



Australian Government
Inspector-General of Taxation

Review into the Australian Taxation Office's Change Program

Report to the Assistant Treasurer

Inspector-General of Taxation

December 2010

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3 December 2010

Mr the Hon Bill Shorten MP
Assistant Treasurer
Parliament House
CANBERRA ACT 2600

Dear Minister,

On 19 April 2009, the former Assistant Treasurer directed me to conduct a comprehensive review of the Australian Taxation Office's (ATO) Change Program. In response, I commenced the review with a staged approach due to the size of the task, my current resources, the need to expeditiously deal with the most pressing concerns as identified by the former Assistant Treasurer and other related reviews either already in progress or completed. Consequently, this report focuses mainly on the impact on taxpayers and tax practitioners of the income tax release, the latest part of the Change Program to be deployed. Once you have released this report, consideration may be given to whether there is a need to proceed with further reviews of the Change Program.

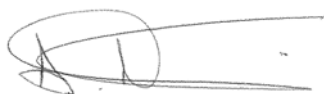
The Change Program was a large and complex Information and Communication Technology (ICT) project that has taken approximately seven years during which time it has been subject to constant change with components being removed or added to the initial scope. The review identifies a number of major risks associated with the projects and, generally, finds that the ATO developed appropriate mitigation strategies, although some areas of improvements have been identified in this report.

Other key findings of the review relate to the timing of the income tax release and the ATO's related communications with taxpayers, tax practitioners and their representatives. Specifically, at the time of deployment, the ATO found itself in an invidious position where testing would be effectively extended into production. Having found itself in such a position, based on the independent assurers' opinions, the contractor and the ATO itself as well as the cost and risk of further delay for only diminishing returns, I have concluded that, the ATO had little choice but to go live when it did. However, as acknowledged by the ATO, significant risk of potential adverse impact on taxpayers and tax practitioners could have been better communicated to them.

The remit of the Inspector-General of Taxation does not extend beyond the Australian tax administration system and whilst this report explores the ATO's experience, broader consideration are raised for the Government in relation to large ICT projects that may be undertaken by other Government agencies. In particular, the first recommendation, the only one to be addressed to the Government in this report, relates to governance and scrutiny functions of large ICT projects as well as related intra-government agency information exchange issues. We appreciate that some of these matters may fall outside your portfolio and you may refer it to other Ministers for consideration.

The report contains eight other recommendations which are all addressed to the ATO. The ATO has agreed with six of them, partly agreed with two and disagreed with another that recommends that the ATO consults with tax practitioners over its reconsideration of compensation claims.

I offer my thanks to the support and contribution of tax practitioners, their professional bodies, other Government agencies and individuals to this review. The willingness of many to provide their time in preparing submissions and discussing issues with myself and my staff is greatly appreciated. I also thank ATO officers for their professional cooperation and assistance in this review.

A handwritten signature in dark ink, appearing to be 'Ali Noroozi', written in a cursive style with a large loop at the end.

Ali Noroozi
Inspector-General of Taxation

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EXECUTIVE SUMMARY

In response to the former Assistant Treasurer's direction, issued on 19 April 2010, and concerns raised by taxpayers, tax practitioners and their representative bodies, the Inspector-General of Taxation (IGT) undertook this review which was mainly focused on the impact on taxpayers and tax practitioners resulting from the income tax release of the Australian Taxation Office's (ATO) Change Program.

In conducting this review, the IGT has relied on the reports made by the ATO's independent assurers, Capgemini and Aquitaine Consulting, and the Release 3 post-implementation reviewer, CPT Global. We have also relied on interviews with the contractor, Accenture, past and present ATO officers and the ATO's own documentation.

The Change Program was an ambitious and far-reaching project aimed at delivering a range of significant capabilities to the ATO's Information and Communication Technology (ICT) systems in order to ensure effective administration of the taxation and superannuation laws into the future. At the outset, the IGT acknowledges the commitment from ATO staff and contractors on a sustained basis over a number of years to achieve the deliverables of the Change Program to date.

The Change Program was a large and complex ICT project that has taken approximately seven years during which time it has been subject to constant change with components being removed or added to the initial scope. There were a number of key risks associated with the projects and, generally, the ATO developed appropriate mitigation strategies although some areas of improvement have been identified in this report. In particular, based on the learnings from the Change Program, the first recommendation raises a number of matters, including governance and scrutiny functions as well as intra-government agency information exchange issues, for the Government to consider in relation to future large or significant ICT projects.

In relation to the timing of the income tax release, the ATO found itself in an invidious position where testing would be effectively extended into production. Having found itself in such a position, based on the independent assurers' opinions, the contractor and the ATO itself as well as the cost and risk of further delay for only diminishing returns, the IGT has concluded that the ATO had little choice but to go live when it did. However, as acknowledged by the ATO, significant risk of potential adverse impact on taxpayers and tax practitioners could have been better communicated to them.

The ATO did carry out its planned communication and intelligence collection strategy which included providing information to taxpayers and tax practitioners. However, this plan and subsequent ATO communications ultimately proved to be inadequate in alerting the taxpaying community to adopt strategies that would minimise any potential adverse impacts.

The report also seeks to address the issue of compensation for those adversely affected and a number of recommendations are made to the ATO in this regard. The report also

contains findings in relation to impact on ATO staff and recommends that the ATO address these by conducting open and frank consultation with its staff.

An ATO commissioned report, issued on 22 September, quantifies some benefits of the Change Program and expects further benefits in the short term which would accumulate into the future. It may be useful to conduct a further cost/benefit analysis sometime after the Change Program work is completed and the new ICT systems have achieved full functionality and are well-settled operationally. In the meantime, there are likely to be many ongoing opinions on what should be considered in such an assessment and the range of costs that should be included. To this end, as a starting point, the ATO has agreed to publicly release its commissioned report which should promote open and transparent discussion in this regard.

CHAPTER 1 — INTRODUCTION

1.1 On 19 April 2010, the former Assistant Treasurer directed the Inspector-General of Taxation (IGT) to review and report on the Australian Taxation Office's (ATO) Change Program¹. An extract from the Minister's announcement of this direction is stated:

I want a comprehensive review of what has been occurring with the implementation of the Tax Office's IT upgrade, known as the Change Program. The Tax Office is completely independent so I personally cannot direct in relation to the issues that have been brought to my attention, that's why I have directed the Inspector General to step in and immediately review the program. The Terms of Reference are wide-reaching to ensure that all aspects of the program are investigated. In particular, I want a clear understanding on how taxpayers have been affected.

1.2 In response to the former Assistant Treasurer's direction and concerns raised directly by taxpayers, tax practitioners and their representative bodies, the IGT commenced this review pursuant to subsections 8(2) and 8(1) of the *Inspector-General of Taxation Act 2003* (IGT Act 2003), respectively.

1.3 The IGT announced submission guidelines for this review on 5 May 2010, extracts of which are outlined below.²

1.4 The IGT submission guidelines advised that a staged approach would be undertaken, focusing initially on the impact on taxpayers and tax practitioners as a result of the latest release—that is, the part of the Change Program that relates to processing of income tax returns and refund payments (the income tax release). Once this report is released by the Minister, consideration can be given to whether there is a need to proceed with further reviews of the Change Program as identified in this report.

1.5 The IGT submission guidelines also observed that the ATO deployed the income tax release in January 2010 and that taxpayers, tax practitioners and their representatives have raised concerns about instances of extended delays and errors arising from the income tax release. These concerns included the ATO's inability to fix identified errors within reasonable times, the nature of the ATO's communication of the errors, the ATO's shifting advice on the timeframes to fix those errors and the ATO's lack of awareness of the impact that such errors and delays as well as associated communications were having on taxpayers and tax practitioners.

1.6 The IGT submission guidelines explained that the review will examine the basis for, and the ATO's management of, such concerns. This will provide a basis for

1 Sherry, N., *Terms of Reference of Inspector-General of Taxation Review into Tax Office's Change Program*, media release No. 065, 19 April 2010, available at www.treasurer.gov.au.

2 The IGT submission guidelines are reproduced in full in Appendix 2.

conclusions to be drawn and, where necessary, recommendations of best practice to be made in order to minimise similar problems arising in the future.

1.7 In response, the IGT has received over 90 submissions from taxpayers, tax practitioners and their representatives, ATO staff and their representatives, and the Commonwealth Ombudsman. The IGT also met with members of the community and organisational bodies who made submissions, to further understand their experiences and concerns. These are listed in Appendix 3.

1.8 The IGT interviewed the ATO's independent assurers to the Change Program, Capgemini and Aquitaine Consulting, the ATO's independent contractor who reviewed the implementation of the income tax release, CPT Global, and the ATO's information and communication technology (ICT) contractor, Accenture. The IGT interviewed a number of current and former ATO staff and examined ATO systems to determine the underlying causes for community concern. The IGT also discussed these matters with a range of interested external stakeholders.

1.9 On 13 May 2010, the Senate agreed to a Notice of Motion requesting the IGT to produce a progress report on the review by no later than 15 September 2010, with a final report to be publicly released no later than 31 October 2010. Although the IGT is not compelled to comply with such a request, the IGT has endeavoured to complete this report as close to this date as possible given the framework and limited resources within which the IGT operates.

1.10 Since the Change Program is a complex, multifaceted development, it is very difficult to appreciate its nature without understanding its evolution. Accordingly, the report commences by providing a historical background in Chapter 2.

1.11 The report then focuses on the events both leading up to, and following, the deployment of the income tax release (the most substantial deliverable under the Change Program contract) in Chapter 3.

1.12 The IGT's observations, findings and recommendations that have been formed at this stage of the review are set out in Chapter 4.

1.13 This report is produced pursuant to section 10 of the IGT Act 2003. In accordance with section 25 of that Act, the Commissioner of Taxation was provided with an opportunity to give submissions on any implied or actual criticisms contained in this report. The Second Commissioner of Taxation has responded on his behalf and that response is reproduced in Appendix 15.

