

## Audit Report No. 08 2009-10

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

## **Introduction<sup>1</sup>**

- 3.1 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. 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.
- 3.2 Following the implementation of the Government's significant tax reforms in 2000, the Tax Office began an initiative to make compliance with tax law easier, cheaper and more personalised. The Tax Office was becoming

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1 The following information is taken from Audit Report No. 08 2009-10, *The Australian Taxation Office's Implementation of the Change Program: a strategic overview*, pp. 13-26.

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 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.

## **Planning of the Change Program**

- 3.3 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.
- 3.4 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**

- 3.5 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.

3.6 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.<sup>2</sup>

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

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2 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.

## Change Program governance

- 3.8 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.
- 3.9 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.
- 3.10 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

- 3.11 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 relation to managing large public sector ICT projects.<sup>3</sup> 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.
- 3.12 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;

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3 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>>

- identifying and managing risks;
- holding executive and business line managers accountable; and
- involving end users in the development and implementation.

3.13 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.

3.14 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.

3.15 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.

### **Implementation progress and extensions to project scope**

3.16 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.

3.17 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.

3.18 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 later 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.<sup>4</sup>

- 3.19 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.

## **Change Program funding**

- 3.20 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.<sup>5</sup> The Tax Office planned to internally fund this project from its annual appropriations by reducing expenditure on other areas of tax administration.
- 3.21 As noted above, 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.<sup>6</sup> 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.

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4 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.

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

6 The FHSA was contracted separately to the Change Program.

- 3.22 Actual expenditure on the Change Program to the end of 2008-09 was \$749 million.<sup>7</sup> 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.<sup>8</sup> 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.
- 3.23 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.
- 3.24 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.
- 3.25 The breakdown of the overall Change Program budget as at 30 June 2009 is depicted in Figure 1 on page 8 of the Audit Report.

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7 The Tax Office subsequently advised the Committee that as at 31 December 2009 actual expenditure stood at \$780 million. (Australian Taxation Office, Submission No. 1, Attachment 4, p. 7.) The Taxation Commissioner told Senate Estimates in June 2010 that actual expenditure to 30 June 2010 would be \$820 million. (Senate Economics Legislation Committee Estimates, 1 June 2010, Proof Hansard, p. 83.)

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

## The Audit

### Audit objective<sup>9</sup>

- 3.26 The objective of this audit was to provide a strategic review on the progress of the Tax Office's implementation of the Change Program.
- 3.27 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.<sup>10</sup>
- 3.28 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.<sup>11</sup>

### Overall audit conclusion

- 3.29 The ANAO made the following overall audit conclusion:

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

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9 The following information is taken from Audit Report No. 08 2009-10, p. 21.

10 Audit Report No. 08 2009-10, p. 21.

11 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](http://www.financeminister.gov.au/media/2008/mr_372008.html)>



that would provide improved services to the community, including secure online facilities.

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.<sup>12</sup>

3.30 The ANAO concluded that the original design and implementation plans for the Change Program 'established appropriate governance arrangements for the management' of the Program 'commensurate with the project's anticipated size and complexity as understood in 2004'.<sup>13</sup> Subsequently, overall governance was improved and strengthened following a number of reviews after each implementation phase.<sup>14</sup> Although the initial planning 'broadly addressed the key structural elements for success identified in the OECD's 2001 report about avoiding large government ICT failures', the Tax Office experienced difficulty in three of the five areas:

- 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.<sup>15</sup>

3.31 The Change Program was initially split into three self-contained releases and the ANAO concluded that:

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.<sup>16</sup>

3.32 The ANAO noted that Release 3 was the 'largest and most complex of the implementation releases' and that the Tax Office originally considered it too difficult to split Release 3 into smaller modules.<sup>17</sup> However, the Tax

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12 Audit Report No. 08 2009-10, p. 21.

13 Audit Report No. 08 2009-10, p. 22.

14 Audit Report No. 08 2009-10, p. 22.

15 Audit Report No. 08 2009-10, p. 22.

16 Audit Report No. 08 2009-10, p. 22.

17 Audit Report No. 08 2009-10, pp. 22-23.

Office advised the ANAO 'that the inclusion of superannuation simplification subsequently required it to change this appraisal'.<sup>18</sup>

- 3.33 The ANAO concluded that the decision to split Release 3 presented a range of problems:

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.

