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The Australian Taxation Office's Implementation of the Change Program: a strategic overview

Australian National Audit Office

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Canberra ACT
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Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in the Australian Taxation Office. In accordance with the authority contained in the *Auditor-General Act 1997*. I present the report of this audit and the accompanying brochure. The report is titled *The Australian Taxation Office's implementation of the Change Program: a strategic overview.*

Following its tabling in Parliament, the report will be placed on the Australian National Audit Office's Homepage—http://www.anao.gov.au.

Yours sincerely

Ian McPhee
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office (ANAO). The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits and financial statement audits of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Australian Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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Acronyms and Glossary

ACS	Australian Customs Service
AGIMO	Australian Government Information Management Office
AIS	ATO Integrated System
ANAO	Australian National Audit Office
APS	Australian Public Service
ATOMS	ATO Matching Systems
BAH	Booz Allen Hamilton
BAS	Business Activity Statement
COTS	Commercial Off-The-Shelf software
CPE	Change Program Executive
CPSC	Change Program Steering Committee
CRM	Client Relationship Management system
EAM	Enterprise Application Management
ECMP	Easier, Cheaper and More Personalised change program
ECS	Excise Collections System
End-to-end testing	System testing to establish confidence that all elements (as distinct from discrete processes and/or elements) of the application work together and that the system as a whole is ‘fit-for-purpose’ as a fully integrated system.

e-tax	The Tax Office's income tax return software that assists individuals prepare their income tax returns and lodge them online. The e-tax software provides individuals with pre-filling functionality, by partial completion the tax return with information already available to the Tax Office.
FBT	Fringe Benefits Tax
FHSA	First Home Savers Account
FMA Act	Financial Management and Accountability Act 1997
GIC	General Interest Charge
GPS	Generic Payments System
HES	Higher Education Scheme
IA	Interpretative Assistance
ICMS	Integrated Cargo Management System
ICP	Integrated Core Processing
ICT	Information and Communications Technology
IPS	Instalment Processing System
ITAA	Income Tax Assessment Act 1997
KPI	Key Performance Indicator
LMR	Lost Members Register
NTS	National Taxpayer System
OECD	Organisation for Economic Co-operation and Development
OGC	Office of Government Commerce (UK)
PAYG	Pay As You Go

PGF	Plenary Governance Forum
PMO	Program Management Office
RBA	Running Balance Account
RMS	Receivables Management System
SMSF	Self Managed Superannuation Funds
TAA	Taxation Administration Act 1953
TAS	Tax Administration System
Tax Office	Australian Taxation Office
TDMS	Technical Decision Making System

Summary and Recommendations

Summary

Introduction

1. The Australian Taxation Office (Tax Office) is the Australian Government's principal revenue collection agency. As the main administrator of Australia's tax and superannuation systems its role is to effectively manage and shape the processes and systems which assist taxpayers to meet their tax obligations. In 2007–08, the Tax Office collected $278.1 billion in revenue, and made transfers and payments of $9.3 billion. Payments include income tax refunds, GST input tax credits, excise grants and social benefits. The operating expenses for the Tax Office in 2007–08, totalled $2.8 billion.

2. Tax administration depends crucially on Information and Communications Technology (ICT) systems. ICT systems are required for every phase of tax administration from the registration of a taxpayer, through to the issuance of an assessment and, if necessary, the conduct of compliance investigations.

3. The Tax Office has a wide range of ICT systems; they vary greatly in age, sophistication and the degree to which interaction between them is possible.[1] The National Taxpayer System (NTS), which became operational in 1975, is the Tax Office's main system for processing income tax returns. The ATO Integrated System (AIS), which became operational in 1994, is the Tax Office's accounting and transactional processing system covering most of the Tax Office's tax revenue systems.[2]

4. Until recently Tax Office administrative processes relied on over 180 specialised ICT systems.[3] Many had similar functionality but were specific to the various organisational structures of the Tax Office. This was a source of inefficiency and contributed to a number of other administrative difficulties.

5. Following the implementation of the Government's significant tax reforms in 2000, the Tax Office began an initiative to make compliance with tax

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[1] The major processing systems are listed in paragraphs 58 and 1.36. The systems include: NTS AIS; ATOMS; FBT; PAYG; IPS; ECS; GPS; and HES.

[2] Commissioner of Taxation *Annual Report 1993–94*, p. 87.

[3] The administrative processes relate to a wide range of functions that support the primary taxation function, including the processing of correspondence and the conduct of investigations and projects.

law easier, cheaper and more personalised. The Tax Office was becoming less able to properly respond to government and community expectations in relation to its role as Australia's principal tax and superannuation administrator. The Tax Office considered that tax administration in Australia in the 21st Century could not proceed efficiently and effectively without it replacing its substantial and complex ICT systems. This initiative was developed under the banner of the Change Program.

Background and context

Planning of the Change Program

6. By 2000 it was clear to the Tax Office its ICT systems were unsustainable. It was taking too long to respond to Government policy initiatives, the community was getting less efficient service and Tax Office staff were finding reduced capability in the Information Technology (IT) platform. In addition, the Tax Office had been aware for some time of inefficiencies in the ICT systems on which the administration of Australia's taxation and superannuation systems depended.

7. The Tax Office had also identified other reasons for embarking on the Change Program additional to the need to replace core ICT systems. These included:

- the need to function as one integrated entity able to address all relevant aspects of taxpayer and tax professional experience of tax administration in a holistic and integrated manner;
- the need to adopt, as efficiently and effectively as possible, better administrative practices and technological facilities in a rapidly changing environment;
- the need to achieve significant productivity improvements in an environment of continuing fiscal constraint;
- continuing to improve community compliance;
- reducing risks to revenue; and
- providing increased confidence in the integrity of Australia's taxation system.

The Intent of the Change Program

8. The Tax Office planned to replace all tax processing ICT systems with one Integrated Core Processing (ICP) ICT system through the Change Program. In addition, the Tax Office planned to replace the large number of specialised ICT systems that supported internal administrative functions with a single management system. Through the Change Program, the Tax Office intended to transform the way the organisation functioned by developing a significantly more cost-effective and integrated system of tax administration providing improved services to the community, including secure online facilities. The intention was to make compliance with tax law easier, cheaper and more personalised. Amongst other things, this would enable taxpayers to be engaged in tax administration in a more differentiated manner having regard to considerations of risk and complexity of tax affairs.

9. The Tax Office Executive approved the Change Program business case on 10 December 2004 with the intention of completing the Change Program by June 2008. The initial release schedule consisted of:

- Release 1 (to be completed by June 2005): The installation of a client relationship management system (CRM); improvements to online systems (tax agent and business portals); and a new system to develop and maintain the content of letters;
- Release 2 (to be completed by September 2006): The installation of a single case and work management system; the introduction of analytical models; enhancements to the CRM; and, enhancements to taxation portals; and
- Release 3 (to be completed by June 2008): The installation of the ICP system for all tax products; extension of the case management system to a wider audience; new tax agent and business portals; and updates to work management, CRM, analytics, content and records management and reporting. The new ICP software would be developed from Accenture's propriety Tax Administration System (TAS),

specifically TAS version 4, modified to suit Australia's tax law and to accommodate specific Tax Office requirements.[4]

10. The Tax Office engaged Accenture under a purchaser/provider contract to develop the Change Program's ICT systems as specified in the implementation schedule.

Change Program governance

11. Governance of the Change Program has been established through a range of committees as well as the Tax Office/Accenture contract and related governance documents. Under the terms of the program implementation contract, delivery of the Change Program against the business case is the responsibility of Accenture. Ultimate accountability for delivery of the Change Program, however, rests with the Tax Office. The governance arrangements allow for flexibility to adapt the Change Program to meet new government requirements and facilitate implementation learnings.

12. Executive management of the Change Program occurs through the Change Program Steering Committee (CPSC) and the Change Program Executive (CPE). The CPSC is chaired by the Commissioner and includes the Second Commissioners. Its role is to ensure the Tax Office delivers the improved client experiences described in *Making it easier to comply*. The CPSC determines outcomes and priorities for the Change Program and approves significant scope, strategy, design, business case and client experience changes.

13. The governance of the Change Program requires assurance capabilities that are commensurate with the complexity and risks of developing the ICP to the required 'fit-for-purpose' standard.

International experiences in implementing large scale ICT projects

14. Around the time the Tax Office began planning the Change Program, the Organisation for Economic Co-operation and Development (OECD released a paper highlighting the experiences of 17 member countries in

[4] The Tax Office selected the global management consulting, technology services and outsourcing company Accenture to work with it on the initial strategy setting and high level design of what was to become the Change Program. The initial strategy was approved in March 2004 and design work for the ICP began in 2005, two years before a planned deployment in the production environment.

relation to managing large public sector ICT projects.[5] That paper noted that most governments experience problems when implementing large ICT projects. The paper identified a number of factors that need to be addressed properly if governments are to be successful in getting large ICT projects right.

15. Some of the key factors for success outlined in that paper are:

- establishing appropriate governance structures;
- dividing the project into a number of self-contained modules that can be adjusted to changes in circumstances;
- identifying and managing risks;
- holding executive and business line managers accountable; and
- involving end users in the development and implementation.

16. The OECD paper concluded:

> *The general lesson is not that governments should not take any risks; rather, governments must identify risk, determine which risks they are willing to take, and manage the relevant risk within appropriate governance structures.*

17. To ensure the overall success of any large scale ICT project it is necessary to achieve a high level of conformance against each of the key success factors identified in the 2001 OECD paper.

18. By virtue of its nature and scale, implementing the strategic vision and detailed design specifications for a system as diverse and inherently complex as the Change Program would require the Tax Office to establish a structure that addressed these key OECD success factors. Moreover, international experience in both the public and private sectors has shown historically that with large-scale, complex projects there is a very real risk that planning, design and implementation are undertaken on the basis of overly optimistic estimates, with poor contingency planning and an underestimation of the severity and impact of identified risks.

[5] OECD Public Management Policy Brief No. 8 – *The Hidden Threat to e-Government: Avoiding large government IT failures*. March 2001. Available at <http://www.oecd.org/dataoecd/19/12/1901677.pdf> [accessed 15 October 2009].

Implementation progress and extensions to project scope

19. Release 1 of the Change Program was fully implemented in April 2006, 10 months later than originally planned, and Release 2 was fully implemented in March 2007, six months later than originally planned.

20. Largely because of legislative changes, the Tax Office expanded the scope of the Change Program several times since the implementation phase commenced. The Tax Office also changed the delivery schedule several times, partially in response to the changes in scope and partially in response to general delays in the Change Program's progress. Although most adjustments to the delivery schedule have been relatively minor, there have been two significant changes to the schedule.

21. The first was in early 2007 when the then Government's superannuation simplification package of new measures was added to the scope of the Change Program and a phased approach for Release 3 was proposed. The second was in mid–2008 following a review in late 2007/early 2008 of general delays in the Change Program's progress when the Tax Office again revised the Change Program's implementation schedule. The 2008 revision to the implementation schedule meant that completion of the Change Program would take two years longer than originally planned.[6]

22. In December 2007 the Tax Office decided that the initial deployment of ICP should be utilised to process only Fringe Benefits Tax (FBT) returns for the 2007–08 financial year, known as the FBT Release. The Tax Office knew that some of the requisite FBT functionality did not work correctly and proceeded with a phased implementation. The Tax Office had risk mitigation strategies to address identified functionality issues and only released phases after testing. In addition, the warranty arrangements in the Tax Office's contract with Accenture provided the Commonwealth with some protection. The Tax Office considered that the acceptance of incomplete software was justified, given the established risk management arrangements and practical requirements relating to the annual processing of FBT returns.

6 A subsequent review in 2009 has now added another six months to the length of time to be taken until the Change Program is completed.

Change Program funding

23. The Tax Office Executive approved the Change Program business case on 10 December 2004 with the intention of completing the program by June 2008. Under the December 2004 business case the total cost of the Change Program was not to exceed $445 million in direct costs over six financial years, starting in 2003–04 and finishing in 2008–09.[7] The Tax Office planned to internally fund this project from its annual appropriations by reducing expenditure on other areas of tax administration.

24. As noted in paragraph 20, since the business case was approved in 2004, the scope of the Change Program changed several times, largely due to legislative changes, and the delivery schedule for the Change Program has also changed a number of times. At 30 June 2009 the budget for the expanded scope Change Program is $774 million finishing in 2010–11. This includes the First Home Savers Account (FHSA), which is outside the business case and for which the Tax Office received $25 million.[8] The expansions in scope of the business case required by government (principally superannuation simplification) account for $234 million of the $304 million growth in budget since 2004.

25. Actual expenditure on the Change Program to the end of 2008–09 was $749 million. As at 30 June 2009 the Tax Office estimated that, on the basis of the Change Program being completed during 2010–11, a further $105 million may be spent over the next two financial years, bringing the total forecast expenditure to $879 million, including the $25 million the Tax Office received for the FHSA, which is outside the business case and subject to separate contractual arrangements. Forecast expenditure on the expanded scope of the Change Program is $434 million more than the 2004 business case estimated.[9] After taking into account the additional funding provided by government to implement legislative changes (such as superannuation simplification), the Tax Office expects to absorb within its budget appropriation additional estimated expenditure of $247 million over the life of the program.

[7] Business Case – Phase 2, Easier, Cheaper and More Personalised Change Program, version 6.3, 10 December 2004, page 2.

[8] The FHSA was contracted separately to the Change Program.

[9] This amount is the total forecast expenditure of $879 million minus the “not to exceed” business case budget of $445 million.

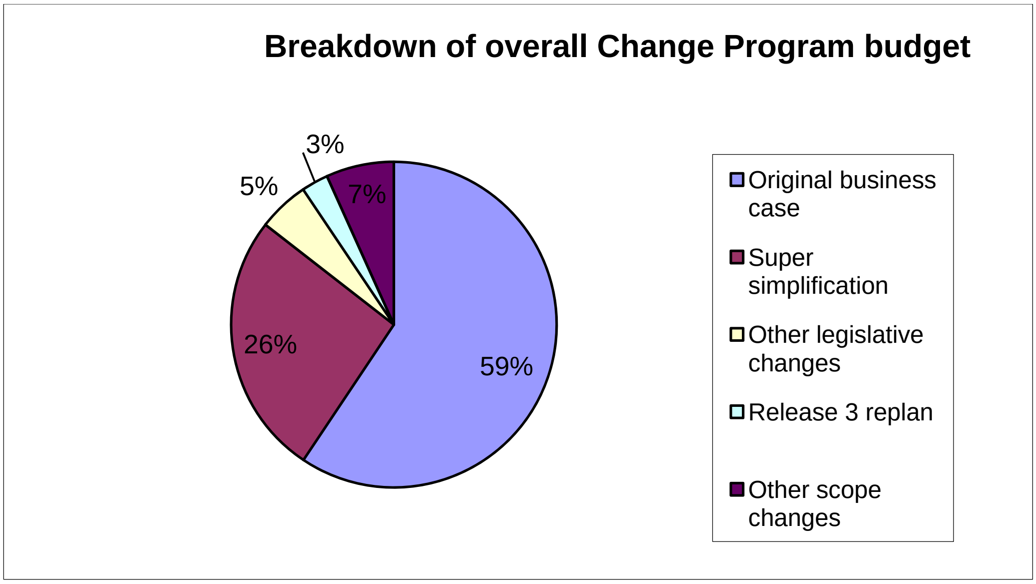
26. Expenditure by the Tax Office on the Change Program has been capitalised to the extent that such expenditure is expected to provide benefits in future years, consistent with the requirements of Australian accounting standards.

27. The Change Program software, an asset under construction, was written down by $75 million to its recoverable amount as at 30 June 2009. This reflected the Tax Office's assessment of the asset's current replacement cost in accordance with accounting requirements. In making this assessment the Tax Office has excluded any amounts relating to cost overruns and other costs that are not contributing to the functionality required in the completed asset.

28. The breakdown of the overall Change Program budget as at 30 June 2009 is depicted in Figure 1.

Figure 1

Breakdown of overall Change Program budget at 30 June 2009



Source: Tax Office

Audit objective and scope

29. The objective of this audit was to provide a strategic review on the progress of the Tax Office's implementation of the Change Program.

30. To achieve this, the ANAO examined:

- the planning for, and governance of, the Change Program, particularly in relation to the management of risk and the assurance framework established by the Tax Office, and its management of contractual arrangements for the project;
- implementation issues associated with Releases 1 and 2 of the Change Program, and more specifically in relation to Release 3, the first use of the new ICP system to process FBT returns; and
- the funding of the Change Program, including measurement and attribution of the costs of the project and consideration of any benefits realisation to date.

31. The ANAO considered how international experience for similar sized public sector ICT projects may have highlighted key risk areas for consideration. The ANAO also assessed the Change Program for insights that may be relevant to other Australian Public Service ICT projects, having regard to the new arrangements governing ICT activity by *Financial Management and Accountability Act* (1997) (FMA Act) agencies following the Government's announcement on 24 November 2008 that it would implement the recommendations of Sir Peter Gershon's report.[10]

Conclusion

32. The Tax Office's strategic planning for the Change Program, which began during 2001–2002, emphasised the need to achieve broader long term goals that went beyond just replacing and updating existing ICT functionality. The goal was to develop a significantly more cost-effective and integrated system of tax administration that would provide improved services to the community, including secure online facilities.

33. The Change Program business case approved by the Tax Office Executive in December 2004 confirmed that the Tax Office had limited viable options for the long term other than to replace its aging ICT systems.

[10] Gershon, P., *Review of the Australian government's use of information and communication technology*. Commonwealth of Australia August 2008. See further http://www.financeminister.gov.au/media/2008/mr_372008.html> [accessed 15 October 2009].

34. The planning undertaken by the Tax Office formed a sound basis for the formulation of detailed design specifications and operational implementation plans as set out in the Change Program business case.

35. The Tax Office initially established appropriate governance arrangements for the management of the Change Program that were commensurate with the project's anticipated size and complexity as understood in 2004. The Tax Office has since acted on the recommendations of several specially commissioned reviews examining the implementation phases to date, resulting in improved business practices, work schedules and accountability arrangements, and thereby strengthening overall governance.

36. The Tax Office's initial Change Program planning also broadly addressed the key structural elements for success identified in the OECD's 2001 report about avoiding large government ICT failures.[11] However, the Tax Office subsequently experienced mixed results in achieving the necessary high levels of individual conformance in relation to three of the five factors, namely dividing the project into more manageable self-contained modules, identifying and managing specific risks, and adequately involving end users in aspects of the development and implementation.

Implementation progress to date

37. The Tax Office initially split the Change Program into three self-contained releases. The implementation of Releases 1 and 2 have improved and transformed key aspects of Tax Office activity that support tax administration. The Tax Office is now better placed to manage internal administration and communication arrangements with taxpayers, tax professionals and the community. Taxpayer information is now available on a national, integrated risk basis, rather than in a fragmented and regional way.

38. Release 3, the largest and most complex of the implementation releases, was originally planned to be a single release rather than a workable number of smaller self-contained modules as suggested in the OECD's 2001 report.

39. The Tax Office advised that it had considered splitting Release 3 into several self-contained modules. However, it came to the view that the magnitude and complexity of the interface work required if Release 3 was split into several modules would outweigh any advantages that might come from

[11] OECD op. cit., footnote 5.

splitting Release 3 into a more workable number of self-contained modules. The Tax Office advised, however, that the inclusion of superannuation simplification subsequently required it to change this appraisal. The inclusion of superannuation simplification made it necessary to split Release 3 into a number of smaller discrete modules.

40. Notwithstanding the subsequent decision to split Release 3 into smaller discrete modules, implementing the first of these, FBT returns, was further complicated by the insufficient involvement of end users in the development and testing of the FBT functionality. The effect of this, when combined with the size and complexity of Release 3, meant that the Tax Office's original timetable to fully implement a new ICT system for processing tax returns (i.e. the ICP) was ambitious and, in hindsight, optimistic.

41. The implementation of the first of the Release 3 modules, FBT returns, encountered some serious difficulties and highlighted a number of shortcomings in managing implementation risks. A significant factor in the problems encountered with the implementation of FBT, including the General Interest Charge (GIC) calculations, was that the testing and assurance processes were inadequate and not carried out in accordance with existing Tax Office standards.

42. Notwithstanding the limited progress made with Release 3 to date, the new ICP's processing of FBT returns provided a 'proof of concept' test of the ICP's capacity to process tax returns. This, as well, demonstrated the potential for efficiencies by reducing the extent of manual intervention required of the legacy systems.

43. The timetable for and the scope of the Change Program as set out in the originally approved business case of December 2004 was acknowledged by the Tax Office to be ambitious. As well, subsequent government policy initiatives resulted in the expansion of scope. Management of the Change Program in these circumstances would require a readiness to modify plans and learn from any difficulties experienced as elements of the Change Program were implemented. In this context, success in implementing the phases of the Change Program to date has been mixed, with the implementation of Releases 1 and 2 being generally satisfactory, but the implementation of the FBT Release was less so. The Tax Office considered that the impact of Releases 1 and 2 has been sufficient to demonstrate that implementation benefits exceed original expectations for the functionality delivered. Similarly, the FBT release demonstrates that the ICP is superior to the FBT systems it replaced which operated at a rather low standard of productivity, efficiency and effectiveness.

44. In examining the issues arising from the FBT release and preparing for the releases still to occur, the Tax Office has acted on the recommendations of several specially commissioned reviews, and improved business practices, work schedules, testing and assurance processes and accountability arrangements, thereby strengthening overall governance. This places the Tax Office in a stronger position to anticipate the challenges for the remaining phases of the Change Program. The Tax Office has also publicly reported on the status of the project and acknowledged the Change Program's shortcomings. The Commissioner of Taxation's *Annual Report 2007–08* gives a frank account of the impact of the delays in implementing the Change Program and highlights it as one area in which there was scope for improvement. The Commissioner also noted that in spite of the delays to-date Tax Office external risk mitigation strategies have ensured that any difficulties encountered have not adversely impacted the community.

Project funding and the measurement and attribution of costs

45. In embarking on the Change Program, the Tax Office had a particular focus on the monitoring and control of all relevant costs following the decision to internally fund the project. It also established systems to monitor and evaluate benefits. As the major benefits of the Change Program will not eventuate until the new ICT-based tax processing systems are fully implemented during 2010–11 under the revised schedule, the compilation of benefits information was at an early stage at the time of the audit.

46. The ANAO considers that there is scope to improve the quality and type of management information about both the Change Program's costs and benefits. Due to a number of factors, including primarily legislative changes, the expanded Change Program is now scheduled to take at least two and a half more years to complete than was expected in the original business case. As the project is largely internally funded, tracking progress through accurate and timely information about the deferral of benefits, as well as indirect and opportunity costs, is necessary to assist the Change Program Steering Committee in the management and administration of the project.

47. The direct and indirect costs associated with maintaining the legacy systems, and associated processing 'work-arounds', beyond their anticipated decommissioning dates, will result in increasing financial pressures on the Tax

Office. The ANAO also notes that the Tax Office will need to absorb additional estimated expenditure of $247 million, incurred over the life of the Change Program, within its Budget appropriation.

The task ahead

48. Notwithstanding the experience to date, the scale and complexity of the tasks yet to be completed means that the Tax Office still faces significant challenges in finalising the project to a satisfactory standard required for the systems which automate most of Australia's tax administration. There is a significant risk that the deadlines for the completion of further releases may be put under pressure or that functionality in the original scope of the Change Program will be reduced so as to meet current budget and timetable expectations.

49. The experience of the Release 3 FBT implementation has highlighted the importance of end-to-end testing, business pilot with actual production data and full involvement of Tax Office business lines. In addition, there was a need to validate the compliance of the new systems against agreed standards and requirements, including legislative requirements. This will be particularly important for the income tax phase of Release 3 which delivers systems that will automatically finalise tax liabilities and credits for almost all of Australia's approximately 14.5 million tax returns. There is also the potential for further changes to the systems in light of new policy measures arising out of the Henry review.[12] Such developments could necessitate a review of work priorities and a further reconsideration of the current implementation schedule.

50. The Tax Office's experience to date underlines the importance during the remainder of the Change Program of:

- closer monitoring of significant risks and corresponding mitigation strategies, and setting higher, more verifiable standards for 'fitness for purpose' over the quality of work completed by the contractor;

[12] On 13 May 2008 the Australian Government announced a review of Australia's taxation system. This review, chaired by Dr Ken Henry, Secretary of the Treasury, will look at the current tax system and make recommendations to position Australia to deal with the demographic, social, economic and environmental challenges of the 21st century. The final report is due to be presented to the Treasurer in December 2009. See <http://www.taxreview.treasury.gov.au> [accessed 15 October 2009].

- following sound project management practices during the design, development and assurance stages for future ICP releases; and
- requiring that prior to the release of ICP software into production, end-to-end testing, business pilot with actual production data and assurance processes are completed with the full involvement of Tax Office business areas.[13]

Australian Public Service (APS) wide considerations

51. The Government's decision to accept the recommendations of Sir Peter Gershon's report means that there will be significant changes to the governance of large ICT projects within FMA Act agencies and to whole-of-government approaches to ICT matters in the future.[14] The ANAO considers there are some lessons from the experience of the Tax Office in the implementation of the Change Program which can be applied as the Government moves to implement the recommendations of the Gershon report across the APS.

Recommendations

52. The ANAO made four recommendations directed at ensuring that the Tax Office: fully utilises its available assurance framework for the Change Program work to be completed; strengthens aspects of contract management; establishes a robust performance management framework related to Tax Office activity transformed by successfully implemented Change Program products; and improves the strategic management of the Change Program in relation to the work to be completed by 2010–11.

Chapter Summaries

Background and context (Chapter 1)

Planning for the Change Program

53. By 2000 it was clear to the Tax Office its ICT systems were unsustainable. It was taking too long to respond to Government policy initiatives, the community was getting less efficient service and Tax Office staff

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[13] as defined in the Glossary "end-to-end testing" requires assessment of systems on a fully integrated basis.

[14] Gershon, P., *Review of the Australian government's use of information and communication technology*. Commonwealth of Australia August 2008.

were finding reduced capability in the ICT systems. In addition, the Tax Office had been aware for some time of inefficiencies in the ICT systems on which the administration of Australia's taxation and superannuation systems depended. Some of these inefficiencies and shortcomings had been documented in ANAO reports.

54. At the same time there had been increasing public discussion about the performance of the Tax Office's systems in being able to efficiently deal with taxpayers, especially after several major tax reforms including the implementation of *A New Tax System* in July 2000. Following this major initiative, the Government continued an agenda of change which required a level of responsiveness from the tax system and its administration which challenged the Tax Office's existing ICT systems (referred to as legacy systems in this Report) and processes.

