department did not have a Department-wide PMO, including project management methodologies, policies and procedures, in place at the time the LMBR program commenced.

In one of its first contracts, the LMBR program had an extensive suite of project management plans and strategies developed by the vendor. These included:

- a program execution plan
- a project management plan for the design stage
- project templates
- business blueprints
- a project technology strategy
- communications strategy

- change request process
- data migration strategy
- organisation change management strategy
- end user training strategy
- test strategy and plan.

In addition to these, the LMBR program team used the Department's procurement and records management policies.

The Department again included PMO functions in its major vendor contract for the 2012 business case work program up until early 2013. This means that the LMBR program has used a mix of vendors' program management frameworks since commencement. While these were based on good practice models, they were designed to suit the vendors' approaches to project management, and to achieve contract requirements, rather than the broader needs of the LMBR program and the Department's business needs.

For example, the following concerns were raised by independent quality assurers, which indicate weaknesses in the LMBR program's program management framework:
- no overarching quality management plan or accountability for quality outcomes
- shared roles exist that are filled with inadequately skilled personnel
- lack of common understanding of scope between the business representatives and the LMBR program team
- inconsistent and inadequate documentation
- challenges for the LMBR program team in communicating in the Department's terminology and context
- gap in expectation of the PMO role and scope
- lack of challenge and/or escalation of issues and risk
- lack of skills to anticipate impacts of implementation.

Use of a project management methodology does not guarantee that a project will be well managed. The methodology must be applied by experienced project managers and the project team members must be adequately trained in its use. We did not see evidence that the project managers and project team members were adequately trained in the vendor's program management frameworks used for the LMBR program.

The role of a PMO is to oversight work being done and to prepare reports on progress, risks and slippages. It is also responsible for ensuring that issues are recorded, tracked and addressed by appropriate people, and for managing benefits realisation. At the time that the LMBR program was established, the Department found it did not have the skillset to manage a program of this size and complexity.

The first main contract for the LMBR program required the contractor to establish the PMO and program management framework. The contract also required the contractor to provide most of the resources for the PMO. The Department did not have adequate oversight of the PMO staff. This created a risk that any potential conflicts that may have arisen as a result of managing and reporting on the work being undertaken by their contractor colleagues would not be suitably resolved.

In early 2013, the Department tendered for PMO services for the LMBR program and appointed an independent PMO contractor. However, as the previous LMBR program vendors' frameworks and methodologies were already embedded in the LMBR program, the new PMO continues to use these, as well as elements of program methodology familiar to the independent PMO contractor for work and resource scheduling.

There is now a Department-wide PMO and the LMBR program PMO reports quarterly to it on some indicators.

Recommendation: The Department should, by 31 January 2015 for the next LMBR program business case, and by 30 June 2015 for any other projects or programs managed by the Department, apply its Program Management Office and frameworks for program management, and the Department's accredited procurement and contract management frameworks and ensure staff are adequately trained in applying these processes.

Managing business requirements and implementation

An effective program management framework has several processes to ensure that business requirements are addressed in the system being developed, as well as in the reforms being implemented. We examined the following processes that have applied to the LMBR program:

- addressing business requirements and meeting quality expectations
- managing business reform implementation
- work scheduling and oversight
- scope management and change control
- stakeholder consultation and communication
- user acceptance testing.

The Department did a lot of work to analyse business requirements for corporate, TAFE and school users as input to the project planning in 2006. This included considering what would be required for enterprise and transition planning and defining a program strategy for development and implementation.

The Department advised that the LMBR program has been exposed to a variety of ongoing internal and external pressures. It reported that its response has been to vary the program scope and requirements to ensure that the solutions remain fit-for-purpose and compliant with the changing market, regulatory and policy environment.

Detailed documentation had been prepared for program planning and development of work approved in the 2008 business case. But lack of clarity of the LMBR program scope and inclusions led to additional work to validate business requirements between October and December 2012. At the same time, the Department was preparing the 2012 business case and renegotiating its main service delivery contract for the LMBR program.

In February 2013, the Department issued a document called 'Release on a Page' which defined the business requirements and was a detailed stocktake of the LMBR program scope for the remaining development and work required to implement the 2012 business case.

Despite this detailed work, there were still critical business requirements that were not delivered even though they were included in the scope of work. For example, the schools' student management component of the SALM system, implemented in November 2013, does not have a workable timetable function for high schools, nor the ability for schools to record student attendance period-by-period. This has caused additional work for the LMBR program pilot high schools that rely on these functions to operate. Some high schools in the pilot group also advised us that they have to use a third party product to be able to function, even though this meant paying for new or renewed software licenses.

Scope and change management

In a program of this scale, scope changes can cause significant cost and time increases. This is mainly because the defined scope of work is used as the basis for contract negotiations, resource budgeting and work scheduling. It is expected that business requirements may change over time, and the program management framework must include a structured process for change requests to be logged, considered, assessed and approved or rejected. This ensures that any change requests that impact on the time or cost of completing work are properly scoped and approved.

The LMBR program had a change control process and maintained a register to log and track change requests, including the assessed cost and time impacts of each change request. Change requests were assessed to determine if they were necessary and feasible. However, the change request process was not always managed effectively. For example, during 2013, vendors took change request instructions from business users rather than through established program governance approval processes. This changed the program scope without proper consideration and approval, leading to delays and increased costs to the program.

The Department has acknowledged that there could have been more rigour around some processes, particularly the management of change requests. It advised that the reasons for delays and subsequent cost increases were predominantly caused by factors unknown at time of business cases.

Risk management

All projects have risks that may occur during their life. These risks, if they occur, may impact on successfully running and completing work to time, cost and quality requirements. Risk management is a process that:

- anticipates the risks that may occur
- assesses the likelihood of the risk occurring
- assesses the impact to the project (severity) if the risk occurs
- plans how to reduce the likelihood or severity of the risk occurring
- documents what the project team should do if the risk occurs.

Exhibit 8: Project Risk Management Guideline

Cost-effective management of risk is essential if a project is to achieve its business outcomes. These typically include cost, schedule, quality and the fulfilment of functional and non-functional requirements. Risk management starts at the inception of a project. This means risk must be addressed when the project's scope and justification are documented in its business need proposal and in its initial business case.

The objective of project risk management is to apply a systematic process to reduce cost-effectively the effects of uncertainties that compromise project or business objectives.

Looking for difficulties and then managing them so that there are no surprises for senior management leads to successful projects and is a mark of mature governance. Ignoring risks or being ignorant of them leads to failure.

Risk management is a process for organised assessment and control of risks. It involves the identification, analysis and evaluation of the risks presented by the system being acquired and the activities to acquire it, and the development of cost-effective treatments for those risks. It applies to projects and programs of all sizes.

Source: NSW Finance and Services 2011, Project Risk Management Guideline.

The LMBR program has followed government guidelines for project risk management. A risk assessment was prepared for the LMBR program with the original business case. The LMBR program has been managed as a significant risk to the Department and has been overseen by a dedicated Audit Sub-committee with an independent Chair.

Although in Section 1.2 we note some weaknesses in how risks were addressed in the LMBR business cases, the tracking and reporting of risks has been consistent over the life of the LMBR program.

A risk register has been developed and updated regularly for the LMBR program. The risk register has been presented and discussed at monthly LMBR program governance committee meetings. This commenced with the LMBR program planning in 2006.