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.<sup>19</sup>

- 3.34 However, the ANAO concluded that the implementation of Release 3 to date has 'provided a 'proof of concept' test of the ICP's capacity to process tax returns' and 'demonstrated the potential for efficiencies by reducing the extent of manual intervention required of the legacy systems'.<sup>20</sup> The Tax Office acknowledged that the original business case was ambitious and that the scope changed to accommodate government policy initiatives.<sup>21</sup> Under these circumstances, the ANAO concluded that the original plans had to be modified as the Change Program was implemented producing mixed results:

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

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18 Audit Report No. 08 2009-10, p. 23.

19 Audit Report No. 08 2009-10, p. 23.

20 Audit Report No. 08 2009-10, p. 23.

21 Audit Report No. 08 2009-10, p. 23.

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.<sup>22</sup>

- 3.35 The ANAO concluded that, given the increased timeframe for the expected completion of the project, the measurement and attribution of costs needs to be improved:

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.

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.<sup>23</sup>

- 3.36 In conclusion the ANAO advised that the Change Program still faces considerable risk and that the task ahead is to implement the lessons learned to date:

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

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22 Audit Report No. 08 2009-10, pp. 23-24.

23 Audit Report No. 08 2009-10, pp. 24-25.

Program will be reduced so as to meet current budget and timetable expectations.

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.<sup>24</sup> Such developments could necessitate a review of work priorities and a further reconsideration of the current implementation schedule.

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;
- 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.<sup>25</sup>

3.37 The ANAO also concluded that the lessons learned can be applied across the Australian Public Service (APS) as other departments and agencies face the prospect of replacing large ICT systems in response to the Gershon recommendations:

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24 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, looked at the current tax system and made recommendations to position Australia to deal with the demographic, social, economic and environmental challenges of the 21<sup>st</sup> century. The final report was presented to the Treasurer in December 2009. See <<http://www.taxreview.treasury.gov.au>> [accessed 9 March 2010].

25 Audit Report No. 08 2009-10, pp. 25-26.

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.<sup>26</sup> 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.

## ANAO recommendations

**Table 3.1 ANAO recommendations, Audit Report No. 08 2009-10**

1.	<p>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.</p> <p><b>Tax Office Response:</b> <i>Agreed</i></p>
2.	<p>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.</p> <p><b>Tax Office Response:</b> <i>Agreed</i></p>
3.	<p>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:</p> <ul style="list-style-type: none"> <li>a) improve the Tax Office's capacity to evaluate the efficiency, productivity and effectiveness of performance on a whole-of-Tax Office basis; and</li> <li>b) evaluate the scope to improve performance by the use of methodologies that measure and compare performance at an organisational group level.</li> </ul> <p><b>Tax Office Response:</b> <i>Agreed</i></p>
4.	<p>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:</p> <ul style="list-style-type: none"> <li>a) the broad range of costs and benefits attributable to the Change Program; and</li> <li>b) the progress of the Change Program in achieving the strategic goals originally determined.</li> </ul> <p><b>Tax Office Response:</b> <i>Agreed</i></p>

26 'End-to-end testing' requires assessment of systems on a fully integrated basis.

## The Committee's review

- 3.38 The Committee held a public hearing on Thursday 22 April 2010, with the following witnesses:
- Australian National Audit Office (ANAO); and
  - Australian Taxation Office (ATO).
- 3.39 The Committee took evidence on the following issues:
- capacity of the new system;
  - systems architecture;
  - governance of the change program;
  - testing of the system;
  - funding and resources;
  - IT contracts; and
  - lessons learned.
- 3.40 In addition to the hearing on the audit report, there was some further discussion during the Committee's biannual hearing with the Commissioner held on the same day. The transcript of the biannual hearing is available on the Committee website.<sup>27</sup>

## Capacity of the new system

- 3.41 The ANAO noted that there had been considerable slippage and expansion in scope to the original change program due to legislative changes.<sup>28</sup> The Tax Office supported this view identifying the superannuation simplification changes as the most significant driver of the extensions to the project's scope and told the Committee that the Tax Office could not anticipate legislative change.<sup>29</sup> The Committee asked if this indicated that the new system would not have the capacity to cope with future changes to the taxation system.

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27 Joint Committee of Public Accounts and Audit:  
<http://www.aph.gov.au/house/committee/jcpaa/taxationbiannual0410/index.htm>.