55. The need to replace these legacy systems was one of the key reasons for the Change Program. To assist in defining what would be required of the replacement systems, the Tax Office embarked on a series of community consultations to establish community requirements, especially those of tax professionals and the business community.

Intent of the Change Program

56. The Tax Office recognised that it would be necessary to totally redesign the ICT systems on which the administration of Australia's taxation system would be based. The Tax Office also recognised that the size and complexity of this task required additional expertise to that which it possessed.

57. The original design of the Change Program consisted of three releases; primarily, Release 1 was the installation of a client relationship management system; Release 2 was the installation of a single case and work management system; and with Release 3 being a single integrated system for processing tax returns, including registration and accounting functions.

58. Release 3 would be the most complex phase and would create an ICP System by replacing the Tax Office's major core processing systems, including:

- NTS - National Taxpayer System;
- AIS – ATO Integrated System;
- ATOMS – ATO Matching Systems;
- FBT – Fringe Benefits Tax;

- PAYG – Pay As You Go;
- IPS – Instalment Processing System;
- ECS – Excise Collections System;
- GPS – Generic Payments System; and
- HES – Higher Education Scheme.

59. Release 3 would also replace two existing case management systems: RMS – Receivables Management System (a case management system for actioning outstanding debt) and TDMS – Technical Decision Making System (a case system for actioning complaints, advice, review of decisions and litigation).

The Integrated Core Processing system

60. The Tax Office planned to create an integrated suite of software to process tax returns. The Tax Office found that there was no suitable commercial-off-the-shelf (COTS) software available, but considered that a satisfactory integrated suite of software could be developed from the propriety Tax Administration System (TAS) owned by the global management consulting and technology services company, Accenture. This new suite of software would become known as the ICP system, which would be changed to take into account Australia's tax law, and accommodate specific Tax Office requirements, including the efficient interaction with the proposed single case management system.

Implementation progress and extensions to project scope

61. Release 1 (implementation of the CRM and electronic document storage) was phased in over several months and was fully completed in April 2006, 10 months after the due-for-completion date in the original Implementation Schedule. It affected over 2500 staff and delivered new services.

62. Release 2 was also phased in, being fully completed in March 2007, six months after the original due-for-completion date. It resulted in significant administrative and work practice changes to the Tax Office. It impacted over 13 000 staff in over 1000 teams across 60 sites and improved the way the Tax Office conducts business, moving to enterprise business processes and fewer systems that now contain a consolidated client history. The Tax Office considers the shift has helped it provide a more consistent service and better understand taxpayers' tax affairs.

63. During 2005–06 the Tax Office expanded the scope of the Change Program to include ICT system changes necessary to support new government policy measures in relation to Child Care Rebate, Review of Self Assessment, and the Fuel Excise Reform Program.

64. Also in 2006 the Australian Government announced major reforms to Australia's superannuation system which had a significant impact on the Change Program. The Tax Office is responsible for the implementation of the superannuation simplification changes and this has had a direct impact on the Change Program. The Tax Office had excluded all superannuation systems from Release 3. The Tax Office sought and received funding of $195.8 million to include all superannuation systems, modified to meet the superannuation simplification requirements, into the Change Program. The Tax Office advised the then Government that its legacy systems did not have longer term viability.

65. The changes required to support the superannuation simplification measures were a significant departure from the Change Program's original specifications. Examples of this departure include the need for a superannuation portal to support the Lost Members Register (LMR) requirements and the need for a new high volume, near real-time data matching facility.

66. The Tax Office concluded that incorporating the new superannuation systems within the ICP would be a lesser risk than incorporating them into the existing superannuation systems. However, given the significant risks in either case, the Tax Office also decided to make all necessary changes to the legacy superannuation software. According to the Tax Office, this would enable the legislated superannuation reforms to be administered from legacy software if the Tax Office was unable to meet legislated time frames through the Change Program. In the circumstances, this strategy was a prudent approach to the inherent risks.

67. Having regard to the subsequent course of events, it is evident that the Tax Office underestimated the magnitude and risks associated with the addition to the Change Program of the work necessary to implement superannuation simplification reforms, notwithstanding its mitigation strategy which may have added to the complexity of the Change Program and hence the overall risk.

68. The Tax Office proceeded to modify the Release 3 schedule and negotiate additional costs with Accenture to include superannuation. As a result, the Tax Office expanded the scope of the Change Program to include the superannuation initiatives in Release 3.

69. With the change in government in 2007, the Tax Office had to again further expand the scope of the Change Program to include the systems necessary to support the FHSA initiative introduced by the new Government. Incorporation of FHSA into the Change Program also required modification to the Release 3 schedule and renegotiation of costs with Accenture. The FHSA is not part of the Change Program's business case and is contracted separately.

70. In February 2007 the Tax Office divided Release 3 into several separate releases: FBT and Income Tax, superannuation simplification, and Business Activity Statements to accommodate the Government's requirements for superannuation reform. Later during 2007 the Tax Office made a further split between individual income tax and company tax, with the aim to deliver FBT and company tax in January 2008. In September 2007 the Tax Office deferred deployment of FBT and company tax until March 2008. In February 2008 the Tax Office realised that progress with FBT and company tax was behind schedule and that it would only be feasible to proceed with the FBT component in March 2008. The Tax Office also realised the ICP software would not be ready in time to provide the full FBT functionality required in the original business case. Nevertheless, the Tax Office decided to use the ICP to process FBT returns for the 2007–08 financial year even though it did not have all of the necessary functionality. In view of this the Tax Office established a range of risk mitigation strategies.

71. The three initial sub-releases of Release 3 have now been implemented, although not necessarily fully functional, as follows:

- ICP was deployed into production in March 2008 and by May 2008 was processing FBT returns; and
- LMR functionality was deployed into ICP over September-October 2008; and
- Co-contributions and Superannuation Holding Account special accounts were deployed into production in February 2009.

72. The Change Program is now entering the most difficult and complex phase of the project and there are signs of increasing challenges in achieving a satisfactory outcome from the remaining Change Program sub-releases.

Governance of the Change Program (Chapter 2)

Governance arrangements

73. Corporate governance refers to the processes by which organisations are directed, controlled and held to account. It encompasses authority, accountability, stewardship, leadership, direction and control exercised in the organisation.[15]

74. Governance of the Change Program involves a range of committees as well as the Tax Office/Accenture contract and related governance documents. Under the terms of the program implementation contract, delivery of the Change Program against the business case is the responsibility of Accenture. Ultimate accountability for delivery of the Change Program, however, rests with the Tax Office.

Organisational arrangements

75. Executive management of the Change Program occurs through the CPSC and the CPE. The CPSC is chaired by the Commissioner and includes the Second Commissioners. Its role is to ensure the Tax Office delivers the improved client experiences described in *Making it easier to comply*. The CPSC determines outcomes and priorities for the Change Program and approves significant scope, strategy, design, business case and client experience changes.

Assurance arrangements

76. The governance of the Change Program requires assurance capabilities that are commensurate with the complexity and risks of developing the ICP to the required 'fit-for-purpose' standard. The Tax Office established assurance arrangements to support the management of risks, namely the independent assurer (Capgemini), the Tax Office's internal audit branch, the extensive knowledge of business line users available to undertake testing of the new systems, and, from time to time, reviews undertaken by an independent expert. As a result of these arrangements, during 2007 and 2008 the Tax Office received reports about challenges associated with the Tax Office's 'solution

[15] ANAO Better Practice Guide, *Public Sector Governance*, 2003.

transfer' strategy for design and construction of the ICP, i.e. the transformation of Accenture's TAS into the Tax Office's ICP. The Tax Office assurance arrangements identified the need to strengthen how the various reviews' recommendations were brought forward and acted on by the Tax Office in a timelier manner.

77. Whilst there have been weaknesses in the design and implementation of the Change Program, the Tax Office endeavoured to learn from the processes and avoid any repetition of problems. In this regard, the Tax Office has made use of the opportunity presented by the processing of FBT returns by an early version of the ICP. Importantly, the Tax Office Executive has proceeded to apply those understandings to improve the Change Program's ongoing administration.

Change Program contract administration

78. The Tax Office/Accenture contract is a central feature of the Change Program's governance arrangements. Although it is a purchaser/provider contract, joint Tax Office/Accenture design and development work is a distinctive feature of the arrangements.

79. The accountability of the Tax Office for the specification of outcomes and of Accenture for the provision of goods and services that achieve them has become more complex in practice than originally anticipated. In practice, features of the contract (joint conduct of work and the liability for risk) blur the roles of the Tax Office and Accenture. Complex negotiations between the two parties therefore became an essential feature of day-to-day contract administration.

80. Nevertheless, the contract provides the Commonwealth with a reasonable degree of protection against escalating contractual costs on the one hand and unsatisfactory contracted outputs on the other. The contract requires Accenture to provide goods and services that are 'fit for purpose' in that they achieve measurable outcomes and to do so on a 'not to exceed price' basis.

Expanding whole-of-Tax Office performance information

81. Although the full impact of Releases 1 and 2 is evolving, the ANAO found that these releases are improving and transforming key aspects of tax administration as anticipated in the original goals of the Change Program Business Case.

82. Following implementation of Releases 1 and 2, the Tax Office is in a better position to evaluate the efficiency and productivity of the functions of case work and records management on a whole-of-Tax Office basis.

83. Aggregate Tax Office-wide measures of efficiency, productivity, effectiveness and quality of the performance of functions of case work and records management based on Releases 1 and 2 are being developed and applied.

84. Once work now underway to define valid and reliable measures of output, including measures of the quality of the output, is complete it should provide the basis for the Tax Office to evaluate the efficiency and productivity of the individual functions of case work and records management across all areas of the Tax Office where these individual functions are carried out.

85. The new methodologies for productivity and efficiency measurement and evaluation enable the identification of high and low performing groups.[16] Where operational areas or groups carry out the same or similar types of output activity but in different locations, the comparison across the differing groups could help to identify the reasons for differing levels of performance. Under-performance by one group producing the similar type of output activity may reflect issues with office design, training, inexperienced staff, poor management, or staff having a range of other, unspecified duties.

The Integrated Core Processing System's processing of FBT returns (Chapter 3)

86. The original approved business case for the Change Program defined the main part of Release 3 as the ICP system for all types of income taxes administered by the Tax Office. In addition, Release 3 would also include an extension of the case management system to a wider audience, implement new tax agent and business portals, and provide updates to work management, CRM, analytics, content and records management and reporting. The Tax

[16] Data Envelopment Analysis is a relevant methodology that the Tax Office might wish to consider. It has been actively promoted by the Productivity Commission for the comparative evaluation of service delivery. (See <http://www.pc.gov.au/__data/assets/pdf_file/0006/62088/dea.pdf> [accessed 15 October 2009]. It has also been used by several state governments for this purpose and by the ANAO in several performance audits.

Office estimated that Release 3 would account for about $171m or 38 per cent of the total Change Program cost in the 2004 Business Case.[17]

87. In February 2008 the Tax Office decided to use the ICP to process FBT returns for the 2007–08 financial year. Since the Tax Office knew that some of the FBT functionality did not work correctly, it proceeded with a phased implementation, and with only the functionality required to process FBT returns being enabled. The Tax Office established a range of risk mitigation strategies to address identified functionality issues.

88. The use of the ICP system to process FBT returns was a significant step for the Change Program. It was the first time the ICP system would be made operational to process tax returns. Future stages involving income tax returns would build on this base.

89. In using the ICP to process actual FBT returns, the Tax Office took care to avoid known defects in the broader ICP system. However, a number of additional unanticipated defects in the incomplete ICP's processing of FBT returns emerged. The ANAO considers that the testing and assurance processes for the FBT release, including GIC, were inadequate and could have been more comprehensive so as to uncover these defects. In relation to the GIC, as the Tax Office did not have sufficient confidence in the GIC routines during implementation of the FBT release, the functionality was turned off.

90. The Commissioner established several reviews of internal administration, practices and procedures following the severity of the problems experienced when the incomplete ICP processed actual FBT returns. The reviews found the testing approach and processes to be inadequate, which led to an abnormal number of serious defects. The defects highlighted shortcomings in the quality of the ICP software. The reviews also found that there had been departures from approved governance arrangements which undermined sound decision making.

91. The ANAO found that the CPSC made a considered risk–based decision to proceed with the incremental deployment of the FBT release, thereby providing a 'proof of concept' test of the ICP's capacity to process tax returns. It was also aimed at avoiding delaying the Change Program by a further 12 months. In reaching this decision the CPSC was briefed about the

[17] ECMP.CP Business Case Phase 2 Version 6.3 10-12–2004; page 43.

risks, advantages and disadvantages of the main alternatives. Subsequent investigations revealed insufficiencies in the testing of the FBT release prior to production, the results of which informed CPSC decision-making. In addition, some unanticipated 'Severity 1 and 2' defects were discovered after the release was deployed. The subsequent rectification of these and the known pre-implementation defects in the FBT release took up to 12 months, because the defects proved more complex than anticipated.

Funding of the Change Program and measurement of costs and benefits (Chapter 4)

92. As previously noted, the endorsed Change Program business case (dated 10 December 2004), states that the total cost of the Change Program was not to exceed $445 million in direct costs[18] over six financial years, starting in 2003–04 and finishing in the 2008–09 financial year. The business case provided for the Change Program to be fully funded internally from the Tax Office's annual budget appropriations. The Tax Office established arrangements intended to offset internally funded expenditure by financial benefits arising from productivity improvements.

93. The endorsed business case anticipated that the Change Program's direct financial benefits in the form of improved productivity and efficiency would equal the total amount of Tax Office funds set aside to finance the Change Program.

94. As noted in paragraph 20, since the business case was approved in 2004, the scope of the Change Program changed several times, largely due to legislative changes, and the delivery schedule for the Change Program has also changed a number of times. As a result, the expanded Change Program is now scheduled to take at least two-and-a-half more years to complete than was expected in the original business case. At 30 June 2009 the budget for the expanded scope of the Change Program is $774 million finishing in 2010–11. This includes the FHSA, which is outside the business case and for which the Tax Office received $25 million and contracted separately. The expansions in scope of the business case required by government (principally superannuation simplification) account for $234 million of the $304 million growth in budget since 2004.

[18] Business Case – Phase 2, Easier, Cheaper and More Personalised Change Program, version 6.3, 10 December 2004, page 2.

95. Furthermore, delays in the completion of the Change Program have resulted in additional costs and some diminution in the quality of services provided by the Tax Office.[19] The additional costs include the deferral of benefits to the Tax Office, including the deferral of productivity benefits, the deferral of benefits to the community, the additional costs of maintaining fully functional legacy systems, and the write-down (i.e. impairment) of assets generated by the capitalised Change Program expenditure.

96. Actual expenditure on the Change Program to the end of 2008–09 was $749 million. As at 30 June 2009 the Tax Office estimated, that on the basis of the Change Program being completed during 2010–11, a further $105 million may be spent over the next two financial years, bringing the total forecast expenditure to $879 million, including the $25 million the Tax Office received for the FHSA, which is outside the business case and contracted separately. Forecast expenditure on the expanded scope Change Program is $434 million more than the 2004 business case estimated.[20] After taking into account the additional funding provided by government to implement legislative changes (such as superannuation simplification) the Tax Office expects to absorb within its budget appropriation additional estimated expenditure of $247 million over the life of the program.

97. The Tax Office assessed that an impairment write-down of $75 million against the Change Program Release 3 software asset was appropriate at 30 June 2009. This reflected the Tax Office's assessment of the asset's current replacement cost in accordance with Australian Accounting Standard 136, *Impairment of Assets* (AASB136)[21] and *Accounting Guidance Note 2007/1* issued by the Department of Finance and Deregulation (AGN 2007/1).

98. This asset comprised internally developed software under construction. The decision to write-down the value of the asset under construction was based primarily on available internal evidence which indicated higher costs from delays and rework associated with the expansion in scope of the Change Program. The Tax Office concluded that the capital component of the increased

[19] The Tax Office anticipated that during implementation of the Change Program some service standards in the Taxpayers' Charter would not be met. The Tax Office advised taxpayers and intermediaries of temporary changes in service levels.

[20] This amount is the total forecast expenditure of $879 million minus the 'not to exceed' business case budget of $445 million.

[21] Specifically paragraph 12(g) of AASB136.

estimated costs of the Change Program compared to the budget did not represent additional functionality and hence was not appropriate to be capitalised.

99. The additional costs include the deferral of benefits to the Tax Office, including the deferral of productivity benefits, the additional costs of maintaining fully functional legacy systems and the write-down (i.e. impairment) of assets generated by the capitalised Change Program expenditure. The additional costs include, as well, the deferral of benefits to the community.

100. There is a range of indirect and opportunity costs that are relevant to the governance of the Change Program. These include the deferral of benefits expected to accrue but now delayed because the Change Program will now take at least three years more to complete than originally expected. The Change Program's benefits are broader than just the direct financial benefits now monitored.

101. The ANAO considers that it is important to the strategic management of the Change Program for the CPSC to periodically receive additional summary, high level reports about the broad range of costs and benefits attributable to the Change Program and the progress of the Change Program in achieving the strategic goals originally determined.

APS-wide considerations (Chapter 5)

102. The Government's decision to implement the recommendations of Sir Peter Gershon's 2008 report means that there will be significant changes to the governance of large ICT projects within FMA Act agencies and to whole-of-government approaches to ICT matters in the future.[22]

103. The need for large ICT projects like the Change Program is likely to be a continuing feature of Commonwealth administration. The rationale which necessitated the Change Program will continue to have currency for many public sector agencies. In this context, this audit underlines the importance of carefully considering several factors, as public sector agencies move forward consistent with the Government's response to the Gershon report. This

[22] Gershon, P., *Review of the Australian government's use of information and communication technology*. Commonwealth of Australia August 2008.

includes the need for agencies to reassess, preferably at arms-length and with the assistance of independent experts, the adequacy of governance arrangements having regard to the key success factors identified in the 2001 OECD paper, as well as considerations such as:

- a tendency for project management and staff to underestimate the complexity of the ICT task and associated risks and to overestimate their ability to do the task and manage the risks;
- the consequences of the inevitable scope changes that occur with large ICT projects;
- any impact of internal decision making processes which may become time consuming depending on the complexity of issues, especially those of policy and legislative interpretation; and
- periodic strategic evaluations of the progress of the project in achieving planned goals having regard to overall direct and indirect costs and benefits.

Tax Office response

104. A summary of the Tax Office response follows:

105. As noted in your report the Change Program is a very significant information and communication technology program. It will replace all our behind the scenes mainframe systems, some of which are over 30 years old, with a single integrated system. In doing so, it will provide the Tax Office with the foundation to better meet the expectations of Government and community. It will also deliver improved client experiences and will provide efficiencies for the Tax Office.

106. We have already seen efficiencies and savings as a result of the Change Program:

- Release 1 provided us with a client relationship management system and online portals. This means staff no longer work, view or operate in multiple systems as client information is now presented in one system.
- Release 2 impacted over 13 000 staff in over 1000 teams across 60 sites and fundamentally changed the way we conduct our business. Staff can now see in one system client contact history, current cases associated with a client, and images of correspondence sent to and from the client.

This shift is helping us to provide higher quality and more consistent service.

- Release 3 is still underway and we have already implemented part of the ICP system providing a significantly improved capability to process fringe benefits tax and some superannuation products.

107. The remainder of Release 3 will deliver the other elements of the ICP system which will replace eight more aging mainframe systems and will allow us to process all of our accounts, registrations, forms and payments, and do follow-up work relating to outstanding debts and lodgement.

108. Your report also notes that due largely to legislative changes, such as Superannuation Simplification and First Home Saver Accounts, the Change Program will take longer than was originally planned. This has presented a number of challenges, but we continue to progressively deliver the intended outcomes adapting and refining our approaches to ensure outcomes are met with minimal disruption to the administration of Australia's taxation and superannuation systems.

109. We believe the Tax Office experiences as outlined in the report may provide valuable lessons for other government agencies undertaking or embarking on similar transformational change programs.

110. On behalf of the Tax Office I welcome the report and agree to the recommendations and would like to thank the audit team for the constructive and collaborative way in which this audit was conducted.

111. The Tax Office’s response is included in full at Appendix 1.

Recommendations

Recommendation No.1

Para 2.36

The ANAO recommends that, in order to better manage risks to the Change Program, the Tax Office more effectively utilise its available assurance framework (compliance assurance, internal audit, the contracted independent assurer), including end-to-end system testing involving operational areas, during the remaining implementation phases of the Change Program.

Tax Office Response: *Agreed*

Recommendation No.2

Para 2.63

The ANAO recommends that in order to improve the governance of the Change Program, the Tax Office amend the Contract (Schedule 2) to clearly set out the high level governance arrangements.

Tax Office Response: *Agreed*

Recommendation No.3

Para 2.93

The ANAO recommends that in order to continually improve the performance of those functions transformed by Change Program releases, the Tax Office review existing Tax Office management frameworks to take into account the enhanced performance measurement and reporting capabilities of new systems so as to:

a) improve the Tax Office's capacity to evaluate the efficiency, productivity and effectiveness of performance on a whole-of-Tax Office basis; and

b) evaluate the scope to improve performance by the use of methodologies that measure and compare performance at an organisational group level.

Tax Office Response: *Agreed*

Recommendation No.4

Para 4.44

The ANAO recommends that in order to improve the strategic management of the Change Program, and having regard to existing management reports, the Change Program Steering Committee periodically receive additional summary, high level reports covering:

a) the broad range of costs and benefits attributable to the Change Program; and

b) the progress of the Change Program in achieving the strategic goals originally determined.

Tax Office Response: *Agreed*

Audit Findings and Conclusions

1. Background and context

This chapter states the audit's objective and scope, and provides an overview of the Australian Taxation Office and the Change Program. The chapter outlines the initiation, development and progress since inception in 2003 of the easier, cheaper and more personalised program, which became known as the Change Program. The international experiences of projects similar to the Change Program are also considered.

Audit objective and scope

1.1 The objective of this audit was to provide a strategic review on the progress of the Australian Taxation Office's (Tax Office) implementation of the Change Program.

1.2 To achieve this, the Australian National Audit Office (ANAO) examined:

- the planning for, and governance of, the Change Program, particularly in relation to the management of risk and the assurance framework established by the Tax Office, and its management of contractual arrangements for the project;
- implementation issues associated with Releases 1 and 2 of the Change Program, and more specifically in relation to Release 3, the first use of the new Integrated Core Processing (ICP) system to process Fringe Benefits Tax (FBT) returns; and
- the funding of the Change Program, including measurement and attribution of the costs of the project and consideration of any benefits realisation to date.

1.3 The ANAO considered how international experience for similar sized public sector Information and Communications Technology (ICT) projects may have highlighted key risk areas for consideration. The ANAO also assessed a range of considerations that have arisen out of the experiences of the implementation of the Change Program that may be relevant to other Australian Public Service ICT projects, having regard to the new arrangements governing ICT activity by *Financial Management and Accountability Act* (1997) (FMA Act) agencies following the Government's announcement on

24 November 2008 that it would implement the recommendations of Sir Peter Gershon's report.[23]

1.4 The audit was conducted in accordance with ANAO Auditing Standards, at a cost of $630 000.

The Australian Taxation Office

1.5 The Tax Office is the Australian Government's principal revenue collection agency. As the main administrator of Australia's tax and superannuation systems its role is to effectively manage and shape the processes and systems which assist taxpayers to meet their tax obligations. In 2007–08, the Tax Office collected $278.1 billion in revenue, and made transfers and payments of $9.3 billion; payments include income tax refunds, Goods and Services Tax (GST) input tax credits, excise grants and social benefits. The operating expenses for the Tax Office in 2007–08, totalled $2.8 billion.

1.6 The administration of the Tax Office depends crucially on ICT systems. ICT systems are required for every phase of tax administration from the registration of a taxpayer, through to the issuance of an assessment and, if necessary, the conduct of compliance investigations.

1.7 During 2007–08, the Tax Office interacted with some 13.9 million taxable entities, representing individuals, companies, partnerships, trusts and superannuation funds. This included 11.8 million tax returns lodged for individuals, with 73 per cent lodged on behalf of those individuals by tax agents. The Tax Office has noted that the proportion of individuals using e-tax[24] to complete and lodge their tax returns continues to increase, with 60 per cent of self-preparing individuals (approximately 16 per cent of all individuals) lodging this way in 2007–08.

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[23] Gershon, P., *Review of the Australian government's use of information and communication technology*. Commonwealth of Australia August 2008. See further <http://www.financeminister.gov.au/media/2008/mr_372008.html> [accessed 15 October 2009].

[24] E-tax is the Tax Office's income tax return software that assists individuals to prepare their income tax returns and lodge them online. The e-tax software provides individuals with pre-filling functionality, by partial completion of the tax return with information already available to the Tax Office.

Planning for the Change Program

Genesis of the Change Program

1.8 By 2000 it was clear to the Tax Office its ICT systems were unsustainable. It was taking too long to respond to Government policy initiatives, the community was getting less efficient service and Tax Office staff were finding reduced capability in the Information Technology (IT) platform. In addition, the Tax Office had been aware for some time of inefficiencies in the ICT systems on which the administration of Australia's taxation and superannuation systems depended. A number of these have been documented in reports of the Auditor-General. The need to replace these ICT systems (referred to as legacy systems in this Report) was one of the key reasons for the Change Program.

1.9 During the later part of the 1990s, the Government introduced several major tax reforms, culminating with *A New Tax System* in July 2000, which included the goods and services tax. There were, however, other significant changes for business, including new income tax instalment arrangements. The Tax Office was responsible for the implementation of these reforms and the on going administration of them. The community's adaptation to these reforms was not without difficulties. Tax professionals in particular had difficulties dealing with the extra pressures brought about by aspects of the new system. The need to address this concern became an impetus for the Change Program.

1.10 At the same time, the Government continued an agenda of change which required a level of responsiveness from the tax system and its administration which challenged the Tax Office's legacy systems and processes. Many of the changes were aimed at introducing choices for the community but also created greater administrative complexity. This, combined with the increasing level of integration between tax and social policy, created the further need for a flexible and responsive administration. In response to these difficulties, the community (particularly tax professionals and small business) were also calling for a major change to the way laws were administered. These concerns became an additional impetus for the Change Program.

1.11 In addition, the Tax Office noted additional factors that would warrant systemic change to tax administration. These included:

- the need to adapt as efficiently and effectively as possible to better administrative practices and technological facilities in a rapidly changing environment;
- the need to achieve significant productivity improvements in an environment of continuing fiscal constraint;
- improvements to community compliance;
- reducing the risk to revenue; and
- the provision of increased confidence in the integrity of Australia's taxation system.

1.12 In response to these drivers for change the Tax Office developed the Easier, Cheaper and More Personalised (change) program, which was developed in the following major phases:

- listening to the community;
- early improvements;
- investigation and strategy;
- design, procurement and assurance; and
- implementation.