The Department has also engaged independent quality and assurance advisors since the commencement of the LMBR program to assist it to identify and manage program risks. We note that the independent quality and assurance advisors have identified and raised many of the risks that turned into issues during the course of the LMBR program. However, we are concerned that the Department has not always adequately addressed the concerns raised by the independent quality and assurance advisors in a timely manner. For example:

- In June 2009, a risk was identified that quality was not being adequately addressed. It was recommended that the Department appoint a quality manager to the LMBR program. It was not until three years later, in July 2012, that a quality manager was appointed to the program. This indicates that the recommendations of the independent quality advisors were not addressed in a timely manner.

- In April 2010, it was identified that poor resourcing by one of the LMBR program contractors was impacting on the effectiveness of program management. In February 2011, it was noted that limited progress had been made in improving program management practices. The most significant issue to arise from this delay was the functional gaps in the HR/payroll and finance for schools solution, which it judged were blocked by an ineffective change request process.

- In January 2012, a risk was identified regarding contractual relationships and the concern that commercial risks were overly weighted towards the Department. By the end of 2012, the contractual relationships were changed, and the Department was left with additional risks, including taking over direct control of a major vendor as well as program management responsibilities for the LMBR program.

We understand that the LMBR program PMO is responsible for ensuring that matters raised by the independent quality advisors are adequately addressed. However, these examples indicate that this was not always done or done in a timely manner. Coupled with a change in LMBR program leaders during this time, the risks raised by the independent quality and assurance advisors coincided with the failure of the LMBR program to complete the work planned in the 2008 business case.

The Department's internal audit directorate has conducted targeted audits of the LMBR program since its commencement to ensure project risk is mitigated. The scope of audits has included financial and systems controls, financial management, governance and probity, program management, quality assurance, procurement and contract management. The engagement of contractors has been reviewed twice by internal audit.

Each of these reports identified weaknesses in the way the LMBR program had managed contractors, including not verifying work completed to contract terms, not having specified work order limits to manage costs, and the value of flow on engagements to existing contracts exceeding financial delegations. Procurement and contract management arrangements for the LMBR program are discussed in section 2.3.

Organisational change management

It has been sensible for the Department to buy-in expertise for some aspects of the LMBR program. For example, the first contract for major work required the vendor to develop business blueprint documentation to capture business requirements and list all development work that would be undertaken to meet those requirements in the system development. As this is based on the system being delivered by the vendor, it makes sense for the vendor to provide this documentation.

Other aspects of the program approach should have detailed involvement of people across the Department to ensure it suits its culture and environment. These include its organisational change management strategy, stakeholder consultation and communication strategies.

The LMBR program had multiple versions of its organisational change management strategy. The ones developed for the 2008 business case had very limited review by anyone in the Department. For example:

- the first change management approach was not endorsed or approved by any business users
- the 2008 organisational change management strategy was reviewed by one person from the Department
- the TAFE HR/payroll organisational change management plan was not reviewed or approved by anyone from TAFE.

The main features of the finance system being developed for pilot schools was a centralised purchasing and payment facility, a single bank account for the Department, and an accrual accounting system. This is a significant change to the way schools have worked. For example, schools are used to purchasing from and paying suppliers directly, managing a separate bank account and a cash-based accounting system. In our interviews and feedback from many people in the Department and the pilot schools, it is clear that the organisational change management strategy has not worked for the pilot schools.

The Department completed a readiness assessment for each of the 229 pilot schools prior to approving the deployment of the finance system. The pilot schools have access to face to face training and online training materials. The Department advised that a support structure was in place at the 'go live' date to help schools through the change process.

Exhibit 9: School Readiness and Support

The Department provided the following example of how the 229 pilot schools were supported to be ready for the LMBR program implementation.

The 229 schools have undertaken a tremendous amount of work in preparation for the schools Finance go live. While the overwhelming majority of the 229 schools have completed the required activities for go live and are "ready" there is still a degree of nervousness/anticipation about the change which is not unexpected for such a significant transformation project.

For the small handful of schools which the Program has identified as requiring some additional support, the relevant school implementation coordinators and change officers are working closely with those schools.

From a broader support approach, the LMBR Program has comprehensive structures in place to support the 229 schools at go live which aim to provide schools with further confidence in using the new systems and ease them through the change.

Support will include the provision of detailed instructions on what schools need to complete at go live as well as a day by day guide for typical activities and processes schools may need to complete in their first week. In addition a large dedicated LMBR support team have been trained in the new systems. This team will be available to answer all questions starting Monday 18 November 2013. School implementation coordinators and SAM trainers will also be on hand to support schools as will service desks in Finance Shared Services and ICT.

To further strengthen the support available for schools, optional go live support videoconferences will run every day during the week commencing Monday 18 November 2013. School staff will be able dial in and be taken through the key activities for the day and ask questions.

Schools are also able to refresh any aspects of the training with all training materials available on the LMBR Intranet page.

Source: Department of Education and Communities 2014.

We found that the pilot schools were not given enough help by the Department to understand the accounting requirements and what it meant to move from cash accounting to accrual accounting when the finance system was first implemented in October 2012. For example, accrual accounting training was not available until May 2014. There was limited assistance given to the pilot schools to help them understand the new compliance and accounting rules that the finance system automatically enforces. There was only limited training conducted with outdated screen-shots rather than a live and interactive training environment to help users understand the end-to-end processes they would be using to do their job. In addition, changes were made to the system after training which meant that the implemented system did not match the screens that users had seen during training. This has led to frustrations and difficulties in using the system efficiently.

The Department has recognised the difficulties experienced by the pilot schools and took action to provide additional support throughout 2014. It has been working to resolve defects in the system in order to stabilise the system and improve its use for the pilot schools. Between March and September 2014, 149 system defects were fixed for the schools' SALM system with another 47 planned to be fixed by the end of the 2014. The Department also deferred implementing the LMBR program components to the remaining 2,000 schools due to the difficulties experienced by the pilot schools.

The organisational change management strategy included TAFE Institutes using an online tool to capture information from users to assess their readiness to accept the installation of LMBR system components. The tool provided a schedule of activities that TAFE users reported they checked when completed to indicate their readiness. However, this tool was not flexible to allow users to advise of any needed changes to the timing or focus of activities to suit their local needs and capabilities. This created tensions and misunderstandings.

The organisational change management approach used for the LMBR program pilot schools did not effectively assess and understand the needs and capabilities of the staff at the pilot schools. The training given to users proved to be inadequate to assist them to understand and use the system components when they were installed. This led to difficulties understanding and using the finance and SALM systems by the pilot schools. See Appendix 5 for feedback from a selection of the 229 pilot schools regarding the training and implementation of the LMBR program.

TAFE Institutes had taken a different approach by taking responsibility for managing the business reform effort that was needed to successfully transition to the new systems.

Recommendation: The Department should, by 31 January 2015 for the next LMBR program business case, for the rollout of the LMBR program to the remaining 2,000 schools, require the Schools portfolio to take stronger responsibility for ensuring that schools are provided with the necessary support for successful implementation.

The Department has put in place mechanisms to monitor the progress of the LMBR program with regular, at least monthly, steering committee meetings and engaging independent quality assurance advisors. Despite this, the LMBR program has experienced delays and quality issues.

Recommendation: The Department should, by 31 January 2015 for the next LMBR program business case, and by 30 June 2015 for any other projects or programs managed by the Department, ensure that there is specific accountability for achieving well defined outcomes.

2.3   Procurement and contract management

All government agencies are required to ensure they obtain value for money in relation to the procurement of goods and services.

