

Mr David Butler
Second Commissioner
Australian Tax Office
PO Box 9977
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21 January 2010

Dear David

**Re: Assessment of the ATO's Go-Live Decision for the Change Program's
Income Tax Release**

Over the last two months we have provided the ATO with three interim assessments of the ability to successfully implement the Income Tax release by 1 February 2010, as per our proposal of 23 October 2009¹. This letter represents our final review of the ATO's readiness for this critical release as input to, and in support of, the ATO's decision to go-live on the target date.

As with previous assessments, we have used as our basis the ATO's go-live readiness criteria, which we believe are suitable and comprehensive. These criteria cover:

- ▶ Key Production Readiness Scenarios – covering the 14 key business functions and processes nominated by the ATO;
- ▶ Staff Readiness – covering the ATO's ability to use the new system, adapt to new processes and cope with the expected levels of manual workarounds;
- ▶ External Readiness – covering the ATO's engagement with external stakeholders such as tax professionals, other government agencies and service providers such as bulk print vendors;
- ▶ Systems Implementation Readiness – covering the suite of applications being included in the release, their stability, scalability, performance, the conversion of legacy data and the arrangements to support the system once implemented.

We have provided below an assessment of each of these criteria, together with our rationale, any residual risks and our assessment of the probable consequences of implementing the system. As we noted in our proposal of 23 October 2009, the key to the ATO deciding to go-live lies in your understanding of the risks and likely consequences of proceeding, and having appropriate contingency measures in place to deal with these.

To reflect and deal with the outstanding risks to implementation, we have also provided a number of actions which, while not required to be completed before the release, are essential for the successful operation of the system in the first few days and weeks. Because of their criticality, these are presented as conditions to our endorsement of the go-live decision.

Key Production Readiness Scenarios

As we noted in our report on 14 January and based on a detailed review of the business scenarios on 11 January, we believe that the business impact of outstanding defects **does not represent an impediment to implementation**. This is on the basis that:

¹ These reports were submitted to the CPSC on 24 November 2009, 22 December 2009 and 14 January 2010

- ▶ A small number of assessment defects (in scenarios 1 and 2) are still outstanding, but are expected to impact less than 50,000 individual assessments annually, from a total taxpayer base of 14.5 million. Clearly, the ATO needs well developed processes to identify and rectify any errors that come to light through feedback from the community, further minimising any impact on taxpayers;
- ▶ Robust processes will be in place to ensure that forms, payments or correspondence that are directed to error queues are promptly identified and actions are taken to minimise or prevent adverse client impacts (see also Systems Implementation Readiness);
- ▶ We believe that the Operational Analytics processes that service the capabilities of Debt, Lodgement Compliance and SMSF Compliance will not be fully functional for a period of several months after the implementation date. The consequences of these deficiencies are understood and accepted by the ATO, specifically that:
 - Debt collections in 2009-10 will be reduced by ~\$570 million, and
 - Lodgement compliance revenues in 2009-10 will be reduced by ~\$80 million

These estimates are from Debt and TPALS respectively; they should be read in the knowledge that even a high quality implementation would be expected to have (albeit smaller) impacts on revenue and collections, as estimated in our 14 January report;

- ▶ We expect widespread delays in processing returns and paying refunds until the system is stabilised, most likely around the end of 2010, noting that such delays may be expected with any systems implementation of this size and complexity. Naturally, this will adversely impact the ATO's service level performance;
- ▶ Other business scenarios do not show significant levels of risk.

We refer you to the *Summary of Scenario Assessments*, dated 11 January 2010 and tabled at the CPSC on 14 January 2010, for further details.

Staff Readiness

We have reviewed the preparations made by the Compliance and Operations Sub-plans (the EST Sub-plan is covered under our Systems Implementation Readiness assessment) and believe that the workforces **are ready for implementation**. This is on the basis that:

- ▶ Training is scheduled to be delivered as required;
- ▶ The expert user network has been established and trained, with supporting processes;
- ▶ The exception levels expected from the new system are reasonably well understood (based on a one day sample);
- ▶ Operations staffing has been planned taking into account the expected ramp-up overheads and delays and the expected exception and error rates;
- ▶ Workarounds has been developed for agreed outstanding defects and have been staffed appropriately;
- ▶ Contingency plans to cope with post-implementation issues have been developed.