CHAPTER 2 — BACKGROUND TO THE ATO CHANGE PROGRAM

2.1 The ATO is the principal administrator of Australia's taxation and superannuation systems. In 2008-09, this involved employing around 22,400 ATO officers, obtaining \$265.4 billion in net cash collections, making almost \$17 billion in payments and transfers, as well as interacting with over 20 million taxpayers and payment recipients. To a significant extent, the ATO relies on substantial information and communication technology (ICT) to effectively administer these systems.

2.2 In the late 1990s and early 2000s, the ATO became increasingly concerned that it could not continue to effectively administer the taxation and superannuation systems into the future without making major changes to its ICT.

2.3 The ATO's management decided that the core tax systems had to be replaced. As a consequence, on 2 December 2003, the ATO entered into a head agreement with Accenture to deliver products and services for the Change Program. A number of work orders were placed with Accenture for phase 1 and 2 of the program including design, management arrangements and environments. In December 2004, a contract was entered into for phase 3 with Accenture for a fixed price not to exceed \$230.7 million (exclusive of GST) to deliver certain outcomes when replacing a range of ICT systems. The ATO business case estimated total costs for the Change Program, including Accenture's fees, to be \$445 million.

2.4 The contract (and an ATO publication, *The Australian Taxation Office: Change Program*) gives a definition of the 'Change Program', which is reproduced in Appendix 1.

2.5 Initially, the contract was intended to be completed by June 2008. As at September 2010, although the contract had formally finished on 30 June 2010, warranty work under the contract was still ongoing and expected to finish in June 2011. Significant changes in scope have occurred and the total ICT business case, as at 31 July 2010 cost \$756.7 million, including Accenture's fees of around \$677 million.³

GENESIS

2.6 The Change Program arose following the community's reaction to the ATO's implementation of the GST in 2000. In response, the ATO sought to better understand the underlying reasons for the difficulties it had in implementing the new policy, the frustrations expressed by the broader tax community, as well as determine what the community wanted in their interactions with the tax administration system.

3 Note that the program would have cost more if the Business Activity Statement and Superannuation Guarantee builds were not excluded from the scope of the project in 2010.

2.7 As this ATO enquiry progressed, it discovered through its interactions with tax practitioners that it was able to deliver significant improvements to the system by building an online 'portal'. This also facilitated a discussion with tax practitioners on the broader design of the tax administration system.

2.8 In early 2002, the ATO commissioned further work, such as the Listening to the Community Program, to understand the expectations of a variety of stakeholders in dealing with the ATO. This work culminated in the ATO's Easier Cheaper More Personalised Program that identified key irritants and impediments to ideal tax administration.

2.9 In July 2003, the ATO published a document, *Making it easier to comply*. It proposed a three-year program outlining how the ATO would provide easier, cheaper and more personalised interactions, information and advice for individuals, business and tax practitioners. It aspired to deliver a 'user-based system' and set out key principles to guide the design and development of the new products and services.

01 – You will be able to do business with us online – whether through our services or your commercial services

02 – You will have online access to information that is personal to your dealings with us

03 – You will deal with a tax officer who has an understanding of your dealings with us and, in some cases, your industry

04 – You will receive notices and forms that make sense in your terms and that reflect your personal dealings with the revenue system

05 – You will receive high quality responses to your issues and interactions along with quick turnaround times

06 – We will be reasonable about the level of record keeping required that is necessary for you to practically comply with your tax obligations

07 – We will facilitate the use of commercial services developed to ease the cost of your record keeping and compliance with the law

08 – You will experience compliance action which takes into account your compliance behaviour, personal circumstances and level of risk in the system.

If you are a tax agent we will also acknowledge the important role you play in the administration of our revenue laws and will develop an open and constructive relationship with you, recognising your practice management issues in our administrative design.⁴

2.10 The ATO was aware at that time that its existing ICT systems (or legacy systems) were outmoded and inadequate for the purpose of delivering these principles. The legacy systems were very inflexible in their design structure. For example, it was difficult and costly to make even small changes, such as changing the

4 Australian Taxation Office, *Making it easier to comply*, Canberra, July 2003, pp. 6-7.

names of the Deputy Commissioners in standard correspondence, which required changes to the underlying software. In short, a large range of problems had been identified with the ATO's existing ICT systems, as a result of which the ATO management considered a broader initiative for changes to them.

2.11 In December 2003, the ATO formally decided to embark on a major program of ICT changes to replace its front-end systems (such as online external interfaces, telephony services and internal case management systems), back-end systems (involving integration of its accounting engines) and other systems (such as the various and disparate mainframe systems) with systems such as the tax agents' portal, a single case management system and an integrated core processing (ICP) system.

THE CONTRACT

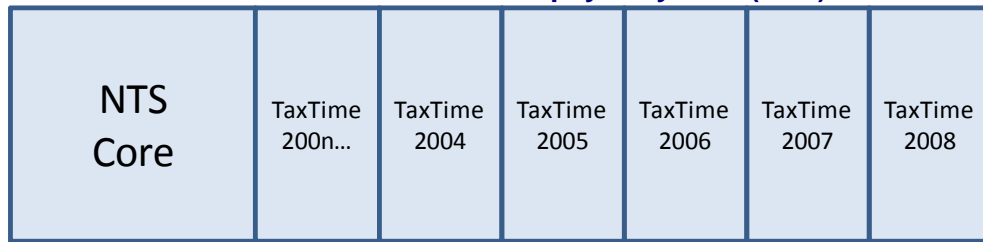
2.12 The ATO sought contractors to deliver its Change Program in 2003. There were three main bidders: American Management Systems (AMS), Booz Allen Hamilton and Accenture. AMS had implemented a system in the USA but did not offer in-country support to Australia. Booz Allen proposed to map the ATO's business processes and then subcontract to software developers to build systems to suit those processes. Accenture proposed to deliver a similar system to that which they had implemented in other countries, such as their recent implementation of the Tax Administration System (TAS) in Singapore.

2.13 The ATO was impressed with aspects of the TAS' design. The system was based on categories of functionality that employed a form design structure, requiring changes only within the form design structure architecture to the business specifications (and not the hard code) for different revenue products. The Singapore tax administration agency was willing to share its design documentation with the ATO. Accenture also undertook to bring the same key personnel that had implemented Singapore's system to Australia to design and build a similar system adapted for Australia's tax administration system.

2.14 Significant improvements were required to the ATO's existing ICT legacy systems. By way of example, new 'slices' of hard code had to be written to update changes to the system for each year's – TaxTime⁵. For core legacy systems, such as the ATO's National Taxpayer System (NTS), this has accumulated over the years to over 7.5 million lines of code. This is pictorially represented in the diagram below.

5 'TaxTime' is an expression the ATO uses to denote the individual income tax lodgement period (July-October) and the work done in preparation for that period.

The ATO's National Taxpayer System (NTS)



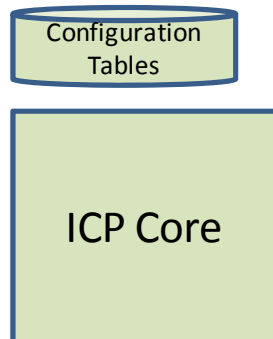
Approx 7.5 million lines of code

- Growing each Tax Time
- New TT code to some degree is lower risk as it is a separate silo
- Overall complexity is increased due to increasing amount of code
- Architecture is not complex
- Testing predominately focused on new TaxTime code added and need for limited regression testing

Source: CPT Global, *Release 3—Income Tax Implementation Review*, report to the Australian Taxation Office, August 2010, p. 13.

2.15 However, the architecture for the new system, as depicted below, would rely on a combination of a 'code library' that would perform certain functionalities (such as registration, assessments, etc.) and a configuration based on the business requirements for the particular revenue products. This meant that the new system would avoid the need for new code to be written if the design of new tax policies was consistent with the administrative delivery of current policies. In these circumstances, only changes to the configuration based on changed business requirements, would be needed.

The ATO's Integrated Core Processing System (ICP)



Approx 1.5 million lines of code

- ICP core should not increase significantly
- Supports a number of other taxation products other than Income Tax (NTS) such as Superannuation.
- TaxTime changes should be table or configuration rules changes and additions
- Architecture and Code will remain as highly complex
- Testing requirements are now more complex and there is an increased need for regression testing

Source: CPT Global, *Release 3 — Income Tax Implementation Review*, report to the Australian Taxation Office, August 2010, p. 13.

2.16 The ATO considered that it could minimise the technological and execution risk by contracting a party with proven ability to deliver a system that had worked elsewhere, rather than starting with a 'blank sheet'.

2.17 In negotiating the contract, the ATO also considered that it had taken steps to minimise the contractual risks of overspend by requiring Accenture to deliver defined outcomes (rather than a set of system specifications) for a fixed price not to exceed \$230.7 million. These outcomes were:

- An integrated processing system (people/process/technology) for all ATO products
- An effective active compliance and advice capability

- Effective, improved client service
- Improved enterprise-wide outcome management of work
- Delivery of ATO business
- A system with integrity and performance
- Productivity and sustainability benefits
- The program delivered effectively and professionally.

2.18 The fixed price contract was aimed at giving the ATO more certainty around the cost of the program. Therefore, if the outcomes took more work than previously thought, the contractor would bear that cost. However, any approved changes to the contract (Change Requests) were at an additional cost to the ATO.

2.19 The form of the contract was a combination of a 'head of agreement', or a standing offer, setting out overarching terms and conditions with 'Work Orders' that specified contractual performance in relation to certain products, including more clearly defining the outcomes as they related to the Work Orders' subject matter.

2.20 The contract payment or reward structure had various aspects incorporated to provide incentives to deliver the required outcomes. Specific payments were tied to satisfactory completion of certain milestones and warranty periods. Any variations to the contract were to be negotiated through a 'Change Order' and given effect through a Change Request.

2.21 The scope of the contract was to deliver, amongst other things:

- case and management systems, and
- a single ICP system for a range of revenue products.

2.22 At the outset, the replacement of the superannuation systems was specifically excluded from the scope of the contract. These systems were intended to be replaced after the finalisation of the Change Program.