Contracts for IT services can result in long term relationships with suppliers beyond the initial contract period. Agencies must be prepared to effectively manage the arrangement to get value for money over the life of these arrangements.

As with project management, procurement and contract management require skills and capabilities beyond technical knowledge. Agencies that enter into complex and/or long-term ICT services contracts and other outsourcing arrangements should invest in appropriate procurement and contract management capabilities.

An appropriate procurement and contract management framework should address governance arrangements, skills, roles and responsibilities, and policies and procedures. It should promote accountability for decision-making and expenditure of public funds.

A significant part of the LMBR program cost has been for contractors and consultants. At 30 June 2014, the Department had spent $531.4 million on the LMBR program, with around 60 per cent of this being spent on contractors and consultants. Over 80 per cent of the amount spent on contractors was paid to three major vendors.

As well as hundreds of resources supplied by the major vendors in accordance with their contracts, the LMBR program has engaged 339 individual contract staff over the last eight years to supplement its own, and the vendor supplied, resources. Many of these contract staff have been engaged for their specialist ICT skills that the Department did not have, as well as undertaking program management, contract management, program support and administrative functions.

Contract resources have outnumbered Department staff working on the LMBR program. While it is appropriate that the Department obtained the resources it needed for the LMBR program, more effort is needed to manage contract resources. For example:

- ensuring that knowledge and skills transfer is completed as people leave
- additional cost to the program for induction and lower productivity as people join
- lower accountability for quality outcomes and process efficiency
- ensuring a consistent application of program processes.

The Department did not have adequate procurement and contract management guidance in place for the LMBR program staff until December 2012. Prior to this, the following weaknesses were identified in internal audits:

- lack of competitive market testing for two consultancy engagements
- non-compliance with prequalification scheme requirements by not having formal work orders and statements of work to enable staff to effectively monitor work performed against deliverables
- lack of evidence that contractors' timesheets had been reviewed and verified
- lack of appropriate approval of engagements and related purchase orders
- poor documentation of decisions and actions taken in relation to the engagements examined.

In December 2012, two guidelines were issued for LMBR program staff: General ICT Services Procurement Guidance and Contingent Workforce Procurement Guidance.

While this was an improvement, this was not a comprehensive contract management framework. For example, the General ICT Services Procurement Guidance addresses the main procurement steps and includes maintaining a contract register and preparing a contract management plan. There is a comprehensive contract register for the 2012 business case work that contains the details needed to track key elements of the contracts.

However, because this guidance was not in place from the commencement of the LMBR program, there was no contract register for the 2008 business case work.

Also, these guidelines were not robust as they did not include policies and procedures for critical issues of contract management, such as:

- requirements for competitive market testing
- ensuring that vendor and contract reviews take place and are documented
- ensuring that there is an appropriate process to verify invoices against work performed.

We also found that consultants that were advising the Department on the LMBR program were awarded contracts for later work. Although contracts were awarded after a competitive process, the relationships may have given them an advantage.

Exhibit 10: Variations after the consultancy has commenced

The Independent Commission Against Corruption's (ICAC) Guidelines for Managing Risks in Direct Negotiations states that:

Where proposed variations are not minor, the agency should consider whether a competitive process needs to be reopened. ICAC recommends that agencies adopt a system of reporting material or anything more than minor variations in all projects up to a more senior level of the agency for review. Such reviews should consider whether the variation is consistent with the business case, whether it continues to give best value for money and whether the proposed variation should be exposed to a competitive process.

What constitutes a material variation will depend on the type of contract being considered. For example, for consulting contracts, the Premier's Department of NSW had nominated a variation of 25 per cent as a threshold for thorough contract review. However, for other types of contract, proposed variations of less than 10 per cent could be considered material.

All proposals for variations require very careful consideration, applying the principles of value for money, probity and accountability.

Agencies should consider including contractors' track record or experience on similar projects as part of the evaluation criteria and should conduct thorough reference checks.

Source: Independent Commission Against Corruption 2006, Direct Negotiations - Guidelines for Managing Risks in Direct Negotiations.

Consistent with good practice, the contract variations for the LMBR program have been formalised and entered into the contract register.

The Department's procurement manual states that contracts cannot be extended beyond five years without approval, but it does not set any thresholds that limit the value of contract extensions or variations.

None of the LMBR program contracts had been extended beyond five years. However, we found that extensions of contracts, or contract variations, had increased some contracts to beyond three times the value of the original contract. For example, in one case, the original contract value was less than $45,000, but had increased to over $600,000 after six contract variations. In another example, a contract with an initial value of around $364,000 increased to over $3.8 million after 18 contract variations. While not consistent with ICAC's guidelines, the LMBR program team obtained internal approvals for the latter example in accordance with the Department's procurement policy.

There have been two contract management plans developed for the LMBR program. The first was for the major contract following the 2008 business case. The second was developed for the major contract for the 2012 business case work. The Department has entered into 20 contracts for LMBR program work since 2012 business case work began. These contracts range from $33,000 to over $10 million. The LMBR program General ICT Services Procurement guidance requires staff to develop contract management plans, but only for large contracts. The guidance does not provide any threshold to judge what value defines a large contract.

The contract management framework put in place for the LMBR program does not provide any useful guidance for managing contracts during their operation, such as policies and processes for managing contract variations or contract extensions. The guidance has the following statement which is inadequate for managing contracts:

> Responsibility for ensuring value for money, deliverables and appropriate achievements and reporting are the responsibility of the Project or Sourcing Manager.

Despite this, we found that the Department had effectively managed the contract in the early stages of the LMBR program. This is because the first main contract for the LMBR program had a fixed price schedule for milestones that were structured with specific details of what was required. The contract manager ensured that there were detailed assessments undertaken of the quality of deliverables against contract requirements before invoices were paid. The contract manager escalated action for non-compliance of contract conditions, indicating that the contract was actively managed and performance was reviewed in a timely manner.

When the work being done for the LMBR program progressed, a new contract was negotiated for implementation services on a time and materials basis. The LMBR project managers supervised contract staff to manage the timelines and deliverables. Risk shifted from the vendor to the Department without assessing the risk impact or additional contingency (cost, time, resources and/or changes to business processes) required to support the LMBR program.

The second main contract for the LMBR program was very detailed, running to over 650 pages, and had been developed with legal advice. The contract appeared to give the Department protections and recourse for poor performance and delays against defined milestones and deliverables. However, the contract was substantially changed a year after it was signed, to be only for the provision of skilled staff and had removed any deliverables from the contract.

The Department did not consistently use regular or effective vendor and contract management processes to check the quality, completeness and accuracy of work before invoices were paid.

When the Department re-planned the LMBR program in early 2014, it also renegotiated the main implementation contract, re-introducing a fixed price contract with strict controls over milestones and deliverables.

The Department has built a procurement and contract management capability in its ITD group and Procurement Directorate. However, it has not used these capabilities to effectively manage the procurement and contract management processes throughout the LMBR program.

3. Realising benefits

Finding: Whilst some elements of the program have been implemented, the Department has not effectively managed the realisation of planned outcomes and benefits established for the LMBR program. The LMBR program established a benefits realisation approach, strategy, and plan, but this was not fully adopted by the business or monitored by the LMBR program management office.

A benefits realisation register was developed in 2006, but it did not assign responsibility for achieving benefits and has not been updated to reflect the benefits defined in the 2008 and 2012 business cases. In addition, the documentation that sets out: the activities required to achieve the benefits; how benefits are to be measured; the baseline values of the benefits; and the validation of benefits by the business is incomplete.