Listening to the community

1.13 To better understand the community's expectations and improve taxpayers' experiences of the tax system, the Tax Office initiated the listening to the community project in March 2002. The Tax Office consulted with representatives of the community, especially tax professionals, to co-design an improved administrative tax system that would make compliance with obligations easier for taxpayers.

1.14 The Tax Office involved individual taxpayers, small business operators, tax agents and staff in user clinics, creative retreats and user observation sessions. At these forums taxpayers discussed their interactions with the Tax Office, identified irritants and offered ideas and suggestions for improvement.

1.15 The listening to the community initiative enabled the Tax Office to better understand that the community wanted a wide range of major improvements to the quality and variety of essential services the Tax Office provides.

1.16 Specifically,

- individuals wanted:
  - greater assistance with record keeping;
  - improved personal services;
  - improved phone services with reduced waiting times and more accurate advice;
  - more online options, more information on the internet and the ability to download more tax forms;
  - simpler language and less complicated information; and
  - easier to complete tax forms.
- businesses wanted:
  - improved phone services with reduced waiting times, more accurate advice and after hours access;
  - the Tax Office to understand better their current circumstances and to provide advice that takes the circumstances into account;
  - timely, less complicated information provided in simple language;
  - assistance with record keeping software that supports their business and tax needs and is provided in a timely manner; and
  - a more user-friendly website.
- tax agents wanted:
  - easier and faster transactions with the Tax Office, greater certainty in relation to those transactions and that tax agent initiated transactions were being processed;
  - access to information the Tax Office holds about their clients and their clients' accounts;

- improved phone services and reduced waiting times with more accurate advice;
- a more user-friendly website;
- timely, easy to understand information stated as simply as possible;
- the Tax Office to take into account their needs and those of their clients; and
- more tailored goods and services.

1.17 Tax Office employees were included in the listening to the community process. Their input provided the Tax Office with useful insights into the problems between the Tax Office and their clients and the shortcomings of the ATO Integrated System (AIS), which became operational in 1994. AIS is the Tax Office's core and major transaction processing system covering most of the Tax Office's tax revenue systems.[25] Shortcomings were also noted in the National Taxpayer System (NTS), which became operational in 1975. NTS is the Tax Office's main income tax processing system.

1.18 The program of client experience improvements identified through the listening to the community initiative was published in 2003 in *Making it easier to comply*. Updates to *Making it easier to comply* have been published each year since 2003 and record administrative achievements against earlier expectations as well as new proposed client improvements for the future.

Early improvements

1.19 The listening to the community project identified short term and long term improvements that could be made to the tax system. The short term improvements were focused on addressing immediate community needs and included:

- improving telephone services;
- making letters easier to understand;

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[25] AIS is an accounting system for instalment based taxes, maintaining taxpayer details and transactions related to each client. AIS has a single taxpayer register and some capacity for processing taxpayer accounts, other than income tax accounts.

- introducing tax agent and business portals to allow access to parts of the tax system; and
- continuing to make new products and services available through the portals.

The Intent of the Change Program

Investigation and strategy

1.20 The investigation and strategy phase ran throughout 2003 and into 2004. Key initial approaches adopted included:

- looking for enterprise-wide solutions that could replace multiple systems across the organisation with a single organisation-wide system;
- replacing systems dedicated to specific taxes or aspects of tax administration with a single integrated core processing system; and
- building on contemporary approaches in other organisations around the world, where systems had already been built with capabilities similar to those sought by the Tax Office. The Tax Office visited a number of countries including Ireland, Singapore, the United Kingdom, the Netherlands and the United States to identify learnings and strategy and design approaches.

1.21 While examining enterprise-wide solutions, the Tax Office conducted procurement processes for major system replacements and to identify a program implementation contractor. The Tax Office recognised that the size and complexity of redesigning the software on which the administration of Australia's taxation system would be based required additional expertise to that which it possessed. After a global search and discussions with several Organisation for Economic Co-operation and Development (OECD) jurisdictions which had attempted similar challenges, the Tax Office resolved to acquire the expertise from the market place. The Tax Office went to market with a Request For Information process for an implementation contractor.

1.22 Following the evaluation of this process the Tax Office entered into a contract with the global management consulting company Accenture[26] to provide assistance on the initial strategy setting and high level design of what was to become the Change Program. The initial strategy was approved in March 2004 and included the following principles:

- adopt enterprise-wide business processes and systems based on a range of commercial-off-the-shelf (COTS) software;
- adopt a transfer solution for the core processing systems, drawing on Accenture's Tax Administration System (TAS) which operates in several other revenue agencies in countries including Singapore, Ireland, the Philippines and New Zealand;
- aim for transformation of systems over the shortest reasonable time to keep focus and minimise the time required to operate two sets of systems;
- use proven technology and existing products where possible, minimising any customisation;
- change business processes in parallel, consistent with the new systems; and
- design processes and systems that can operate independently of organisational structures.

Design, procurement and assurance

1.23 The Tax Office engaged Accenture in further design and planning of the Change Program and to assist in the procurement of new enterprise-wide systems. This involved the development of a more detailed solution blueprint,

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26 Accenture is a global management consulting, technology services and outsourcing company. Andersen Consulting was formally established in 1989 when a group of partners from the Consulting division of the various Arthur Andersen firms around the world formed a new organisation focused on consulting and technology services related to managing large-scale systems integration and enhancing business processes. On January 1, 2001, Andersen Consulting changed its name to Accenture as the result of an arbitrator's decision in August 2000 that severed the contractual ties between Accenture and Andersen Worldwide Société Coopérative (AWSC). Accenture became a public company on July 19, 2001, when it listed on the New York Stock Exchange under the symbol ACN. For the 12 months ended 31 August 2008 Accenture had net revenues of US$23.39 billion and more than 181 000 employees (including more than 4900 senior executives) with offices and operations in more than 200 cities in 52 countries. This account is based on material available on Accenture's website, <http://www.accenture.com> [accessed 15 October 2009].

revised business case, implementation and transition plans and project definitions (including requirements and design). This work was completed in November 2004 and was endorsed by the Tax Office Executive in December 2004.

1.24 In parallel with this work, initial procurement of commercial software was completed and preparations were made for a contract for implementing the program. In addition to new software to support the processing of tax returns, the Tax Office sought software that would enable significant improvements to the management of correspondence and workflows across the agency, and the capacity to view the transactions and communications of taxpayers at a single interface. The Tax Office wished to introduce a single case management system and purchase COTS software for this purpose. The new software sought included Siebel; IBM's content, document and record management as well as enterprise application interface; and the outbound product, Dialogue.

1.25 At key stages in the process the Tax Office reviewed its intentions with external stakeholders, including peak professional and taxpayer representative groups. To confirm its approach to the program the Tax Office engaged additional global expertise. Capgemini was selected as an independent assurer and industry advisor Gartner was chosen to provide specific technology advice.[27]

1.26 As the independent assurer, Capgemini was engaged to assist the Tax Office to manage its relationship with Accenture, advise the Tax Office about the quality of Accenture's work and support Tax Office decision making. Capgemini was engaged to provide the Tax Office with independent expert advice at each critical phase: design, management and the release into production of Change Program goods and services.

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[27] Capgemini is an international firm of around 83 000 employees that provides a range of consulting, technology, and outsourcing services. Its headquarters are in Paris. This account is based on material available on Capgemini's website, <http://www.capgemini.com> [accessed 15 October 2009].

Gartner, Inc. is a global information technology research and advisory company. Gartner is headquartered in Stamford, Connecticut, U.S.A and has 4000 analysts and consultants in 80 countries. This account is based on material available on Gartner Inc's website, <http://www.gartner.com/it/about_gartner.jsp> [accessed 15 October 2009].

Risks and opportunities inherent in implementing the Change Program

1.27 The Change Program promised to transform the Tax Office by using up-to-date and tested ICT systems modified for Australia's taxation system.[28] Figure 1.1 depicts the working situation of the Tax Office as transformed by the Change Program. From the perspective of taxpayers and other users of the tax system, the Change Program is expected to enable a significantly greater variety of essential and desirable secure, easy-to-use web-based services. An underlying reason for the Change Program was to provide easier, cheaper and more personalised services to the Australian community.

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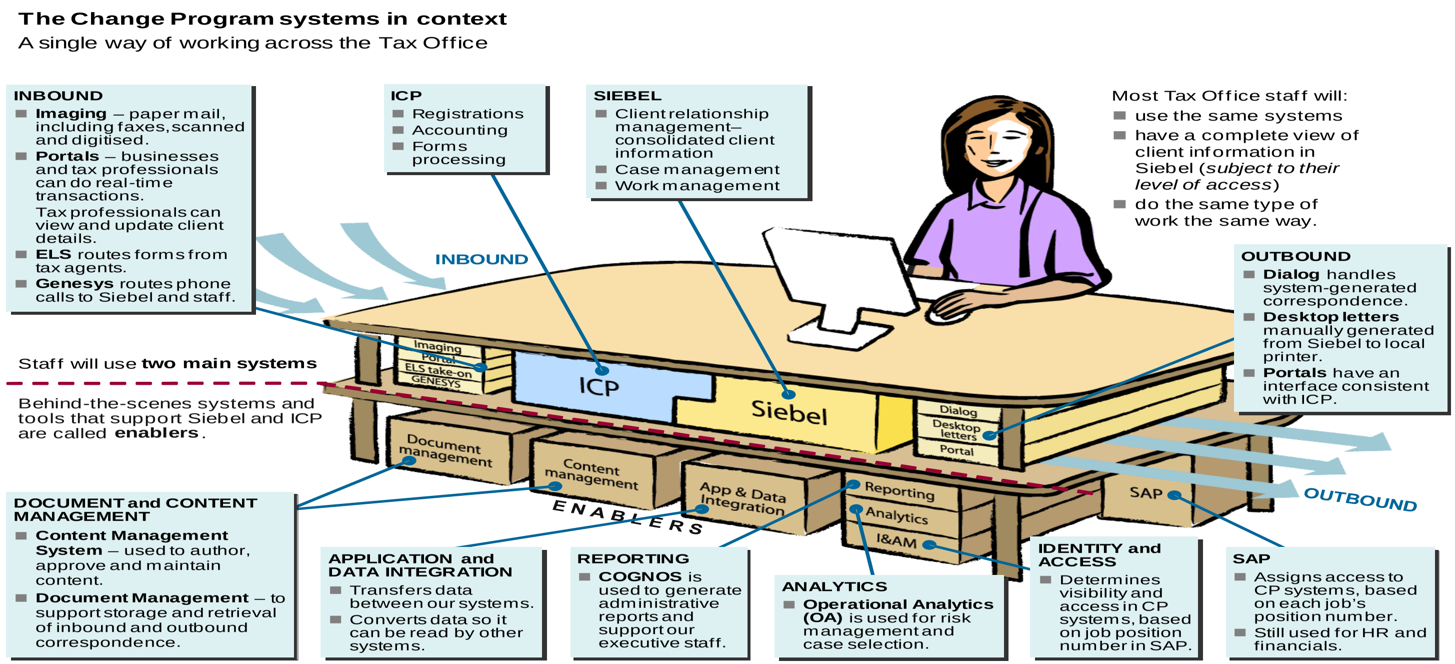
28 It is only the ICP that has to be modified to comply with Australian taxation law.

Figure 1.1

The working situation of the Tax Office as transformed by the Change Program



Source: Tax Office.

1.28 The Tax Office had few options other than to redesign and upgrade the ICT systems that support the administration of Australia's taxation policies and legislation. If nothing was done to overhaul the legacy systems listed in paragraph 1.36 below, the Tax Office would have faced increasing difficulty in implementing new requirements from Government efficiently and effectively. It would also have been increasingly unable to meet the reasonable expectations of the Australian community as documented in the Easier, Cheaper and More Personalised change program (ECMP) consultations. Thus to do nothing would have been a very high risk option.

1.29 Conversely, to undertake the Change Program, as finally settled by the Tax Office, and replace all existing systems by a new, integrated processing system design concept, while transforming Tax Office processes, procedures and work-flows, all at the same time, would also be a high risk strategy.

1.30 The design concept of an integrated processing system was a significant improvement on the Tax Office's series of separate special purpose computer programs in the relevant legacy systems listed below in paragraph 1.36.

1.31 On 14 May 2004 Gartner Consulting advised the Tax Office:[29]

> Gartner concurs with the two key hypotheses/decisions taken by the Australian Taxation Office (ATO) in respect to the Solution Blueprint.
>
> '**Solution Transfer**'
>
> Gartner supports the decision taken: that a 'transfer' of an existing solution (Revenue Management System) is the most cost effective, lowest risk, and least time to implement option available.
>
> **This hypothesis is supported subject to the following risks being successfully managed:**
>
> 1. Risk related to the key stakeholders of the ATO not comprehending the magnitude and complexity of the implementation and the internal effort required.
>
> 2. Risk related to the program not effectively communicating to the wider audiences within the ATO on the decision making processes and the decisions taken.

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29 Gartner Consulting, *A Report for Australian Taxation Office: Review of Decisions – Phase One of the Change Program*, 14 May 2004. Engagement: 220650230; page 2.

> 3. Risk related to the program not effectively managing organisational change.
>
> **TAS-based solution**
>
> Gartner supports the decision taken that the [Accenture] TAS-based [software] solution is the most appropriate option for the ATO, subject to detailed cost–benefit assessment.
>
> **This hypothesis is supported subject to the following risks being successfully managed:**
>
> 4. Risk related to not effectively managing the differences in requirements between those of the source agencies and those of the ATO.
>
> 5. Risk related to making poor architectural decisions in respect to integration and business process management.

Initial scope

1.32 The original design of the Change Program consisted of three releases, the third of which would be a single integrated system for processing tax returns, including registration and accounting functions.

1.33 Release 1 had the primary goal of implementing a Client Relationship Management (CRM) system which would support Tax Office call centres. Release 1 also included a new document store for electronic documents. Amongst other things, Release 1 would enable significant improvement to the performance of the Tax Office's call centres.

1.34 Release 2 was the implementation of the Tax Office's integrated work management system allowing letters, faxes and portal messages to be actioned electronically and independently of the channel through which they were received by the Tax Office. Release 2 also introduced enhancements to the CRM; the new case management system for active compliance; a content management system to draft, approve, maintain and publish content for internal and external Tax Office websites; and the Tax Office's new systems for communicating with taxpayers and others. The main purpose of Release 2 was to improve work and taxpayer relationship management systems in order to improve the Tax Office's management of workflows across the agency.

1.35 Releases 1 and 2, if successfully implemented, would constitute major improvements to the Tax Office's work practices and procedures. They were essential steps to support the transformation of the Tax Office into a more seamless integrated administrative entity.

1.36 Release 3 would create the ICP System by replacing the Tax Office's major core processing systems, including:

- NTS - National Taxpayer System;
- AIS – ATO Integrated System;
- ATOMS – ATO Matching Systems;
- FBT – Fringe Benefits Tax;
- PAYG – Pay As You Go;
- IPS – Instalment Processing System;
- ECS – Excise Collections System;
- GPS – Generic Payments System; and
- HES – Higher Education Scheme.

1.37 Release 3 would also replace two existing case management systems: RMS – Receivables Management System (a case management system for actioning outstanding debt) and TDMS – Technical Decision Making System (a case system for actioning complaints, advice, review of decisions and litigation).

1.38 The Tax Office realised there was reduced capacity and inefficiencies in the mainframe systems listed in paragraph 1.36. The Tax Office knew that most of the systems, particularly the core systems AIS and NTS, were not fully documented. The lack of documentation included comprehensive legal and/or financial assurance documentation relating to these legacy systems. Consequently legal and/or financial assurance had to be established for the related new coding in the ICP. This increased the complexity and volume of design work, coding and assurance testing required for the development of the ICP.

1.39 Other weaknesses included that most of the systems, particularly AIS and NTS, required multiple manual work-arounds to continue, had elements of unpredictability and contained a large variety of special purpose patches. The existing FBT system was also in need of urgent replacement.[30] A consequence of these shortcomings was that the ICP designers did not have

[30] The Auditor-General Audit Report No.34 of 1998–99, *Fringe benefits tax – Australian Taxation Office*, noted the inefficiencies and shortcomings of Fringe Benefits Tax (FBT) administration because there was a multiplicity of FBT IT systems with limited interoperability between them, large volumes of reverse work-flows, continuing need for manual interventions and work-arounds and severe shortages of staff skilled in FBT matters.

documentation available which could assist with the design of the new software.

1.40 The Tax Office excluded from the initial Change Program scope all systems required for the administration of superannuation matters.

The delivery schedule

1.41 The implementation phase of the Change Program commenced in March 2005 and, as noted previously, the initial delivery schedule comprised three major releases:

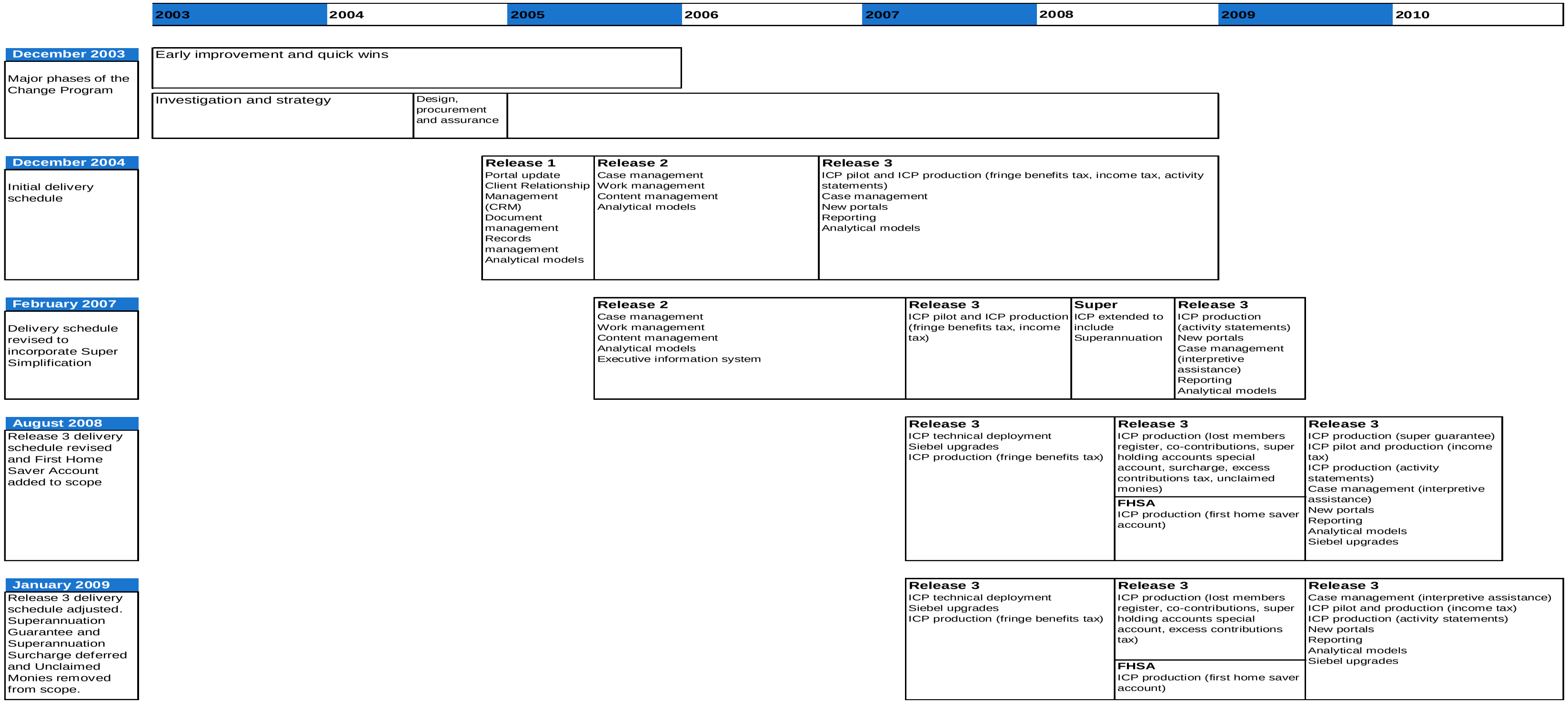
- Release 1 (to be completed by June 2005) - implement the CRM, improvements to online systems (tax agent and business portals), a new system to develop and maintain the content of letters;
- Release 2 (to be completed by September 2006) - portal enhancements, a single case and work management system, analytical models and enhancements to CRM; and
- Release 3 (to be completed by June 2008) - implement the ICP system for all tax products, extension of the case management system to a wider audience, new tax agent and business portals and updates to work management, CRM, analytics, content and records management and reporting.

1.42 Since the implementation phase commenced, the scope of the Change Program changed several times, largely due to legislative changes, and the delivery schedule for the Change Program has also changed a number of times. Although most adjustments have been relatively minor (having regard to the complexity of the Change Program), there have been two significant changes to the schedule. The first was in early 2007 when the government's Super Simplification package of new measures was added to the program, and the second was in mid 2008 when the Release 3 deployment schedule was extended.

1.43 The evolution of the Change Program delivery schedule is shown in Figure 1.2 and is described in more detail in the following sections.

Figure 1.2

Change Program delivery schedule



Source: Tax Office

The Integrated Core Processing system

1.44 The Tax Office planned to create an integrated suite of software to process tax returns. The Tax Office found that there was no suitable COTS software available. However, the Tax Office believed that a satisfactory integrated suite of software could be developed from Accenture's propriety TAS, specifically TAS version 4.

1.45 This new suite of software would become known as the ICP, the design of which would be based on version 4 of Accenture's TAS. Version 4 of TAS was developed by Accenture for the Office of Tax and Revenue, District of Columbia, USA. This system became operational in 1999. TAS version 4 is based on a mainframe COBOL DB2 processing system.[31] The ICP is being created from TAS version 4 by taking into account Australia's tax law and accommodating specific Tax Office requirements, including the efficient interaction with the proposed single case management system.

1.46 The ICP is to be created using the logical structure of TAS. Key structural elements of the ICP are:

- a client register;
- an accounting sub-system; and
- a generic forms-processing sub-system.

1.47 Forms (or transactions) relating to specific tax types need to be configured according to the particular requirements/rules of the tax type so as to produce the appropriate taxpayer/accounting result. The Change Program is designing these forms with the appropriate data structures and business rules to process Australian tax forms such as FBT, personal income tax, company tax, and Business Activity Statements.

1.48 Andersen Consulting (the company that preceded Accenture) first published an article about TAS in 1983. Arthur Andersen developed the initial model of TAS through consultancies with state-based revenue agencies in the

[31] COBOL is one of the oldest programming languages still in active use. Its name is an acronym for COmmon Business-Oriented Language. The name defined its primary domain in business, finance, and administrative systems for companies and governments. The first COBOL compilers were implemented in 1960. The American National Standards Institute developed a standard form of COBOL in 1968. The Gartner Group reported in 1997 that 80 per cent of the world's business ran on COBOL at that time

United States. The first version of TAS was implemented in New York City in 1989 and subsequently in Massachusetts and New Jersey. Arthur Andersen went on to implement TAS-based systems in Detroit City, Washington DC, Indiana, New Zealand, Ireland, and Singapore.

1.49 The basic structure of TAS includes the core processing functions of taxation agencies including taxpayer identification, taxpayer accounting, accounts receivable, revenue accounting, case management and automated correspondence. These core functions operate with several data capture systems including data entry, electronic filing, and imaging/optical character recognition. In addition, the core functions interface with an agency's accounting systems to enable refunds to be paid.

1.50 The Tax Office's approach was to purchase a tested design concept, transfer and adapt this design to meet the requirements of Australia's taxation system, at least for the processing of tax returns. The adaptation would require some modification to the design concept, additional coding and the deletion of superfluous code. The Tax Office considered that a TAS-based solution would be more cost-effective, have lower risk and take less time to implement than designing a new ICT system from scratch. Furthermore, the Tax Office examined a range of COTS systems on the market and established that there was no suitable COTS ICT system ready for purchase.

1.51 The Tax Office purchased TAS in order to acquire its logical structure. The design of TAS was considered to be a significant improvement on the logical structure of the Tax Office's existing tax processing systems such as AIS, NTS and FBT.

1.52 Previous ANAO reports noted that AIS, NTS, ATOMS, FBT and several other systems listed in paragraph 1.36 are not fully documented. Associated with these systems are ad hoc manual 'work-around' arrangements developed to handle particular difficulties. Many of these arrangements also lack adequate documentation. The absence of adequate documentation increased the amount and complexity of design work, coding and assurance testing required for development of the ICP.

1.53 In addition, some of the core software of TAS had to be rewritten. For example, Accenture had to rewrite the 'business rules engine' in relation to business rules to process forms within the ICP system. As well, the complete user interface would need to be replaced. While both Accenture and the Tax Office knew that considerable work would be required to adapt TAS to

Australia's requirements, the extent of change required proved to be greater than anticipated.

1.54 In relation to the foregoing, Gartner Consulting's advice of 14 May 2004 to the Tax Office is instructive:[32]

> TAS-based solution
>
> Gartner supports the decision taken that the TAS-based solution is the most appropriate option for the ATO, subject to detailed cost–benefit assessment. This recommendation is subject to managing the following risks:
>
> - Risk related to not effectively managing the differences in requirements between those of the source agencies and those of the ATO.
>
>   Whilst the functionality in the TAS-based solution used in Washington DC represents a good foundation for the Tax Office, there are still significant differences between the processes used by Washington DC and Australia. There are also significant geographical differences; Washington DC, Ireland and Singapore are all geographically-compact compared with Australia. Underestimating the impact of these factors is a significant risk that needs to be addressed.
>
> - Risk related to making poor architectural decisions in respect to integration and business process management.
>
>   The comprehensive vision that the ATO has for Customer Relationship Management (CRM) is, in Gartner's opinion and to the best of Gartner's knowledge, much more extensive than has been integrated with Accenture's TAS solution at any site. There are substantial risks related to the integration architecture and with decisions taken as to where business process will run – within the CRM suite, within TAS or within any integration platform that may be deployed.

1.55 Based on the 2004 Business Case, the Tax Office estimated that Release 3 would account for about $171 million or 38 per cent of the total Change Program budgeted cost.[33]

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[32] Gartner, ibid., page 9 of the report referred to at footnote 29.

[33] ECMP.CP Business Case Phase 2 Version 6.3 10-12–2004; page 43.

1.56 The approved timetable for Release 3 (the development of the ICP), outlined that the overall task of replacing the Tax Office's nine key ICT systems by one integrated system would be completed in about 36 months. At the end of this period the ICP would be ready to process all tax returns: the nine legacy systems listed in paragraph 1.36 would be retired.