2.23 The ATO intended to progressively implement the components of the Change Program, starting with the relatively easier deliverables that would have a larger beneficial impact in the community. It was intended that this approach would also allow the ATO and Accenture to 'build upon success'.

Initial costs and expected benefits

2.24 The initial total cost for the Change Program business case (including the contract with Accenture) was approximately \$445 million. The ATO was to fund this from its own budget. No new Government funding was to be provided.

2.25 The total cost for the business case included funding for around 250 ATO staff, dedicated to implementing the Change Program, at a cost of around \$30 million per year.

2.26 The overall expected benefits of the Change Program initially were worth \$70 million in 2007-08 with additional benefits worth approximately \$130-170 million for each year thereafter. The ATO also considered that there would be other less visible benefits that would extend many years into the future. The ATO's actual costs and benefits analysis has been the subject of further consideration more recently. This is discussed later in the report.

Governance arrangements

2.27 It should be noted that until August 2006, Government agencies were not obliged to subject certain ICT projects to independent Government gateway review. Such reviews require a person independent from the Government agency to assess at critical stages whether the performance of the contract is on track to deliver the original business case.

2.28 For independence reasons, as well as for effective management of the Change Program, the ATO engaged an independent assurer, Capgemini, who had systems integration experience matching that of the contractor, to assist the ATO recognise and address risks and issues. A condition of the independent assurer's contract was that the assurer could play no further part in the Change Program and therefore could not compete with the contractor for delivery of the systems.

2.29 The ATO also established an internal governance arrangement under the oversight of the Change Program Steering Committee (CPSC), chaired by the Commissioner, which met at least monthly. Underneath this steering committee were a number of other committees and groups that brought together a whole range of ATO officers across the operational areas, compliance areas and people working on the Change Program. The details of the governance arrangements set up by the contract are set out in Appendix 4.

2.30 From June 2008, the ATO also contracted an additional independent assurer, Aquitaine Consulting (Aquitaine), to assist with the Change Program.

TIMEFRAMES FOR ATO CHANGE PROGRAM COMPLETION

2.31 The ATO had initially intended to complete the Change Program within three years. This was to minimise the risk of Government implementing new policy which would force the ATO to reallocate resources away from the Change Program.

2.32 At the outset, Capgemini identified that the three-year period for the design, build and implementation of the program was optimistic. It believed that delivery of the program over four years was more realistic, on the assumption that during that period there was no need to implement any major, new or changed Government policy.

2.33 The ATO initially intended to complete the Change Program by June 2008 by introducing the new system in three scheduled releases:

- Release 1 — intended completion was June 2005, but was fully implemented in April 2006. This release involved the installation of an ATO-wide client relationship management system, the upgrade of tax agent and business online portals and the installation of an improved correspondence system.
- Release 2 — intended completion was September 2006, but was fully implemented in March 2007. This release involved the installation of a case and work management system (Siebel) and analytical models, as well as the improvement of the client relationship management systems and online portals.
- Release 3 — intended completion was June 2008, but was implemented by July 2010, with warranty work expected to be finally completed by June 2011. This release involved the installation of a single ICP system for all of the taxation systems that the ATO administers, as well as the enhancement of other aspects of the ATO's ICT. This release comprised the most substantial part of the Change Program and the bulk of the cost of the program — Work Order 9, which was executed on 13 December 2004.

Changes to the initial schedule

2.34 As work on the Change Program progressed a number of changes were made, especially to the scheduling of Release 3.

2.35 First, the Government's new policy measures, such as the superannuation simplification measures, were added to the scope of the Change Program from early 2007. Amongst other things, this placed an emphasis on replacing the superannuation systems sooner than the ATO had previously planned. As previously stated, the ATO had initially excluded the replacement of the superannuation systems from the scope of the Change Program. At the time that the Government announced the new superannuation measures, the ATO was designing and building the Change Program ICP system. The ATO has advised that this new policy announcement required it to reallocate resources that were involved in the design and build of the ICP system, such as the chief designer for the Fringe Benefits Tax (FBT) and income tax release builds.

2.36 Second, the ATO decided in December 2007 to deploy Release 3 in several stages due to a number of problems, including difficulties in locking down design and substantial slippage of the schedule.

2.37 Finally, the ATO again rescheduled Release 3 to be deployed in smaller releases as follows:

- Release 3.0 (deployed in January 2008) which enabled the ICP system and Siebel system to synchronise and data share, amongst other things
- the FBT release (deployed on 1 April 2008) which was the ATO's 'proof of concept' for the ICP system
- the First Home Savers release (deployed in July 2009)

- the Super A and Super B releases (to be deployed in January and June 2009 respectively)
- the income tax release (deployed in January 2010)
- the Business Activity Statement (BAS) release (which was initially intended to be deployed in July 2010).

2.38 The ATO has since decided not to proceed with this BAS release⁶. The superannuation guarantee release was also excluded from the contract scope.

2.39 The changes to the scheduling outlined above, as well as the general delays in deploying the first two releases, extended the timeframes for the Change Program's delivery by two years, with the BAS and Superannuation Guarantee releases excluded from the scope of the contract.

2.40 A diagram that compares the intended initial scheduling and the actual scheduling is reproduced in Appendix 5.

2.41 These changes to scheduling are discussed in more detail in Chapter 3.

KEY RELEASE ELEMENTS

2.42 Set out below are key elements from each Change Program release considered or referenced in this report.

6 In October 2009, the ATO noted that the previous plan to implement the BAS release was 'not doable' and developed a new plan to deploy the BAS release in 5 smaller releases. This plan meant that the ATO would continue to use legacy systems until late 2011. Since implementing the income tax release the ATO has decided not to proceed in implementing the BAS release under the Change Program banner. The ATO negotiated a credit from Accenture in relation to this sub-release.

The Case and Work Management Systems (CWMS) release — Release 2 element

2.43 The Case and Work Management Systems (CWMS) replaced around 180 different ATO case and work management systems with a single ATO-wide CWMS. The ATO considered that this fundamentally changed the way that ATO staff carried out their work, including:

- improving the planning, prediction and tracking of work more effectively
- providing officers with a more complete understanding of taxpayers' interactions with the ATO
- improving online, phone and paper products and services.

2.44 Since its implementation, the CWMS has been subject to a number of ATO staff concerns and external review, including:

- a Comcare review of the CWMS' compliance with occupational health and safety requirements
- an Australian National Audit Office (ANAO) performance audit to determine the level of success and benefits of the CWMS' introduction.

2.45 Comcare started an investigation of the occupational health and safety risks relating to the ATO's implementation of the CWMS (the Siebel system) on 28 October 2009. Comcare concluded that the ATO had failed to comply with the provisions of the *Occupational Health and Safety Act 1991* in relation to the font size of that system. It intended to continue to work with the ATO to ensure that identified risks were addressed.

2.46 The ANAO audit report on the CWMS matter, *Audit Report No. 6 2010–11 Performance Audit, The Tax Office's Implementation of the Client Contact – Work Management – Case Management System*, was tabled in Parliament on 21 September 2010. The ANAO found that overall the implementation of the CWMS improved and transformed key aspects of ATO activity that supports tax administration. The implementation of the CWMS achieved six of the eight objectives of the Change Program's original business case, with the two remaining objectives expected to be reached once the ICP system achieved full functionality. The report also noted, amongst other things, that:

... the Tax Office continues to explore scope for further gains to be made in the area of casework, reflecting the procedural differences between 'high volume,' as distinct from 'complex' casework.⁷

⁷ Australian National Audit Office, *Audit Report No. 6 2010–11 Performance Audit, The Tax Office's Implementation of the Client Contact – Work Management – Case Management System*, Canberra, 21 September 2010, p. 16.

2.47 The ANAO made three recommendations directed towards achieving:

- further productivity and efficiency gains from the Client Contact – Work Management – Case Management system
- improvements in the consistency and efficiency of the administration of compliance risks
- improved management of scheduled case cycle times.

The FBT release — Release 3 element

2.48 The FBT release was intended to be the ‘proof of concept’ release for the ICP system. The release affected around 70,000 taxpayers and was seen as a lower risk to deploy first than other releases.

2.49 The ANAO released an audit report, *The Australian Taxation Office's Implementation of the Change Program: a strategic overview*, in October 2009.⁸ This audit provided a strategic review of the ATO's progress on the implementation of the Change Program to that date. At the time of the completion of the ANAO's review, the ATO had implemented the FBT release but not yet implemented the income tax release. The audit made recommendations aimed at improving governance, strategic management, the management framework and management of risks of the Change Program.

2.50 The FBT release is considered further in Chapter 3.

The Income Tax Release — Release 3 element

2.51 Broadly, the key aspect within the income tax release was the development of an ICP system that could receive, assess and issue various notifications of liabilities and payments. This required interaction with a number of other systems, including the systems of external agencies such as Centrelink and the Child Support Agency and other ATO internal systems, including the Higher Education Contributions Scheme and Superannuation.

2.52 The ICP system itself is made up of the following components which are visually represented in Appendix 6:

- an inbound component which captures and validates the payments and forms sent to the ATO or input into the system by ATO officers
- an ‘EAI integration layer’ component which transfers these payments and forms to the forms and processing module
- a forms and processing component which performs a series of checks and, if successful, transfers the data to the accounting module

8 Australian National Audit Office, *The Australian Taxation Office's Implementation of the Change Program: a strategic overview*, Canberra, October 2009.

- an accounting component which posts the transaction to the taxpayer's account as a first step (Other aspects of the taxpayer's account are also calculated in this module, including the running of credit risk assessments, offsetting amounts against amounts in other systems (internal and external to the ATO), triggering of refunds and correspondence and writing information to the tax return database.)
- an outbound component which organises the printing of the relevant correspondence if a correspondence item or refund is triggered.

2.53 The income tax release is the main focus of this review. Chapter 3 outlines its history and various stakeholder responses. Initially, the events leading up to the income tax release's deployment are outlined. Thereafter, attention is turned to the deployment itself and the community response to that deployment.