We found that benefits have not been regularly and consistently monitored and tracked against the expected benefits since the LMBR program commenced. For example, the Department cannot report on the value of the benefits that have already been achieved by the LMBR program.

In 2012, the estimated value of the benefits that would be realised by fully implementing the LMBR program was $139.2 million per year. In 2014, the Department commenced, but has not completed, a review of the estimated value of benefits. This review indicates that stakeholders and business owners believe many of the expected benefits are currently not achievable, and the value of benefits may be as low as $26.3 million per year. For both estimates, the Department has not validated the benefits' quantity, value or type to demonstrate that the program benefits are achievable.

Over time, the expected benefits from the LMBR program have changed due to changes in business requirements and in business cases. Overall, the delays and cost overruns have eroded the value of the expected benefits.

Good benefits management practices

Investments in new technology and business reform projects must be supported by a business case that assesses the expected benefits against the costs and resources needed. Projects or programs can only be considered successful if they achieve or exceed their expected benefits. Managing benefits realisation has become an essential part of managing ICT projects in order to demonstrate the benefits that have been achieved compared to what was expected. Guidance on managing the realisation of planned outcomes and benefits for ICT projects has been available to NSW agencies since 1997.

A benefits realisation register should be prepared in conjunction with the cost/benefit analysis in a business case. The cost/benefit analysis identifies the high level benefits that are planned as an outcome of the project or program. The development of the benefits realisation register helps to analyse the planned value of the benefits to the organisation and may also help to identify additional benefits.

In order to demonstrate that a project or program has delivered the expected benefits, it is essential to know what the situation was before any change commenced, then track changes and achievements over the life of the program, and report achievements after implementation. A benefits management plan provides a structured process to document, manage and demonstrate the progressive achievement of benefits over the life of a program compared to the baseline measured at the start of a program implementation. It is more accurate to capture these baseline measures, rather than trying to measure and track benefits and business process changes once the program commences or is implemented.

It is not unusual for anticipated benefits to change as a program progresses. This is why the benefits realisation process should be structured and iterative to document any changes in assumptions, including additional benefits not previously considered.

It is also important that benefit owners are assigned. Benefit owners validate the accuracy of the baseline measure, have responsibility for implementing actions that contribute to achieving the benefits, and regularly report on achievements.

As the LMBR program has not yet been completed, we reviewed whether the Department was effectively managing the realisation of the planned outcomes and benefits established for the LMBR program.

3.1   Documentation for assessment and achievement of benefits

The Department has developed several detailed benefits realisation documents for the LMBR program, including:

- 2006 – Benefits Realisation Register
- 2008 – Benefits Realisation Approach
- 2008 – Benefits Realisation Plan
- 2008 – Benefits Realisation Framework
- 2012 – Benefits Realisation Plan
- 2012 – BAU Benefits Realisation Strategy
- 2012 – Benefits Management Realisation Map
- 2012 – Benefit Redefinitions, Metrics & Profiles.

However, these documents do not provide enough detail to be confident that benefits will be managed effectively. For example:

- the benefits realisation register does not assign responsibility for achieving benefits and has not been updated to reflect the benefits defined in the 2008 and 2012 business cases
- the BAU benefits realisation strategy provides only a high level strategic plan for achieving benefits. There is no actual mention of how benefits will be realised at the implementation level
- there is a clear focus on 'accountability' and 'responsibility' and 'benefit owners', however, there is no mention of what benefit owners are responsible for doing at the implementation level
- there is no identification of risks associated with benefits realisation and no strategies to mitigate them to ensure benefits can be realised as planned
- the benefit governance map in the BAU benefits realisation strategy 2012 is at a high level with minimal detail as to how the 'benefits realisation team' is structured or operates
- the levels of oversight and decision making power within the benefits governance structure is unclear and not explicitly stated
- there is no timeframe for the realisation of benefits, nor are benefit-take up rates provided, in the Benefits Management Realisation Map
- there is little or no workings or evidence to show how the value of anticipated benefits were deduced.

The Benefit Redefinitions, Metrics & Profiles document establishes a clear metric for every benefit that indicates how it will be measured. However, two months later, the benefits were revised in the Stage 2 business case Update but these metrics were not updated.

3.2   Achievement and measurement of benefits

Overall, the Department, through its LMBR PMO, has not been effectively managing the realisation of planned outcomes and benefits throughout the implementation of the LMBR program. The Department did not document baseline values until November 2013. There is no documentation to validate the benefits quantity, value or type to be achieved.

The Department cannot report on the value of the benefits that have already been achieved by the LMBR program. We found that there has not been regular monitoring, tracking or reporting of the ongoing achievement or otherwise of benefits, or of any changes, since the LMBR program commenced.

Some benefits have been achieved and others are expected to be achieved when the LMBR program is complete. The first component of the LMBR program, the new finance system to corporate users and TAFE Institutes, was implemented in 2010. Corporate and TAFE users have benefited from this new system, such as gaining efficiencies from automated processes and approval workflows. Unfortunately, the LMBR program's benefits realisation approach has not tracked, valued or reported these benefits.

Several delays, cost overruns, errors, process inefficiencies, poor training and support have eroded the value of many anticipated benefits. For example, some pilot schools have renewed or re-invested in third party software in order to function as the LMBR system does not allow them to manage and run their schools and manage their students and classes as needed.

Anticipated program benefits have been revised numerous times, even in the last few years. In mid-2012, the BAU benefits realisation strategy established a clear set of 11 benefits from the LMBR program and details a benefits-led approach to ensure the program realises its benefits and outcomes. Three months later, the LMBR Program Benefit Redefinitions, Metrics & Profiles reconsiders and refines the anticipated benefits of the LMBR program. It details the rationale for the revision of the benefit definition and establishes specific metrics in order to quantify and demonstrate the success of the program. Two months after this document, the 2012 business case establishes an updated set of 20 benefits to 'better align with the current program environment and focus'. The listed anticipated benefits of the program have changed between business cases with no justification or explanation as to why benefits have been redefined, added or deleted.

The Department commenced, but has not completed, a review of benefits in 2014 that indicated many previously defined benefits were no longer available or that their realisable values had been reduced. In 2012, the estimated value of the benefits that would be realised by fully implementing the LMBR program was $139.2 million per year. In 2014, the estimated value of benefits that may be achieved was $26.3 million per year.

The 2014 review found that, in the view of benefit owners and stakeholders, the value of benefits that can be realised is considerably lower than that stated in the business cases, or they have already been achieved outside of the LMBR program, and some claimed benefits will not be achieved at all. This indicates that the communication and engagement with stakeholders regarding the identification, assessment and validation of benefits have not been managed effectively.

Recommendation: The Department should, by 31 January 2015 for the next LMBR program business case, and by 30 June 2015 for any other projects or programs managed by the Department, ensure that throughout a program's development and implementation its benefits are regularly reviewed, updated and that achievements are recorded and validated.

The documentation that sets out: the activities required to achieve the benefits; how benefits are to be measured; the baseline values of the benefits; and the validation of benefits by the business, is incomplete.

Recommendation: The Department should, by 31 January 2015 for the next LMBR program business case, and by 30 June 2015 for any other projects or programs managed by the Department, ensure a Benefits Realisation Register is developed, and that baseline and benefits measures are defined and validated by those responsible for realising the benefits.

We wrote to all the 229 pilot schools and spoke with a selection of the TAFE Institutes regarding the implementation of the LMBR program. Many advised that they have not been asked if they have gained any benefits from the LMBR, nor if it meets their business needs.