Implementation progress and extensions to project scope

Releases 1 and 2

1.57 The objective of the first release was to improve the Tax Office's call centres through the Siebel CRM system. It also introduced the new electronic document store for incoming and outgoing correspondence for the Tax Office.

1.58 The implementation of Release 1 was phased in over several months and was completed fully in April 2006, 10 months after the scheduled completion date. It affected over 2500 staff and delivered new services for the community.

1.59 The objective of the second release was to improve the Tax Office's management of correspondence and case work through a CMS and thereby contribute to improved services for users of the Tax Office's services. Release 2 was designed to build on Release 1 client service capabilities, thereby further supporting a consolidated view of client contact and case history. In addition, Release 2 was designed to provide more effective work management using enterprise case management and online solutions for handling all communications to and from the Tax Office on an enterprise-wide basis. The intention behind Release 2 was to lay the foundation for the better management of the day-to-day work of the Tax Office, i.e. how staff would receive, action, finalise and report on their work.

1.60 The implementation of Release 2 was also phased in, being fully completed in March 2007, six months after the scheduled completion date because of the impact of the delay of Release 1 which provided key Siebel functionality. It resulted in significant administrative and work practice changes to the Tax Office. It impacted over 13 000 staff in over 1000 teams across 60 sites and changed the way the Tax Office conducts business, moving to enterprise business processes and fewer systems that contain a consolidated client history. The shift has helped the Tax Office provide more consistent service and better understand taxpayers' tax affairs.

1.61 Problems with Release 2, largely relating to system integration issues, occurred once the systems went into production.[34] These have since been resolved.

1.62 These two releases involved the implementation of ICT systems using Seibel and other COTS software.[35] It was an initiative which implemented existing commercially available COTS ICT systems and adapted the Tax Office's work practices to make the most of the systems. Nevertheless, their implementation into the Tax Office environment was not without challenges and proved more complex and time consuming than planned.

Extension to project scope

1.63 During 2005–06 the Tax Office expanded the scope of the Change Program to include ICT system changes necessary to support new government policy measures in relation to Child Care Rebate, Review of Self Assessment, and the Fuel Excise Reform Program.

Simplified Superannuation

1.64 On 9 May 2006 the Australian Government announced significant reforms to Australia's superannuation system. The reforms, Simplified Superannuation, which came into force from 1 July 2007, aim to simplify and streamline superannuation by reforming the complex taxation arrangements underpinning the superannuation system.

1.65 The legislative changes reduced the number of pages of superannuation taxation law within the *Income Tax Assessment Act 1997* (ITAA 1997) by over one third.[36] Aside from simplifying and streamlining the superannuation system, the proposed changes aim to achieve the following:

- increase retirement incomes and encourage saving;

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[34] There were unexpected difficulties arising from the enterprise application integration process especially in relation to linking received documents to their electronic copy on delivery as electronic documents into the Siebel system.

[35] In addition to Siebel there were other COTS products. These included: indexing and classification products; software to route incoming correspondence; enterprise application integration software, (this refers to the means of integrating legacy systems and the new COTS software); and, new data warehouse, content document management and reporting software (Cognos).

[36] The Treasury *Annual Report 2006–07*, page 95 of the electronic pdf edition (page 77 of the printed edition). See: <http://www.treasury.gov.au/documents/1320/PDF/Treasury_Annual_Report_2006–2007.pdf> [accessed 15 October 2009].

- greater incentives to work and save; and
- a reduction of the complexity and costs facing superannuation funds in delivering their services to their superannuation fund members, who ultimately bear the costs.

1.66 The Tax Office is responsible for the implementation of the Simplified Superannuation changes and this has had a direct impact on the Change Program. The Tax Office had excluded all systems that support the administration of its superannuation responsibilities from Change Program's Release 3. Between December 2006 and February 2007 the Tax Office examined options for the inclusion of the initiatives into the Change Program.

1.67 The Tax Office advised the Government that the superannuation simplification measures would be best introduced through the ICP largely because the legacy systems did not have longer term viability. The Tax Office noted that expanding the scope of the Change Program to support the superannuation simplification measures would require inclusion in the Change Program of facilities that were a significant departure from the Change Program's original specifications. Examples of this departure include the need for a superannuation portal to support Lost Members Register requirements and the need for a new high volume, near real-time data matching facility.

1.68 The Tax Office concluded that whilst incorporating superannuation systems within ICP would be a high-risk endeavour, incorporating the requisite changes into existing superannuation systems would involve a significantly higher risk. The risk associated with utilising the existing Tax Office superannuation platforms would be higher than the risk to the Change Program. Additionally, incorporating the rebuild of superannuation systems as part of the structured Change Program project was a risk mitigation in itself as it increased the likelihood that the Tax Office could successfully deliver the required outcomes.

1.69 On balance, the Tax Office considered that the existing superannuation systems had major shortcomings and were not a stable platform on which to implement significant policy change. However, given the high risks, the Tax Office also decided to make all necessary changes to the legacy superannuation software systems. This was to enable the legislated superannuation reforms to be administered from legacy software systems if the Tax Office was unable to meet legislated time frames through the Change Program. In the circumstances, this strategy was a prudent approach to manage the inherent risks associated with the implementation of the Government's superannuation reforms.

1.70 Various ANAO performance audits had also identified serious shortcomings in the Tax Office's legacy superannuation ICT systems.[37] Additionally, the Auditor-General had qualified the Tax Office's financial statements in 2003–04 because of significant weaknesses in relation to the calculation of the superannuation surcharge, Superannuation Guarantee Charge and the General Interest Charge (GIC) on the Schedules of Revenues and Expenses Administered on behalf of Government.[38]

1.71 The Tax Office obtained additional funding of $160 million from the Government to implement Government's superannuation reforms through the Change Program. This included funding for integration of the system changes required to implement Simplified Superannuation into the Change Program, requiring modification to the Release 3 schedule and renegotiation of costs with Accenture.

1.72 The Change Program schedule was revised to progressively deliver Release 3 in four sub-releases:

- Release 3.1 (January 2008) - ICP deployed into production for Income Tax, Fringe Benefits Tax and HECS;
- Release 3.2 (July to October 2008) - Superannuation products deployed into ICP. Initially Lost Members Register, Co-contributions, Superannuation Holding Accounts special accounts and Super Guarantee followed by Excess Contributions Tax, Super Contribution Surcharge and Unclaimed Monies;

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37 *The Australian Taxation Office's Administration of the Superannuation Contributions Surcharge*, ANAO Audit Report No.39 2004–05; tabled in the Parliament on 13 April 2005, *Administration of the Superannuation Lost Members Register* ANAO Audit Report No.17 2005–06; tabled in the Parliament on 29 November 2005, *The Australian Taxation Office's Approach to Regulating and Registering Self Managed Superannuation Funds*, ANAO Audit Report No.52 2006–07; tabled in the Parliament on 28 June 2007, and *The Australian Taxation Office's Approach to Managing Self Managed Superannuation Fund Compliance Risks*, ANAO Audit Report No.13 2007–08; tabled in the Parliament on 1 November 2007.

38 ANAO Audit Report No.21 2004–05 *Audits of the Financial Statements of General Government Entities for the Period Ending 30 June 2004*, ANAO Audit Report No.56 2004–05 *Interim Phase of the Audit of Financial Statements of General Government Sector Entities for the Year Ending 30 June 2005*, and ANAO Audit Report No.21 2005–06 *Audits of the Financial Statements of General Government Entities for the Period Ending 30 June 2006*.

- Release 3.3 (January 2009) - Activity statements deployed into ICP, new tax agent and business portals, reporting and analytical models; and
- Release 3.4 (July 2009) - Interpretive assistance (for advice, disputes, litigation and complaints) deployed into the case management system.

1.73 Even though the Tax Office had risk mitigation strategies for the risks identified in expanding the Change Program to include superannuation simplification, expanding the Change Program added to its complexity and hence the project's overall risk. Having regard to the subsequent course of events and with the benefit of completion of the detailed design work, the Tax Office initially underestimated the magnitude of the effort required, and the risks, to implement superannuation simplification reforms through the Change Program.

First Home Saver Account

1.74 During the 2007 federal election campaign, the Australian Labor Party announced its First Home Savers Account (FHSA) initiative. On 4 February 2008 the newly elected Government confirmed a commitment to establish First Home Saver Accounts. The Government's intention is that the accounts will provide a simple, tax effective way for Australians to save for their first home through a combination of Government contributions and low taxes. The accounts have been available from specified financial institutions (including specified banks, credit unions and superannuation funds) since 1 October 2008.

1.75 The Tax Office is responsible for implementing the changes necessary to facilitate the government contribution to an individual's FHSA. The Tax Office considered that the FHSA concept was an 'in pattern' application of the Super Co-Contributions concept, which was already being developed as part of the Change Program. Accordingly, the Tax Office concluded that it would be more cost-effective to develop the FHSA in the Change Program by modifying the ICP, noting that there was not a legacy system that could be amended to meet the requirements of the FHSA. The FHSA is not in the Change Program's business case and was subject to separate contractual arrangements.

Release 3 progress

Release 3 replan

1.76 Following a stage gate review[39] of the Change Program in September 2007, the Tax Office realised that testing of the income tax software routines in the ICP (Release 3.1) was not to the level required for a January 2008 deployment. As a result, the CPSC deferred the deployment of Release 3.1 until March 2008.

1.77 At a subsequent checkpoint in February 2008, the Tax Office decided to deploy only Fringe Benefits Tax in ICP in March 2008. The ICP's processing of FBT returns is examined in more detail in Chapter 3. The Tax Office also decided to undertake a program replan to reschedule the remaining components of Release 3.

1.78 In setting the revised schedule for Release 3, the Tax Office took into account:

- experience from earlier releases, in particular the importance of allowing sufficient time for changes to stabilise before introducing more change;
- the continuing need to avoid introducing major changes during peak processing periods;
- allowing time for business system users to become confident in the system and with the changes introduced;
- that deployment dates should be confirmed once design work is completed; and
- the need to incorporate the Government's First Home Saver policy initiative.

1.79 The CPSC approved the revised schedule for Release 3 in August 2008.

1.80 Three initial sub-releases of Release 3 have been implemented, although not necessarily fully functional, as follows:

- ICP was deployed into production in March 2008 and by May 2008 was supporting FBT;

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39 'Stage gate reviews' are major reviews of progress against the Implementation Schedule.

- Lost Members Register (LMR) functionality was deployed into ICP over September–October 2008; and
- Co-contributions and Superannuation Holding Account special accounts were deployed into production in February 2009.

Remaining Change Program phases

1.81 The Tax Office planned to implement the following ICP phases as part of Release 3 in accordance with the July 2009 revised schedule:

- **July 2009:** First Home Saver Account.
- **July 2009:** Credit interest component of the Superannuation Holding Account special account and excess contributions tax.
- **July 2009:** Interpretative Assistance. Deployment of Interpretative Assistance (IA) – for advice, disputes, litigation and complaints – into Siebel case management.
- **January 2010:** Income tax for companies and individuals. Deployment of Income tax (IT) products including individual income tax returns, trusts income tax returns, partnership income tax returns and higher education loan accounts, company income tax returns and funds' income tax returns and self managed super funds (SMSFs) and superannuation contributions surcharge into ICP.
- **December 2010:** Business activity statements (BAS) and excise. BAS includes goods and services tax, Pay As You Go instalments and Pay As You Go withholding. In addition, new portal software will be installed for tax agents, BAS service providers and businesses. Tax Time 2010 will be processed using the ICP system.

1.82 The July phases were implemented and the Tax Office advised that the timing of the final two phases, as well as the rescheduling of the superannuation guarantee, superannuation contribution surcharge and unclaimed monies components of the superannuation releases, is currently indicative and will be confirmed as the detailed design and testing for each phase is completed.

1.83 As a risk mitigation strategy the Tax Office is also maintaining all legacy ICT systems necessary for tax administration. These systems will be decommissioned when the Tax Office is satisfied that the completed ICP system is fully fit-for-purpose.

International experience in implementing similar sized projects

1.84 Around the time the Tax Office commenced planning of the Change Program the OECD published a paper which identified certain key risk elements which large ICT projects like the Change Program needed to address to minimize the risk of failure.[40] The key risk elements, and the Tax Office's approach to address them, included the following:

Establishing appropriate governance structures

1.85 To implement the Change Program, the Tax Office established a management, advisory and technical development framework so that the formal governance arrangements were commensurate with anticipated complexity and risk as identified in 2004. The successful implementation of the Change Program's first two releases by March 2007, notwithstanding these tasks took some six months longer to implement than planned, confirmed the adequacy of the approach. The governance arrangements allowed for flexibility to adapt the Change Program to meet the new Government's requirements and facilitate implementation learnings.

Dividing the project into multiple modules

1.86 The original design specifications for the project consisted of three separate modules. The first two modules, Releases 1 and 2, were discrete developments dealing with internal administrative processes that support tax administration. These releases would form the foundation for the full integration of almost all aspects of tax administration, which would be achieved by the implementation of Release 3.

1.87 Due to the magnitude and complexity of interface work required to modularise Release 3, the Tax Office initially decided not to split that phase of the project into self contained modules. Following the introduction of superannuation simplification legislation however, the size and complexity of Release 3 meant that the Tax Office's original objective to fully implement the new ICT system for processing tax returns by December 2007 (i.e. the ICP) was ambitious, and, in hindsight, optimistic.

[40] OECD Ibid., footnote 5.

1.88 In addition, as a result of reviews undertaken in response to difficulties experienced with the implementation of Release 3, the Tax Office identified a number of issues which highlighted that the original planning could have been improved had Release 3 been separated into a number of smaller modules. This approach has now been adopted.

1.89 Key findings from these reviews included:

- incomplete documentation of legacy systems made design of the replacement system more difficult;
- finalisation of design specifications proved to be more complex and time consuming than originally anticipated;
- the testing regimes required were more complex and time consuming than anticipated, making quick learning and feedback to improve testing processes and quality, of critical importance; and
- the amount of effort required by end-user business areas, in several phases of each of the prior releases, was underestimated.

1.90 The decision to divide Release 3 into multiple modules by implementing the FBT release prior to the other original Release 3 components avoided a number of significant issues. For example, had the Tax Office stayed with the original design concept in which all the tax systems were implemented at the one time (i.e. not divided into multiple modules) and if the GIC fault had been present, around one million tax payers may have been adversely affected. The Tax Office would have faced a sizable challenge in manually addressing the circumstances arising for these taxpayers.

1.91 It is clear that the Tax Office's use of the ICP to process FBT returns ahead of using it to process the more complex income tax and company tax returns prevented what may have been a major problem flowing from the GIC defect. In relation to the GIC defect the ANAO had previously reported on shortcomings in the GIC calculation process in the relevant legacy systems listed in paragraph 1.36.[41] The Tax Office's experience with the FBT release

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[41] ANAO Audit Report No.21 2004–05 *Audits of the Financial Statements of General Government Entities for the Period Ending 30 June 2004*; ANAO Audit Report No.56 2004-05 *Interim Phase of the Audit of Financial Statements of General Government Sector Entities for the Year Ending 30 June 2005*; and ANAO Audit Report No.21 2005–06 *Audits of the Financial Statements of General Government Entities for the Period Ending 30 June 2006*.

highlights the merits of dividing large, complex ICT projects into multiple, more self-contained and manageable modules.

Identifying and managing risks

1.92 During the planning phase, the Tax Office developed mitigation strategies to manage the risks and avoid identified pitfalls. Generally, as the Change Program's releases proceeded, a number of the broadly identified risks did arise in relation to the implementation of the original Change Program design specifications.

1.93 Additional risks were introduced by the significant expansion to the Change Program's scope to accommodate the Government's requirements in relation to several new policy initiatives, including superannuation simplification and the First Home Saver Accounts. The expansion of scope in this way heightened the likelihood of the risks the Tax Office had already broadly identified, increasing the need for stronger risk mitigation strategies and management oversight. In addition, the ANAO notes that the implementation of the FBT release presented the Tax Office with additional challenges in relation to the identification and management of risks.

Determining appropriate accountability arrangements

1.94 A key element contributing to the success of any major project is whether the contract between the parties sets out clearly a viable, practical governance model, with appropriate accountabilities and remedies in the event that obligations are not fulfilled.

1.95 Accountability for achieving outcomes under the Change Program contract has proven to be more complex in practice than originally anticipated. Nevertheless, the ANAO considers that the terms of the contract have been a valuable mitigation against the uncertainty of scope change risks, and possibly escalating contract costs and outcome specifications. Following a review of factors contributing to the problems in the implementation of the FBT phase of Release 3, the Tax Office negotiated changes to the contract in 2008 to tighten accountability and performance requirements. Governance arrangements have also been improved by a strengthening of managerial control over the Change Program. Although the Tax Office has always had ultimate accountability for the Change Program, as a result of improvements made arising from the reviews, the Tax Office now has clearer understanding of this accountability for the success or failure of the Change Program.

Involving end users

1.96 The effort required from business line end-users was underestimated, and as a result, the project as a whole suffered. For example, insufficient involvement of business lines in the design phase of Release 3 resulted in much churning of design specifications as additional expert users had input in a serial manner rather than full involvement in the initial phase. Unexpectedly complex matters arose after work had already begun on the build phase of a module of work. These required extensive internal, time consuming consultation to resolve. Similarly, insufficient involvement of business lines with the final testing of the Release 3 FBT software resulted in the discovery of major undetected errors by end-users only when the software was introduced into the production environment.

1.97 The Tax Office advised that since the FBT release, it has taken a number of steps to increase the involvement of business lines in order to reduce risk and ensure business confidence. This includes simulation exercises to validate the functionality, extensive co-design with business lines to develop solutions, and an enhanced business pilot approach before the ICP is released into production.

2. Governance of the Change Program

This chapter reviews the governance arrangements established by the Tax Office during the implementation of the Change Program. Aspects of the governance arrangements reviewed include organisational arrangements to oversight the Change Program, assurance arrangements and contract administration. Recent influences relevant to the Change Program are mentioned and reporting on the status of the Change Program and performance measurement is also reviewed.

Introduction

2.1 Corporate governance refers to the processes by which organisations are directed, controlled and held to account. It encompasses authority, accountability, stewardship, leadership, direction and control exercised in the organisation.[42]

2.2 In relation to ICT projects

> governance is defined as the system by which the current and future use of ICT is directed and controlled. It involves evaluating and directing the use of ICT to support the organisation and monitoring this use to achieve plans. It includes the strategy and policies for using ICT within an organisation (Source: AS 8015-2005 Corporate Governance of ICT).[43]

2.3 For the purpose of this audit, governance of the Change Program refers to the processes by which the Tax Office directs, controls and holds to account those involved in producing the Change Program's goods and services and contributing to the achievement of the Change Program's goals. It includes the processes by which progress in relation to the implementation schedule is evaluated and the schedule variations managed.

Governance arrangements

2.4 The ANAO considers that having regard to the project's size and complexity, the Tax Office initially established appropriate governance arrangements for the management of the Change Program that were commensurate with anticipated complexity and risk as identified in 2004. The

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42 ANAO Better Practice Guide—*Public Sector Governance*, 8 August 2003.

43 Gershon, P., *Review of the Australian government's use of information and communication technology*. Commonwealth of Australia August 2008; page 2

Tax Office has also acted on a number of Change Program internal review recommendations to strengthen the overall governance arrangements.

2.5 Governance of the Change Program involves a range of committees and a series of documents, the most significant of which is the Tax Office/Accenture contract, Clause 14 of which provides:

> *The governance arrangements applicable to the Contract and a Work Order are specified in Schedule 2 (Governance). Both parties must comply with these governance arrangements.*

2.6 Governance arrangements are reviewed and adjusted periodically, typically after each significant release of Change Program functionally. The most recent review occurred as part of the replanning of Release 3. The review involved reaffirming the governance principles and roles established at the beginning of the program having regard to the extra complexity of Release 3, and developing strategies to manage the increasingly complex interactions between new and existing functions and capabilities.

2.7 In addition to the main contract, other Change Program contractual documents include the 'Charter', the 'Guidelines'[44] as well as the numerous 'Work Orders' and 'Change Orders', all of which are complex documents in their own right. They provide the framework to facilitate instructions from the Tax Office to Accenture as well as a system for reporting issues that have arisen with regard to the completion of the initial programming work and subsequent changes. The contractual documents provide the Tax Office with a means to monitor and control the implementation of the Change Program, and contain provisions necessary for good governance of the Program.

2.8 Under the terms of the Tax Office/Accenture contract, delivery of the Change Program against the business case is the responsibility of Accenture. Ultimate accountability for delivery of the Change Program, however, rests with the Tax Office.

2.9 The Charter provides the framework for managing the work of the Change Program. It provides guidance to release managers and project managers on the management of issues, risks, documentation and finances as well as program governance arrangements and quality assurance. It is a reference document for administrative and procedural matters regarding the

[44] The Contracts Management Procedure Guidelines (the Guidelines) dated 27 August 2007.

implementation of the Change Program. The Charter was developed jointly by the Tax Office and Accenture and is maintained by the Program Management Office.

2.10 The Guidelines are intended to support the Tax Office's Change Program contract management team. The Guidelines provide guidance on procedural matters such as management of contract documentation, invoice processing and managing contract changes.

2.11 The ANAO notes that the Government has recently imposed new arrangements for the governance of large-scale ICT projects as a result of accepting the recommendations of Sir Peter Gershon's report.

2.12 A central finding of Sir Peter Gershon's review notes that:[45]

> *Agency governance mechanisms are weak in respect of their focus on ICT efficiency and an understanding of organisational capability to commission, manage and realise benefits from ICT-enabled projects.*

2.13 The Government accepted Sir Peter Gershon's recommendations to strengthen agency governance of ICT-enabled projects within FMA Act agencies. As a result, the Government directed that the Department of Finance and Deregulation (in consultation with the Department of Prime Minister and Cabinet and FMA Act agencies) develop a common methodology for assessing agencies' organisational capability to commission, manage and realise benefits from ICT-enabled projects. The Government also accepted Sir Peter Gershon's recommendation to establish a Ministerial Committee on ICT to be responsible for the key whole-of-government ICT policies and the overall strategic vision for how ICT should support the achievement of the Government's outcomes and wider policy agenda.

2.14 The Ministerial Committee is supported by a Secretaries' ICT Governance Board (SIGB) with a strong mandate from the Government to drive the agreed recommendations arising from the review and focus on addressing the key business issues to improve the efficiency and effectiveness of the Government's use of ICT.

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[45] Gershon, P., *Review of the Australian government's use of information and communication technology*. Commonwealth of Australia August 2008; pages 2 and 57.

Organisational arrangements

2.15 The Change Program receives direction from the Change Program Steering Committee (CPSC) and the Change Program Executive (CPE). The CPSC is chaired by the Commissioner and includes the Second Commissioners. Its role is to ensure the Tax Office delivers the improved client experiences described in *Making it easier to comply*, as well as approving significant scope, strategy, design, business case and client experience changes.

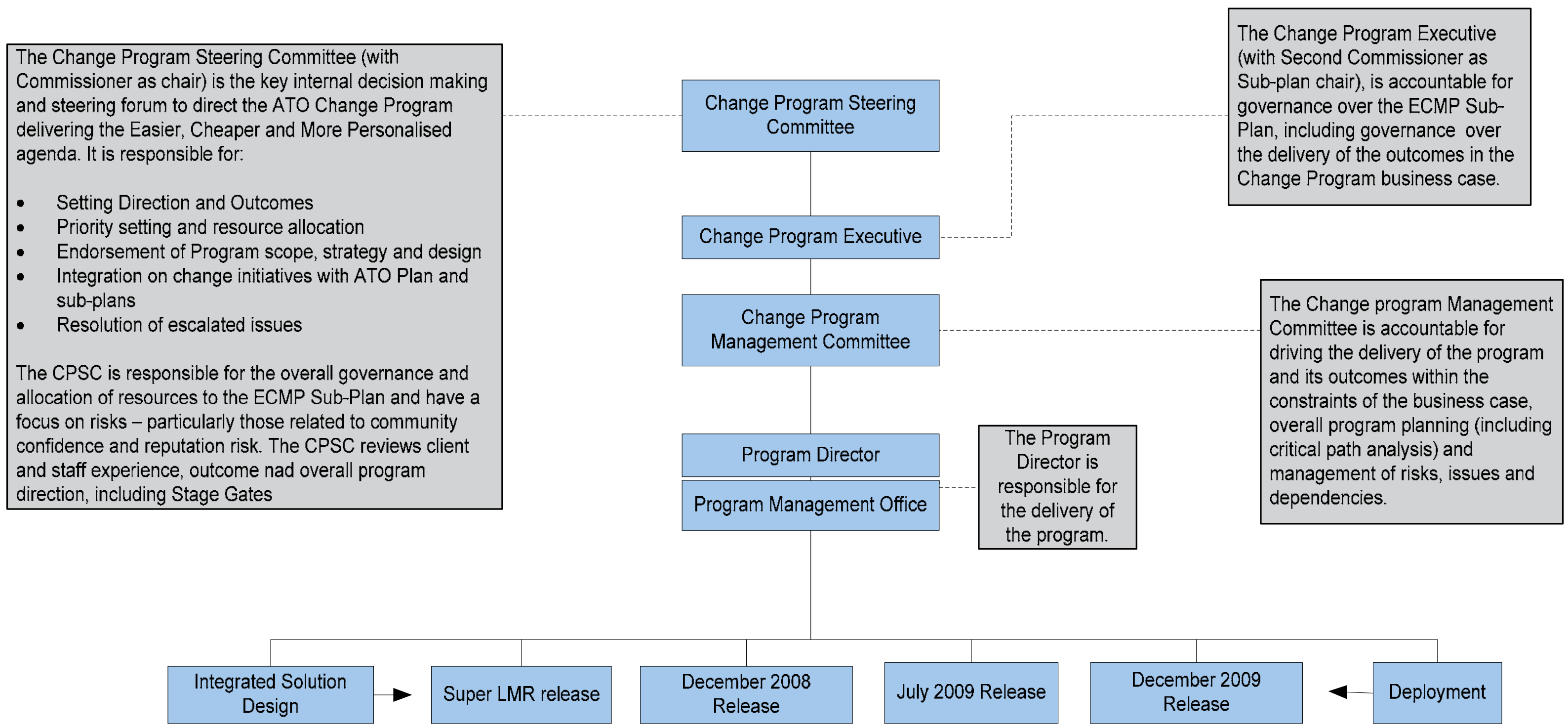
2.16 In April 2003 the Tax Office Executive established the Easier, Cheaper and More Personalised (ECMP) sub-plan as an organisational division of the Tax Office. The decision to establish an organisational division around the Change Program was based on the extent of change being undertaken, the size, costs and strategic significance of the Program and the need to bring an appropriate level of corporate focus and governance to the program.