External Readiness

We have reviewed the preparations made by Operations working with external partners, and TPALS working with tax professionals and we are satisfied that this aspect of preparation **is ready for implementation**.

This is based on:

- ▶ Testing with external partners who interface directly to the ATO (also covered in the business scenarios);
- ▶ Communications with external partners based on an open approach to the issues likely to occur and the contingencies required. We believe that the expectations set for the new system's operation are reasonable;
- ▶ The use of a structured process for listening to the tax professional and general communities and understanding any issues that they may be experiencing with the new system;
- ▶ The incorporation of issues experienced by external stakeholders into the ATO's issue management processes following implementation;
- ▶ The preparation of contingency plans should the external community experience serious impacts.

Systems Implementation Readiness

At our most recent interim assessment (14 January), we had stated that the system was not at that time ready for implementation due to outstanding issues in this area, specifically relating to data conversion and the support arrangements for the system in production use. We are now able to state that we believe the system ***is ready for implementation based on this criterion, but subject to some important conditions***. This is based on:

- ▶ The most recent data conversion (19N2) has demonstrated explainable discrepancies from the conversion of over \$248 million, relating to a set of clearly identified clients and accounts. All of these are expected to be either dealt with as a series of workarounds, or manually corrected immediately following the go-live conversion processing;
- ▶ The unexplained discrepancies from the trial conversion total \$16.12, which we believe is extraordinary given the size and complexity of the conversion from NTS, a very old system with poor data integrity controls by modern standards. While the actual results from the final conversion may differ, it is reasonable to expect that the level of financial integrity in the conversion will be acceptably high;
- ▶ The technical support arrangements have now matured and appear sound, and the resourcing available to the ATO is sufficient to cater for the known work outstanding and, within reasonable limits, the remediation of the issues expected to occur once the system is operating;
- ▶ The work associated with the deferred functionality and outstanding defects has been included in a high level plan and release schedule, although this is still subject to business approval.

The outstanding risks we see are:

- ▶ That data conversion workarounds are suitably documented and staff adequately trained in any required procedures;
- ▶ That the processes to execute and verify the post-implementation data clean-up are completed promptly and in a secure and auditable manner;
- ▶ The processes to manage the error queues are still immature. These are critical to ensure that transactions in these queues are efficiently identified and released, and that the underlying causes of any errors are addressed promptly. While it is not essential that these processes are complete at present, it is critical that they are robust and efficient within 2 weeks of go-live;

- ▶ There is still a risk that the operational and production issues that occur will either interfere with the Tax Time 2010 implementation and/or prevent the enterprise processing platform being stabilised in time for Tax Time 2010.

Addressing these risks is covered in our Conditions for Endorsement, below.

Conditions for Endorsement

Our assessment is that the Income Tax Release is **ready for implementation**, notwithstanding that a number of issues and risks are evident. The ATO can deal with these following the go-live date, but must do so in a structured and disciplined manner in order to ensure that the implementation is successful. The recommended actions are:

1. Development of a detailed plan with clear accountabilities for the data changes required to address explainable discrepancies during conversion. This must be completed very shortly (less than 7 days) after implementation and in a secure and auditable manner;
2. Documentation of data conversion-related workarounds and communication of these to staff;
3. Finalisation of fully tested and robust processes for error queue management within both EST and Operations, which will function in a robust manner both before and after the implementation of the planned supporting toolset. These processes should target a transaction recovery time service level that avoids serious client impacts and reverse work flows;
4. Development of detailed workplans for the delivery of the outstanding functionality that provides assurance that the revenue impacts associated with the impaired debt and lodgement functionality are minimised and that Tax Time can be reliably delivered. This should include contingency planning to cover the eventuality that the support team is overwhelmed with production issues and is unable to complete the default work program;
5. Development of processes to deal with the residual assessment calculation defects, including gathering feedback from Tax Agents (this is broadly covered in the TPALS ERIK program), but also applying the remediation of errors found for one client to all similar assessments. We understand that Accenture is developing a "Safety Net Utility" to help with this and we endorse this initiative;
6. Testing of the Disaster Recovery for the production enterprise suite of systems as soon as possible following the Income Tax release;

We note that all of these actions are at some stage of being progressed at present.

Finally, we congratulate the Change Program team and the many ATO staff supporting the program for their focus and drive over the past few months. We wish you and the ATO good fortune in leveraging the additional capabilities that the enterprise suite of systems provides.

Yours sincerely



Richard Tait

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