

Opening Presentation to Workshop on  
ANAO Year 2000 Discussion Paper

**Getting Over the Line: Selected  
Commonwealth Bodies'  
Management of the Year 2000  
Problem**

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## Opening Presentation to Workshop on ANAO Year 2000 Discussion Paper

### 'Getting Over the Line : Selected Commonwealth Bodies' Management of the Year 2000 Problem'

At the outset I would like to express my grateful thanks for your involvement in, and contribution to, this latest audit of Year 2000 issues and to the above discussion paper, in particular. Thanks also for your attendance here today. The difficulty with these discussions is that there is likely to be a situation of 'preaching to the converted'. However, the main purpose is to ensure that we have encapsulated the relevant issues and your situations in the discussion paper.

The audit itself is predominantly about continuing to draw attention to the Year 2000 (Y2K) problem; providing assurance to Parliament and the Executive; identifying lessons learnt to date, as well as observed better practice; and outlining areas for attention as we draw towards critical dates.

One problem at this time is to ensure that we maintain a balanced view not only of the Year 2000 issues but also about how well prepared we are to deal with them. There seems to be general acceptance that the issues require a whole of business approach. That is, it is not simply a computing problem which it started out to be but is now a significant management issue. However, that recognition simply adds to the wider problem of coping with contemporaneous change across a wide range of business issues and re-establishing priorities particularly when your functions or business are changing or need to be changed. The latter reflects management decisions to re-engineer business processes as a result, for example, of greater contestability in the delivery of services.

Priority setting also applies to the issue of how to deal with the Y2K problem. For some time managers have been urged to identify and deal with systems that are critical to the business. I noticed in yesterday's Australian Financial Review (AFR) that Qantas has categorised its suppliers into the following three groups:

- \_ business critical;
- \_ business important; and
- \_ critical service providers. Tolhurst, Chris, 1998. *'Aircraft Safety Worries - A Mere Flight of Fancy'*. Australian Financial Review, Monday 12 October (page 32).

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I also noticed in the same newspaper that the Chief Information Officer of J P Morgan told a U.S. Senate Special Committee last July that:

*'... we believe that the best course of action, and probably the only workable one given time, cost and skill constraints, is to identify the most critical situations, fix them first, and then move down the chain of priorities.'* Connors, Emma 1998. *'Full Scare Ahead to 2000 : The Millennium Countdown'*. Australian Financial Review, Monday 12 October (page 30)

The Y2K problem encompasses issues over which we have some control, for example, our information technology (IT) environment but, unfortunately, also for arrangements over which we have little or no control, for example, utility services such as communications, water, gas and electricity. In this connection I note that Telstra is spending at least \$500 million on its network to systematically check:

*'That every single piece of hardware and software in its network will not fail at the turn of the century.'* Butler, Grant. 1998 *'Telecommunications Systems Face a Few Hang-ups'*. Australian Financial Review, Monday 12 October (page 36).

On the other hand, the author of the above quote indicates that the Y2K computer bug is almost certain to widely disrupt the world's telecommunications system. The problem is apparently not so much with the international gateways as it is with the national phone networks that lie behind them. There are almost 1 billion lines installed world-wide by a wide range of old and new telecommunications companies. I note that the Office of Government Information Technology (OGIT), or more specifically its 'Year 2000 Project Office' and Business Improvement Group, are meeting regularly with prime telecommunications suppliers to ascertain which services will and will not be Y2K compliant before 1 July 1999. To date there has been a mixed response according to the first edition of Telecoms. Formerly the Telecommunications Newsletter put out by the Business Improvement Group of OGIT.

The AFR reporter quoted above also notes that:

*'In Australia, prudent firms are checking their internal communications networks for Y2K compliance. They may have to do much of this work themselves, using their own communications staff, because many firms such as Andersen Consulting are refusing to perform such work for fear of legal retribution.'* Op.cit. Grant Butler, Australian Financial Review, 12 October (page 36).

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Legal issues are receiving considerable attention, particularly in the United States of America where there have already been a number of law suits including class actions. Another article in the Australian Financial Review indicates that:

*'A common thread running through the cases involving software vendors, is the allegation that if software is not Y2K compliant - cannot process dates beyond 1999 - then it is not fit for its purpose.'* Beer, Stan, 1998. *'Class Actions Clutter the Software Landscape'*. Australian Financial Review, 12 October (page 31).

The reporter notes that one financial software package supplier faces four Y2K class actions in California and New York which allege it tried to force customers into paying for Y2K upgrades to the package. Apparently the company has reportedly agreed to providing free Y2K fixes for non-compliant versions of its package by June 1999.

Legal issues will no doubt continue to loom large in managers' minds. There is clearly a problem with either lack of insurance availability for the risks involved or with premiums that are very high for quite restricted cover. This is impacting on consultants who have been asked to provide assurance in relation to various systems and their Y2K compatibility. Not surprisingly, the consultants are reluctant to face uninsurable litigation from clients over Y2K projects that go wrong.