2.17 The CPE is chaired by a Second Commissioner and comprises senior Change Program executives and senior executives from relevant Tax Office business lines. The CPE is responsible for managing the ECMP sub-plan and ensuring the program is delivered on time and on budget. It is also responsible for ensuring Accenture delivers the Change Program outcomes. Senior Accenture executives join CPSC and CPE meetings for program management discussions.

2.18 Change Program governance arrangements in use at the time of the audit are shown in Figure 2.1 below.

Figure 2.1

Change Program governance structure



Source: Tax Office

2.19 The Tax Office through the Plenary Governance Forum (PGF) acknowledged the ECMP organisational division did not meet some of the expected outcomes as stated in the Tax Office corporate plan for 2007–08. The PGF assessed the ECMP for 2007–08 as "falling short of some benchmarks". The ECMP was the only organisational division to receive this assessment: all others received a higher assessment. The ANAO understands delays in meeting the approved time frames were the main factor in reaching this assessment. The ANAO notes that the PGF rated the Tax Office organisational divisions on the two dimensions of 'what' and 'how'. The ECMP's assessment of "falling short of some benchmarks" was for the 'what' dimension. The PGF assessed the ECMP as fully effective on the 'how' dimension which is reflective of the PGF's views of the management of the function.

2.20 The Tax Office faced several challenges in achieving the planned outcomes of the Change Program and the governance arrangements were required to respond to the considerable complexity of the tasks being undertaken. The main challenges have been the:

- ramifications of the initial single release schedule for Release 3 in which nine legacy tax ICT systems would be replaced by the single ICP system over 48 months;
- requirements for additional ICT capabilities arising from new policy measures of the former and current governments, principally the superannuation simplification and the FHSA initiatives; and
- shortcomings in the ICP system capability to process FBT returns during 2008.

Assurance arrangements

2.21 Sound governance of the Change Program requires assurance capabilities that are commensurate with the complexity and risks of developing the ICP to the required 'fit for purpose' standard. The assurance arrangements established by the Tax Office included an independent assurer (Capgemini), the Tax Office's internal audit branch, the extensive knowledge of business line users available to undertake testing of the new systems, and, more recently, reviews undertaken by an independent expert. The assurance arrangements covered the assessment of the Change Program's design, management and deployment so as to provide confidence that the Program was being properly managed. An additional purpose of these arrangements was to provide assurance that Accenture was meeting its responsibilities and applying best practice methods.

2.22 As a result of these arrangements, during 2007 and 2008 the Tax Office received reports from Capgemini about challenges associated with the Tax Office's 'solution transfer' strategy for design and construction of the ICP, i.e. the transformation of Accenture's TAS into the Tax Office's ICP. In light of these reports, the assurance arrangements further identified the need to strengthen how recommendations were brought forward and acted on by the Tax Office in a timelier manner.

2.23 Concerns about these same challenges had previously been brought to the attention of the Tax Office by Gartner Consulting in 2004. Gartner Consulting had been engaged by the Tax Office to provide advice on the options then under consideration about the strategies that would become the Change Program. Having regard to the advice provided to the Tax Office as a result of the assurance arrangements, and problems experienced subsequently by the Tax Office with the Change Program, Gartner Consulting's advice of 14 May 2004 to the Tax Office is instructive.[46] Gartner's advice related to particular challenges associated with a 'solution transfer', i.e. the transformation of Accenture's TAS into the Tax Office's ICP. Gartner noted that while a 'solution transfer' is the next best thing to the implementation of a COTS solution, there are risks not always apparent in using this approach. Examples of the matters raised by Gartner and subsequently noted by the internal assurers include:

- **Problems of undocumented code in the solutions transfer software.** According to Gartner: "'Solution Transfers' from other jurisdictions invariably include undocumented code, not regarded as significant, included specifically for the jurisdiction for which it was originally built. Unless the systems integration partner has done what few ever accomplish – perfect documentation – the implementation will uncover modules or subroutines that will be perplexing and/or irrelevant."
- **Differences in understanding between the Tax Office and the prime contractor.** Gartner advised: "At the beginning of a project, it is assumed that both parties to the contract have a reasonably strong

[46] Gartner, ibid., page 4 of the report referred to at footnote 29.

grasp of what is in the solution being transferred and what will need to be changed. Both parties will be wrong (0.9 probability)."

- **The resource intensive nature of changing design specifications, rules, and code.** Gartner's advice on this matter foreshadowed one of the Tax Office's significant problems in the design and testing of the ICP leading up to the FBT Release. Gartner advised: "Every change to the solution has a price. The price includes the cost of re-writing code if it wasn't expected. However, a far greater price will be paid by the ATO if elements of the project are delayed due to slow decision-making. In a 'solution transfer' project, decisions will need to be made on almost a daily basis. The ATO and their systems integration partner must create a timely process for decision making including weekly meetings of the steering committee. Delayed decisions have a very costly ripple effect on the project. For this project, this is especially dangerous because, as pointed out in 3.8.4 of the document <<3. Solution Transition v1.1.doc>>, "the release planning is very aggressive (perhaps dangerously so)."

2.24 In response to Gartner's third dot point above, the Tax Office increased the schedule for Release 3 in the approved business case from 36 to 48 months.

2.25 During 2008 the Tax Office commissioned an expert consultant to provide the Tax Office executive with an independent assessment of the Change Program and the learnings to be considered.[47] The Tax Office also instigated a comprehensive internal audit of the ICP's processing of FBT returns. The Tax Office accepted the advice and recommendations of these two reviews, which identified issues for the Tax Office, Accenture and Capgemini to address.

2.26 The Tax Office also provided the expert consultant with a wide brief to review completed items of the Change Program prior to release, evaluate on-going administration and, as required, the work of the other assurers, bringing

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47 The Terms of Reference of this review were:

- Identify what has happened in the Change Program to bring it to its current position with regards to the delivery, or non-delivery, of outcomes;
- Undertake a review of the issues and possible fixes;
- Provide advice on the strategy for moving forward;
- Provide an independent and unbiased view on the proposed reschedule for Release 3.

The review was conducted in nine days over a period of four weeks and was therefore necessarily high level in its findings.

matters of concern to the attention of Tax Office executives. This consultant reports directly to the Chief Information Officer and the Second Commissioner operationally responsible for the project.

2.27 Following experiences to date, the Tax Office has strengthened expectations of the role for independent assurer and better integrated the independent assurer function into Tax Office decision making.

2.28 Significantly, the Tax Office also substantially increased its own assurance activity, particularly in relation to:

- compliance of coding with legislation;
- compliance of coding and systems with financial controls;
- compliance of Accenture with contractual requirements;
- greater involvement of the Tax Office's internal audit, particularly in the auditing of strategic aspects of the Change Program.

2.29 The Tax Office has improved the design of the approval sign-off process so as to reduce ambiguities, simplify the presentation of matters to be determined and clarify roles, responsibilities and accountabilities of the responsible Tax Office staff.

Testing the new software

2.30 As part of the assurance arrangements, a number of key issues were raised by the independent assurer (Capgemini) in relation to shortcomings in the ICP's processing of FBT returns. The issues highlight the significance of conducting end-to-end testing of an intended software release into an operational production setting with the full involvement of the relevant operational areas.[48]

2.31 A significant factor in the problems encountered with the implementation of FBT was that testing and assurance processes were inadequate and did not comply with Tax Office standards.

2.32 As a consequence of the FBT problems, the Tax Office now requires a greater direct involvement of business lines in the design and testing of all Change Program software. The Tax Office enhanced the Change Program business pilot approach for the income tax and Business Activity Statement

[48] 'end-to-end testing' is defined in the Glossary at the front of this report.

releases which caters for end-to-end testing of completed systems including the use of real production data. The Tax Office advised that only after it is satisfied the business pilot for these releases has been applied and that the software is 'fit for purpose', will it accept the new software from Accenture. An essential lesson learnt from the shortcomings of the ICP's processing of actual FBT returns is the value of rigorous, end-to-end testing of an intended release in partnership with business lines.

Design sign-off

2.33 The ANAO considers that the Tax Office underestimated the time-consuming nature and complexity of internal decision making necessary to reach agreement that design specifications for income tax software and for completed software were 'fit for purpose'. Matters of design and/or correctness of coding have to satisfy two broad categories of requirements: compliance with complex legal, regulatory and financial legislative requirements; and compliance with the requirements of administrative efficiency and simplicity of use by taxpayers. Reconciliation of these two categories of requirements can at times be complex.

2.34 The resolution of these matters requires the involvement of a range of expertise within the Tax Office and requires the careful examination of a range of considerations. The cumulative impact extends the time taken to complete the modules of work of which the Change Program is comprised with consequences for the overall timeline for the project. The absence of relevant documentation associated with the legacy systems has compounded difficulties. In addition, the new initiatives of superannuation simplification reform and the FHSA required the consideration of complex design issues for the first time.

2.35 As noted in the third dot point of paragraph 2.23 above, Gartner highlighted the risk associated with the time delays caused by slow decision making in design finalisation. Notwithstanding that the Tax Office is addressing this issue, the risk of delays due to slow decision making will continue until the completion of the Change Program, given the complexities of designing the fully integrated system.

Recommendation No.1

2.36 The ANAO recommends that, in order to better manage risks to the Change Program, the Tax Office more effectively utilise its available assurance framework (compliance assurance, internal audit, the contracted independent assurer), including end-to-end system testing involving operational areas, during the remaining implementation phases of the Change Program.

2.37 **Tax Office Response:** *Agreed.*

Change Program contract administration

Introduction

2.38 Achieving the successful completion of a large project is reliant on both sound contractual documentation and on the implementation of appropriate contract management.

2.39 In relation to the formal documents that support the governance of the Change Program, there are two elements to take into account when considering the sufficiency of governance arrangements:

- whether the key governing documents, in this case the contract (including supporting documents such as the Charter and the Guidelines) between the parties set out a viable, practical methodology for governance with appropriate accountabilities and remedies in the event that obligations are not fulfilled; and
- whether the contract management implementation has been competently executed in accordance with the documented methodology.

2.40 A flaw in either element can give rise to deficiencies in program governance which may affect the proper completion of the program.

The ANAO's Better Practice Guide: Developing and Managing Contracts

2.41 The ANAO Better Practice Guide, *Developing and Managing Contracts*, February 2007, identifies six factors that are important at all stages of the contracting process. These are additional to compliance with the legislative and policy framework described in the *Guide*. Competent management of all six factors is essential to the good governance of Commonwealth contracts.

2.42 The six factors are:

- managing risks;
- managing relationships;
- managing resources;
- specifying responsibilities;
- behaving ethically; and
- keeping records.

2.43 Shortcomings in the management of any of these factors will undermine the good governance of contracts.

2.44 A Tax Office internal audit report dated 25 February 2009, *Change Program Contract Management Review*, indicated that there was scope for the Tax Office to improve contract management, aligning practice more closely to the ANAO's Better Practice Guide, *Developing and Managing Contracts*.

Contract administration

2.45 The Change Program implementation contract was signed with Accenture in December 2004 and the implementation phase commenced in March 2005.

2.46 The implementation contract, which is a purchaser/provider contract, has three important features:

- a joint focus on delivering systems which achieve outcomes rather than just delivering a system. Accenture's remuneration would be linked to the successful implementation of systems which achieved agreed outcomes;
- a 'not to exceed price' for delivery of the program; and
- a single point of accountability for program outcomes-while the Tax Office and Accenture staff work in joint teams, Accenture would be responsible for overall program management and the delivery of systems 'fit for purpose'.

2.47 The Tax Office's contract with Accenture makes Accenture responsible for achieving the following outcomes:

- an integrated processing system for all Tax Office products;
- an effective active compliance and advice capability;
- effective, improved client service;
- improved enterprise-wide outcome management of work;
- delivery of Tax Office business systems;
- a system with integrity and performance;
- productivity and sustainability benefits; and
- the Change Program delivered effectively and professionally.

2.48 The Change Program documents, including the Contract, the Charter, the Guidelines as well as the numerous Work Orders and Change Orders, are complex. Nevertheless, they provide the framework for the project relationship between the Tax Office and Accenture. The system for reporting issues that have arisen with regard to the completion of Work Orders and Change Orders provides for the issues to be registered and either addressed or escalated. Teams have been formed by the Tax Office and Accenture to work on each part of a Work Order or a Change Order and their progress is monitored by the Program Management Office (the PMO), the CPE and the CPSC.

2.49 These documents provide the Tax Office with a means to monitor and control the implementation of the Change Program and contain provisions necessary for good governance of the Program. Specifically, the *Deed of Service Provider Contract* provides for:

(a) Specific obligations on Accenture to deliver products and services in accordance with work orders which conform to the substance of Tax Office functional specifications and applicable Australian and New Zealand standards;

(b) An obligation on Accenture to correct any errors at Accenture's cost, any failure to comply with the obligations to supply the products and services to the required specifications and standards;

(c) A warranty that the products and services comply with Accenture's specifications except to the extent of an inconsistency with the Tax Office specifications;

(d) An obligation on Accenture to achieve or exceed the performance specifications (in the form of Key Performance Indicators (KPIs)) in the applicable work order at all times;

(e) An obligation on Accenture to investigate why it hasn't met KPIs, to minimise the impact of the failure to meet the KPI and to correct the problem so as to meet the KPI;

(f) Remedies should the Tax Office suffer loss or damage as a result of Accenture's failure to meet its obligations including termination and the ability to claim damages; and

(g) The ability for the Tax Office to withhold or reduce payment if not satisfied that the delivered products and services are in accordance with the relevant work order.

2.50 In addition to the obligations to provide goods and services in accordance with the work orders, there are obligations on Accenture to provide associated administrative and project management services. These administrative and project management services are to assist the Tax Office by providing quality assurance, risk management, status reporting, audit trails, coordination of activities, continuous improvement and progress monitoring.

2.51 Both Tax Office and Accenture committed to perform the contract in a spirit of co-operation and good faith. Whilst specific obligations in the work orders and the contract will take precedence, there is an intention to co-operate so that:

- The Tax Office makes available key personnel, management decisions and information necessary for the program; and
- Accenture cooperates with other Tax Office service providers to ensure seamless implementation of products and services and a cooperative and effective approach to the management of service delivery, problem resolution, disaster recovery, continuity and risk management.

2.52 The Australian Government Solicitor (AGS) advised that the provisions described above are common to contracts that require service provision on customer premises and integration of new products and services with existing systems.

2.53 The AGS further advised that the contract has a complicated governance structure which is somewhat unusual for contracts of this type. Clause 14 of the contract provides:

> The governance arrangements applicable to the Contract and a Work Order are specified in Schedule 2 (Governance). Both parties must comply with these governance arrangements.

2.54 Schedule 2 provides that the governance arrangements are set out in the Program Management Charter. This Charter is a stand alone document rather than an attachment to the contract. The Program Management Charter is titled *Easier, Cheaper, More Personalised (ECMP) Change Program Phase 3 Change Program Charter*. At the time of the audit the Tax Office was redrafting and updating the Charter to reflect the changes implemented in Change Order 50.

2.55 The Charter states that it must be viewed in the context of the Tax Office's Relationship/Contract Management Plan and the Change Program's operational level instructions for related processes. It also refers to a document titled *ECMP Change Program-Governance Arrangements* that sets out more specific governance arrangements. The Charter is a large document that covers broader issues than governance and does not cover governance in depth but refers to the other documents as providing more detail.

2.56 The ANAO noted there were differing views by Tax Office management and staff as to the role of the Charter in relation to the contract: whether it was part of the Contract, or whether it was a contractual description of the governance arrangements, or that it was an implementation document to assist with the administration of the contract. Irrespective of its formal role, the Charter is intended to be a reference document for administrative and procedural matters regarding the implementation of the Change Program.

2.57 Within the framework of a purchaser/provider contract, the goods and services to be provided by Accenture are being developed jointly with the Tax Office. As each party has expertise necessary to the design, writing, testing and validation of the ICT systems (of which the ICP is a major element), joint design and development is essential. This type of arrangement is not uncommon in the development of complex, large ICT systems. The contract contains clauses which assign risks to both parties. These provisions provide that where one party changes something for which they have responsibility or control, they carry the risk should the changes subsequently require additional work or correction. Contract administration arrangements also provide procedures to enable the Tax Office to change the work tasks undertaken by

Accenture. A regime of Work Orders and Change Orders facilitates these arrangements.

2.58 The accountability of the Tax Office for the specification of outcomes and of Accenture for the provision of the enabling goods and services has become more complex in practice than originally anticipated. Features of the contract, such as shared responsibility for work, blur the roles of the Tax Office and Accenture. Consequently, complex negotiations between the two parties become an essential feature of day-to-day contract administration, which creates governance difficulties. Nevertheless, the contract does provide the Commonwealth with protection against the potential of increased contractual costs and unsatisfactory contractual delivery of outputs. The contract requires Accenture to provide goods and services that are 'fit for purpose' in that they achieve measureable outcomes and to do so on a 'not to exceed price' basis.

2.59 The ambiguity of the status of the Charter, in the context of the purchaser/provider contractual relationship between the Tax Office and Accenture, adds to the complexity of the governance arrangements. In order to clarify the intent of the Charter, as a reference document to assist with administrative and procedural matters, there would be benefit in negotiating an amendment to the contract. This could involve inserting in Schedule 2 of the contract a short description of the governance arrangements instead of the reference to the Charter.

2.60 Arising from problems associated with the FBT release, the Tax Office negotiated 'Change Order 50' with Accenture which made changes to the contractual arrangements. This changed the statement of work and clarified the deliverables that Accenture would provide.

2.61 The ANAO was advised that the Tax Office's intention with Change Order 50 was to "draw a line in the sand" for the project, and that the purpose of the Change Order was twofold:

- to tighten arrangements for future work; and
- to reach a settlement with Accenture on work already performed so that no further payments would be made in respect of such work other than as set out in the Change Order.

2.62 The ANAO considers that the contract documents provide a sound basis for a service provider/purchaser relationship between Tax Office and Accenture. The Tax Office has also acted to better delineate the roles, responsibilities and accountabilities of the Tax Office and Accenture.

Recommendation No.2

2.63 The ANAO recommends that in order to improve the governance of the Change Program, the Tax Office amend the Contract (Schedule 2) to clearly set out the high level governance arrangements.

2.64 **Tax Office Response:** *Agreed.*

Issues relevant to the Change Program

2.65 Innovations in the provision of web-based services in the private sector, especially the finance sector, community expectations and governments' policies have driven public sector agencies to adopt e-government to achieve efficiencies and deliver better services. As a result, there have been many initiatives in OECD member states and in Australia to provide web-based services and improve administrative efficiency and effectiveness through large scale ICT projects. These are discussed in more detail in Chapter 5.

2.66 The experience of the Australian Customs Service (ACS) with the implementation of the Integrated Cargo Management System (ICMS) highlights the management challenges and pitfalls facing agencies seeking to implement large-scale organisational transformational ICT projects.

The Australian Custom Service's experience

2.67 The ICMS, which had been under development for a decade, suffered significant implementation problems when introduced into production in 2006, causing widespread financial and economic difficulty.[49]

2.68 The ANAO conducted a performance audit of the project. After this audit commenced, Customs engaged Booz Allen Hamilton (BAH) to undertake a separate review of the ICS. The ANAO and BAH identified key reasons for the ICMS implementation problems. Three of these are relevant to the Change Program:

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49 ANAO Audit Report No.24 2006–07. *Customs' Cargo Management Re-engineering Project: Australian Customs Service*, 7 February 2007.

Booz Allen Hamilton, 2006. *Review of the Integrated Cargo System – Final Report*. Produced for the Australian Customs Service Canberra 16 May 2006.

- underestimating the complexity of the task and the risks associated with the project and failing to respond properly to emerging issues and changes in risks;[50]
- inadequate end to end testing of the system: testing with live data would have highlighted many of the issues that manifested when the system went live;[51] and
- a lack of staged implementation: the "big bang" implementation provided no realistic fall-back when problems existed and no way of ensuring that the total end-to-end system of interdependent links worked correctly before widespread implementation.[52]

2.69 Both the ANAO and BAH made several recommendations based on "lessons learnt" from the study of the project implementation, relevant to the project and more generally. Three of the "lessons learnt" are relevant to the continuing administration of the Change Program. These highlight the importance of:

- establishing a sound governance base for the overall program of work, including clear business ownership;
- developing a strategically focused program to improve the efficiency and effectiveness of the agency;[53] and
- adopting global better practice to achieve the performance improvement required.

2.70 The ANAO notes that the Tax Office applied lessons learnt from the ICMS to the governance of the Change Program. Each of the three points about project implementation and lessons learnt respectively, highlight considerations that warrant continuing vigilance in the completion of the Change Program.

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[50] ibid., ANAO Report No.24 2006–07, page 18.

[51] ibid., Booz Allen Hamilton Report, page 1.

[52] ibid., Booz Allen Hamilton Report, page 2.

[53] The concepts of 'efficiency' and 'effectiveness' have the meanings defined in the report of the Steering Committee for the Review of Commonwealth/State Service Provision 1997 *Data Envelopment Analysis: A technique for measuring the efficiency of government service delivery* Commonwealth of Australia 1997 ISBN: 0 646 33533 2. The report is available here: <http://www.pc.gov.au/__data/assets/pdf_file/0006/62088/dea.pdf> [accessed 15 October 2009].

Reporting on the status of the Change Program

2.71 The Tax Office has an External Readiness and External Stakeholder Management team under the leadership of an Assistant Commissioner. The role of the team is to keep the community and other relevant stakeholders informed of the Change Program and its likely impacts. This team will conduct major public information campaigns alerting the public, tax practitioners and companies to the introduction of Change Program releases.

2.72 The Tax Office has also publicly reported on the status of the project and acknowledged the Change Program's shortcomings. The Commissioner of Taxation's *Annual Report 2007–08* gives a frank account of the impact of the delays in implementing the Change Program and highlights it as one area in which there was scope for improvement.

2.73 The Annual Report noted under the heading "Areas for Improvement":

> We have had to re-plan the schedule for the third and most difficult stage of our Change Program.

2.74 In his Review, the Commissioner stated:

> On the downside, despite some progress and the significant efforts of all involved, we fell behind in the implementation of our largely self-funded change program. We are now developing a comprehensive re-plan. In it we will apply the lessons learnt so far, including the need for an earlier lockdown of design and longer lead times to provide for more robust testing.
>
> The deferral of benefits expected from the change program – and the cost of running parallel systems while we make the transition – has affected both our capacity to do more and our financial position. However, the effect on the community has been mitigated by our use of contingencies.

2.75 In relation to the Tax Office's overall budget overspend, the Commissioner explained:

> The primary factor that influenced our final 2007–08 operating loss was the impact of the change program. As the ATO repositions itself to deliver efficiencies to taxpayers and tax agents, as well as meeting a changing legislative environment, there has been a delay in the delivery of the change program. These delays have resulted in both additional unplanned labour and design costs as well as costs of maintaining legacy systems and processes. Additionally, there have been a number of adjustments in 2007–08 that have been accounted for that reduces the carrying value of ICT assets. These adjustments were necessary to comply with relevant accounting standards.

Not all of these adjustments impact on our cash reserves as the asset write-down component is a non-cash adjustment. Steps have been taken to reschedule the change program and incorporate the financial impact of any amendments in our 2008–09 budget.

2.76 In relation to the administration of the Change Program, the Annual Report noted:

Producing systems to support the breadth of tax and superannuation products and processes is a complex task and risk levels are high. To minimise delays and faults, we provide a safety net by keeping our existing systems running until new systems are fully tested. However, this comes at an additional cost which is unfunded.

2.77 The Annual Report gave further detail about the adverse impact that the administration of the Change Program had on the Tax Office's overall performance:

Our operating environment changed substantially with several releases of our change program. This required a heavy investment in resources for planning, training and revising business processes. The delay of change program releases also placed extra pressure on our financial position, as the delays meant a deferral of expected savings and productivity improvements. Our capacity to meet service standards, particularly in telephony, was adversely affected by funding issues, system issues, and infrastructure down time, peak workloads, more complex work, increased workloads and high staff turnover. Nevertheless, as a result of the improvement initiatives, we were able to maintain reasonable service standards.

2.78 In her 2008–2009 overview of the Operations Business Line, the Chief Operating Officer said that in relation to the Business Line's output, 'management of revenue collection and transfers', the Tax Office would have as one of four priorities the objective *to maintain acceptable service standards, recognising we expect some standards will be lower than usual for a period, reflecting the impact of our change program.*

2.79 The Commissioner's Annual Report mentions some Change Program impacts which are broader than the implementation issues outlined in the business case. The CPSC periodically receives reports about the costs and benefits of the Change Program in relation to its business case, including survey reports that specifically address the Change Program's key elements of client experience, namely easier, cheaper and more personalised experiences, which are relevant to the performance of functions changed by Releases 1 and 2 (e.g. the call centres, correspondence management, the tax agent and business portals). The CPSC could usefully also receive periodic, high level reports about such broader issues.

2.80 Whilst this information is valuable in understanding the impact of the Change Program in relation to its goals, there would be benefit in the CPSC receiving additional, periodic, high level reports that address factors broader than those in the Change Program's business case. This would help the CPSC gain a synoptic view of the overall impact of the Change Program on Tax Office operations, activities and services. Examples of additional reporting that would be relevant in this regard include reports that link Change Program initiatives to standards of performance in relation to the Taxpayers' Charter, Tax Office finances, and performance of business lines associated with the cumulative impact of deferred benefits.

2.81 As the expected time taken for the completion of the Change Program has increased significantly, periodic high level reports of a qualitative nature addressing the more salient aspects of indirect and opportunity costs and benefits attributable to the Change Program become increasingly relevant to the strategic management of the Change Program. Such reporting would complement similarly styled periodic reports that address the progress of the Change Program in achieving its originally determined strategic goals.

Expanding whole-of-Tax Office performance information

2.82 Release 1 of the Change Program affected over 2500 staff and delivered new services for the community:

- CRM was introduced, providing staff with more information about a taxpayer through a single system enabling more prompt and personalised service and more queries answered in a single call;
- online systems were enhanced to provide better registration, obligations and lodgement information views and to improve the legal database;
- portals were enhanced to improve the secure messaging option;
- the content management system was introduced to provide a better way to create and revise correspondence; and
- new e-activity statement services were introduced.

2.83 Release 2 resulted in significant administrative and work practice changes to the Tax Office. It affected some 13 000 staff in over 1000 teams across 60 sites and changed the way the Tax Office conducts business, moving to enterprise-wide business processes and fewer systems that contain a consolidated client history. The shift has helped the Tax Office provide more consistent service and better understand taxpayers' tax affairs.