CHAPTER 3 — ATO INCOME TAX RELEASE — EVENTS LEADING UP TO DEPLOYMENT, DEPLOYMENT AND IMPACTS ON TAXPAYERS AND TAX PRACTITIONERS

3.1 The income tax release is the most recent and substantial deployed under the Change Program banner. Events involved with the FBT release are also discussed in so far as they are relevant to the income tax release.

3.2 This chapter generally follows the main events in chronological order. The main exception relates to events occurring over the period February 2010 to June 2010. These events are grouped into three specific topic sections:

- what taxpayers and tax practitioners experienced during the February–June 2010 period
- a reconciliation of the main problems encountered by the ATO with its public communications
- what the ATO experienced during the February–June 2010 period.

EVENTS LEADING UP TO THE INCOME TAX RELEASE'S DEPLOYMENT

The December 2007 rescheduling of Release 3

3.3 The income tax release was initially intended to be deployed in June 2008 as an element of the larger Release 3 package. However, as previously mentioned, Release 3 encountered problems, including substantial schedule slippage, difficulties in locking down design and expansion in scope by legislative change.

3.4 The ATO formally reviewed the Change Program schedule in December 2007. As a result, the ATO split the Release 3 package into a number of smaller releases:

- Release 3.0 — which was deployed in January 2008
- the FBT release — which was deployed in April 2008
- the Lost Members Register release — intended to be delivered during August–October 2008
- the Super A and Company Tax release (including the Superannuation Holding Account, Superannuation Co-contributions and Member Contributions Statements for Super and Company Tax) — intended to be delivered in January 2009
- the Interpretative Advice and Assistance release — intended to be deployed around June 2009

- the First Home Savers Account release – intended to be deployed in June 2009
- the Super B (including Superannuation Guarantee) release – intended to be deployed in June 2009
- the Individual Income Tax release – intended to be deployed over an extended production testing phase from around April 2009 and deployed into production in December 2009 or January 2010
- the Business Activity Statement release – intended to be delivered by June 2010.

3.5 The ATO's plan in December 2007 was to release the ICP system's income tax functionality in two releases: the company tax release and the individual income tax release (see above). However, in February 2008, the ATO concluded that the delivery of the ICP system's income tax functionality would need to be rescheduled. Work continued towards delivering the required software while the rescheduled plan was being prepared.

The FBT release's implementation and the independent assurers' reports

3.6 While work was continuing on how the plan should be rescheduled, the ATO deployed the FBT release in April 2008. The FBT release was intended to be the 'proof of concept' for the ICP system. As expected, the FBT release encountered several significant problems, such as its deployment extending longer than originally planned.

3.7 By 4 June 2008, the ATO was considering rescheduling the other releases of the Release 3 package (outlined above). In particular it noted that:

- ... it is not considered feasible to deliver all three functions (company income tax, individual income tax, remainder of superannuation) as recently proposed by Accenture for deployment in December 2008
- deferring the deployment of individual income tax increases our exposure to policy changes which will require solutions to be developed in both ICP and legacy systems
- under the original Release 3 deployment schedule ICP and legacy income tax systems were to be run in parallel for up to 6 months to build confidence in ICP and enable a simpler and lower risk cutover. This approach remains attractive.

[and]

- [there are] challenges and [the ATO] asked for a preferred release schedule be developed, in collaboration with business, and presented at the 18 June CPSC [the ATO's Change Program Steering Committee]. The schedule should balance feasibility with the need to deliver functionality sooner rather than later and clearly identify high level business and client experience impacts and trade-offs.

- [The ATO] asked the Independent Assurer [Capgemini to] provide an assessment of the preferred schedule.⁹

3.8 Following deployment of the FBT release in April 2008, the ATO engaged another independent assurer, Aquitaine Consulting (Aquitaine), to review 'what has happened in the Change Program to bring it to its current position with regards to delivering, or non-delivery of outcomes' and to provide advice on the forward strategy on the proposed Release 3 rescheduling, amongst other things¹⁰.

3.9 Aquitaine made six key findings:

General — The Change Program [CP] team is currently at a low point of morale and energy, due to the length and intensity of the program to date, but more particularly due to the poor delivery to date. This must be addressed to allow the team to rebuild energy and enthusiasm for the task ahead.

Team Dynamics — the senior CP executive team have become somewhat dysfunctional and are consequently not leveraging their respective and combined strengths well. This is a strong team but also requires strong leadership to get the best from them.

Business Engagement — It is well acknowledged with the Program and major sub-plans that the business engagement between the CP and business lines has been poor. This has directly contributed to schedule and quality impacts due to a lack of meaningful involvement in determining the final systems design as well as to the testing and review of the final deliverables.

Program Management and PMO [Program Management Office] — the Accenture PMO has not been making use of quantitative reporting techniques and milestone tracking, but rather has emphasised the use of subjective and qualitative reporting. This makes it very difficult for the ATO to understand exactly where they stand at any point and to form an assessment of the risks to delivery.

The Role of the Independent Assurer [IA] — The IA role is considered critical to providing the ATO with high quality, objective and trusted advice, independent of Accenture and the CP itself. This is not occurring currently. ... This notwithstanding, Capgemini has identified many significant issues that the ATO have not responded to. ...

Quality Practices — Accenture has a high standard of quality processes that are documented for the CP, but these are not being followed in practice. These deficiencies are resulting in late and unexpected schedule blowouts due to high levels of defects emerging late in the process, and also in a poor standard of implementation into production use. The very high level of incidents over a number of weeks for Release 3.1 FBT places client experiences at risk. If this pattern is repeated for future releases, the ATO could suffer reputational impacts.

9 Australian Taxation Office, Minutes of the 4 June 2008 meeting of the Change Program Steering Committee, p. 3.

10 Aquitaine Consulting, *Review of the Change Program at the June 2008 Replan*, report to the Australian Taxation Office, Canberra, 15 July 2008, p. 3.

Based on these findings, we consider that significant changes are required in the running of the Program to ensure a high confidence on delivery of future releases. These changes will require longer delivery times to increase the quality of testing, in particular. The current plans for the January 2009 release (company tax and the first Superannuation release 'Super A') have several months contingency that should be able to absorb these additional tasks, but this will require verification during detailed planning that is still to be completed by the respective project teams.¹¹

3.10 Aquitaine also commented on the forward scheduling for future releases and observed that the schedule had a high degree of parallel activity. It commented:

The schedule at present for the Company Tax and Super A release in January 2009 has a very large degree of parallel activity ... In addition, key testing activities such as UAT [User Acceptance Testing] are expected to be completed in parallel with other Product Testing activities, which is highly unrealistic.

Given the design close-off and build quality issues seen in 3.1, this plan appears unrealistically optimistic. In addition the consequences for the ATO of a poor quality result for the company tax release, including potentially delayed refunds from large corporations, would especially be serious for the reputation of the ATO.

A more quality-controlled approach with clear quality checkpoints is therefore recommended ... In particular, as a minimum, checkpoints are recommended at [End of Design; End of integrated product test and partnership testing – start of user acceptance testing; End of performance testing; End of user acceptance testing/start of pilot; end of pilot, start of production].¹²

3.11 Aquitaine made 16 recommendations, which included:

Quality Practices ...

4. The introduction of a formal user acceptance testing phase with clear entry and exit criteria and emphasising the exercise of end-to-end business scenarios. It is expected that a well tested system at the end of UAT will have no serious defects, allowing the pilot phase to focus on resolving issues of process and procedure, documentation and education.¹³

3.12 The ATO has advised that it has a framework for tracking its implementation of all agreed IA recommendations. The IGT has not independently assessed the ATO's implementation of these recommendations. However, the ANAO has publicly reported in its strategic review of the Change Program (up to and including the deployment of the FBT release) that the ATO had acted on the IAs' recommendations:

The Tax Office has since acted on the recommendations of several specially commissioned reviews examining the implementation phases to date, resulting in

11 *ibid.*, p. 1.

12 *ibid.*, p. 10.

13 *ibid.*, p. 13.

improved business practices, work schedules and accountability arrangements, thereby strengthening overall governance.¹⁴

3.13 Capgemini also conducted a post-implementation review of the FBT release to identify the factors in the build and test phases that led to the overall instability of the release. In July 2008, it alerted the ATO to its preliminary findings:

The Change Program [CP] made a conscious decision to proceed with the FBT release, given the challenges that the release faced. As a result, the quality of the overall solution was impacted.

Based on our preliminary findings, we have identified two key factors that contributed to the perception of quality issues with the FBT release:

1. Issues in Design, Build and Test:
 - a. Test stage gates were not enforced.
 - b. There was insufficient test coverage during the technical delivery to support the implementation of a new technology platform.
 - c. The Testing environment did not functionally replicate the production environment to enable end to end testing (for example, Outbound architecture).
 - d. Testing was not accurately supported by converted test data.
 - e. Inconsistency in understanding the different objectives and roles of each phase of testing within the Release.
2. The different interpretation of the definition of Defects Severity and the multiple, disparate reporting of the defects.
 - a. The execution of the go-live support run by the Change Program Support Team (CPST) was not consistent with BESS standard of practices, as a result, a number of business issues were lost, leading to reduced confidence by the business. Consequently, there is no acknowledged single source of reporting that provides a consistent picture of the actual status in production.
 - b. Severity 1 and Severity 2 criteria were defined, but were subjected to different interpretation by the Business and IT. Consequently there are different views on the quality of FBT from Business and CP perspective. This lead to a difficulty for the CP to understand and prioritise 'true' Severity 1 issues that occurred in production.¹⁵

14 Australian National Audit Office, *The Australian Taxation Office's Implementation of the Change Program: a strategic overview*, Canberra, October 2009, p. 22.

15 Capgemini, *Australian Taxation Office Easier, Cheaper and More Personalised Change Program, Independent Assurer Report Version 1.2, Period covering 1st July 2008 – 31st July 2008*, report to the Australian Taxation Office, Canberra, July 2008, pp. 10-11.