In a recent newsletter of the Chartered Institute of Company Secretaries in Australia Ltd Chartered Institute of Company Secretaries in Australia Ltd 1998. *'Who should pay for the millennium bug?'* New South Wales Newsletter, Vol.13 No.9. October (page 5), reference was made to proposed legislation by the United States Federal and State Governments to promote the exchange of information on the Y2K problem. There is apparently widespread support from business for a 'Year 2000 Readiness Disclosure Bill' which provides that where a true disclosure as to Year 2000 readiness is made, the statement, and any other position of it, is inadmissible. Ken Adams, a partner with Freehill, Hollingdale & Page, is quoted as follows:

*'In Australia, we are yet to see the emergence of Year 2000 related litigation. While pre-emptive legislation may be beneficial to business, with the onset of an election, it is unlikely that such legislation would be considered in Australia, at least at a Federal level, until late October this year at the earliest.'*  
Ibid.

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Present indications would suggest it would be very optimistic to expect such legislation in 1998.

One of the messages of the discussion paper is that it is not too late to identify likely problem areas. A number of surveys indicate that the public sector is lagging both in Australia and overseas in addressing Y2K issues. In fact our last audit showed that agencies still had a long way to go. Audit Report No.27 1997-98. *'Managing the Year 2000 Problem in Commonwealth Agencies'*. Canberra (paras 3.16 to 3.18). It comes down to the need to identify problem areas, what to do about them and what can be done to minimise unforeseen problems or areas where action has been ineffective. In particular, the latter underlines the importance of adequate testing of our critical systems. In that respect, I strongly support the timeliness of the two Year 2000 Workshops focussing on systems testing being organised by the Year 2000 Project Office on 4 November next at the Old Parliament House.

The Y2K problem is basically an exercise in risk management. The strength of that approach is the systematic assessment and prioritisation processes involved. This does not mean that we simply accept assurances that are provided by our IT staff or by suppliers. Most managers are now looking to ensure, for example, that Y2K critical systems are tested in the workplace for compliance. That would seem to be good management practice and a necessary discipline in credibility for all concerned. I should note that the financial statement audits do not provide assurance about Y2K compliance. I expect those audits to bring to management's attention Y2K issues where they are observed. But audit does not provide 'a seal of good housekeeping'. At most, it can provide a degree of assurance by indicating action that has been taken to secure Y2K compliance.

The uncertainties, both in terms of assurance and certification including in any law suits, places significant premium on the need for contingency planning. Even where there is reasonable expectation that Y2K problems have been adequately addressed, or where the business does not appear that it will be affected, it would be prudent for managers to consider what they would do if their expectations did not prove to be correct. The problems are so pervasive and uncertain that managers would be well advised to have at least minimal contingency planning in place for both their systems and suppliers.

The discussion paper draws attention to, and recognises, OGIT's role and responsibilities in relation to Y2K issues from a whole of government perspective. These cover aspects such as strategic planning, mandatory quarterly reporting, independent reviews, third party reviews, contract

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clauses for Commonwealth contracts to manage the purchasing risks and advice on legal liability implications for the Commonwealth.

The paper also outlines the different phases of Y2K projects as follows:

- \_ planning and project management;
- \_ compilation of inventories of affected business inputs;
- \_ impact assessment and resources management;
- \_ remediation and testing; and
- \_ quality assurance, certification and contingency planning.

These phases can be broken down into a series of project elements and milestones. I would stress the importance of monitoring/review processes and the setting of appropriate targets and milestones. I note, for example, the Australian Taxation Office's (ATO's) implementation of software which provides an on-line management tool that can be remotely accessed by Y2K project managers at the business unit level. I note also the Reserve Bank of Australia's completion of a comprehensive inventory of embedded systems and equipment subject to Y2K risks.

While there has been some welcome supplementation to a number of agencies to assist with the Y2K problem, the discussion paper notes that there have been shortages of both people and financial resources. This is again a question of priority setting and appropriate risk management practice. The problem becomes even more difficult if we are not getting the full support of the vendor and supplier and consulting community and have to rely on our own resources. This is made more urgent where Commonwealth agencies have not yet developed adequate Y2K contingency, disaster recovery or business resumption plans. I note that most of the agencies present today are aiming to complete contingency planning activity before the end of this year.

I also applaud the action of internal auditors within the agencies being reviewed to include Y2K matters as part of their future audit programs. As the discussion paper notes:

*'The overall Year 2000 project effort, and the quality of assurance to senior management, is greatly strengthened*

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*where internal auditors have had early proactive involvement in the establishment of Year 2000 projects; provide ongoing advice in relation to quality assurance and due diligence issues; and undertake formal progress reviews.* 'Getting Over the Line : Selected Commonwealth Bodies' Management of the Year 2000 Problem'. 1998. ANAO Discussion Paper, 1 October (para 4.26, page 45).

The audit report, of which this discussion paper will be an important element, will provide a greater degree of assurance to the Parliament and the Executive about the preparedness of the Australian Public Service, particularly its major agencies, to cope with the Y2K problem. It should also provide a range of ideas and better practice that will assist other agencies in their planning and implementation of action necessary to ensure that they are Y2K compliant. As the critical dates draw near there is a real need for agency management to be confident and accountable for such compliance. This puts particular emphasis on the need for proper systems testing and adequate contingency planning over the next twelve months.

I wish you well with the discussion this afternoon and with your individual Y2K arrangements.