2.84 The systems and processes introduced through Release 2 have:

- enabled more queries to be resolved at the first point of contact without the need for escalation;
- replaced more than 180 case management systems with a single system;
- provided staff with the ability to view client correspondence more quickly and easily;
- provided a consolidated client view which enables staff to more efficiently address client issues; and
- introduced improved electronic channels which provide clients with more choice in how they deal with the Tax Office.

2.85 ANAO considers that Releases 1 and 2 have improved and transformed key aspects of tax administration. For example, case work and records management now proceeds on a whole-of-Tax Office basis: one system has replaced approximately 180 unique stand alone systems between which there was no interoperability. The Tax Office is therefore better able to manage the function holistically. The ANAO noted that one of the original goals of the Change Program was to use ICT systems to transform the tax administration in the way the Tax Office considers has been achieved by Releases 1 and 2.

2.86 Aggregate Tax Office-wide measures of efficiency, productivity, effectiveness and quality of the performance of the functions of case work and records management are being developed and applied. These measures were not possible before Releases 1 and 2.

2.87 As staff and management better understand and make maximum use of the potential of the new systems, better ways of completing tasks to improve overall performance are being found.

2.88 The Tax Office advised that it believed that Releases 1 and 2 have changed operational activities to such an extent that the efficiency and productivity improvements originally expected in the business case understate the potential efficiency, productivity, effectiveness and quality improvements now possible.

2.89 The individual processes and operational activities can now be reviewed and managed across all areas of the Tax Office. Accordingly, it is possible for management to evaluate 'what-if' type options. These would include the impact on activity of reductions or increments in the quantity and quality of inputs.

2.90 On completion of work to define valid and reliable measures of output, including quality measures, it should be possible for the Tax Office to evaluate the efficiency and productivity of case work and records management for functions across all areas of the Tax Office.

2.91 New productivity, efficiency measurement and evaluation methodologies enable the identification of high and low performing groups.[54] Where operational areas or groups carry out the same or similar types of output activity in different locations, comparison across the differing groups could help to identify reasons for differing performance levels. Such analyses may identify issues with office design, training programs, staff experience or management approach.

2.92 The analysis also has the potential to identify teams and their managers who introduce better working arrangements, and develop techniques that boost efficiency, productivity and morale. The analysis could help to identify unusually competent teams and their managers. This information could then be used to help all work areas undertaking similar activities improve performance.

Recommendation No.3

2.93 The ANAO recommends that in order to continually improve the performance of those functions transformed by Change Program releases, the Tax Office review existing Tax Office management frameworks to take into account the enhanced performance measurement and reporting capabilities of new systems so as to:

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54 Data Envelopment Analysis is a relevant methodology that the Tax Office might wish to consider. It has been actively promoted by the Productivity Commission for the comparative evaluation of service delivery. (See <http://www.pc.gov.au/__data/assets/pdf_file/0006/62088/dea.pdf> [accessed 15 October 2009]. It has also been used by several state governments for this purpose and by the ANAO in several performance audits.

(a) improve the Tax Office's capacity to evaluate the efficiency, productivity and effectiveness of performance on a whole-of-Tax Office basis; and

(b) evaluate the scope to improve performance by the use of methodologies that measure and compare performance at an organisational group level.

2.94 Tax Office Response: *Agreed.*

3. The Integrated Core Processing System's processing of Fringe Benefit Tax returns

This chapter examines the Tax Office's use of the incomplete ICP system to process FBT returns for the 2007-2008 financial year. The chapter also discusses problems that arose with the ICP's processing of FBT returns, the Tax Office's risk mitigation strategies, and the reviews established by the Commissioner to better understand the reasons for the problems and their resolution, and problems associated with the calculation of the GIC in the ICP.

Introduction

3.1 The FBT release was a significant step for the Change Program. It was the first operational deployment of the ICP system, implemented to process tax returns for the 2008 reporting year.

3.2 The original business case for the Change Program identified the main part of Release 3 as the ICP system for all types of income taxes administered by the Tax Office.[55] The original approved business case of December 2004 allowed two years for the completion of the ICP from design phase to production. The new ICP system was to be fully implemented with full functionality by December 2008. The Tax Office estimated that the cost of Release 3 as about $171 million or 38 per cent of the total Change Program cost in the 2004 business case.[56]

3.3 In February 2007 the Tax Office split Release 3 into several separate releases: Fringe Benefits Tax and Income Tax; superannuation simplification; and Business Activity Statements. This was to accommodate the Government's requirements for superannuation reform. Later during 2007 the Tax Office made a further split between individual income tax and company tax, with the aim to deliver FBT and company tax in January 2008. In September 2007 the Tax Office deferred deployment of FBT and company tax until March 2008. In

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55 Release 3 would also implement a range of enhancements to other functions: an extension of the case management system to a wider audience, implement new tax agent and business portals, and provide updates to work management, CRM, analytics, content and records management and reporting.

56 ECMP.CP Business Case Phase 2 Version 6.3 10-12-2004; page 43.

February 2008 the Tax Office realised that progress with FBT and company tax was behind schedule and that it would only be feasible to proceed with the FBT component in March 2008. The Tax Office also realised the ICP software would not be ready in time to provide the full FBT functionality required in the original business case which Accenture was required to deliver under the terms of the contract.

3.4 However, the Tax Office decided to accept an incremental deployment of FBT functionality and to use the ICP to process FBT returns for the 2007–08 financial year. In view of this decision, the Tax Office established a range of risk mitigation strategies.

3.5 In deciding on this approach, the Tax Office noted the unique features of the FBT taxpayer community – a specific group of about 70 000 taxpayers and also considered the specialist nature of its own administrative arrangements – small, experienced and centralised teams.

3.6 Given the circumstances, and the desire to provide a 'proof of concept' test of the ICP's capacity to process tax returns, and not delay the Change Program by another year, the Tax Office considered that an incremental deployment of the FBT functionality, with carefully targeted risk mitigation strategies, could justify releasing the new ICP software into production for the 2008 reporting year.

3.7 In this Chapter the use of the ICP to process FBT returns is referred to as the 'FBT release'.

The ICP's processing of FBT returns

3.8 In preparing the ICP software to process FBT returns, five phases of testing of the software identified seven Severity 1 and 107 Severity 2 defects. The main feature of Severity 1 and 2 defects is that there is no reasonable workaround to overcome the software defect and allow the Tax Office to continue processing with minimal or no loss of efficiency or functionality.[57]

[57] The Tax Office's Incident Management Framework provides comprehensive technical definitions of Severity 1 and 2 defects. The key features of these defects are as follows:

Severity 1 incidents interrupt the proper functioning of a Tax Office ICT system or external systems that interface with Tax Office clients, have a severe, adverse impact on more than 200 end users and for which there is no reasonable workaround that allows end users to continue processing with minimal or no loss of efficiency or functionality.

Footnote continued on the next page…

The Tax Office agreed to accept delivery of the FBT functionality excluding functions identified as containing Severity 1 defects. This meant that the software was transferred out of the Tax Office's testing environment into its live 'production' environment and administered as a 'business as usual' system. In light of the large number of serious defects in the ICP system, the Tax Office decided that where a Severity 1 or 2 defect had been identified, the defective software routine (i.e. functionality) would not be activated when processing FBT returns in the live production system. The known Severity 1 and 2 defects, and any subsequently discovered defects, in the ICP software were to be rectified during the FBT processing cycle.

3.9 The Tax Office established specific risk mitigation strategies for the missing functionality to minimise the likelihood of negative impacts on taxpayers or their agents. It used an already established Incident Management Framework to manage risks associated with the deployment of the new system. It included a methodology for the identification and classification of defects in relation to severity. This Framework had been used to manage defects and changes prior to the Change Program.

3.10 Although the initial testing of the ICP software identified seven Severity 1 and 107 Severity 2 defects, subsequent reviews found that the testing had not been as carefully planned nor as comprehensive as required. The reviews found that the testing and assurance processes were inadequate and not carried out in accordance with existing Tax Office standards. As a result, additional Severity 1 and 2 defects were discovered in the software when it was used to process FBT returns.

3.11 In August 2008, the Tax Office's Internal Audit branch reported on its review of the Change Program's control framework.[58] The review included an examination of testing processes and the extent to which the FBT release contained unanticipated Severity 1 and 2 defects additional to the 114 previously identified. The Internal Audit report noted a degree of confusion in the identification, recording, classification and actioning of Severity 1 and 2 defects. The Internal Audit report noted that it was unclear if the additional

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Severity 2 incidents detract from the proper functioning of a Tax Office ICT system, have an impact on between 10 and 200 end users and for which there is no reasonable workaround that allows end users to continue processing with minimal or no loss of efficiency or functionality.

58 Tax Office Internal Audit Branch, *Change Program Control Framework R3.1a FBT – Testing, Data Fixes in production and Assurance Dashboard sign-offs*, dated 27 August 2008.

Severity 1 and 2 defects that occurred in the FBT release had been previously identified. Additionally, Internal Audit was unable to verify that where a Severity 1 or 2 defect had been identified, the defective code in the ICP that caused the defect had actually been switched off. The confusion identified by Internal Audit implied a degree of ambiguity in the use of the technical terms 'Severity 1 defect' and 'Severity 2 defect' to classify the defects in the FBT release.

Defects in the ICP

3.12 The type and number of defects experienced when the ICP processed FBT returns for the first time exceeded expectations. In addition, the resolution of these-as well as those previously identified-took considerably longer than the Tax Office had anticipated. At the time the Tax Office authorised the FBT release, it considered that these defects would be quickly resolved and mitigation strategies would minimise any negative impact on taxpayers. The unexpected complexity of the task of resolving all of the Severity 1 and 2 defects placed stress on the Tax Office in developing short and long term strategies to rectify software defects and quickly process FBT returns, including utilisation of some manual processes. These strategies were successful in ensuring that only a relatively small number of returns were affected.

3.13 The main defects with the FBT implementation included:

- outbound correspondence to taxpayers could not be sent automatically;
- the software could not generate correct refunds;
- the software could not calculate the GIC correctly in all cases;
- Statement of Accounts contained incorrect entries; and
- a range of problems with the processing of debit and credit balances on taxpayer accounts.

3.14 The significant number of Severity 1 and 2 defects and other issues meant all system defects could not be resolved in a timely manner. The high number of defects impaired the ability of the Tax Office's FBT staff to process FBT returns promptly, hindering the timely issuing of FBT refunds to taxpayers.

3.15 In addition to directing the Internal Audit Branch to conduct the previously mentioned audit of the FBT release, the Commissioner also established the review mentioned in paragraph 2.25. The Commissioner wanted the Tax Office and its contractors to understand the reasons for the difficulties experienced. He also strengthened the management arrangements of the Change Program to reduce the risk level for future releases, especially the all-important income tax releases.

3.16 These investigations were complemented by inquiries undertaken by other areas of the Tax Office. These reviews were comprehensive and the Tax Office has utilised these reviews to improve the administration of the Change Program. The reviews found that the design of testing, the conduct of testing and testing processes to be deficient. The reviews also found that the high number of Severity 1 and 2 defects caused 'significant operational impacts on the FBT processing teams'. The reviews concluded that the number of Severity 1 and 2 defects evident so long after deployment was abnormal and unacceptable when implementing a new ICT system.

3.17 The reviews also included the reporting of defects. The Tax Office advised that the improved reporting requirements recommended in the reviews have been implemented. The ANAO noted that the reporting of defects had improved and remained consistent and comprehensive.

3.18 In explaining the underestimation of the number and severity of defects and the complexity of their resolution, the Tax Office stated in August 2008:

> *at the time we believed the main production errors then evident* ***in the functionality we had released*** *were amenable to fixing in the order of weeks rather than months; (it became progressively clearer over time that the resolution was to prove more difficult than originally anticipated).*[59]

3.19 The ANAO considers that insufficient end-to-end testing, coupled with failures in testing processes, and the absence of real production data in the business pilot which fully involved business lines, were the key reasons for the additional defects and the magnitude of the task to rectify them.[60]

3.20 The Tax Office focussed on resolving the outstanding defects occurring in the FBT release as a matter of priority. The Tax Office advised that all recorded critical defects in the ICP, related to the processing of FBT returns, were rectified prior to the ICP's processing of 2008–09 FBT returns.

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59 ATO Minute, 5 September 2008; emphasis added.

60 'end-to-end testing' is defined in the Glossary at the front of this report.

Impact of the ICP's processing of FBT returns

3.21 Continuing to use the ICP software in production with defects requiring remediation at the same time that the ICP software is being further developed for other releases introduces additional risks in an already high risk project. These risks are being addressed through the work of the Enterprise Application Management (EAM) teams who work closely with Change Program teams to prioritise and fix production errors. This proceeds through a mix of scheduled updates to the production system and/or change requests referred through the change management process to change the core ICP functionality. While developing and enhancing a system at the same time as fixing production errors is a standard practice, it becomes a source of higher risk if the numbers, severity and nature of production errors becomes large, complex and time consuming to rectify as happened with the FBT release.

3.22 In addition, if problems arise in relation to the hardware and software environments in which the development and processing of the ICP software as an integrated system takes place, the risks to the timely and satisfactory completion of the Change Program increase.

3.23 Since the deployment of the ICP system to process FBT returns, the Tax Office has experienced ongoing environmental stability issues.[61] These have affected the ability of the core development teams to test and develop the ICP system software in a timely and efficient manner. The need for EAM and the Change Program to coexist with the business-as-usual system processing schedules creates an operational tension. This is particularly so when undertaking ICP testing and development work and deployments of the ICP into production as modules are progressively completed.

3.24 By addressing issues raised in the expert consultant and Internal Audit reports, specifically end-to-end testing and a business pilot with real production data and full involvement of relevant business lines, the Tax Office should be better placed to assess whether the ICP is functioning as an *integrated* system.

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[61] The phrase 'environmental stability issues' includes (but is not limited to) the availability of hardware and processing capacity when required, the availability of critical development operating environments when required, and the availability of specialist ICT support staff when required. The concept of 'environments' includes all operating systems (i.e. those for systems in production as well as those for systems being developed and tested as well as ICT hardware including processing bandwidth).

3.25 Also, the deferral of the Income Tax Release and the production testing of ICP by means of FBT returns assisted the Tax Office to improve the administration of the Change Program. By limiting the first use of the ICP to FBT processing, which involves about 70 000 FBT returns per year, the Tax Office was better able to control any negative impacts on taxpayers through mitigation strategies.

3.26 The impacts or potential impacts on taxpayers that were identified in the reports of the expert consultant and internal audit containing the above-mentioned analysis, include cases where:

- incorrect FBT refunds have been issued to taxpayers;
- payment of FBT refunds to taxpayers have been delayed;
- taxpayers have been incorrectly advised to re-lodge their FBT returns;
- taxpayer accounts have been incorrect;
- GIC on taxpayers accounts have been incorrect; and
- Business Activity Statements has been sent to taxpayers having incorrect FBT instalment amounts.

3.27 The ANAO noted that the Tax Office had contingency plans commensurate with these impacts or potential impacts to manage the situation as the need arose. In addition, the ANAO noted that the Tax Office had established quality assurance arrangements, and undertook corrective action, in relation to FBT taxpayers adversely affected by the ICP's processing of their FBT return.

3.28 Also, the ICP's processing of FBT returns did provide the Tax Office with a 'proof of concept' test of the ICP. In November 2008 the Tax Office relied on manual intervention and workarounds to process no more than 5 per cent of FBT returns. The ICP also demonstrated the potential for efficiencies by reducing the extent of manual intervention required for the legacy system. Apart from the defects in the FBT system that are still being rectified, including GIC, the ICP processing of actual FBT returns demonstrated that it was superior to the legacy systems it replaced.

3.29 The ANAO found that the CPSC made a considered risk based decision to proceed with the incremental deployment of the FBT release, thereby providing the 'proof of concept' test of the ICP's capacity to process tax returns. It was also aimed at avoiding delaying the Change Program by a further 12 months. In reaching this decision the CPSC was briefed about the risks, advantages and disadvantages of the main alternatives. Subsequent investigations revealed insufficiencies in the testing of the FBT release prior to production, the results of which informed CPSC decision-making. In addition, some unanticipated Severity 1 and 2 defects were discovered after the release was deployed. The subsequent rectification of these and the known pre-implementation defects in the FBT release took up to 12 months, because the defects proved more complex than anticipated.

3.30 The FBT release produced information that helped the Tax Office improve the administration of the Change Program and identify matters in need of improvement. Most importantly, the release presented the Tax Office with the opportunity to re-evaluate the conduct of the Change Program and assess the options to improve the likelihood of overall success in implementing the remainder of the Change Program.

3.31 There is, however, an additional risk to the Change Program from the substantial diversion of resources and management time away from planned development and into rectifying defects. The diversion of resources is necessary due to the magnitude of the time and effort required to bring the ICP system to the required level of performance, while at the same time addressing those problems that will also inevitably arise in subsequent releases. Consequently there are risk implications for continuing to develop the ICP to meet superannuation, income tax, company tax and business activity statement requirements while also rectifying on-going defects in newly operational systems. In these circumstances, possible risk implications include deadlines for the completion of further releases will not be met, the requisite extensive end-to-end testing and business pilot will be truncated, or functionality in the original scope of the Change Program will be reduced.

3.32 The ANAO notes that one of the reasons for proceeding with the use of the incomplete ICP to process FBT returns was to avoid a further delay to the Change Program by one more year. However, since it has taken 12 months to rectify all the Severity 1 and 2 defects, including the lengthy time taken to design, build and test the GIC remedy, the ICP will only be shown to be free from serious defects when it fully processes the March 2009 FBT returns. As this is 12 months after the ICP was first released into production, it is uncertain if the Tax Office gained any of its anticipated timing advantages from using the ICP to process FBT returns before it was ready to do so. Had the Tax Office proceeded with the alternative strategy of completing the development of the of the ICP and then subjecting it to rigorous testing, it would be in no worse a position with respect to the state of readiness of the ICP. However, the Tax Office gained advantage from implementing the FBT release in March 2008, including the demonstration of the 'proof of concept' of the ICP and the experience gained by the operation of the ICP in a production environment.

General Interest Charge

3.33 The *General Interest Charge (Imposition) Act 1999*, applies a uniform General Interest Charge (GIC) on late payments of tax debts. The GIC is calculated under Part IIA of the *Taxation Administration Act 1953* (TAA) and was effective from 1 July 1999. It is a common rate of interest that is adjusted quarterly and based on the interest rate charged by financial institutions on unsecured loans.[62]

3.34 GIC applies to the late payment of tax debt or penalties, including debt arising from income tax, FBT, GST, PAYG, Superannuation Guarantee, Superannuation Guarantee Shortfall, Employer's Superannuation Guarantee Debt and superannuation co-contributions. The GIC applies to all Tax Office revenue categories except in some minor instances where excluded by law.[63]

[62] A taxpayer who fails to pay an amount of tax on time is liable to pay General Interest Charge (GIC). GIC applies not only to primary tax debts, but also to Running Balance Account (RBA) deficit debts. GIC is a compound interest, that is, the interest amount applied each day is added to the base primary tax debt or Running Balance Account (RBA) deficit debt to give a total debt so that at the end of the next day interest is applied to that total debt. GIC is thus calculated for each day that the total debt remains outstanding. GIC is calculated on an account balance at a rate for a period. If any events occurred that result in any input not being accurately determined in relation to amount, rate or period, then a different result from that expected will result. Process errors in the ICP may only become evident when GIC is calculated. Tax debt is generally payable 21 days after a tax return is due, irrespective of the date the return was lodged or the Tax Office advised of the debt. GIC applies to late payment of tax debt and or penalty charges from the date the debt or penalty charge was due.

[63] Some categories of taxpayers are exempt from the GIC: government entities, government statutory authorities and diplomatic entities (*TAA 1953* s8AAB (3)).

3.35 The ICP introduces a single Tax Office-wide system to replace a number of revenue specific legacy systems. Each legacy system operated slightly differently and may have had different treatments offered to taxpayers to deal with particular circumstances and tax types. Making adjustments to converted amounts in prior periods could cause a taxpayer to be disadvantaged where the Commissioner had offered treatment in a legacy system. The Tax Office advised that the Change Program teams have been tasked to ensure that taxpayers will not be liable to pay a higher amount of GIC in the consolidated converted account.

GIC Problems in legacy systems

3.36 The ANAO has noted in previous audit reports that the Tax Office had problems in automatically calculating the GIC within each of the relevant ICT systems listed in paragraph 1.36 of Chapter 1 since the introduction of the GIC regime in 1999–2000. To overcome system problems, the Tax Office had to implement manual work-around processes to assist in calculating the GIC.

3.37 The ANAO first raised this issue in the financial statement audit for the year ending 30 June 2004[64] and subsequently in the interim financial statement audit[65] and final financial statement audit[66] for the year ending 30 June 2005. The financial statement audit for the year ending 30 June 2004 observed that one of the income tax systems did not automatically calculate GIC in circumstances related to income tax payments from companies and superannuation funds. The audit reported that GIC was only calculated on company and superannuation fund accounts if performed manually by a tax officer.

3.38 In 2003–04 the Auditor-General qualified the Tax Office's financial statements because several of the Tax Office's systems, including the FBT system, could not calculate the GIC and the Tax Office could not substantiate to the Auditor-General's satisfaction the basis for GIC aggregate revenue of $555 million or GIC aggregate remissions of $490 million. The Auditor-

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64 ANAO Audit Report No.21 2004–05, *Audits of the Financial Statements of General Government Entities for the Period Ending 30 June 2004*.

65 ANAO Audit Report No.56 2004–05, *Interim Phase of the Audit of Financial Statements of General Government Sector Entities for the Year Ending 30 June 2005*.

66 ANAO Audit Report No.21 2005–06, *Audits of the Financial Statements of General Government Entities for the Period Ending 30 June 2006*.

General's report of *Audits of the Financial Statements of Australian Government Entities for the period ended 30 June 2005* reported that the Tax Office was proceeding with system changes to rectify the problems identified for the 2004 year.

3.39 The ANAO financial statement audit for the period ending 30 June 2005 noted that the Tax Office had undertaken system changes to rectify the problems in calculating GIC on taxpayer accounts. These changes provided confidence in determining the GIC revenue and remissions.

3.40 As a result of these issues, the Tax Office had identified GIC as a 'high risk' area.

3.41 The history of problems in administering GIC calculations within the legacy systems illustrate that the Tax Office was aware of the complex nature of implementing GIC legislation within ICT systems, and highlighted the need for it to ensure, when GIC was being developed in the Change Program, that the issue was given a high priority and that it was the subject of particular focus.

GIC design and development in ICP

3.42 Design of GIC within the ICP system began in 2006 and was to be deployed in the first Release 3 deployment in 2007. GIC was still to be included in the initial release (i.e. FBT) after the division of Release 3 into a series of sub releases.

3.43 The Tax Office advised that Accenture was obliged by the terms of the Tax Office/Accenture contract to include full GIC functionality in the ICP system. This was reflected in outcome 1.2.2 of the Change Program Outcomes Statements.[67]

Testing of GIC prior to deployment

3.44 The ANAO considers that the testing and assurance processes for the FBT release, including GIC, were inadequate. Testing did not provide sufficient evidence to support the conclusion that the GIC sub-routines were 'fit for purpose'.

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67 Outcome 1.2.2 reads: *a Single Client accounting capability that correctly records taxes and entitlements and correctly calculates general interest charge (GIC) and penalties*.

3.45 The Tax Office's Internal Audit found significant shortcomings with the release testing and assurance regime which affected the quality of the ICP system.

3.46 In particular, the internal audit report noted that:

> *Whilst Internal Audit was advised that the test scripts to be executed had been agreed with business, it is clear with the benefit of hindsight that given the issues being experienced in the production environment, more testing could have been undertaken, particularly in areas such as General Interest Charge (GIC) and Statement of Accounts (SOA*);[68]

3.47 In summary the GIC problem highlights the complexity of the Change Program specifically, and tax administration more generally. The ANAO noted that whilst some aspects of the ICP's capacity to perform GIC calculations correctly were tested, the full range of event combinations relevant to the calculation of the GIC was not tested. GIC is calculated on an account balance, at a rate, for a period. As a result, any errors in the fully integrated ICP may only become evident after the calculation of the GIC. If any input relating to any of these three factors (amount, rate or period) is not correct or at variance with other records, a different result from that expected will result.

Deployment of GIC into production

3.48 The Tax Office advised the ANAO that the decision to deploy GIC was made after considering the risks and establishing mitigation strategies. These were:

- procedures to verify and correct FBT return GIC calculations prior to notices being sent to the taxpayer: this was a manual check performed by Tax Office staff;
- having the ability to withdraw GIC from the ICP if significant defects were experienced; and
- consideration of the factors the CPSC noted when deciding to deploy the FBT release.

68 Australian Taxation Office, *Change Program Control Framework, R3.1a FBT – Testing, Data Fixes in production and Assurance Dashboard sign-offs*, Tax Office Internal Audit, Canberra, 27 August 2008.

3.49 In making the decision to deploy FBT/GIC the CPSC considered that the 'dashboard assurance' process provided adequate opportunity to obtain the necessary assurance on the viability of the release arrangements. The dashboard assurance process provided a single point of coordination for all key stakeholders to provide agreement on the status of an individual release's readiness for deployment into production.[69]

3.50 However, an internal audit report highlighted a number of deficiencies with the dashboard assurance process across the FBT release.[70] For example, the report noted that an important sign-off on the dashboard from the legal assurance business area was classified as 'red' and that it had consequently not endorsed the deployment due to concerns about GIC issues. The reason provided on the dashboard was:

> At the time of the 30 April [2008] report the statement of account (SOA) samples drawn from product test had recurring accuracy and presentational issues and errors arising in the calculation of the general interest charge (GIC). These defects, coupled with insufficient evidence available from partnership testing, did not allow law conformance endorsement.[71]

3.51 Additionally, governance of the FBT release suffered from a departure from the previously used procedures for the use of dashboard reports. The departure introduced multiple dashboard reports in contrast with the previous procedures which used a single dashboard report. This departure made the process more complex to manage and involved too much decentralisation of the process. This departure has subsequently been rectified.[72]

3.52 The ANAO noted that the Tax Office improved the dashboard assurance process to the extent that management may now rely on the integrity of the assurance reporting it provides.

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[69] The 'dashboard assurance' process is a highly stylised method of management reporting in which critical information is expressed in a summary form by diagrams such as traffic lights, meter readings or gauge displays like those displayed on the dashboard of a car.

[70] ATO Internal Audit Report of 27 August 2008; op. cit., footnote 68.

[71] Australian Taxation Office, *Releases 3.0, 3.1, 3.2 Follow-up Register*.

[72] Australian Taxation Office Internal Audit Report, *Deployment Signoff Process*.