3.14 In its final report, Capgemini found the following causes:

- **Governance & Leadership** – lack of quality enforcement; basic test reporting; schedule pressures; continuous scope creep
- **Engagement & Collaboration** – disconnect between Business and Change Program regarding issues in production; lack of common understanding of role and responsibilities in Test
- **Skills & Capabilities** – inconsistent use of processes & tools; insufficient build and test knowledge and experience
- **Planning** – drops too frequent in Test; underestimation in build and test activities; converted data not able to support test;
- **Complexity** – complexity of the architecture; complexity of the releases; business complexity.¹⁶

3.15 Capgemini made 16 recommendations (which are set out in Appendix 14) for improvements that it considered should be applied to all future releases.

3.16 Capgemini also expressed concern with the scheduling of the future releases. It commented that lessons from the prior releases had not been learnt in relation to, amongst other things, estimating and forecasting the resources and time needed to complete the releases, the scheduling contingencies and what should trigger a contingency. In particular, it stated:

Principles for Delivery

In the agreed and endorsed Delivery Methods and Plans, the delivery approach contains many valuable elements. Historically, the IA [Capgemini] has observed deviations from the delivery principles in the actual execution, and would like to see specific measures in place that ensure best practices and the delivery approach are rigorously followed. This will ensure that the solution delivered will be aligned to the documented Quality Plans.

Findings:

29. In previous reports, the IA has reported that build activity eroded into testing, and that the production environment was used as testing bed. There have been many defects emerging after technical deployment into production because of insufficient testing and the lack of a real Level 4 environment that mirrors the exact environment in production, as seen since Release 3.1a FBT has gone live. The IA expects the Change Program to adhere to rigorous quality standards with regard to IPT, Partnership Testing, UAT [User Acceptance Testing] and Business Pilot, including the use of a true Level 4 environment that enables proper test of the system before it goes into production. This will help prevent the majority of defects from emerging in production.

16 Capgemini, *Australian Taxation Office Easier, Cheaper and More Personalised Change Program, Independent Assurer Report Version 1.2, Period covering 1st August 2008 – 31st August 2008*, report to the Australian Taxation Office, Canberra, August 2008, pp. 4-6.

30. In the previous releases, the IA observed that there has been multiple occurrences of late design change requests leading to the slippage of design schedule. This then has a cascading effect on the downstream activities affecting the overall delivery schedule. It is common and inevitable that requirements constantly change and the business knowledge is ever-evolving. The IA expects that the Change Program adheres to the design stage schedules that are agreed and endorsed in the plan, and most of all, that the CP implements the new Design Approach. ...¹⁷

3.17 The ANAO also reviewed the ATO's implementation of the Change Program up to the point of the ATO's implementation of the FBT release. Amongst other things, the ANAO commented that:

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. ...

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. ...

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

- Closer monitoring of significant risks and correspondence 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

17 Capgemini, *Australian Taxation Office Easier, Cheaper and More Personalised Change Program, Independent Assurer Report Version 1.1, Period covering 1st June 2008 – 30th June 2008*, report to the Australian Taxation Office, Canberra, June 2008, pp. 16-17.

- 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 (as defined in the [ANAO report's] Glossary "end-to-end testing" requires assessment of systems on a fully integrated basis.)¹⁸

3.18 The ANAO made four recommendations:

Recommendation No 1

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.

Recommendation No 2

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.

Recommendation 3

The ANAO recommends that in order to continually improve the performance of those functions transformed by the Change Program releases, the Tax Office review existing tax Office management frameworks to take into account the enhanced performance measurement and reporting capabilities of the new system 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 performances at an organisational group level.

Recommendation 4

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.¹⁹

18 Australian National Audit Office, *Audit Report No. 8 2009–10 Performance Audit, The Australian Taxation Office's Implementation of the Change Program: a strategic overview*, Canberra, 29 October 2009, pp. 22, 24-5.

19 *ibid.*, p. 40.

3.19 The background for Recommendation 2, as outlined in the ANAO's report, was that Schedule 2 of the contract provided that governance arrangements were to be set out in the Program Management Charter, the *Easier, Cheaper, More Personalised (ECMP) Change Program Phase 3 Change Program Charter*. However, the ANAO found that the status of the charter was ambiguous, adding to the difficulty in determining the ATO and Accenture's roles under the contract. The ANAO stated that:

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.²⁰

3.20 The current version of Schedule 2 of the contract is reproduced in Appendix 4.

Forward schedule revisions

3.21 In early August 2008, the ATO reconsidered the scheduling of the company tax release:

At the CPSC we confirmed that the issue as to when to schedule [the] Company Tax [release] was in the clear context that [the] first priority is to be [the] completion of [the] FBT [release] and the delivery of [the] LMR [Lost Members' Register release], and then Super (a) ... in January 09 ...

A draft plan to deliver by January [2010] was prepared and the teams have been working towards this plan whilst the overall R3 [Release 3] replan is completed. However it is not possible to adjust this plan to incorporate the approach to UAT [User Acceptance Testing] and parallel processing that is now considered necessary (see for example the [Aquitaine] report) for confidence in product quality for deployment to business.

Given our inability to guarantee a "pilot" on the current timelines, we have looked at a revised schedule which meets 4 primary objectives:-

1. Minimise risk to the Super functionality
2. Maintain focus and energy on Companies, but be able to divert resources if necessary to Super
3. Maintain a sensible schedule for design and build of the July 09 release — FHSA [First Home Savers' Account], SG [Superannuation Guarantee] etc., and
4. Provide an extended parallel run/business pilot for both Company and Individuals Income Tax

20 *ibid.*, p. 90.

As there is no current significant resource contention with Super (a) we believe we should continue to work to the current design, build, test plan for Company Tax so that we have a strong technical platform into which to subsequently merge the IITR [Individual Income Tax Release] products; and then be well prepared to carry out parallel processing from July 09 and subsequent business deployment for both products together – still targeting for this business deployment to be no later than January 10.

It is noted that if we now decide to split Company Tax business deployment from Super (a) there is some additional interface work necessary to connect Super (a) to legacy systems given that Company Tax would not be in ICP. However this can be incorporated into the plan without significant risk. This work is to split MCS [Member Contributions Statement] data from SMSF [Self-Managed Superannuation Funds] returns and reflects what we are doing this year with the combined SMSF/MCS statements. This work is expected to be more than offset by not having to "split" NTS [the National Taxpayer System – a pre-existing legacy system] between individuals and companies.

Because all or most of the Company Tax design, build, test work would continue to the current plan, and in fact there would also be some avoided effort[,], it is not expected that there would be material overall changes to cost or resource requirements. However this is being confirmed by an impact assessment (presently being completed) which will provide a final assessment on changes to effort or costs either for the ATO or Accenture. There would be some deferral of benefits from the later business deployment of Company Tax (estimated at \$2m pa based on the Business Case assumptions)

We will confirm the above approach as part of the final R3 Replan approval (including Capgemini input) but seek any further guidance from the ATO Exec now as the detailed replan would need to take this into account.²¹

3.22 At the ATO's CPSC's 28 August 2008 meeting, a revised schedule for future releases (Release 3 Replan) was endorsed as a baseline against which the future delivery would be managed.

Company tax release deferred and combined with later individual income tax release

3.23 This revised schedule (Release 3 Replan), amongst other things, combined the company tax release and individual income tax release into one release. Product testing was to be completed by mid-May 2009, followed by the 'synch' with the TaxTime 2009 code and regression testing with a 6 month Parallel Run and Business Pilot and deployment scheduled for 4 January 2010.²²

21 Australian Taxation Office, Attachment to the minutes of the 30 July 2008 meeting of the Change Program Steering Committee, internal correspondence, p. 2.

22 Australian Taxation Office, 3.1.2(a) *Summary Replan Pack for CPSC*, document presented at the 28 August 2008 meeting of the Change Program Steering Committee, pp. 6-7.

3.24 The reasons given for the replan were:

- The FHSA product is legislative and must be delivered in July 2009. It is based on CoCons functionality being delivered in January 2009. Thus the priority of management focus and energy must be on delivering SuperA in January 2009.
- Removing Company IT [income tax] from this release takes away the October code-merge necessary in the previous scenario. This effectively provides an extra 8 week buffer for the SuperA release.
- Operations have expressed a desire to have a "pilot" before the deployment of Company Tax functionality. The previous Replan has no capacity between now and end of 2008 to meet that requirement.
- The previous Replan requires technical alterations to NTS to "split" Company Tax processing (which will be in ICP) from IITR processing (which will remain in NTS for 12 months). This is technically complex and adds risk. Avoiding this set of work activities avoids additional delivery risk.

However, we believe we should continue to work to the current design, build, test plan for Company Tax so that we have a strong technical platform into which to subsequently merge the IITR products; and then be well prepared to carry out parallel processing from July 2009 and subsequent business deployment for both products together – still targeting for this business deployment to be no later than January 2010.²³

3.25 The ATO also scheduled four dates, called 'Stage Gates', (1 December 2008, 31 March 2009, 30 September 2009 and 1 March 2010) on which it would formally review progress, including assessments of whether the planned timeframes for the smaller releases could be met. TaxTime 2009 was also to be delivered in its current ICT systems (that is, pre-ICP systems or legacy systems) in July 2009.

3.26 However, by October 2008, the design for the company tax and the individual income tax releases had fallen behind the revised schedule by about four weeks. The ATO further revised its schedule to accommodate the delays. Capgemini recommended that the ATO identify and resolve the root causes for the continuous slippage.

3.27 In its October 2008 report, Capgemini observed that:

The Current Status of the Program: ...

- In Income Tax, the Change Program has verbally specified that the signoff of Individual Tax design by the 24th December 2008 is critical to achieve the January 2010 technical deployment date. The IA [Capgemini] endorses this view and has concerns that this date will not be achieved as:
 - o Tranche 4 design for Individual Tax has not been completed as per the planned completion date, with 58 outstanding Change Requests as at the 3rd November.