However, the TAFE Institutes we talked to reported that they had gained benefits from the employee and manager self-service functions in the HR/payroll system, as well as automated workflows in the finance system. Corporate users have also gained the same benefits from the finance system. See Appendix 5 for a summary of feedback from some of the pilot schools.

The benefit take-up rates provided in the 2012 business case appear unrealistic. There is no risk or sensitivity analysis regarding benefit achievement, and all benefits (excluding one) are expected to be realised 100 per cent. The frequency of benefits measurement against set metrics is also not stated.

It remains unclear how benefits are measured and have been measured over the life of the program.

The Department has acknowledged that benefits realisation management has not been strong.

Appendices

Appendix 1: About the audit

Audit objective

This audit assessed the Department of Education and Communities' progress in implementing the Learning Management and Business Reform (LMBR) program, and whether it will achieve the expected benefits.

Audit criteria

We addressed the audit objective with the following audit criteria:

1. the Department has established and maintained a clear business case for LMBR with well-defined outcomes, costs and benefits
2. the Department has effective governance and program management arrangements to implement LMBR
3. the Department is effectively managing the realisation of the planned outcomes and benefits established for LMBR.

Audit focus and scope

This audit reviewed the Department's progress in implementing the LMBR program from the original business case in 2006 to November 2014.

The Department comprises corporate offices, 2,218 schools and ten TAFE Institutes.

Different elements of the LMBR program have been implemented into the Department's corporate offices, the ten TAFE Institutes and the 229 schools in the pilot LMBR program implementation. Therefore, our focus reflected the current level of implementation in the different parts of the Department, and the respective benefits and costs.

We examined central agency guidance and accountability frameworks for major ICT programs and made observations about whether these were adequate in relation to the management of the LMBR program. This did not result in recommendations to NSW Treasury, the Office of Finance and Services, or the Department of Premier and Cabinet.

Audit exclusions

We did not assess whether the Department's choice of technology and business solution for the LMBR program was appropriate. We looked at whether decision makers had enough information to make informed decisions about these choices.

We did not assess the legal framework or quality and content of supplier contracts.

We did not assess the quality and completeness of NSW Treasury, NSW Finance and Services or NSW Department of Premier and Cabinet policies and guidelines.

We commented on these issues where they affected our findings or provided context.

Audit approach

We drew audit criteria from relevant sources including:
- Treasury Policy Paper TPP04-1, NSW Government Procurement Policy
- Treasury Policy Paper TPP07-4, Guidelines for Financial Appraisal
- Treasury Policy Paper TPP06-10, ICT Capital Investment Process
- Treasury Policy Paper TPP08-5, Guidelines for Capital Business Cases
- Treasury Circular TC10-13, Gateway Review System
- Department of Commerce Gateway Review Toolkit
- Treasury Circular TC12-19, Submission of Business Cases

- Office of Finance and Services, Project Management Guideline
- Office of Finance and Services, Benefits Realisation Guideline
- Prince2 Project Management Methodology
- Project Management Body of Knowledge (PMBOK)
- NSW Auditor-General, Performance Audit Report – Managing IT Services Contracts
- NSW Auditor-General, Performance Audit Report – Making the most of Government Purchasing Power: Telecommunications
- UK National Audit Office Report – Universal Credit: Early Progress.

We interviewed key Department staff responsible for implementing and managing or overseeing the LMBR program, including the LMBR Program Sponsor, the LMBR Program General Manager, the Department's Internal Audit Director, the current and former Chairs of the Department's Audit and Risk Committee, and the Chair of the Audit Sub-committee on the LMBR program. We also interviewed:

- key staff involved with the LMBR program since its commencement
- staff in corporate areas of the Department using the LMBR program components
- representatives of four TAFE Institutes involved in the LMBR program
- representatives of NSW Treasury oversighting the Department, the LMBR program and major capital investment programs.

We wrote to all 229 schools involved in the LMBR program pilot implementation to advise them that the audit has commenced and outline the audit objective and criteria. We invited them to provide their comments by e-mail, phone, or by requesting an interview with the audit team. Forty-seven of the schools involved in the LMBR program pilot implementation provided comments in response to this request.

We also collected audit evidence by examining the LMBR program documentation and data, including Cabinet in Confidence documentation; central agency guidance and accountability frameworks; and the Department's policies and guidance for major programs.

Audit selection

We use a strategic approach to selecting performance audits which balances our performance audit program to reflect issues of interest to parliament and the community. Details of our approach to selecting topics and our forward program are available on our website.

Audit methodology

Our performance audit methodology is designed to satisfy Australian Audit Standards ASAE 3500 on performance auditing. The Standard requires the audit team to comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance and draw a conclusion on the audit objective. Our processes have also been designed to comply with the auditing requirements specified in the *Public Finance and Audit Act 1983*.

Acknowledgements

We gratefully acknowledge the co-operation and assistance provided by the Department of Education and Communities. In particular we wish to thank our liaison officer and staff who participated in interviews and provided material relevant to the audit.

Audit team

Giulia Vitetta and Sandra Tomasi conducted the performance audit and were assisted by Laura Benecke, Tony Mason and Juhi Agarwal. Rob Mathie provided direction and quality assurance.

Audit cost

Including staff costs and overheads, the estimated cost of the audit is $316,000.

Appendix 2: Government requirements relevant to the LMBR program

Relevant government requirements for business cases and project management	Timeframe
ICT Business Case Development Guideline	August 1997 to present
Benefits Realisation Guideline	August 1997 to present
Project Risk Management Guideline	Sept 1997 to present
Benefits Management Plan Guideline	August 2003 to present
Project Management Guideline	Prior to August 2004 to present
TPP04/01 NSW Government Procurement Policy	July 2004 to present
TC 04/07 Procurement Policy Reform	July 2004 to present
Gateway Review Toolkit (OFS)	2006
TPP06-10 - ICT Capital Investment Process	November 2006 to January 2014
TC 08/06 TAM requirements for updating the state infrastructure strategy	May 2008 to October 2013
TC 08/07 revised project risk/size thresholds for the submission of Business Cases and Gateway Reports	May 2008 to October 2012
TPP08-5 – Guidelines for Capital Business Cases	December 2008 to present
TC 10/13 Gateway review System	November 2010 to present
TC 12/19 Submission of Business Cases	December 2012 to present
TC 12/20 Budget Controls – Capital Expenditure Authorisation Limits	October 2012 to present

Appendix 3: Summary of LMBR program business cases and gateway reviews

Original business case

The original business case was finalised in January 2007and did not have a gateway review.

The original business case stated that business transformation would be done in four waves over eight years:

- Wave 1 Finance (2007–2009) across the Department
- Wave 2 HR (2008–2014) across the Department
- Wave 3 Student Administration for all schools (2008–2012)
- Wave 4 Student Administration for all TAFE Institutes (2011–2012).

To develop the Business Case, the Department conducted over 100 information gathering sessions and held workshops with over 300 individuals. They also used external program advisors, and worked with key Department executives and external stakeholders.

The Department reported that the impact on resourcing levels were not known, and wouldn't be known until the program was completed.

Gateway review for phase 1

A gateway review for the Phase 1 business case in November 2007 found weaknesses in the risk management and affordability categories. In the same month the Department provided its responses to all the issues. Most of the issues resulted in changes to the final business case. Where the Department did not agree with a suggestion, its response explained why.

The gateway review found the draft business case for Phase 1 had not fully costed the internal recurrent cost requirements to implement the program, for example training and other workforce related changes were not included initially. The Department advised the final business case included internal and ancillary recurrent costs for the four years to implement Phase 1.