3.53 GIC was deployed as part of the FBT release in March 2008. However, because the Tax Office did not have sufficient confidence in the GIC routines during implementation of the FBT release, the functionality was turned off. Two problems remained for resolution during 2008–09. These were:

- The FBT release could not carry out retrospective calculations of the GIC automatically in all cases. Where the adjustment of a GIC liability requires recalculation of data prior to the year 2000, the GIC has to be calculated manually. However, the relevant data is not held in the ICP because in designing the ICP, the Tax Office decided that 1 January 2000 would be the cut-off point for entering historical taxpayer records; and
- The ICP could not calculate GIC correctly for an amendment that reduced a FBT liability for an earlier year in which GIC had previously been imposed during the period affected by the amendment. This problem was caused because some detail was not transferred in the conversion process. The methodology for calculating GIC in the legacy FBT system was different from the way GIC is calculated in the ICP. The legacy system calculated GIC on the unpaid balance of the account, as if it were a running balance account, and did not attribute the GIC to a particular unpaid FBT amount. The ICP matches payments to liabilities for each period to determine the unpaid amount and also tracks amendments to assessments. As an account in the former FBT system could have had a credit balance for part of the GIC period, it was not possible to convert data that gave a beginning date of the GIC period for the assessment being reduced by amendment in ICP.

3.54 The Tax Office advised that the number of GIC calculation defects experienced during the FBT release was low in relation to the number of FBT returns. The Tax Office estimated that of the 70 000 FBT returns, only one per cent (about 700) required manual recalculation of the GIC.

3.55 The Tax Office implemented a workaround for the ongoing GIC defects to ensure the correct GIC amount would be assigned to taxpayer accounts. The workaround remains reliant on manual processing by Tax Office staff.

Ongoing remedy for GIC

3.56 Whilst there were about 700 FBT returns which the ICP could not process without manual intervention, the situation with income tax returns is of greater magnitude. The Tax Office advised that there could be approximately 1 million income tax transactions that would require manual processing unless an automated GIC facility could be designed and successfully implemented.

3.57 To address the inherent GIC problem, the Tax Office devised a solution for the income tax release which should provide a more permanent fix for the defect that resulted in the ICP being unable to calculate correctly GIC affected by an amendment that reduced a FBT liability for an earlier year and in which GIC had previously been imposed. This involves the Tax Office converting GIC data for the period 1 April 2004 to 21 March 2008 (the conversion date). If there are any amendment cases prior to 1 April 2004 the data will be retrieved manually from the NTS legacy system for manual posting and processing in ICP.

3.58 The Tax Office aims to automate as much of the GIC calculation routines as possible. However, there will remain a number of taxpayers, estimated to be several hundred, whose GIC liability or credit will have to be calculated manually. This number will diminish with each successive year.

3.59 The Tax Office formally approved the new design specifications for the additional GIC software routine in March 2009, nine months after the defect was first detected. The Tax Office advised that the new GIC software routine has been tested, was available for FBT Tax Time 2009 and is operating properly.

3.60 The original design concept of Release 3 was that the ICP would contain a single accounting system which would combine (to the extent that the law allowed) all taxation credits and debits into a single Running Balance Account (RBA) for each taxpayer. In this case the GIC would be calculated on the daily account balance of the net of all debits and credits..

3.61 It will not be until after the scheduled 2011 BAS Release is deployed that the GIC will be able to be calculated on the net RBA daily account balance principal and the original design concept of Release 3 will be fully functional.

4. Change Program funding and the measurement and attribution of costs

This chapter reviews Change Program funding arrangements and discusses the Tax Office's tracking of the costs and benefits of the project, and differentiates between the Change Program's direct and indirect financial costs and benefits. The chapter indentifies the need for the management information reporting framework to have regard to the broader costs and benefits of the Change program.

Introduction

4.1 The endorsed Change Program Business Case (dated 10 December 2004) set out the total cost of the Change Program as not to exceed $445 million[73] in direct costs over six financial years, starting in 2003–04 and finishing in 2008–09.

4.2 Implementation of the ICP system for all income and related taxes at the finalisation of Release 3 should enable the Tax Office to reduce the cost of operations, or, increase the efficiency of activities and achieve better outcomes at the same or lower cost. The capitalisation of the costs of the Change Program will create an asset on the Tax Office's balance sheet in the form of new ICT systems that will provide benefits in future years.

4.3 As with any large project, there are a number of different cost types associated with the Change Program:

- **direct costs**: includes those costs which are purposefully tracked in the Change Program business case, including the major costs incurred under the Accenture contract and by the utilisation of Tax Office staff.
- **indirect costs**: includes those costs, which did not form part of the Change Program business case, but which arise because of the Change Program and include, for example, costs incurred by business lines in support of Change Program activities; activities to mitigate risks such as assurance of legal compliance and assurance of functionality; and the duplication of capabilities as a risk mitigation measure.

[73] Business Case – Phase 2, Easier, Cheaper and More Personalised Change Program, version 6.3, 10 December 2004, page 2.

- **Opportunity costs**: includes costs which occur as a result of delayed implementation, resource displacement and transfer, the termination of other projects which would have created new capabilities (for example in relation to improved compliance assurance). These costs are difficult to measure. Qualitative information may be the best way of describing opportunity costs.

Change Program funding

4.4 As noted previously the scope and delivery schedule for the Change Program have changed a number of times, largely due to legislative changes, since the business case was approved in 2004. At 30 June 2009 the budget for the expanded scope Change Program is $774 million with scheduled completion in 2010–11. This includes the FHSA, which is outside the original business case and is subject to a separate contracting arrangement utilising additional appropriation funding of $25 million. The expansions in scope required by government (principally superannuation simplification, including superannuation guarantee late payment offset, but also including Child Care Rebate, Review of Self Assessment and the Fuel Excise Reform Program) account for $234 million of the $304 million growth in budget since 2004.

4.5 Actual expenditure on the Change Program to the end of 2008–09 was $749 million. As at 30 June 2009 the Tax Office estimated that on the basis of the Change Program being completed during 2010–11 a further $105 million may be spent over the next two financial years, bringing the total forecast expenditure to $879 million, including the $25 million the Tax Office received for the FHSA. The additional government requirements are the primary reason that the forecast expenditure on the expanded scope Change Program is currently $434 million more than the not to exceed total of $445 million in direct costs the 2004 business case estimated.[74] After taking into account the additional funding provided by government to implement legislative changes, the Tax Office expects to absorb within its operational budget additional estimated expenditure of $247 million over the life of the program.

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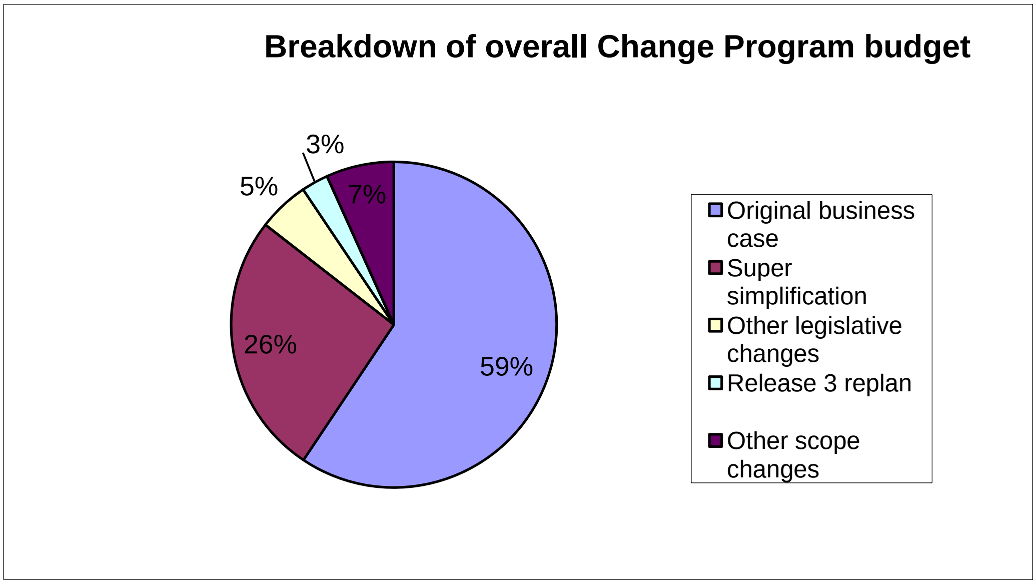
[74] This amount is the total forecast expenditure of $879 million minus the ‘not to exceed’ business case budget of $445 million.

4.6 The breakdown of the overall Change Program budget as at 30 June 2009 is depicted in Figure 4.1.

Figure 4.1

Breakdown of overall Change Program budget at 30 June 2009



Source: Tax Office

4.7 Apart from work related to government policy initiatives, the Change Program is funded internally by the Tax Office directly out of its operating budget. The Tax Office established arrangements to offset internally funded expenditure by the financial savings arising from productivity improvements.

4.8 The overall budget and scope of the Change Program has increased significantly since the original design process. Much of the increase in costs is attributable to changes in government policy and delays in the implementation schedule. The Tax Office advised that Accenture has absorbed additional costs that relate to some implementation delays because of the fixed price nature of the Tax Office/Accenture contract.

Costs and benefits

Change Program benefits and indirect costs

4.9 In addition to managing direct costs such as progress payments to contractors, sound contract management also requires regular reviews and assessments of project benefits and associated indirect and opportunity costs.[75] The achievement of direct financial benefits was one of the Change Program's performance benchmarks. There is also a range of broader costs (being the indirect and opportunity costs identified in paragraph 4.3) and benefits associated with very large transformational projects such as the Change Program. For example, amongst the Change Program's benefits was the goal of making compliance with tax responsibilities easier, cheaper and more personalised for taxpayers.

4.10 The benefits of Releases 1 and 2 are accruing; however, Release 3 will yield the major benefits of the Change Program. Release 3, augmented by superannuation simplification and the FHSA, will not be fully implemented until at least December 2010. The FBT release component was not fully operational until midway through 2009. As a result, the Tax Office is only beginning to accrue early benefits from the implementation of a component of Release 3.

4.11 It will not be until Release 3 is fully implemented, (including the superannuation simplification and FHSA initiatives) that the Tax Office will be in a position to track the Change Program's expected large scale benefits. The Tax Office considers that the impact of Releases 1 and 2 has been sufficient to demonstrate that implementation benefits exceed original expectations for the functionality delivered. Similarly, the FBT release demonstrates that the ICP is superior to the FBT systems it replaced which operated at a rather low standard of productivity, efficiency and effectiveness.

4.12 During implementation, if compliance risks are to be appropriately addressed, in some circumstances it may be necessary for the Tax Office to invest in interim solutions using legacy systems, rather than wait until the completion of the Change Program. This would entail an additional cost. These additional costs are part of the indirect and opportunity costs of the Change

[75] ANAO's Better Practice Guide, *Developing and Managing Contracts*.

Program. The ANAO identified instances where business lines have developed interim facilities because of the need to respond to serious compliance risks.

4.13 The Tax Office imposed expected and quantified Change Program efficiency savings on those business lines that would benefit from Change Program releases. Any significant indirect and/or opportunity costs incurred by business lines may impact on operational achievements.

Monitoring and reporting

4.14 The Change Program Business Case considered a broad range of issues including costs of the project, anticipated return on investment and impacts on the Tax Office. The estimated costs were mainly direct in nature. Gathering cost and business impact information for a large, complex and organisationally transforming project such as the Change Program requires significant effort. The Tax Office financial management system maintains data that relates to direct expenditure on the Change Program and which is tracked against the original business case estimates. However, it does not compile data on a number of other costs which could be attributed to the Change Program.

4.15 Indirect and opportunity costs of the project include, for example, any unplanned additional cost of continuing with and maintaining the legacy systems that the Change Program will replace; and the adverse impact of delays on the community, on the efficiency of tax administration and on the implementation of initiatives to improve administration that cannot proceed until the Change Program is fully implemented. When large projects suffer from significant delays in being fully implemented, it is useful for the executive to receive reports periodically about the impact of any delays.

4.16 To monitor the realisation of benefits specified in the original business case, the Tax Office established systems which focussed largely on the identification of direct financial benefits created by the Change Program. Accenture was partly remunerated based on the delivery of these business benefits.

4.17 However, the Change Program is expected to generate benefits considerably broader than those being compiled as the immediate financial benefits accruing to the Tax Office. For example, the intent of the Change Program recognised that benefits such as improved productivity, efficiency and effectiveness would accrue throughout the Tax Office. Another was to make the experience of the community, especially tax practitioners, easier, cheaper and more personalised.

4.18 To assess these broader intentions and goals requires periodic evaluation to enable the Tax Office executive to monitor the extent (if any) that the Change Program is generating such non-financial benefits.

4.19 The Tax Office has conducted reviews to evaluate benefits generated by the first two Change Program releases. The Tax Office has also periodically surveyed taxpayers (individuals and businesses) and tax practitioners to assist with the evaluation of the impact that the Change Program may be having on the community.

4.20 By December 2008, due to a number of factors including legislative changes, the Change Program had already been delayed three times, firstly with the addition of superannuation simplification, secondly with the inclusion of FHSA and then thirdly as a result of the revised implementation plan that followed delays and problems associated with the FBT release. The delays not only extend the timeframe for the delivery of functionality, but have an impact on all costs and benefits (direct, indirect and opportunity) that affect the Tax Office on an enterprise-wide basis. Delays in the Change Program time-table can also have cost consequences for the community, especially tax practitioners.

4.21 The Commissioner of Taxation, in his 2007–08 *Annual Report*, has reported a range of organisational and community impacts arising from delays to the Change Program.

4.22 This reporting in the annual report could be usefully supported by adapting existing Change Program management reporting systems so as to better record the broader range of costs and benefits attributable to the Change Program. It would be appropriate for the Tax Office to ensure the benefits realisation identified in the original business case continue to be both valid and achievable in the light of the delayed implementation timetable for the project.

Indirect governance costs arising from delays

4.23 The implementation of several recommendations contained in recent ANAO Performance Audit Reports depends on the completion of the Change Program. These dependencies involve both the Siebel-based facilities being operational and the ICP becoming operational.

4.24 Appendix 2 identifies the relevant ANAO reports containing recommendations and suggestions for improvement that are contingent on the completion of the Change Program. At the time of those audits, the Tax Office agreed that the recommendations of the ANAO reports would assist in achieving necessary improvements to the areas of administration examined. Delays in implementing the audit recommendations caused by delays in the Change Program may result in significant areas of tax administration continuing to function without the agreed improvements being implemented.

4.25 These areas relate to:

- enhanced ICT systems and improved data quality to support tax administration;
- better case management systems to manage taxpayer activities and Tax Office workloads;
- increased monitoring and reporting capabilities to better inform Tax Office administration; and
- improvement of data matching and analytical systems to improve compliance.

4.26 Lack of progress with the implementation of the recommendations and suggestions for improvement will impair:

- the Tax Office's management of some compliance risks;
- the provision of better services in some instances; and
- the achievement of needed administrative efficiencies.

4.27 The CPSC does not specifically monitor the extent to which the implementation of ANAO recommendations and suggestions for improvement is being held up by delays in the completion of the Change Program and the consequences of the delays for improved tax administration.

Balance Sheet value of the Change Program asset

4.28 The Tax Office's expenditure on the Change Program results in the creation of a new capability. This capability, in the form of new software, is recorded as a tangible asset under construction in the Tax Office's financial statements. The value of the ICP as an asset is ultimately a matter for informed management judgement, guided by relevant accounting standards.

4.29 Expenditure by the Tax Office on the Change Program has been capitalised to the extent that such expenditure is expected to provide benefits in future years, consistent with the requirements of Australian accounting standards.

4.30 The Tax Office assessed that an impairment write-down of $75 million against the Change Program Release 3 software asset was appropriate at 30 June 2009.[76] This reflected the Tax Office's assessment of the asset's current replacement cost in accordance with Australian Accounting Standard 136, *Impairment of Assets* (AASB136)[77] and *Accounting Guidance Note 2007/1* issued by the Department of Finance and Deregulation (AGN 2007/1).

4.31 The Change Program asset comprised internally developed software under construction. The decision to write-down the value of this asset under construction was based primarily on available internal evidence which indicated higher costs from delays and rework associated with the expansion in scope of the Change Program. The Tax Office concluded that the capital component of the increased estimated costs of the Change Program compared to the budget did not represent additional functionality and hence was not appropriate to be capitalised.

4.32 When the Change Program project ends, the maintenance of the new system will become a matter of 'business as usual'. The Tax Office advised that maintenance costs and the costs of future upgrades will be factored into the budget for the Information and Communications Technology business line in the normal manner.

4.33 When the project began, the Tax Office decided not to track project costs at the individual component level. The Tax Office reasoned that as the Change Program will provide a fully integrated solution it was not necessary to record the cost of individual components. While the Tax Office can report on expenditure on each of the three releases, it cannot, as a result of the earlier decision, report on expenditure on the components of each release.

4.34 The proper evaluation of the costs and benefits realisation of each Change Program release requires an accurate account of the cost of that individual release. In addition, it would be helpful to know the relative costs of

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76 The Tax Office's accounts were being finalised at the time of the publication of this report.

77 Specifically paragraph 12(g) of AASB136.

the different releases and their sub-components in order to better understand the sources of cost over-runs. Although the Tax Office cannot provide advice about expenditure on particular releases or their components, it can calculate total direct spending to date on the whole Change Program and estimate the whole Change Program's completion costs. The Tax Office does keep track of the expenditure on the components of the Change Program that are funded by Budget appropriations.

Improving the management information reporting framework for costs and benefits

4.35 The Commissioner of Taxation reported in his 2007–08 *Annual Report* that delays in the completion of the Change Program brought additional costs and some diminution in the quality of services provided by the Tax Office. The Commissioner referred to the deferral of benefits to the Tax Office, including the deferral of productivity benefits, the deferral of benefits to the community, the additional costs of maintaining fully functional legacy systems, the additional estimated expenditure on the Change Program incurred by the Tax Office ($247 million), the write–down of the Change Program Balance Sheet asset ($75 million at June 2009), and a decline in some service standards.

4.36 In acknowledging the intent and benefit of the Annual Report commentary, it is important for the Tax Office to regularly assess the broad range of costs, including qualitative costs and adverse impacts on the community, of bringing the Change Program to completion. However, the account of the impacts of the Change Program is incomplete. Under current arrangements, the broader range of costs is not brought together for periodic aggregated reporting to the CPSC or the Change Program Executive Meeting.

4.37 At the time of the original business case, the Change Program was scheduled to be completed by December 2008. The Tax Office has advised that on current plans it will now be completed by the end of 2010. Over the additional three years sizable indirect and opportunity costs will accumulate. The reporting of indirect and opportunity costs and the deferral of benefits in the Commissioner's 2007–08 *Annual Report* reflects that these matters are of strategic relevance to the Tax Office.

4.38 At the time of the original business case, a period of three years may have been a reasonable timeframe over which to balance the negative impact of indirect and opportunity costs against the longer term benefits expected to accrue on the completion of the Change Program in 2008. However, the

Change Program is now to take at least two and a half more years to complete. The ANAO suggests that this warrants the periodic compilation of strategic information about the overall tracking of costs and benefits.

4.39 An additional consideration is the eventual tallying of costs and benefits once the Change Program is completed. On implementation, the Tax Office will be able to proceed to reap the benefits from the organisational transformation that the Change Program will enable. This will take some time. However, the evaluation of the overall costs and benefits of the Change Program requires a suitable framework to catalogue costs and benefits. This framework is not yet developed.

4.40 The ANAO considers that there would be clear benefit to the strategic management of the Change Program for the CPSC to receive periodic reports about the overall benefits and costs of the Change Program, in addition to the direct costs and direct financial benefits which are reported to the CPSC on a quarterly basis.

4.41 Under current arrangements, the information that might be used in such reports is not consolidated although it may be available in a range of disparate reports. A consequence is that the CPSC does not receive periodic reports providing synoptic overviews of the impacts of the Change Program on the Tax Office or the community. These reports are not only important for the sound strategic management of the Change Program but also so that the Commissioner might be better placed to provide a fuller account of the status of the Change Program in future reporting. There would be benefit therefore, in the CPSC receiving additional, periodic, high level reports that address factors broader than those in the Change Program's business case. The compilation of the relevant costs need not be overly complex and may focus on showing indicative trends. Many of the costs and benefits will not, at this stage, be readily quantifiable. In such cases a qualitative or narrative account would suffice.

4.42 The ANAO noted that in relation to the evaluation of costs and benefits of large ICT projects, Sir Peter Gershon found that:

> *The review found that there is no formal common method of assessing agency capability to commission, manage and realise benefits from ICT-enabled projects. [and] Measurement of project benefits realisation by agencies is also weak, despite evidence that many of them have adopted formalised project management methodologies.*

4.43 In the context of the Gershon report, the Tax Office could consult Australian Government Information Management Office (AGIMO) about the development of a simple, useful framework for the evaluation of the broader range of costs and benefits of the Change Program.

Recommendation No.4

4.44 The ANAO recommends that in order to improve the strategic management of the Change Program, and having regard to existing management reports, the Change Program Steering Committee periodically receive additional summary, high level reports covering:

(a) the broad range of costs and benefits attributable to the Change Program; and

(b) the progress of the Change Program in achieving the strategic goals originally determined.

4.45 **Tax Office Response:** *Agreed.*

5. Australian Public Service-wide considerations

This chapter notes that the Government's acceptance of Sir Peter Gershon's 2008 report and its recommendations changes the governance arrangements that will apply to large scale transformational projects like the Change Program. The chapter lists a range of considerations that have arisen out of the experiences of the implementation of the Change Program that could be taken into account in the planning for and management of such projects in the future.

Introduction

5.1 The need for large transformational ICT projects like the Change Program is likely to be a continuing feature of Commonwealth administration. The rationale which necessitated the Change Program will continue to have ongoing currency for many public sector agencies in moving to the provision of more cost effective and more efficient services enabled by transforming approaches brought about by large ICT projects.

5.2 On 24 November 2008 the Government announced that it would implement the recommendations of Sir Peter Gershon's report.[78] This means that there will be significant changes to the governance of large ICT projects within the *Financial Management and Accountability Act* (1997) (FMA Act) agencies and to whole-of-government approaches to ICT matters. AGIMO has a key role in the implementation of the Gershon report.

5.3 The Tax Office's Change Program experience identified a range of Australian Public Service-wide issues that provide valuable lessons for other agencies. This experience highlights several factors that are likely to be highly relevant to most major ICP transformational projects in the coming years. The ANAO Better Practice Guide, *Developing and Managing Contracts*, February 2007, is also a useful reference.

[78] Gershon, P., *Review of the Australian government's use of information and communication technology*. Commonwealth of Australia August 2008.

See further <http://www.financeminister.gov.au/media/2008/mr_372008.html> [accessed 15 October 2009].

5.4 Sir Peter Gershon's advice was based in part on his knowledge of the experience of UK public administration in implementing large scale ICT projects. Indeed, the ANAO notes that large scale, public sector transformational ICT projects are evolving in other parts of the world, notably Europe, into multi-agency delivery platforms. The move away from agency specific ICT projects like the Change Program is designed to deliver more cost-effective, more efficient and accessible 'whole-of-government' services. These developments may also have significant strategic implications for the Government's implementation of the Gershon report recommendations. The ANAO has reviewed these emerging 'e-government' developments in Appendix 3.

5.5 Historically, the shortcomings in timely completion of large scale ICT projects within budget and to requisite standards has been a common occurrence throughout OECD member states. In 2007 the House of Representatives of Holland asked the Court of Audit of Holland to investigate problems with ICT projects and answer several questions about the causes of persistent problems.[79]

5.6 The overall conclusion of the Court of Audit's report about the main underlying causes of problems with government ICT projects is instructive.

5.7 The Report states:[80]

> Our audit found that ICT projects carried out by central government failed to one degree or another chiefly because a combination of political, organisational and technical factors makes them too ambitious and too complex. Such complex projects lack balance between the ambitions and the available human, financial and time resources. Political complexity is a characteristic of the political environment, organisational complexity a characteristic of the project's organisational goals and technical complexity a characteristic of the project's technical development and implementation.
>
> The underlying causes lie in the legitimate interests of the actors that play a role in the initiation of an ICT project. These actors are the minister, the House of Representatives and the ICT providers. In its role as co-legislator, the House expects the government to solve complex problems, preferably as quickly as

[79] Court of Audit (2007) *Lessons Learned from Government ICT Projects Part A* 29 November 2007; Court of Audit, The Hague; The Netherlands.

[80] ibid., page 2.

possible. Ministers like to be seen as decisive. Decisiveness is exhibited in the presentation of an ambitious project subject to a definite and tight deadline. ICT providers need such projects, the bigger the better, to survive. All these actors tend to think in terms of 'big solutions' and each has an interest in large and ambitious projects and a 'natural' tendency to opt for big answers to big problems. In this respect, they do not keep each other in check. Indeed, they entrap each other and the resultant spiral of reliance inevitably results in a complex project that enjoys the status of political fact and from which there is no elegant way out.

Recent whole-of-government initiatives

5.8 Several international and Australian-based trends are relevant in examining the overall success of the implementation of the Change Program. These trends have implications for the way public sector projects like the Change Program may be structured in the future.

Sir Peter Gershon's review of the Government's use of information and communications technology

5.9 On 24 November 2008 the Government announced that it would implement in full the recommendations of Sir Peter Gershon's review of the Government's use of ICT.[81] The Government stated that it would implement a package of targeted strategies and actions to improve the Commonwealth's use of ICT for public administration and service delivery.

5.10 According to the Minister for Finance and Deregulation:

> The Review's recommendations provide a new model for the effective and efficient use of ICT within the Australian Government. This is a turning point, rebalancing the highly-decentralised ICT administration in government and focusing on efficient and effective ICT expenditure and management.[82]

[81] Gershon, P., Review of the Australian government's use of information and communication technology. Commonwealth of Australia August 2008.

See further <http://www.financeminister.gov.au/media/2008/mr_372008.html> [accessed 15 October 2009]. More detail on the Review's recommendations can be found at: <http://www.finance.gov.au/e-government> [accessed 15 October 2009].

[82] See the Minister's media release at <http://www.financeminister.gov.au/media/2008/mr_372008.html> [accessed 15 October 2009].

5.11 The Minister said that the Government will provide leadership on whole-of-government ICT issues at both Ministerial and senior official levels, by establishing a Ministerial ICT Committee as part of the Expenditure Review Committee so as to provide the strategic vision for ICT in support of government policies and programs.