23 Australian Taxation Office, *Summary Replan Pack for CPSC*, document presented at the 28 August 2008 meeting of the Change Program Steering Committee, p. 6.

- o Due to the high dependency of design resources between Tranche 4 and Tranche 5 of Individual Tax, this will have a negative impact on the ability to achieve the 24th December design milestone.

As there is no contingency remaining for Income Tax, missing the 24th December 2008 deadline will cause further pressure on the Change Program to reduce the time originally allocated for the Parallel Run. With the Christmas break, the IA is concerned that this design will not be fully endorsed until the end January 2009.²⁴

3.28 In its November 2008 report, Capgemini found that:

The effort required to design and deliver CRs [Change Requests] is frequently underestimated.

Unanticipated CRs are being approved with limited consideration of the overall impact of the schedule.

71% of the critical resources in the CP [Change Program] are within design creating consequential delays / impacts

Planning has not adapted for a parallel release paradigm, causing compounding impacts.²⁵

3.29 Capgemini recommended that:

Assess CRs to ensure that they can be delivered in the current schedule, with consideration of resource availability, schedule, skills, etc. Reconsider the plan when it cannot be delivered.

Identify, plan and build critical resources into the design schedule and align to program level management of critical resources.

Accenture to inject a design project manager to assist Integrated Design planning and management.²⁶

Income tax release key testing schedule milestones

3.30 The schedule to deploy the income tax release involved key milestones that included certain types of testing. The schedule for testing included, amongst others, the following:

- Product testing — gave an assessment of the quality of the software and whether it was working according to design. At the time of the ATO's August 2008

24 Capgemini, *Australian Taxation Office Easier, Cheaper and More Personalised Change Program, Independent Assurer Report Version 1.0, Period covering 11th October 2008 – 9th November 2008*, report to the Australian Taxation Office, Canberra, October 2008, pp. 2-3.

25 Capgemini, *Australian Taxation Office Easier, Cheaper and More Personalised Change Program, Independent Assurer Report Version 1.0 Period, covering 10th November 2008 – 5th December 2008*, report to the Australian Taxation Office, Canberra, November 2008, p. 8.

26 *ibid.*, p. 8.

rescheduling of Release 3, the product testing was initially intended to be completed by the end of May 2009. This was later rescheduled to June 2009 (but was finalised on 15 January 2010 – the same day that the code was started to be packaged and made ready for the production deployment.²⁷

- **Parallel Run** – , at the time of the ATO's August 2008 rescheduling of Release 3, was intended to be conducted over the period late June to the end of October 2009, but was conducted in two cycles over the period mid-September to late December 2009 in parallel with the product testing. Under the parallel run, the transactions and results delivered by the ICP system's use of real production data were compared with that of the ATO's pre-existing legacy systems to ensure that transactions and results were the same. The ATO has advised that after it compiled all the data conditions for two of the cycles, it considered that any further cycles would not materially add to the benefits of the parallel run. However, a number of ATO functions were not included in the parallel run because the ATO could not faithfully reflect the interactions between different legacy systems due to their structural differences.
- **Business Pilot (or pre-deployment pilot)** – , at the time of the ATO's August 2008 rescheduling of Release 3, was intended to be undertaken for six weeks from the end of the parallel run, but was conducted in two 4-week cycles over the period October to mid-December 2009 in parallel with the product testing and the parallel run. The business pilot evaluated the readiness of the ICP system design, procedures and infrastructure and allowed the ATO to evaluate true business readiness by testing the design of manual workarounds, business processes and inter-linkages with external parties and other Commonwealth departments. It was intended to enable the ATO to measure business confidence in the end-to-end process incorporating 'an entire client experience' of both internal and external clients for the income tax release. This included:
 - The ability to evaluate business confidence for business processes in a true end to end capacity incorporating an entire internal and external client experience

inbound --> forms processing --> accounting --> outbound
 - Replicate (as much as possible) the complete income tax environment focussed on the internal and external client experience
 - Expose a large group of business users to complete business processes in the new environment who in turn provide support, experience and expertise back in the workplace
 - To measure and evaluate the business tools, processes and procedures to support staff transition

²⁷ Capgemini, letter to the Australian Taxation Office, 21 January 2010, p. 3.

- Review interactions between supporting interfaces and legacy systems.²⁸

3.31 Due to the design of the system, the parallel run and the business pilot were not intended to test the code but to test that the configuration of business requirements was correct.

3.32 The reason for the original intention to complete the product testing before the parallel run and business pilot testing began was that this scheduling would minimise business risks by running the system on a stable code base to expose any defects, ineffective business processes or any other matters that may disrupt intended business outcomes:

The Income Tax Release plan endorsed by the CPSC in their meeting on 28 August 2008, approved combining Company Tax and Income Tax functionality into a single Release with the Product Testing to be completed by the end of May 2009, with User Acceptance Testing (UAT) occurring from May to June 2009. UAT would be followed by the ATO undertaking a six month business assurance stage that enabled all levels of business to assess the impact of the new system on the ATO business practices and workforce and put in place actions to manage any change where required. This assurance was to be undertaken on a stable codebase that was exercised via Parallel Run and Business Pilot activities.²⁹

Income Tax release's June 2009 product testing deadline was repeatedly deferred

3.33 Capgemini and Aquitaine continually reported to the ATO on the progress towards deployment readiness.

3.34 As noted above, the deadline for product testing was rescheduled to June 2009. However, from December 2008 to April 2009, Capgemini alerted the ATO that the June 2009 deadline would not be met. For example, in its February 2009 report, it found that:

Income Tax: The IA [Capgemini] continues to consider that the Income Tax delivery is at a high level of risk to meet its planned timeframes as there is no further schedule contingency remaining. This Release has been tracking to schedule, however, the level of unresolved Change Requests allocated to this Release and the below-plan progress of testing could impact on the start date for Parallel Processing.

Progress has been made on finalising the Parallel Process approach. However there is a misalignment between the Business and the Change Program in terms of the intent, purpose and coverage of the Parallel Processing. Further complicating the situation is that agreement between the Change Program (ATO and Accenture) and EAM in terms of

28 Australian Taxation Office and Accenture, *ECMP Change Program Release 3 – Income Tax Parallel Process and Business Pilot Plan*, 17 June 2009, p. 14.

29 Capgemini, letter to the Australian Taxation Office, 21 January 2010, p. 2.

roles and responsibilities for the support and management of the Parallel Approach are unresolved. Both of these issues need to be resolved as soon as possible.³⁰

3.35 Although good progress was being made on other Change Program releases, such as Super A, by June 2009, Accenture advised that they:

[were] not seeing progress through product testing for Income Tax. Lots of team changes have been made but not making breakthrough. Pouring extra resources into address – need to see results quickly.

The [ATO] noted concern with the slippage of the date for the delivery of Income Tax into product test and sought clarification of where the extra resources mentioned by [Accenture], would come from. [Accenture] advised that [it would] work through the Income Tax situation and that the resources would be a mix of people freed up after the [Super B, First Home Savers Account and Interpretative Assistance] Release and some externals. The [ATO] sought confirmation that they wouldn't be taken from BAS work. [Accenture] advised that they wouldn't at this stage. ...

[Aquitaine] commented that for Income Tax, the re-plan was looking positive for Tax Time 2009 and asked if this was still the case. [Accenture] responded that the number one issue is the need to execute the code which is in place. [It] also noted that the blockers are different than those experienced with FBT. [The ATO] asked when the Tax Time 09 code base would be delivered into the integrated environment as there is a dependency on Tax Time 10 from the 09 code base. [Accenture] advised that the code was ready to go in but timing was an issue. [Capgemini] noted that this was a watch item for the Committee. The acting Chair asked [Accenture] to [advise] what the new expected delivery date for Income Tax was. [Accenture] advised that he would be in a position to provide this information by 3 July. The [ATO] asked that Capgemini and Aquitaine have a look at what is finally proposed to provide the Committee with some assurance. [It] asked that the assessment also cover consequences on other activities i.e BAS, Super B and FHS[A]. [Accenture] reiterated that the Income Tax issues were program management issues which needed to be resolved by Accenture and that additional resources from the Tax Office were not being requested.³¹

3.36 The successful completion of the product testing required, amongst other things, over 1300 test steps to pass. Capgemini measured, to a large extent, progress on this requirement by assessing the 'Rate of Test Steps Passed'.

3.37 Capgemini predicted the likely completion date for the product testing largely on the basis of the current rate of test steps passed. From April 2009, Capgemini progressively shifted the estimated completion for the product testing from October 2009 to January 2010.

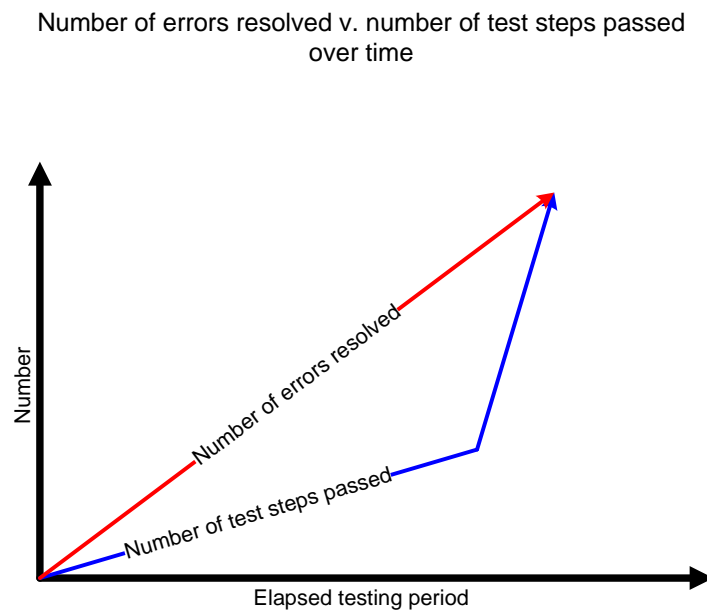
3.38 ATO officers and Accenture explained to the IGT in meetings that there were better metrics to use in order to predict the completion date for the product testing. The

30 Capgemini, *Australian Taxation Office Easier, Cheaper and More Personalised Change Program, Independent Assurer Report Version 1.0, Period covering 7th February 2009 – 27th February 2009*, report to the Australian Taxation Office, Canberra, February 2009, pp. 3-4.