The gateway review also identified the possibility of open-ended expenditure for the implementation services, which were assessed as nearly half of the capital costs for Phase 1. The Department advised the contract was amended, a maximum price was established, payments were to be made only when milestones were met, and options for terminating the contract or payment for damages were available if deliverables were not met.

Phase 1 business case

The Phase 1 business case (February 2008) was to implement a single integrated finance system across the Department including in all schools, and TAFE Institutes and the Corporate area, and a single payroll system for all TAFE Institutes, by December 2010.

The Phase 1 business case included general information on:

- reasons for the new business case
- how it supported the Department's corporate plan
- scope, its objectives and outcomes
- a timeline of key events to date
- the LMBR organisational structure and governance model
- implementation plan, including constraints and interdependencies
- cost and resource needs
- timeframes and milestones
- anticipated benefits for the Department and whole-of-government and a benefits realisation approach

- how it will measure progress and performance measurement
- cost benefit analysis, including financial and economic analysis with net present value and benefit cost ratio
- details of progress reporting
- stakeholder management plan, change management framework and communications approach
- procurement strategy
- details of third party contracts
- its involvement in conducting a whole-of-government contract negotiation
- a quality assurance approach.

A Risk Register was developed, and a list of risks were included in the business case including their treatment. Risks included:
- industrial action
- public perception
- lack of capacity to implement
- scope change
- changing stakeholder expectations and disillusionment
- data conversion problems
- implementation delays
- increasing costs
- difficulty in managing the program
- sub-optimal implementation approach
- legacy data issues.

An Independent Assurance Advisor and an external Probity Advisor were engaged to provide quality assurance and probity services to the LMBR program from business case to operation.

Gateway review for HR/payroll phase 2 business case

In November 2009, there was a gateway review of the Phase 2 HR/payroll business case, which the Department responded to in December 2009.

The gateway review noted that there was a lack of delivery of tangible benefits from the earlier stages of the LMBR program.

The gateway review found that:
- the business case did not review the risks, benefits and scope for this part of the LMBR program as part of the overall program and progress to date
- the scope, resources, cost and change management requirements were not defined in adequate detail
- there was an underestimation of the change management effort required for the expected high level of automation that was being delivered to schools.

It also stated that 'the business case does not demonstrate that the project is affordable in terms of life cycle costs and offering value for money by producing benefits in excess (of) the costs'.

The gateway review report indicated that a strong governance structure was established as well as a realistic and clear project plan, and this contributed to successful stakeholder management. It acknowledged that stakeholder views had been considered in developing the business case and a suitable communications strategy had been developed.

It found that the risk management aspects of the project posed a significant risk to the project and must be addressed or clarified as a number of risks were not included in the business case's risk management plan.

The Department reported that the issues raised in the gateway review were all addressed in a revised business case.

Phase 2 HR/payroll business case

The Phase 2 HR/payroll Business Case was finalised in January 2010. The project was to deliver the HR/payroll system into all schools and the corporate area. It was expected to be started in 2010–11, and be completed by late 2012 (two and a half years). The project included the decommissioning of legacy systems by the end of 2012.

The single HR/Payroll system would be fully integrated with a single finance system. The same prime vendor would be used, but as part of a consortium. They would be asked to provide a proposal to allow the Department to evaluate their approaches, capabilities and value for money, and a contract variation would be made to their existing contract.

The establishment of shared service centres was not covered in the business case, however the shared services delivery model and strategy is described.

A resourcing strategy has been developed, and it estimated half of the projected resources will be internal staff. The department reported contracted specialists and external recruitment will be used as the Department does not have the resources or skill sets to fully resource all components of LMBR. A workforce profile stating the responsibilities, skills and experience required for each role in the implementation has been developed. An estimated number of days of work for the different stages of implementation by the different staff categories is reported.

The governance framework for the project is described. The roles and responsibilities of the HR/payroll workstream control group, which is part of the governance framework, is also described in detail.

Internal and external stakeholders have been identified and a stakeholder management strategy developed. Extensive consultation with potential users across the Department has been conducted and the process is described. A stakeholder consultation strategy will be developed.

For the entire LMBR program, total recurrent costs are estimated at $1 billion, with total benefits of $1.6 billion (2006–07 to 2020–21).

Gateway review for student administration and learning management (SALM) phase 2 business case

There was a gateway review of the SALM Business Case in February 2010.

It found that the scope and scale of the program had not been finalised, and the LMBR program could not demonstrate that it would meet the identified service needs. It also found that it was not clear that the preferred option was achievable.

The gateway review advised that anticipated benefits had not been defined and quantified, nor had the criteria for measuring success, and the target dates for successful service delivery appear to be ambitious.

The review identified a lot of weaknesses that posed a significant risk to the affordability aspect of the program – a financial appraisal had not been included, and anticipated costs and benefits seemed unlikely, inaccurate or incomplete.

It reported 'the procurement program has not been demonstrated to be affordable in terms of "life cycle" costs and offering value for money by producing benefits in excess of those of other options for the total life cost.' It also reported that there was a significant risk the software licence estimate was incorrect which would affect the entire estimate and jeopardise the program.

It noted that 'stakeholder expectations for the program … are very high and will be difficult to achieve.'

The Department addressed issues raised by the gateway review in the business case.

Phase 2 SALM business case

A business case for the SALM project was finalised in January 2010. It was to implement an integrated Student Administration and Learning Management Solution in over 2,500 schools and TAFE colleges by mid-2014.

As for the HR/payroll business case, the SALM business case anticipates half of the resources required for the SALM project will be provided from the Department, and will rely on contracted specialist and external recruitment to fill the gap. A strategy for internal recruitment is discussed, as are the skill sets required to implement the program.

The Department Executive will monitor the benefits and costs of each phase and each project over the life of the LMBR program.

The business case has identified 13 potential risks and conducted a risk assessment and identified mitigation actions. The risk management approach is discussed. It reported that monthly assessments of the risks and mitigations will be conducted, and adjustments made accordingly. The business case also states that all risks have been assigned to an appropriate officer and are managed through the LMBR PMO.

School, TAFE and corporate staff, as well as external parties were consulted in developing this business case. Some of the identified needs were the same in this and the Stage 2 business case Update for both schools and TAFE.

A stakeholder consultation strategy and management process was developed, but a communication and consultation strategy still needed to be.

There is an LMBR program governance structure and a Department SALM program governance structure described, with the SALM Steering Committee being the link.

A change management framework and strategy, and discussion of a role for a change management team, has been developed and is described.

Stage 2 business case update

A Stage 2 business case Update was prepared in November 2012. It stated that the LMBR program is the Department's principal program of work.

The Department created the Stage 2 business case Update to consolidate and refresh details from previous business cases that had already been approved, including the HR/payroll and SALM business cases, and the remaining components of Phase 1, such as the HR/payroll implementation for TAFE Institutes.

The objective of the Stage 2 business case Update was 'to continue delivery of the developed solutions and ensure an integrated implementation throughout TAFE NSW and school sites.'

The Stage 2 business case Update notes that it was developed with input from relevant Department staff following consultation with schools, TAFEs and corporate users. It reported it was done after interviewing key stakeholders, reviewing existing documents, assessing progress and deliverables achieved, receiving internal feedback, and ensuring it met Treasury's business case template.

The Stage 2 business case Update changed the scale of the implementation from all schools to a pilot implementation for 229 schools. However, the same deadline was kept, and budgeted costs increased.

