

CONFIDENTIAL

**REVIEW OF GOVERNANCE PROCESS RELATING TO THE PARTIAL AUTOMATION PROJECT**

The Board of Ports of Auckland Limited engaged me to review the governance process relating to the decision to undertake the partial automation of Fergusson Container terminal ("**the Project**") and elements of the Project's procurement and delivery. A summary of my findings and recommendations is set out below.

**Findings**

- The Project was a highly complex undertaking that aimed to provide additional capacity to allow the Company to increase productivity and reduce costs. It was transformational in nature and required a high degree of cooperation and planning from across the business. However, the Project team was not established in a manner which encouraged engagement and input from senior management within the company. As a result, the team operated in a siloed manner and buy-in from across the business was minimal.
- There was a failure to ensure the Project team's organisational design, accountabilities and dynamics were appropriate. In particular, the Project team did not include sufficient trusted, senior subject experts from within the business, who would have provided a "practical lens" when reviewing the business case assumptions, the risks associated with the solution and development of the implementation plan. Further, clashes of personality and working styles led to the development of an unsatisfactory culture around the Project, which went unaddressed despite requests from both within and outside the Project team.
- While the capacity constraints facing the Company and options to address them were considered in detail over an extended period of time (more than a decade), at the time of commitment in April 2016, there was a lack of formal re-evaluation of the potential options and a resulting lack of formal confirmation as to why partial automation was at that point the preferable solution.
- The vendor selection process was not sufficiently well structured. A more structured process would have allowed a more rigorous analysis of the benefits and risks associated with each potential vendor. It would also have ensured that the selection was objectively supportable, which was particularly important in circumstances where the chosen vendor had been working with the Company on a consultancy basis since 2012 and had a material role in establishing the assumptions around the proposed solution.
- The business case presented to the Board for the approval of the Project was unsatisfactory. There was no attempt to tie together the work undertaken in previous years on the partial automation option into one document and the finance team were not adequately involved in the process. More specifically, the key shortcomings of the business case were a lack of visibility and testing of assumptions adopted, poor risk assessment, simplistic financial analysis, and lack of a resourcing and change management plan. Of these shortcomings, the lack of analysis of the IT risks associated with the Project was the most significant.
- There was inadequate senior management input into the procurement of the automation software. This in part resulted in the contract being negotiated without any adequate software performance guarantees and with any integration risks with the Company's own operating systems falling on the Company. A legal opinion from the Company's lawyers should have

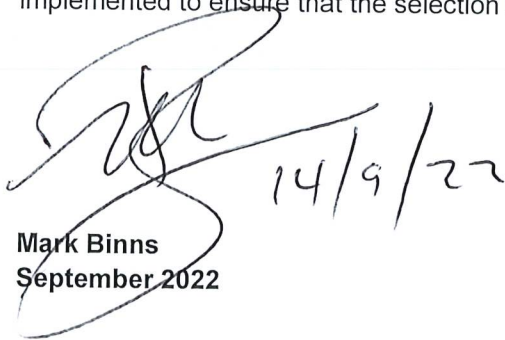
been sought, as well as potentially independent advice regarding the integration risks associated with the software. The fact that there were no adequate performance guarantees, despite comments that there would be in the business case, appears not to have been reported to the Board.

- Governance around key contractual milestones was also lacking, resulting in vital acceptance testing criteria being changed (making the passing of the acceptance tests easier) without the proper involvement of the Project Steering Committee or the Board. These changes, and the supplier's subsequent passing of that testing, materially weakened any contractual rights the Company may have had against the supplier. The rationale for changing the acceptance tests could not be identified, and the fact that there was material disquiet as to the supplier's performance and its ability to deliver at the time of the change makes the decision even more incomprehensible.
- At all times, the responsibility for decisions relating to the evaluation of the options for automation and procurement of vendors to deliver the solution and the monitoring of their performance lay with the Board. While the Board had KPMG (as internal auditor) report on issues, there was insufficient detailed reporting to the Board from internal management and concerns of senior management as to organisational readiness and issues with the Project were not escalated despite a clear need to do so.
- Auckland City Investments Limited had the right to rely on the commercial judgement and stewardship of the Board (whom it appointed) and it would have been inappropriate for ACIL to have had a higher level of involvement in the Project.
- Given the transformational nature of the Project and the extremely significant consequences of failure, it was incumbent on the Board to fully understand the risks that the Company was assuming, to ensure that the senior management team was engaged, that the organisation was capable of the change required, and that the Project team was appropriately resourced with employees with expert knowledge in key areas. On balance, it is apparent that the Board did not take the steps necessary to ensure that this was the case.
- Some of the former directors spoken to remain firmly of the opinion that the Project should not have been terminated. It is not within the scope of the review to form a view on whether the decision to terminate was correct or not, although the current Board's decision to terminate the Project based on the two independent reports it had commissioned is understandable.

## **Recommendations**

- Trusted employees of the Company who intimately understand the organisation's business must be included when a team is established to evaluate a business problem and potential solutions. While these employees can be complemented by external consultants or contractors, their understanding of the organisation's culture, capabilities and constraints is vital. A balanced team also means that views are more adequately tested.
- The person appointed to lead the project must have the right qualifications for the role, in light of the particular project at hand, and have the necessary interpersonal skills to lead a cross functional team.
- A transformational project must have the support of key senior managers to succeed. Dissenting opinion(s) should be debated in an open and constructive environment to ensure a robust solution.

- Key executives with responsibility for project implementation should be relieved of their day-to-day responsibilities to the extent required to enable them to provide full time commitment to the project.
- A business problem must be properly defined and differing solutions to the problem must be considered inside a framework that analytically reviews the benefits and risks associated with each option. Ideally, the favoured option would also be assessed on a comparative basis against the next preferred option to ensure that the selection is objectively supportable. There should also be a rigorous risk analysis of the favoured option and the ability to mitigate risks should be sceptically reviewed.
- A structured process for vendor selection should be adopted, with the criteria upon which the selection is to be made established and agreed and any necessary additional safeguards implemented to ensure that the selection is objectively supportable.



14/9/22

**Mark Binns**  
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