31 Australian Taxation Office, Minutes of the 24 June 2009 meeting of the Change Program Steering Committee, pp. 2-3.

rate of test steps passed did not accurately reflect the amount of work needed to be done in order to successfully resolve product testing. The reason is that a test step may not be passed because it contains a number of errors. If the number of errors is small, then less work is required to fix it than if there are large numbers of errors and therefore much more time would be needed to resolve them. Therefore, it was expected that there would be a low rate of test steps passed until the end of product testing was within reach. They explained that, as an alternative, the error rate was a better metric.

3.39 The following diagram visually represents this concept. It does not depict the actual rate of errors or test steps passed.



3.40 Notwithstanding this difference of opinion, Capgemini was ultimately more accurate in predicting the actual date for product test completion (which was mid-January 2010).

3.41 The ATO advises that the slippage in completing the product testing was due to a combination of reasons, with the three having the most impact being:

- unavailability of environments for extended periods at critical times – for example, a couple of power outages at the ATO's central data centre rendered testing environments unavailable for around a month while staff focused on restoring the environments for production.
- new legislation implementation action³² – significant work was required to effect new Government policy initiatives in time for TaxTime 2009 taxpayer processing. The resourcing demands imposed by these changes impacted on the building and testing phases of the program.

32 The major legislative initiatives introduced at this time were the Education Tax Refund; the Family Tax Benefit Streamlining Administration; the Higher Education Scheme-Higher Education Loan Program Benefits and the Family Tax Benefit Non Lodger initiatives.

- the difficulty and level of complexity involved in maintaining pre-existing legacy systems and the ICP system in parallel (including the underestimation of the complexity of 'niche' scenarios) – it required more work than planned.³³

3.42 There are also a number of other contributing factors, which are set out at the end of Appendix 7.

3.43 A comparison of the planned testing schedule and the actual testing conducted, together with an explanation of the testing, is also set out in Appendix 7.

Business testing now to operate in parallel with product testing

3.44 The delays in completing the product testing meant that the parallel run and business pilot (business testing) were rescheduled to occur at the same time as the product testing. This meant that the business testing was undertaken on a code base that was several versions earlier than the final code base, giving limited outcomes for the parallel run and business pilot.³⁴ The start date for the business testing was deferred on a number of occasions, with the consequence being that the number of business scenarios and test cases were reduced.

3.45 The ATO identified those functions which were critical to the income tax release's initial deployment and those which could wait to be deployed at a later time. For example, the ATO decided to deploy the Debt Operational Analytics (OA) at a later point in time after January 2010. This delay was estimated to reduce ATO receivables by \$310 million for the 2009-2010 year, however, this amount was expected to be materially recovered in future years.³⁵ For the functions that would not be deployed or fixed before the deployment date, the ATO developed manual workarounds.

3.46 However, the business testing that was conducted did provide benefits. It disclosed further errors with the system, the resolution of which created more test scripts that needed further product testing.

3.47 The parallel run also gave the ATO data with which to estimate the potential future workload in production in relation to suspension rates and to roster the staffing accordingly.

Income tax release deployment date now deferred to late January 2010

3.48 In September 2009, the ATO considered that current progress indicated that a 4 January 2010 deployment date for the individual income tax release was

33 An example, is the configuring of the specifications for the imputation offset—it is refundable for all but one type of entity.

34 Capgemini, *Australian Taxation Office Easier, Cheaper and More Personalised Change Program, Independent Assurer Report Version 1.0 – FINAL Period covering 23 December 2009 – 14 January 2010*, report to the Australian Taxation Office, Canberra, January 2010, p. 3.

35 Note that Aquitaine Consulting later reported to the ATO that the ATO's Debt area estimated these reductions to be around \$570 million, and the Tax Practitioner and Lodgement Strategy area estimated that lodgement compliance revenues would be reduced by around \$80 million: Aquitaine Consulting, letter to the Australian Taxation Office, 21 January 2010, p. 2.

unachievable. It decided to aim for (but not commit to) a rescheduled deployment on the Australia Day long weekend – 1 February 2010.

3.49 However, Capgemini advised that the 1 February 2010 deployment date was also at severe risk of not being met. This was because the rescheduled mid-November completion date for product testing would be delayed until mid-December unless test script pass rates for product testing were elevated to 145 from what was 107 at that time. Capgemini also expressed uncertainty around the testing throughput. The ATO noted that there was a severe risk associated with the January deployment, but would work hard towards meeting that date. However, the 'plan will not proceed if not ready'.³⁶

3.50 The ATO also identified Easter 2010 or the end of 2010 as possible alternative deployment dates. If the Easter date was chosen then the ATO would 'need to maintain legacy build (that is, any software changes that were needed to implement any amendments to the tax laws for the ICP system had to also be made to the pre-existing legacy systems) for some time' as there 'would be parallel testing for legacy and Tax Time 10 if there is an Easter deployment'. However, the ATO would assess the progress towards an Australia Day 2010 implementation date at a series of checkpoints and could delay making the decision to go live until mid-January.³⁷

Decision criteria for income tax release deployment

3.51 In early November 2009, the ATO decided to use four criteria to assist it in determining the readiness for deployment of the income tax release:

- production readiness – the system's ability to perform 14 key business scenarios, such as processing of credit and debit assessments, transfer of data to and from external agencies and processing of amendments
- staff readiness – the ATO's ability to use the new system, adapt to new processes and cope with the expected levels of manual workarounds
- systems implementation readiness – the new system, its stability, scalability, performance, conversion of data held in its pre-existing ICT systems (legacy systems) and the arrangements to support the new system once it was implemented
- community readiness – the ATO's engagement with external stakeholders such as tax professionals, other government agencies and service providers.

36 Australian Taxation Office, Minutes of the 15 September 2009 meeting of the Change Program Steering Committee, p. 5.

37 *ibid.*

3.52 A key factor in this framework was the classification of the identified defects (important in determining systems implementation readiness):

- Severity 1 – Critical / Mandatory
 - The application/system is not able to run in a production environment. There is no workaround for the problem to allow Users to continue processing with minimal or no loss of efficiency or functionality or legal requirements to be conformed with.
 - Sample Indicators: major impact on revenue; major component/application not available for use; impacts on the availability of an external facing system
- Severity 2 – High / Essential
 - The incident restricts the usability of the application/system, but the application/system itself is running. There is no sustainable workaround available.
 - Sample Indicators: moderate to large number of clients and/or customers affected; slow response times; component continues to fail — intermittently down for short periods, but repetitive
- Severity 3 – Moderate / Required
 - The application/system is up and running, but there is a moderate impact on the usability of the application. There is a workaround available.
 - Sample Indicators: low customer/client impact; limited use of product or component; there is a workaround available
- Severity 4 – Low / Desirable
 - The application/system is running with a minor flaw. There is a workaround for the problem and the usability of the application is not affected.
 - Sample Indicators: low³⁸

3.53 The ATO decided that the existence of any Severity 1 defect would preclude deployment.

3.54 Another key factor was the system's performance in relation to the following 14 key scenarios that represent key ATO business functionalities (important in determining production readiness):

- Return processing – Credit assessment
- Return processing – Debit assessment
- Manage lodgement obligations
- Payment processing
- Manage accounts in debit

38 CPT Global, *Release 3 – Income Tax Implementation Review*, report to the Australian Taxation Office, August 2010, Appendix E.

- Data and transactions exchanged with the Reserve Bank of Australia, Centrelink, Department of Education and Workplace Relations and the Child Support Agency
- Create and review suspense and review items
- Process amendments
- General ledger update and reconciliation
- Client accounts – update and maintain
- Manual generic form processing
- High risk refunds and IDC processing
- Datamarts and Reporting cubes.

3.55 In relation to the community readiness criteria, the ATO had planned a communication and intelligence collection strategy. This strategy included providing information to taxpayers, businesses and tax practitioners on the Change Program, particularly in relation to the income tax release.

3.56 At various stages through the 2009 calendar year, progress reports on the Change Program were given to the range of established ATO business, tax professional and tax agent consultative forums. The ATO also had a range of material on their website (ato.gov.au) detailing the background and impacts of the Change Program.

3.57 The tax professional associations and tax practitioners were consulted about the best time to deploy the new core processing system. Following these consultations it was decided that the December/January period was the best option. It was believed that the primary income tax returns that would be impacted would be those lodged by tax practitioners on behalf of their clients. This was because the 'due date' for self-preparers is 31 October in accordance with the legislative instrument which is tabled with the Parliament by the Commissioner of Taxation. This due date does not alter from year to year. It was also known that historically approximately 5 per cent of income tax lodgments are lodged during the December-January period.

3.58 As the timing for deployment of the income tax release moved closer, the communication strategy was aimed to raise awareness of the intended deployment date. In particular, from September 2009, the ATO alerted tax practitioners to the potential impacts that this deployment may have on lodgements that may result in delays in processing of tax returns until March 2010. The ATO urged tax practitioners to lodge as early as possible, and before the end of December 2009, to increase the likelihood of their refund issuing prior to the proposed shutdown. This ATO advice was aimed at allowing tax agents to provide advance notice to their clients and to take any necessary steps to reduce the identified impact.

3.59 By December 2010, it was agreed with members of the ATO Tax Practitioners Forum (ATPF) to establish a Change Program Consultative Group (CPCG). This group was intended to have regular teleconferences from February until 2 March 2010. It was

established by the ATO to hear directly from tax practitioners and their representative bodies and associations.

3.60 The ATO also made telephone calls to around 3800 tax practitioners who normally lodged more than 100 income tax returns during December and January to alert them to potential delays that may arise as a result of the deployment.

3.61 From October 2009 through to mid-January 2010, both Capgemini and Aquitaine assessed the work to date against those criteria and reported identified gaps to the ATO.