It also expected to have decommissioned the relevant legacy systems and established a shared services contact centre.

Implementation into the remaining 2,000 schools was estimated to take 18 to 24 months once this initial implementation was completed, with complete implementation to be done through 2014. The schools solution products were selected because they provided equal or better functionality to the third-party products commonly used in schools, so no support was to be provided to maintain third-party software.

The program's governance framework, including the structure, the purpose of groups, and their responsibilities, and the roles of key individual positions are clearly discussed in the business case.

The business case reports a change management strategy is in place and has been changed following review and refinement from lessons learnt in Phase 1. Some of its priorities are regular, consistent, effective communication at local level and with stakeholders, tailored quality learning and performance support, and change measurement and engagement processes and initiatives that focus on readiness and leadership.

Stakeholder management is a component of the overall change management approach. The Stage 2 business case Update states a stakeholder engagement strategy and engagement plans were developed.

A risk management plan was developed and is implemented by the LMBR Project team. There is an LMBR program risk committee that reviews the risk register, all significant risks, their status, mitigations and actions. The risk management approach is discussed in detail and involves:

- regularly reviewing existing risks
- assessing new risks as they occur
- assessing treatments
- allocating responsibilities
- monitoring and control.

Appendix 4: Planned vs. actual deployment of LMBR program components

Business case	LMBR component	Planned deployment	Actual deployment
Original (2007)	Wave 1 Finance across the Department	By mid-2009	
	Wave 2 HR across the Department	By late 2010	
	Wave 3 Student Administration for all schools	By late 2012	
	Wave 4 Student Administration for all TAFE Institutes	By early 2014	
Phase 1 (2008)	Single integrated finance and HR/payroll system across the Department including in all schools, and TAFE Institutes and the corporate area	By December 2010	Finance in corporate area March 2010 Finance in TAFE October 2010
	Single HR/payroll system for all TAFE Institutes	by December 2010	
Stage 2 Update (2012)	The Finance Budgeting and Planning, and HR/payroll and SALM (Student Wellbeing, Management and Timetabling components) in 229 pilot schools	Finance Budgeting Planning and consolidation by February 2013 Finance/HR/payroll by June 2013 SALM by July 2013	October 2012 • upgraded Feb 13 • upgraded Oct 13 November 2013
	HR/Payroll, SALM and finance in ten TAFE Institutes	Finance by June 2013 HR/payroll by November 2013 SALM by November 2013	 January 2014 October 2014
	Finance function in corporate areas	June 2013	

Appendix 5: Summary of feedback from responding LMBR pilot schools

We invited all 229 schools in the LMBR program pilot implementation to provide feedback to the audit team. We received 48 responses: 24 from high schools, 21 from public schools and one each from central, community and special purpose schools. The following summary highlights some of the issues raised, which are grouped by the response to the questions we asked.

Did you have the opportunity to advise the LMBR team of what your school needed from the new system?

More than half of the schools that responded to this question said that they did not have the opportunity to advise the LMBR team of what their school needed from the new system.

Yes	No	Not really/ only a bit	Question not answered	TOTAL
9	28	8	3	48
18.75%	58.33%	16.67%	6.25%	100.00%

Some of the comments provided to this question included:

- The Department did consult with groups including principals of schools concerning the scope and implementation of LMBR; it did not take the advice given by school based personnel.
- I don't believe that any of our contribution was used. In the workshops in 2011 they were very responsive to needs, workflows were going across teams, everyone agreed and those things must have ended up in the skip bin.
- LMBR didn't advise of the extent of the change.
- Yes, but under the umbrella of Local Schools Local Decisions by the Principal.
- SAM (School Administration Manager) and principal went to the LMBR set up, this was a discussion session with the Department and a sales pitch, but they didn't get to talk about what they wanted.
- There was no consultation with our high school. It is apparent that high schools where not consulted nor was the difference between how primary and high schools function contemplated.

Before implementation, were you told what the LMBR program would deliver? And were you told which of your business needs it would address?

Three-quarters of the schools that responded to this question said that they were only somewhat informed of what the LMBR program would deliver and the business needs it would address.

Yes	No	Somewhat	TOTAL
10	2	36	48
20.83%	4.17%	75.00%	100.00%

Some of the comments provided to this question included:

- Schools were not supplied with information regarding the correct hardware needs to successfully run all of the programs. That particular document has been acquired recently from outside sources.
- We were told that this would replace OASIS in its entirety. Library component is still in construction.
- They got big picture information on the whole system and were told it would deliver what you want it to do.
- We were shown a dream but it's not what happened. The level of communication needed to be fully aware of implications wasn't given.

Do the installed components match what you were advised would be delivered?

More than seventy per cent of the schools that responded to this question said that installed components did not match what they were advised would be delivered.

Yes	No	not really/ sort of	Question not answered	TOTAL
1	34	10	3	48
2.08%	70.83%	20.83%	6.25%	100.00%

Some of the comments provided to this question included:

- Were told that it was going to be a fully integrated system – finance, timetable, enrolment, attendance, student welfare. Instead have a flawed system – no timetable or links between aspects to allow a student records to flow through.
- The installed systems can't do class rolls or timetables.
- The school continues to pay a third party for the school timetable system, as the Department's system doesn't have this function, even though this is a key aspect for all schools.
- As it is, school staff have to do a lot of double handling and double entry into the different systems because it isn't integrated across all the systems as was promised.
- Some components are far from being what we were advised, ie Budgeting, Planning and Consolidation and Wellbeing.

What is working well now?
- 12 schools mentioned purchase orders/shopping carts are generally working well.
- 10 schools mentioned that payment of invoices is generally working well.
- 3 schools mentioned that the cash desk is generally working well.

What areas still need improvement?
- 18 schools mentioned issues with shared services paying invoices (30 days too long, not processing, no confirmation of payment).
- 17 schools mentioned issues with SAP reports or EBS4 reports (clunky, hard to understand, desired reports not available).
- 10 schools mentioned issues with roll marking (difficulties logging in, information not synchronising, incorrect attendance information).
- 10 schools mentioned issues with the programs poor operation speed.
- 10 schools mentioned issues with the budgeting tool.
- 8 schools mentioned issues with suspensions.
- 8 schools mentioned there is no timetable function.
- 3 schools mentioned issues with cash desk.

As each component was installed, was training and support provided and was it appropriate for your needs? What worked well? What could have been improved?
- 15 schools mentioned the importance of one-on-one training and/or wanted more one-on-one training.
- 13 schools mentioned that training manuals were contradictory/unhelpful/rapidly out of date.
- 12 schools mentioned that the considerable length of time between training and roll out rendered the training ineffective.
- 10 schools explicitly stated that training was inadequate/ineffective/unsatisfactory or not appropriate when responding to the question.

- 9 schools mentioned an incident where the system/computer didn't work/was down/malfunctioned during training.
- 4 schools mentioned that there was too much written content/resources.
- 3 schools mentioned that training places are limited and they wanted more staff to be able to attend training.
- 3 schools mentioned that the Adobe connect sessions were good.
- 2 schools mentioned that the 'Bridgit' sessions were good.

What benefits did you expect to gain with each LMBR component?

- 15 schools mentioned that they expected a more efficient/better/state of the art system.
- 15 schools mentioned that they expected less workload/work time/a faster system.
- 14 schools mentioned that they expected an easy to use/user friendly system.
- 11 schools mentioned that they expected an 'integrated' system.
- 8 schools mentioned that they expected a 'paperless' system.
- 5 schools mentioned that they expected 'one' system/interface.
- 6 schools mentioned that they expected accurate systems/data.
- 2 schools mentioned that they expected 'flexibility'.