5.12 The Government's decision to implement the Gershon Report's recommendations heralds a fundamentally different approach to the management of ICT and ICT projects in Budget sector agencies. This is indicated in Sir Peter Gershon's Report by the following observation:[83]

The changed Australian political context

> The current approach to the governance and management of ICT across FMA Act agencies, where they have very high levels of autonomy (including the ability to self-approve opt-ins to whole-of-government approaches in the ICT domain), may have been an appropriate model in the context of the previous government's objectives and policies, and the trends of the 1990s and early parts of this decade. However, there are now a different set of external trends and my discussions with the Prime Minister and some other Members of Cabinet have indicated to me that there is now a very different political and public administration agenda in which it is appropriate to consider whether the status quo is still fit for purpose.

e-government

5.13 ICT is being used by governments to increase the public sector's efficiency and productivity. ICT is also being used to make access to government and government goods and services more accessible, cheaper and easier for individuals and businesses. 'e-government' is the phrase now used to refer to the use of ICT in this way.[84] Appendix 3 outlines international developments, with a particular focus on the European Union, which point to

[83] Gershon, P., op. cit., page 11.

[84] 'e-Government' refers to the use by government agencies of information and communications technologies (such as Wide Area Networks, the Internet, and mobile computing) that have the ability to transform relations with citizens, businesses, and other arms of government. These technologies can serve a variety of different ends: better delivery of government services to citizens, improved interactions with business and industry, citizen empowerment through access to information, or more efficient government management. The resulting benefits can be less corruption, increased transparency, greater convenience, revenue growth, and/or cost reductions. The World Bank, Definition of E-Government, <http://go.worldbank.org/M1JHE0Z280> [accessed 15 October 2009].

the widespread introduction of e-government, or more generally, connected governance, in the developed world.

5.14 The initial stages of e-government focused on using investment in ICT to improve the availability of information. This activity primarily involved government agencies establishing web presences to enable easier access by citizens to information about the operations of government. The next phase brought the replacement of manual service delivery and transaction systems with electronic service equivalents. This capability, combined with developments in the web environment, facilitated the introduction of a significant number of easy to use electronic transaction services.

5.15 Connected governance is the next phase of e-government. It implies the establishment of a whole-of-government interactive facility to provide the society with web-based services.[85]

Gateway Review Process

5.16 The superannuation components of the Tax Office's Change Program have been funded by a Budget appropriation, unlike the bulk of the Change Program, which is internally funded by the Tax Office. At the time of that appropriation, the Government established a process for the independent review of an agency's progress with Budget-funded tasks prior to the release of additional monies for each stage of such projects. Progress of the superannuation components is therefore subject to the Gateway reviews.

5.17 Gateway is a project assurance methodology that involves short, intensive reviews at critical points in the project's lifecycle by a team of reviewers not associated with the project. It is intended to provide an arm's length assessment of the project against its specified objectives, and an early identification of areas requiring corrective action. It is a proprietary project management methodology developed by the United Kingdom's Office of Government Commerce (OGC).[86]

5.18 The Gateway Review Process is managed by a Gateway unit in the Department of Finance and Deregulation.

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[85] *United Nations e-Government Survey 2008: From e-Government to Connected Governance* UN Department of Economic and Social Affairs Division for Public Administration and Development Management. United Nations New York, 2008.

[86] See <http://www.finance.gov.au/gateway> [accessed 15 October 2009].

Government services online

5.19 One of the Tax Office's motivations for initiating the Change Program was the need to have ICT systems of sufficient sophistication to support a wide range of secure online interactive services. There was also a need to improve the capacity of the Tax Office to respond quickly and effectively to new Government directions. The relevance of these considerations is illustrated by the Government's recent announcements supporting the introduction of government online services.

5.20 On 29 May 2008 the Minister for Finance and Deregulation announced that the Department of Finance and Deregulation had awarded a contract worth $25 million over four years to Electronic Data Systems Corporation (EDS), for the provision of systems integration services to support the evolution of the *australia.gov.au* website.[87]

5.21 Funded under the Australian Government Online Service Point (AGOSP) Program and managed by the Department of Finance and Deregulation, the new *australia.gov.au* is designed to provide users of Australian Government services with an improved ability to find information and online services, and carry out transactions with multiple agencies from one location.

5.22 Referring to the *Australians' Use of and Satisfaction with e-government Services* survey conducted by AGIMO, the Minister said:

> *"Successive e-government satisfaction surveys have indicated that the existing government information and online service arrangements are too rigid, too hard to find and often use complex language that's difficult to understand. People are also frustrated by the need to visit multiple websites to get the information and services they need and have repeatedly requested simple access to government information and services. The Government is committed to streamlining and enhancing citizens' engagement with government services online. We are focused in particular on the redevelopment of the Government's one stop shop for government services, australia.gov.au. New services to be delivered as part of the EDS contract include the development of an australia.gov.au online account, allowing individuals to 'log on' and interact with government from a central point. The enhanced australia.gov.au will*

87 <http://www.financeminister.gov.au/media/2008/mr_182008.html> [accessed 15 October 2009].

meet tough security standards, and in the interest of safeguarding individuals' privacy, services offered through australia.gov.au will be strictly opt-in.

Australian Public Service-wide considerations

5.23 The new governance arrangements established in response to Sir Peter Gershon's report include providing guidance to agencies which would improve the governance of large ICT projects.

5.24 Key lessons arising from the experiences of the Change Program thus far include:[88]

- large transformational ICT projects require robust governance arrangements and agencies need to regularly reassess the governance framework over the life of the project;
- no matter how well planned a project is there seems to be an inevitable 'conspiracy of optimism'[89] or tendency for project management and staff to underestimate the complexity of the ICT task and associated risks and to overestimate their ability to do the task and manage the risks;
- all Commonwealth agencies function in an environment of substantial change in all relevant dimensions: policy, legislation, funding, technology, community expectations and workforce skills. As a consequence, the scope of any large, long term ICT project will change significantly during its life. Agencies tend to underestimate the impact of these changes, and there is a likelihood that they will fail to respond properly to emerging issues and changes in risks;

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88 These are broadly congruent with the Gershon report.

89 This phrase was used by Mrs Helen Ghosh, Permanent Secretary, Department for Environment, Food and Rural Affairs, in her evidence to an enquiry conducted by the House of Commons Committee of Public Accounts into a report by the Comptroller and Auditor General, *The Delays in Administering the 2005 Single Payments Scheme in England*, HC (2005–06) 1631.

In her evidence, Mrs Ghosh explained that by 'conspiracy of optimism' she meant that "because the agency had the can-do attitude .... and management information was not as full as it should have been, it was possible for all members of the project and indeed officials to look on the bright side of the information they were getting." House of Commons Committee of Public Accounts *The Delays in Administering the 2005 Single Payment Scheme in England Fifty–fifth Report of Session 2006–07 Report, together with formal minutes, oral and written evidence.* Ordered by The House of Commons to be printed 18 July 2007, Evidence 9 (page 31).

The HC Report is available at:
<http://www.publications.parliament.uk/pa/cm200607/cmselect/cmpubacc/893/893.pdf> [accessed 15 October 2009].

- there will inevitably be redefinitions of the scope of the project. It is important to the successful management of a project that all the consequences of adjustments to scope be worked through fully on all the major dimensions of the project;
- it is more probable than not that the documentation of the existing systems' business rules, compliance with legislation, and built-in audit trails will be of limited quality and hence of limited usefulness for designing the new system;
- it is more likely than not that project management and staff will underestimate the time consuming nature and complexity of reaching decisions about design specifications and the fitness for purpose of completed ICT work;
- independent assurers are critical to success, however the agency will experience considerable challenges in taking the advice of independent assurers into account in their decision making when time and cost pressures mount;
- agencies should carefully consider if they have the skills to do the work and, if they do need to contract with a partner, whether they have the skilled staff to manage the work of the partner;
- agencies should establish their own internal assurance capability in order to provide the agency's executives and Audit Committee with assurances in key areas, including:
    - compliance of computer software with legislation;
    - compliance of computer software and systems with financial controls; and
    - compliance of the prime contractor with contractual requirements;
- agencies should ensure that their internal audit capability is adequately resourced to conduct audits of compliance, operational and strategic aspects of the ICT project;
- agencies should recognise the potential impact the loss of key staff may have, and have specific staff mitigation strategies in case this arises;
- ensuring sufficient resources are allocated to the planning and execution of systems testing is critical. Parallel testing of new ICT systems with live

production data (i.e. parallel processing in a test, not production environment) to address all possible transactional and operational scenarios is vital;

- project planning should ensure a phased approach to design, testing and implementation which breaks the project down into a number of manageable, self contained modules so that new software is implemented in a staged manner. Each stage should be subject to a separate 'stage gate' evaluation;
- agency management should receive periodic reports about the full range of costs and benefits that may be attributable to the ICT project. The costs of the ICT project are not limited to the direct and indirect costs incurred by the agency in relation to contractual obligations. Costs include a range of other direct, indirect and opportunity costs.

5.25 As Commonwealth agencies provide the community with essential services, significant delays in the completion of large ICT projects on which the provision of services depends are likely to result in adverse impacts on the community, including the deferral of the benefits of better services to the community. Agency management need to monitor these imposts, too.

5.26 Agencies should establish arrangements that will ensure that contract administration exhibits sound practices, such as those set out in the ANAO Better Practice Guide, *Developing and Managing Contracts*. Relevant staff should be aware of the agency's contractual rights and obligations in relation to the prime contractor and the independent assurer.

5.27 History has shown that the successful management of these large and complex projects is a major challenge for public sector agencies. Sir Peter Gershon noted that if agencies take care, establish sound governance arrangements and take into account the concerns listed above, the result would be the successful management of large ICT transformational projects achieving good outcomes for the community.

Ian McPhee

Auditor-General

Canberra ACT

29 October 2009

Appendices

Appendix 1: Tax Office Response

Australian Government
Australian Taxation Office

SECOND COMMISSIONER OF TAXATION

Mr Peter White
Group Executive Director
Performance Audit Services Group
Australian National Audit Office
GPO Box 707
CANBERRA ACT 2601

Dear ~~Mr White~~, Peter

THE AUSTRALIAN TAXATION OFFICE'S IMPLEMENTATION OF THE CHANGE PROGRAM: A STRATEGIC OVERVIEW

Thank you for the opportunity to review and provide comments on the Australian National Audit Office report and recommendations relating to the Tax Office implementation of the Change Program.

As noted in your report the Change Program is a very significant information and communication technology program. It will replace all our behind the scenes mainframe systems, some of which are over 30 years old, with a single integrated system. In doing so, it will provide the Tax Office with the foundation to better meet the expectations of Government and community. It will also deliver improved client experiences and will provide efficiencies for the Tax Office.

We have already seen efficiencies and savings as a result of the Change Program:

- Release 1 provided us with a client relationship management system and online portals. This means staff no longer work, view or operate in multiple systems as client information is now presented in one system.
- Release 2 impacted over 13,000 staff in over 1,000 teams across 60 sites and fundamentally changed the way we conduct our business. Staff can now see in one system client contact history, current cases associated with a client, and images of correspondence sent to and from the client. This shift is helping us to provide higher quality and more consistent service.
- Release 3 is still underway and we have already implemented part of the Integrated Core Processing (ICP) system providing a significantly improved capability to process fringe benefits tax and some superannuation products.

The remainder of release 3 will deliver the other elements of the ICP system which will replace eight more aging mainframe systems and will allow us to process all of our accounts, registrations, forms and payments, and do follow-up work relating to outstanding debts and lodgement.

Your report also notes that due largely to legislative changes, such as Superannuation Simplification and First Home Saver Accounts, the Change Program will take longer than was originally planned. This has presented a number of challenges, but we

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continue to progressively deliver the intended outcomes adapting and refining our approaches to ensure outcomes are met with minimal disruption to the administration of Australia's taxation and superannuation systems.

We believe the Tax Office experiences as outlined in the report may provide valuable lessons for other government agencies undertaking or embarking on similar transformational change programs.

On behalf of the Tax Office I welcome the report and agree to the recommendations as outlined in Appendix A and would like to thank the audit team for the constructive and collaborative way in which this audit was conducted.

Yours sincerely,

David Butler
Second Commissioner
3 September 2009

Appendix A

Recommendation 1 Paragraph 2.36	The ANAO recommends that, in order to better manage risks to the Change Program, the Tax Office more effectively utilise its available assurance framework (compliance assurance, internal audit, the contracted independent assurer), including end-to-end system testing involving operational areas, during the remaining implementation phases of the Change Program.
ATO Response	Agreed
Recommendation 2 Paragraph 2.65	The ANAO recommends that in order to improve the governance of the Change Program, the Tax Office amend the Contract (Schedule 2) to clearly set out the high level governance arrangements.
ATO Response	Agreed
Recommendation 3 Paragraph 2.97	The ANAO recommends that in order to continually improve the performance of those functions transformed by Change Program releases, the Tax Office review existing Tax Office management frameworks to take into account the enhanced performance measurement and reporting capabilities of new systems so as to, for example: a) improve the Tax Office's capacity to evaluate the efficiency, productivity and effectiveness of performance on a whole-of-Tax Office basis; and b) evaluate the scope to improve performance by the use of methodologies that measure and compare performance at an organisational group level.
ATO Response	Agreed
Recommendation 4 Paragraph 4.40	The ANAO recommends that in order to improve the strategic management of the Change Program, and having regard to the management reports submitted to it, the Change Program Steering Committee periodically receive additional summary, high level reports covering: a) the broad range of costs and benefits attributable to the Change Program; and b) the progress of the Change Program in achieving the strategic goals originally determined.
ATO Response	Agreed

Appendix 2: Previous ANAO performance audits of the Tax Office that referenced the Change Program.

1. Since the Change Program[90] was initiated in 2003, 23 ANAO performance audits of tax administration have been tabled.

2. In 11 of the reports the Tax Office advised that the implementation of some of the recommendations and suggestions for improvement would depend on the successful completion of the Change Program.

3. The 11 performance audits are:

- Audit Report No. 40 2007–08 Taxpayers' Charter – Follow-up Audit;
- Audit Report No. 30 2007–08 The Australian Taxation Office's use of Data Matching and Analytics in Tax Administration;
- Audit Report No. 12 2007–08 Administration of High Risk Income Tax Refunds in the Individuals and Micro Enterprises Market Segments;
- Audit Report No. 42 2006–07 The Tax Office's Administration of Debt Collection: Micro-business;
- Audit Report No. 16 2006–07 Administration of Capital Gains Tax Compliance in the Individuals Market Segment;
- Audit Report No. 33 2005–06 Administration of Petroleum and Tobacco Excise Collections: Follow-up Audit;
- Audit Report No. 30 2005–06 The Tax Office's Strategies to Address the Cash Economy;
- Audit Report No. 17 2005–06 Administration of the Superannuation Lost Members Register;
- Audit Report No. 47 2004–05 Australian Taxation Office Tax File Number Integrity;
- Audit Report No. 39 2004–05 The Australian Taxation Office's Administration of the Superannuation Contributions Surcharge; and
- Audit Report No. 07 2004–05 Administration of Taxation Rulings Follow-up Audit.

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[90] Change Program is the abbreviated title for the Easier Cheaper and More Personalised (ECMP) program, which is used in some of the previous ANAO audits.

Appendix 3: e-government – international trends

What is e-government?

1. The European Union (EU) describes e-government in this way:[91]

> *e-government is the use of Information & Communication Technologies (ICTs) to make public administrations more efficient and effective, promoting growth by cutting red tape. This is something which anyone who has spent hours waiting in line in a government building can appreciate.*

2. The United Nations considers that[92]

> *e-government can contribute significantly to the process of transformation of the government towards a leaner, more cost-effective government. It can facilitate communication and improve the coordination of authorities at different tiers of government, within organizations and even at the departmental level. Further, e-government can enhance the speed and efficiency of operations by streamlining processes, lowering costs, improving research capabilities and improving documentation and record-keeping.*

3. The EU notes, however, that the "real benefit of e-government lies not in the use of technology per se, but in its application to processes of transformation".

4. According to the EU, e-government is the key process of transformation. It is the change agent which transforms government fundamentally. The EU points out that ICT has the potential to transform government from a collection of discrete independent services operating under a broad umbrella, to a holistic entity where policy, program and system interdependencies are both recognised and responded to. This would enable whole-of-government interaction between citizens and government, reducing the costs to both.

The development of e-government

5. The initial stages of e-government focused on using investment in ICT to improve the availability of information. This activity primarily involved

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[91] <http://ec.europa.eu/information_society/tl/soccul/egov/index_en.htm> [accessed 15 October 2009].

[92] *United Nations e-Government Survey 2008: From e-Government to Connected Governance* UN Department of Economic and Social Affairs Division for Public Administration and Development Management. United Nations New York, 2008.

government agencies establishing web presences to enable easier access by citizens to information about the operations of government. The next phase brought the replacement of manual service delivery and transaction systems with electronic service equivalents. This built on very significant investment in the automation of back-end processing and storage systems which had resulted in considerable improvement in the efficiency of many of the internal operations of governments, particularly those involving information storage. This capability, combined with developments in the web environment, facilitated the introduction of a significant number of easy-to-use electronic transaction services.

6. The practical benefits of these developments are evident in a wide range of everyday interactions between citizens and their governments. In the Australian context, activities such as the lodgement of tax returns, the payment of social security benefits, and health insurance claims have all been made easier and less time consuming with the advent of these e-government services. To a large degree, individual agencies of government, in developing these new more efficient e-services, were mirroring private sector developments in a range of transaction based services. As in the private sector, the activities necessitated not only the effective use of technology but also a series of transformations in the business operations of the government organisations which provided the services.

7. To date e-government has brought improvement in the particular operations of parts of government without having a major impact on the operations of government as a whole. Despite the increasing sophistication of e-government services, there has been little real advance in aspects of e-government which recognise and respond to the essential inter-dependence of agencies and functions. This ingredient is a necessary prerequisite if government is going to be able to interact with its citizens as an integrated entity rather than a series of discrete functions and services.

Agency versus whole-of-government outcomes: e-services

8. e-government has evolved in this fashion mainly because systems of accountability emphasise ministerial accountability for the specific agencies for which the Minister is responsible. The strengthening of systems of accountability facilitates the improved performance of agencies. As ICT has improved, significant gains in agency performance invariably can only be achieved by organisational transformations using large scale ICT investments.

Most agencies involved in these areas have been of such a size that the scale of operation necessary to justify the technology investment could be achieved by the agency itself.

9. Tax and welfare administration have been the areas of public administration where the use of ICT has had its most significant impact. These agencies provide essential government services and are characterised by activities with high transaction and data storage requirements and large numbers of users. The drive to improve agency performance has been stronger and of greater practical importance than any drive to improve whole-of-government services. Practical constraints such as the interoperability of systems amongst relevant agencies, and in some cases legislative constraints (for example, in relation to the common use of agency-specific data) have meant that there have been substantial barriers to the establishment of large scale whole-of-government ICT projects that could provide practical interactive services that large agencies in the tax and welfare areas can provide as a result of large scale agency specific ICT projects. The EU and UN papers note that there have to date been very few practical examples of effective whole-of-government strategies despite widespread recognition that this broader objective is the goal of e-government investments.

10. The EU and UN reports note that the next generation of efficiency-producing technologies may need to be of such a scale that they are beyond the investment capacity of even the largest of current agencies. They note that increasingly governments are establishing central agencies to promote whole of government initiatives. In the United Kingdom, the Office of the e-Envoy has a focus on whole-of-government issues. e-government research programs of both the OECD and the EU contain much activity related to the possibilities and problems of the establishment of pan agency e-government systems. The EU aspires to even greater goals, with research into the physical and human infrastructure necessary for whole-of-europe processes and systems. In Australia, one of the reasons for establishing organisations such as the Office of Government Information, the National Office for the Information Economy and subsequently the Australian Government Information Office was to pursue whole-of-government issues.

The next phase: ‘connected governance’

11. According to the reports reviewed, e-government has made a significant improvement to the services, processes and systems of government.

Nevertheless, the potential of e-government to deliver overall benefits in governments' interface with citizens remains a distant potential. The UN acknowledges this slow progress.[93] The UN report argues that a major factor has been the need to have the right back-end systems functioning in agencies and behind whole-of-government administration. These systems are described as:

> *a multitude of foundational pillars which include prerequisites of infrastructure, appropriate policies, capacity development, ICT applications and relevant content that need to be in place to fully implement e-government services. … only a few governments have made the necessary investment to move from e-government applications per se to a more integrated connected governance stage. In terms of connectivity, a robust broadband network is critical to the roll out of e-government applications and services.*

12. The UN report sees 'connected governance' as the next phase of e-government, the development which will facilitate more widespread introduction of whole-of-government interaction with citizens.

> *'Connected Governance' is described as a "concept which is derived from the whole-of-government approach which is increasingly looking towards technology as a strategic tool and as an enabler for public service innovation and productivity growth.*

13. The emphasis is on collective action across government, improved cooperation between agencies, enhanced consultation with clients and stakeholders and a focus on an '*integrated approach*' which '*enhances the value*' to citizens. The report sees a strong overall government (political) commitment to a strategy based on these elements as a major precondition for success.

14. Despite its assessment of the overall slow progress to date, the report is relatively optimistic about the emergence of more "connected governance" environments. It found an increasing number of economies where governments have implemented many of the 'multitude of foundation pillars' that will provide the basic infrastructure for these whole-of-government services. Other surveys of e-government developments have detected an increased emphasis from governments on the availability of the critical "robust broadband network". In addition, and more importantly, the consumers of government services are increasingly demanding much more sophistication in the ways their governments respond to them. According to the UN report,

[93] Ibid., footnote 92.

"'*clients' of government demand top performance and efficiency, proper accountability and public trust, and a renewed focus on delivering better service and results*". Australian consumers are increasingly sophisticated users of online environments and can be expected to demand governments respond to them in as efficient a manner as possible.

15. The changing public sector environment may in part reflect private sector developments, which have seen consumers receive multiple service items from 'one stop shops', for example, those established by financial services companies. Increasing consumer experience with technology-enabled private sector services has increased expectations that governments will provide comparable ways for consumers to interact with government in a convenient way.

16. Enhanced media scrutiny of government activity and movements related to more participatory democracy have also encouraged consumers to see government as an holistic entity rather than sets of discrete services. Community demands are, in turn, bringing greater recognition in the political system to the practical benefits of whole-of-government responses to consumer demands. The political commitment necessary to overcome many of the impediments to 'connected governance' noted above could soon follow. In addition, the increasing complexity of government and the need for responses to major national and global challenges that comprehends multiple policy and operational areas has placed a much greater premium on coordination functions. In other words, there is less of a technology push and more of a pragmatic policy pull.

Australia: the Gershon report

17. The 2008 UN report, as it has done for a number of years, places Australia in the top ten of the world's e-government-ready nations. The UN report looks particularly favourably on developments such as the whole-of-government information access activity of the *australia.gov.au* site. The UN report suggests that Australia may be making progress in achieving the effective integration of back-end systems of historically discrete agencies and functions, which the UN sees as critical if the 'connected governance' goal is to be realised. In general, the Australian Government's operations are seen to be supported by effective and advanced back-end information processing and storage systems. The principle of integrating these systems with organisational business operations is also generally well established. Despite the implementation problems that have emerged, the Tax Office's Change Program has this larger goal of improving business operations to maximise the efficiency opportunities afforded by the technology investment.

18. The infrastructure links emerging between the Tax Office systems and other agencies such as Centrelink is recognition of mutual self interest and a practical example of the approach to back-end integration. The recent Gershon report, which examined a range of strategic and tactical issues in Australian government use of ICT, could well provide the impetus for the process of integration of back-end systems or, as the UN refers to it, 'the necessary multiple foundational pillars' to reach the level necessary to underpin a workable 'connected governance' environment for Australia.[94]

19. Although Gershon identified a number of shortcomings in the use of ICT in the Australian public sector, the report also acknowledges that agencies in Australia have developed a wide range of effective e-services. In so doing agencies have created a significant part of the technology infrastructure necessary to underpin whole-of-government approaches. Gershon's recommendations on data storage consolidation and on processes for agencies to follow in pursuing integration of their currently independent systems will prompt increased focus on both the benefits of integration and the steps necessary to achieve it.

20. One of the most significant aspects of the Gershon report, and where it parallels many of the future directions in the UN and EU reports, is in the area of governance. Gershon's recommendations on pan government governance reflect two of the UN's major requirements for successful whole-of-government approaches to e-government. The proposed Ministerial Committee provides the vehicle for an overall strategic vision for government use of ICT backed by a strong political commitment, while the Committee's supporting structures provide the impetus for agencies to recognise their interdependence in the broader government structure. This will lead to a sharing of objectives across organisational boundaries.

21. While these processes can provide the necessary environment for the required change, history would suggest that a strong ongoing government

[94] Gershon, P., *Review of the Australian government's use of information and communication technology*. Commonwealth of Australia, August 2008.

commitment to whole-of-government strategies will be necessary to make them sufficient.

Implications for change

22. Outcomes along the lines suggested in the UN, EU and Gershon reports will need significant changes in approaches by agencies (particularly the larger ones) to the ways they manage and utilize their investment in ICT. The strategic management of the investment in the context of a whole-of-government approach will need modifications to existing practice. In general, Australian Government agencies have shown an understanding of the processes of change necessary within their agencies if ICT is to be the transforming investment which brings about improvement in overall agency efficiency and cost-effectiveness. The next stage of e-government will need this to be blended with a comprehensive understanding of the relationships between interdependent functions and the implications of this for the tactical deployment of ICT resources. In practice, management teams will need access to greater capability in the understanding of the strategic environments in which they operate. This will include the technology as well as policy and operational environments. Whole-of-government frameworks will increasingly use ICT facilities in which the infrastructure will be outside the direct control of individual agencies. In practice, agencies may well be purchasing their processing and data storage in ways not unlike those now used to obtain broadband connectivity.

23. According to these reports, increasingly the returns from investment in ICT will be seen in a government-wide context. Part of the reason is the very large outlays required to acquire the ICT facilities with the greatest potential to make the required improvements to productivity, efficiency and cost-effectiveness. Another consideration is that the large scale improvements to productivity, efficiency and cost-effectiveness that governments will be looking for might only be achieved by whole of government service provision. Just as web-based ICT systems are displacing dispersed administrative centres, so too might web-based services replace agency-specific service provision.

24. As the returns from investment in ICT are increasingly seen in a government-wide context, agencies will need to expect greater external scrutiny of their projects. While this will undoubtedly provide challenges for agencies used to considerable independence in decision-making, it will bring with it the potential for enhanced expertise and additional perspectives to be brought to the management of major projects. Such an outcome will significantly reduce the possibility of the type of ‘conspiracy of optimism’ developments which are referred to in this audit.[95] The end result will be an improvement in project performance for the responsible agency and a positive contribution to the achievement of its particular goals.

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[95] This phrase was used by Mrs Helen Ghosh, Permanent Secretary, Department for Environment, Food and Rural Affairs, in her evidence to an enquiry conducted by the House of Commons Committee of Public Accounts into a report by the Comptroller and Auditor General, *The Delays in Administering the 2005 Single Payments Scheme in England*, HC (2005–06) 1631.

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