28 Audit Report No. 08 2009-10, pp. 65-68.

29 Mr Butler, ATO, p. 2. All references to witnesses' evidence comes from the Committee's hearing into this audit dated 22 April 2010, with page numbers relating to the Proof Committee Hansard.

3.42 The Taxation Commissioner maintained that, providing future changes were similar to those in the past, the new system could cope with them.<sup>30</sup> The Tax Office added that the new system would respond more quickly to such changes providing better service to the Australian public.<sup>31</sup> The Taxation Commissioner explained that the architecture of the new system made it 'more flexible and agile in incorporating legislative changes than the old system'.<sup>32</sup> He indicated that every year the taxation system is adapted to cope with budget changes:

The idea of legislative change is one we have to cope with every year. Sometimes our systems can be adapted; sometimes we have to build new systems. This new platform is more adaptable than our past platform, but it is still dependent on the nature of the proposals.<sup>33</sup>

## Systems architecture

3.43 The Committee sought clarification on the architecture of the new system. The Committee recognises that open standards offer efficiencies through interoperability and asked the Tax Office if these had been applied or required for the new system. The Tax Office explained that the new system is designed on a documented, modular architecture and told the Committee:

The change program has been basically architected on service oriented architecture principles. We talk about open standards. The use of those SOA principles has an alignment with that.<sup>34</sup>

3.44 The Committee noted that a key part of obtaining efficiency in the Tax Office was the concept of one source of data and asked the Tax Office how the existing legacy systems and databases will relate to the new unified source of data regarding managing accounts. The Tax Office informed the Committee that the underlying design principle for the new system included a single client account and the use of single processes.<sup>35</sup> The Tax Office cited two examples to demonstrate this principle and show how

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30 Mr D'Ascenzo, ATO, p. 5.

31 Mr Butler, ATO, p. 5.

32 Mr D'Ascenzo, ATO, p. 4.

33 Mr D'Ascenzo, ATO, p. 5.

34 Mr Gibson, ATO, p. 12.

35 Mr Gibson, ATO, p. 12.

existing data is aligning within the Change Program: the case management system and the client register:

... we have now one case management system where previously we had 180 or so. That is now universally used consistently through the office with a range of case types.<sup>36</sup>

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... another feature would be that in the past we have had multiple client registers and we now have a single logical client register. There are multiple physical ones but there is only one master register and the subservient ones read from the master.<sup>37</sup>

- 3.45 The Committee asked the Tax Office to provide specific examples of how the architecture of the new system will encourage innovation within the taxation system. The Tax Office identified the development and processing of various forms as one area where the new system will prove cost-effective:

At the heart of the Change Program we have introduced an architecture that is around forms processing. Right in the heart of that processing we have a forms processing engine and, unless there are some basic business process changes, we will not need to make changes to that engine. We will be introducing variations to our new forms and that will feed through. Previously, we would have had to spend many, many months in detailed processing logic and code changing all of that just to make a relatively minor change. That is a huge step forward in terms of agility and cost-effectiveness. It is really unique.<sup>38</sup>

## **Governance of the change program**

- 3.46 The ANAO noted that the Change Program Steering Committee (CPSC) currently does not receive 'periodic reports providing synoptic overviews of the impacts of the Change Program on the Tax Office or the community' although this information may be available in disparate reports.<sup>39</sup> The ANAO recommended that the CPSC receive 'additional, periodic, high

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36 Mr Gibson, ATO, p. 13.

37 Mr Dark, ATO, p. 13.

38 Mr Gibson, ATO, p. 13.

39 Audit Report No. 08 2009-10, p. 23.



level reports that address factors broader than those in the Change Program's business case'.<sup>40</sup>

3.47 The Committee asked the Tax Office what steps have been taken to provide the CPSC with additional reports covering the progress of the Change Program in achieving the strategic goals and the broad range of costs and benefits of the Program. The Tax Office admitted that these two areas had been looked at separately in the past but that the first quarterly report combining the two areas was due in April 2010.<sup>41</sup>

3.48 The Committee queried the effectiveness of a quarterly reporting timeframe, expressing concern at the response time lag to problems. The Tax Office assured the Committee that the CPSC receives detailed monthly reports on client experiences which allow a quick response to problems.<sup>42</sup> However, the Tax Office explained that assessing costs and benefits against strategic goals is now carried out on a quarterly basis:

That is not the sort of thing you would review every month. We have looked at that and said that every quarter we will look at that and assess that. We believe we were doing it in a separate sense, and now it is bringing it together.<sup>43</sup>

## Testing of the system

3.49 The Tax Office used the processing of Fringe Benefit Tax (FBT) returns for the financial year 2007-08 to test the Integrated Core Processing (ICP) system. The ANAO found that there had been insufficient end-to-end testing<sup>44</sup> carried out during this process and suggested that this issue needed to be addressed to avoid future delays and wasted resources.<sup>45</sup>

3.50 The Committee asked the ATO why the FBT system had not been comprehensively tested before release. The Tax Office explained that manufactured data rather than real data was used to test the system because the Tax Office was still in the process of developing a mature data

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40 Audit Report No. 08 2009-10, p. 23.

41 Mr Butler, ATO, p. 11.

42 Mr Butler, ATO, pp. 11-12.

43 Mr Butler, ATO, p. 12.

44 End-to-end testing refers to 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. (Audit Report No. 08 2009-10, p. 7)

45 Audit Report No. 08 2009-10, pp. 100-107.

conversion regime.<sup>46</sup> The manufactured data did not reflect the 'actual examples of what happens in a day-to-day sense'.<sup>47</sup> In consequence there were unanticipated results and the tax returns had to be manually processed.<sup>48</sup>

3.51 The Tax Office explained that the FBT return had been chosen as it involved only 75,000 clients enabling tight risk control.<sup>49</sup> The Tax Office assured the Committee that in subsequent financial years the FBT returns had been processed with no problems of any magnitude.<sup>50</sup>

3.52 The Committee asked the Tax Office what steps had been taken to improve end-to-end testing before the rollout of the rest of the new system. The Tax Office maintained that subsequent to the initial roll out of the FBT platform a comprehensive test program had been put in place:

We had, I think, 3,000 test scripts that went through and tested all the scenarios we could think of. We did things like a parallel run. We took a whole day's worth of returns that had been through the old national taxpayer system and put them through the new system, not to go out to taxpayers but to test that the amounts that came out were correct. ... Also, when we first started to use the income tax system we had a thing called a run ahead. Each day, before we answered anything out of the office, we put all the assessments through to make sure they all looked right, that the numbers were right, and then we put them through to issue to taxpayers.<sup>51</sup>

3.53 The Committee asked the ANAO if this testing program satisfied their requirements. The ANAO acknowledged that since the time of the review the Tax Office had instigated a program with features that ensure comprehensive end-to-end testing.<sup>52</sup>

## **Funding and resources**

3.54 The ANAO noted that in 2004 the estimated cost of the original Change Program Business Case was set to not exceed \$445 million over six

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46 Mr Dark, ATO, p. 8.

47 Mr Ryan, ATO, p. 9.

48 Mr Butler, ATO, p. 9.

49 Mr Butler, ATO, p. 10.

50 Mr Butler, ATO, p. 9.

51 Mr Butler, ATO, p. 7.

52 Mr Chapman, ANAO, p. 8.

financial years from 2003-04 to 2008-09.<sup>53</sup> By the end of 2008-09 actual expenditure on the Program was \$749 million and this figure was expected to reach \$879 million by the time the Program was completed in 2010-11.<sup>54</sup> The ANAO found that the additional legislative requirements were the primary reason for the significant cost increases.<sup>55</sup>

- 3.55 The Committee asked the Tax Office if it was likely to need further funding to complete the project. The Tax Office explained that it will not require any further funding to complete the current contract but if further expansion of the system is required, further funding will be sought:

Our main contract provider is Accenture, and we have had negotiations with them to finalise the current contract. That is completed. ... Any further work we do will be on the basis of a new contract and that will clearly need to incorporate whatever may come out of the Henry review and other things we see as important. In a contract sense, the contract comes to an end but the work needs to continue.<sup>56</sup>

- 3.56 The Tax Office added that, originally, the new IT system was to include the Tax Office's accounting system but it has decided not to progress with this development at present.<sup>57</sup> If the IT system was expanded to cope with the accounting system, further funding would be required:

We started with the goal of having a fully integrated IT system for everything. What we have now is an integrated tax system for everything except our accounting. We can make that work quite efficiently. We are challenging ourselves: do we actually want to go to that extra step and put accounting into the system? The ideas were developed back in 2004, so I think it is absolutely appropriate that we now pause and rethink those.