What benefits have you gained so far with the installed components?

- 24 schools explicitly mentioned that there were no benefits gained/realised yet.
- 4 schools mentioned that they had gained new skills/knowledge/terminology.
- 3 schools mention that they were able to see the beginning of an integrated system/know how they will operate in future.
- 3 schools mentioned that they are able to create reports and put them into excel.
- 3 schools mentioned that they can see that there will be long term benefits of the program.
- 2 schools mentioned the ease of payment.
- 1 school mentioned not having to write out late notes as these are now printed.
- 1 school mentioned the shopping carts and ease of authorisation as a benefit.
- 1 school mentioned doing things electronically rather that manually.

Performance auditing

What are performance audits?

Performance audits determine whether an agency is carrying out its activities effectively, and doing so economically and efficiently and in compliance with all relevant laws.

The activities examined by a performance audit may include a government program, all or part of a government agency or consider particular issues which affect the whole public sector. They cannot question the merits of government policy objectives.

The Auditor-General's mandate to undertake performance audits is set out in the *Public Finance and Audit Act 1983*.

Why do we conduct performance audits?

Performance audits provide independent assurance to parliament and the public.

Through their recommendations, performance audits seek to improve the efficiency and effectiveness of government agencies so that the community receives value for money from government services.

Performance audits also focus on assisting accountability processes by holding managers to account for agency performance.

Performance audits are selected at the discretion of the Auditor-General who seeks input from parliamentarians, the public, agencies and Audit Office research.

What happens during the phases of a performance audit?

Performance audits have three key phases: planning, fieldwork and report writing. They can take up to nine months to complete, depending on the audit's scope.

During the planning phase the audit team develops an understanding of agency activities and defines the objective and scope of the audit.

The planning phase also identifies the audit criteria. These are standards of performance against which the agency or program activities are assessed. Criteria may be based on best practice, government targets, benchmarks or published guidelines.

At the completion of fieldwork the audit team meets with agency management to discuss all significant matters arising out of the audit. Following this, a draft performance audit report is prepared.

The audit team then meets with agency management to check that facts presented in the draft report are accurate and that recommendations are practical and appropriate.

A final report is then provided to the CEO for comment. The relevant minister and the Treasurer are also provided with a copy of the final report. The report tabled in parliament includes a response from the CEO on the report's conclusion and recommendations. In multiple agency performance audits there may be responses from more than one agency or from a nominated coordinating agency.

Do we check to see if recommendations have been implemented?

Following the tabling of the report in parliament, agencies are requested to advise the Audit Office on action taken, or proposed, against each of the report's recommendations. It is usual for agency audit committees to monitor progress with the implementation of recommendations.

In addition, it is the practice of Parliament's Public Accounts Committee (PAC) to conduct reviews or hold inquiries into matters raised in performance audit reports. The reviews and inquiries are usually held 12 months after the report is tabled. These reports are available on the parliamentary website.

Who audits the auditors?

Our performance audits are subject to internal and external quality reviews against relevant Australian and international standards.

Internal quality control review of each audit ensures compliance with Australian assurance standards. Periodic review by other Audit Offices tests our activities against best practice.

The PAC is also responsible for overseeing the performance of the Audit Office and conducts a review of our operations every four years. The review's report is tabled in parliament and available on its website.

Who pays for performance audits?

No fee is charged for performance audits. Our performance audit services are funded by the NSW Parliament.

Further information and copies of reports

For further information, including copies of performance audit reports and a list of audits currently in-progress, please see our website www.audit.nsw.gov.au or contact us on 9275 7100

Performance audit reports

No	Agency or issues examined	Title of performance audit report or publication	Date tabled in parliament or published
246	Department of Education and Communities	*The Learning Management and Business Reform Program*	17 December 2014
245	Environment Protection Authority Department of Trade and Investment, Regional Infrastructure and Services	*Managing contaminated sites*	10 July 2014
244	Office of Finance and Services Department of Education and Communities Forestry Corporation of NSW Fire and Rescue NSW NSW Businesslink Pty Ltd Essential Energy Sydney Trains	*Making the most of Government purchasing power – Telecommunications*	26 June 2014
243	NSW Treasury	*Use of purchasing cards and electronic payment methods*	5 June 2014
242	NSW Police Force	*Effectiveness of the new Death and Disability Scheme*	22 May 2014
241	Road and Maritime Services	*Regional Road funding – Block Grant and REPAIR programs*	8 May 2014
240	NSW State Emergency Service	*Management of volunteers*	15 April 2014
239	Fire and Rescue NSW NSW Rural Fire Service	*Fitness of firefighters*	1 April 2014
238	Transport for NSW Department of Attorney General and Justice Department of Finance and Service Roads and Maritime Services NSW Police Force Department of Education and Communities	*Improving legal and safe driving among Aboriginal people*	19 December 2013
237	Department of Education and Communities	*Management of casual teachers*	3 October 2013
236	Department of Premier and Cabinet Ministry of Health – Cancer Institute NSW Transport for NSW – Rail Corporation NSW	*Government Advertising 2012-13*	23 September 2013
235	NSW Treasury NSW Police Force NSW Ministry of Health Department of Premier and Cabinet Department of Attorney General and Justice	*Cost of alcohol abuse to the NSW Government*	6 August 2013
234	Housing NSW NSW Land and Housing Corporation	*Making the best use of public housing*	30 July 2013
233	Ambulance Service of NSW NSW Ministry of Health	*Reducing ambulance turnaround time at hospitals*	24 July 2013
232	NSW Health	*Managing operating theatre efficiency for elective surgery*	17 July 2013

No	Agency or issues examined	Title of performance audit report or publication	Date tabled in parliament or published
231	Ministry of Health NSW Treasury NSW Office of Environment and Heritage	*Building energy use in NSW public hospitals*	4 June 2013
230	Office of Environment and Heritage - National Parks and Wildlife Service	*Management of historic heritage in national parks and reserves*	29 May 2013
229	Department of Trade and Investment, Regional Infrastructure and Services – Office of Liquor, Gaming and Racing Independent Liquor and Gaming Authority	*Management of the ClubGRANTS scheme*	2 May 2013
228	Department of Planning and Infrastructure Environment Protection Authority Transport for NSW WorkCover Authority	*Managing gifts and benefits*	27 March 2013
227	NSW Police Force	*Managing drug exhibits and other high profile goods*	28 February 2013
226	Department of Education and Communities	*Impact of the raised school leaving age*	1 November 2012
225	Department of Premier and Cabinet Division of Local Government	*Monitoring Local Government*	26 September 2012
224	Department of Education and Communities	*Improving the literacy of Aboriginal students in NSW public schools*	8 August 2012
223	Rail Corporation NSW Roads and Maritime Services	*Managing overtime*	20 June 2012
222	Department of Education and Communities	*Physical activity in government primary schools*	13 June 2012
221	Community Relations Commission For a multicultural NSW Department of Premier and Cabinet	*Settling humanitarian entrants in NSW: services to permanent residents who come to NSW through the humanitarian migration stream*	23 May 2012
220	Department of Finance and Services NSW Ministry of Health NSW Police Force	*Managing IT Services Contracts*	1 February 2012

Performance audits on our website

A list of performance audits tabled or published since March 1997, as well as those currently in progress, can be found on our website www.audit.nsw.gov.au.

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People – we trust and respect others and have a balanced approach to work.

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