...

If we were to do that work, it would [require more funding], yes.<sup>58</sup>

- 3.57 The Committee asked if the Tax Office's resource levels were adequate to cope with the changes to its operations initiated by the Change Program. The Tax Office maintained that, overall the Office will come within budget
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53 Audit Report No. 08 2009-10, p. 114.

54 Audit Report No. 08 2009-10, p. 115.

55 Audit Report No. 08 2009-10, p. 115.

56 Mr Butler, ATO, p. 5.

57 Mr Butler, ATO, p. 3.

58 Mr Butler, ATO, p. 5.

this financial year. With regard to the IT program, the Tax Office told the Committee it has employed extra temporary staff to facilitate the processing of refunds but, if policy changes necessitate the building of new systems, some further funding may be required.<sup>59</sup>

## IT contracts

3.58 The Committee asked how the Tax Office is structuring its contracts with its IT service and hardware providers to optimise the Department's ability to innovate while minimising expensive contract variations. The Tax Office informed the Committee it is currently in the process of refreshing all of its existing infrastructure service contracts to ensure efficiency and flexibility:

... we make very clear that we are looking for outcomes and there are principles around business architecture and so on that we are saying they will comply with and support us here. Being overly specific in some of the more technical areas stifles innovation as well.<sup>60</sup>

## Lessons learned

3.59 The Committee acknowledged that many departments are facing major ICT upgrades in coming years and that the Change Program has provided valuable lessons that should guide future projects. The Committee asked the ANAO what steps have been taken to document the process and disseminate the information for the benefit of relevant departments and agencies.

3.60 The ANAO confirmed that it is producing and distributing a series of Better Practice Guides that document the lessons learned from this and similar projects. Additionally the ANAO informed the Committee that a number of other initiatives are contributing to the dissemination of useful information on large ICT upgrades:

I am not aware of central agencies having a particular approach to it, but obviously there were initiatives that came into the Gershon review, gateway reviews and a broader role of Department of Finance to have a greater insight into some of the change programs that are occurring.<sup>61</sup>

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59 Mr D'Ascenzo, ATO, p. 6.

60 Mr Gibson, ATO, p. 13.

61 Mr Chapman, ANAO, p. 14.

## Conclusion

- 3.61 The Committee recognises the scale and scope of the Change Program and acknowledges the inherent difficulties in implementing such a diverse and complex project. The Committee notes the significant gains that have been made with regard to productivity improvements within the Tax Office and is aware that further improvements will eventuate as the system is streamlined and current issues resolved.
- 3.62 However, the Committee is concerned about the extent of ongoing client dissatisfaction with the system. Although the Tax Office maintains that the system is working, media reports and anecdotal evidence indicate that significant numbers of tax payers have been inconvenienced, some seriously, by long delays in receiving taxation returns.<sup>62</sup> In June 2010, a Senate Estimates hearing was told that the Tax Office had received 17000 complaints since the 1 February 2010, a five-fold increase on figures for the same period in previous years.<sup>63</sup> The Committee is concerned that such incidents have undermined confidence in the integrity of Australia's taxation system and will continue to monitor the situation.
- 3.63 The Committee recommends that the Tax Office monitor and evaluate customer satisfaction with the new system and provide a report to the Committee at the next Biannual Hearing. The report should detail complaints received and include a statistical comparison with previous years.

### Recommendation 1

**The Committee recommends that the Australian Taxation Office provide a report on customer satisfaction with the new system, including detailed examination of complaints received, at the next Biannual Hearing with the Committee.**

62 The Hon Ms Ley, Member for Farrer, p. 7. See for example, Sabra Lane, 'Computer glitches leave taxpayers on struggle street', *ABC News*, April 15, 2010 and Jacob Saulwick, 'Human error to blame for delays to refunds', *Sydney Morning Herald*, April 20, 2010

63 Mr Butler, Senate Economics Legislation Committee Estimates, Proof Hansard, 1 June 2010, p. 85.

- 3.64 The Committee notes that the Inspector-General of Taxation is undertaking an inquiry into the implementation of the Change Program and looks forward to the results of that inquiry in due course.