ATO 22 December 2009 assessment — much more work to be done by end of January to minimise risks

3.62 On 22 December 2009, the ATO's CPSC met. It was presented with a high level ATO assessment of the readiness to deploy the income tax release. Due to the significance of this assessment, we have reproduced substantial extracts from it:

1. Overall we would consider deploying Release 3 Income Tax at the end of January 2010 to be 'High Risk' based on the analysis undertaken to date on outstanding defects. However we note that it has been difficult to make an informed assessment of what errors will be outstanding at the time of deployment and the business impacts associated with these errors.
2. The key reasons underpinning this assessment include:
 - Delays in product test and multiple parallel activities have made it difficult to make an informed assessment of impacts on our business, current estimates for product testing completion are early to mid January 2010
 - It has been difficult to assess the status of errors fixed in the production code and the likely number of unknown errors that could manifest themselves after deployment
 - Potential reputational risks with loss of confidence in the ATO's ability to calculate assessments and process work within acceptable standards. This will be compounded where additional work is required to be undertaken by tax agents e.g. identification or checking of incorrect assessments and then follow up work to organise the amendments/changes
 - Impacts on delivering tax time 2010 (for example, availability of key resources and timeframes for testing)
3. Deployment of a system of this magnitude has impacts on both our service standards and actioning work that has been stockpiled during the 'ramp down' and 'ramp up' period. We anticipate that this will require an additional 655 to 856 resources [full-time equivalent staff] during February to June 2010.
4. Depending on the nature and size of the issues on hand at deployment — we anticipate that we could manage workarounds that involve up to around 1300 additional resources ... (this excludes any budgetary considerations and is additional to the ramp up of resources as per para 3 above). However if workarounds were of a greater order of

magnitude then the associated operational stress would likely make these mitigation strategies unworkable.

5. Whilst we consider that we could manage the additional work from the workarounds ... there would be still a substantial impact on our business outcomes. For instance under these circumstances we estimate that between January and June 2010 most returns would not be processed in less than 50 days and this situation is likely to continue into the second half of the calendar year. Industry benchmarks and experience from previous deployment(s) shows that fixing errors and design issues in production can cost up to 4-5 times more than fixing these errors in a testing environment. ...

The following key points are put forward for consideration:

1. Business Impacts

A deployment of this magnitude has significant impacts to the Tax Office's business (assuming the system is fully functional). These impacts have been appropriately factored into our planning. For example:

- Ramp down approach leading up to deployment has been finalised: As a result of ramp down we anticipate:
 - Key service Standards will not be met for a number of months following deployment ...
 - Significant but manageable impacts on lodgements, refunds, offsetting credit and debit interest
 - Workload impacts such as stockpiling of work, back out of activities from NTS and associated workforce planning decisions leading up to deployment (these have been finalised)
 - Debt collections will be reduced by \$310 million in 2009-10 — of this around two thirds should be clawed back in 2010-11.
- Outstanding concerns remain however, about the large number of outstanding defects and 'system unknowns' which have been evident in the previous releases.
 - The last Release 3 Income tax status report shows that there are in excess of 800 outstanding defects, 600 of which are Severity 1 or 2 in nature.
 - Approximately 300-400 errors (predominantly SEV 1) are expected to be fixed between now and mid January — included in these are errors that relate to assessment calculation and subsequent reputation risk if issued into the community
 - In excess of 800 issues have been raised in the Pre-Production Pilot. More than half of these are system defects or design changes from our existing systems that the business was unaware of. ...
 - Currently a number of fixes are being deployed and then undergoing product testing. ...
 - o From a business perspective, our key issue will be the number of issues on hand at mid January that have not been corrected and the extent of the workarounds required. ...

- o Functionality affected includes lodgment, accounts, debt, account enquiries, ... These impacts may result in returns unable to be processed, returns stuck in the system, lost forms and refunds, account fixes required due to data corruption and impacts on interoperability with third parties.
- o Our understanding is that most of these issues will be fixed over the next few weeks. From a business perspective we consider that we could manage workarounds along with increased associated hardship cases with additional resources of around 1300 for the months of April onwards — however if errors on hand required workarounds of a greater magnitude this would cause too much stress on the operational business and would be unworkable. We anticipate that on average an outstanding SEV 1 error has an impact of around 100 to 200 FTE in workarounds and affects around 250,000 to 300,000 clients. ...
- o If there is continued delays in the issuing of amendments, the results planned in respect of compliance activities will be impacted and revenue outcomes will be at risk.
- While some of these issues have been manageable in FBT and Superannuation releases, the size, scale and impact of these issues will not be manageable in the Income Tax Release. ...

3. Pre Production Pilot (PPP)

The original objectives and outcomes expected of the pilot have only been partially met: ...

The Pre production pilot environment and functional limitations had meant the pilot was unable to reflect the end to end process or the entire internal and external experience.

However, the PPP has helped identify a number of critical defects (refer above) and design issues. For example:

- Defects relating to Medicare Levy, Eligible Termination Payments and Income Averaging ...

5. External Readiness

The external community have been provided with the information that can be provided to them at this stage. Our focus has been on tax agents, BAS Service Providers, legal practitioners and large corporates. ...

However, it should be noted that other than messages to lodge early and potential impacts on processing in the new year, there has been no direct impact on the external community at this time. With the potential for significant systems errors impacting on certain classes of clients in their assessments or accounts' records, coupled with the general difficulties of a deployment of this size, the level of tolerance from the business community and tax practitioners in particular will be greatly tested.

Through the external forums it is clear that the large corporates, professional associations and tax agents do appreciate that the system will not be without significant impact on the ATO service delivery. As experienced in the [delivery of the] tax bonus [initiative,] as soon as there is an impact on their individual practices there is a point the ATO risks the lose [sic] of patience from the community. This has been sought to be managed through

planned communication and intelligence collection processes to keep the external community informed on how to work with the new system. The success of this will not only be influenced by our actions but also the level of leeway given to the ATO over a long period.

Tax professions have advised that while they appreciate the size of the deployment and will be understanding; their members will need to be able to explain to their client's reasons for delay and any inaccuracy. How long this can be accepted will be determined by their general perceptions and feedback based on perhaps isolated instances, rather than the rate of our systems corrections or ongoing contingencies.

Based on the identified systems issues at this time, it is reasonable to assume that there is a greatly increased risk that the tax profession generally or the representative groups could much earlier than previously anticipated, lose confidence in the ATO's data integrity and processing ability or their belief that the system was ready for deployment from their perspective.

6. External Readiness (Third Parties)

External government agencies and other impacted 3rd parties are aware of and ready for the impacts the planned R3 IT changes will have on them. Our ability to interoperate with other agencies such as Centrelink and CSA is still under test and therefore represents reasonable risk to the Go-Live decision. ...³⁹

3.63 In terms of the 14 key production scenarios, the ATO assessed the following as having a high risk:

- Return processing – Credit assessment (assuming that conversion issues were resolved, otherwise the rating would be assessed as 'Severe')
- Return processing – Debit Assessment
- Manage accounts in debit.

3.64 The key scenarios, Manage lodgement obligations and Data and transactions exchanged with the Reserve Bank of Australia, Centrelink, Department of Education and Workplace Relations and the Child Support Agency, were rated as an overall significant risk. The remaining scenarios were either rated moderate or low.

3.65 In terms of anticipated delays in return and amendment processing, the ATO estimated that it would not meet its service standards (processing 94 per cent of individual electronic income tax returns within 14 days) until the 2010–11 income year if it could achieve system 'functionality' by May 2010. If functionality was not achieved by May 2010, the ATO estimated that it would not likely achieve these service standards for the 2010–11 income year as well.

³⁹ Australian Taxation Office, *Business Readiness: Executive Summary, Business Readiness Assessment for Change Program Release 3 Income Tax*, document attached to the agenda for the 22 December 2009 meeting of the Change Program Steering Committee, pp. 1-6.

3.66 The ATO estimated that around 170,000 taxpayers would ask for priority processing of refunds over the February to April (inclusive) period, requiring up to around 520 full time equivalent staff to action.

3.67 The level of business impacts was related to the level of outstanding defects that needed to be resolved.

3.68 On 19 January 2010, Capgemini's assessment of Severity 1 defects stood at 54.⁴⁰ Capgemini also advised that a number of unidentified defects were likely to arise in production.

The number of issues and defects raised in Parallel Run and Business Pilot identified that there were and potentially is a substantial number of latent issues that are outside of the scenarios covered in the Product Test. This means that these undiscovered issues will be experienced in Production, with unquantifiable impacts. ...

the Capgemini IA [Independent Assurer] consider that despite the best intentions to have additional business testing activities prior to the Income Tax deployment, the technical delivery will largely follow the same pattern as prior Releases with the final codebase not being validated until it is in a Production environment. As a consequence, Capgemini anticipates that, as with prior Releases, the level of issues and defects that arise in Production will be at a level four or more times greater than that identified in the final stage of testing. Combining this with the very high number of Severity 2 defects that are already known and/or expected to arise in the initial months, Capgemini considers the likelihood of substantial business and technical issues to be Very High.⁴¹

3.69 The ATO's post-implementation Release 3 reviewer, CPT Global, notes that this assessment of all the known defects was taken at a point in time and the context surrounding this assessment should be understood. Up to the point of deployment, the trend was that a significant number of defects were being identified and resolved each week. It can be predicted that if testing had continued, more defects would have been identified at around the same rate. The implication is that further defects would likely be identified in production, which was generally confirmed by the defects that arose in production — as at 5 May 2010, 395 e-fixes were deployed, an average of approximately 30 per week.

3.70 The ATO has advised that not all of these e-fixes were to fix code defects, as a number were due to the ATO manually manipulating systems controls, such as 'turning on and off' the safety net.

⁴⁰ Capgemini, letter to the Australian Taxation Office, 21 January 2010, p. 2.

⁴¹ Capgemini, *Australian Taxation Office Easier, Cheaper and More Personalised Change Program, Independent Assurer Report Version 1.0 – FINAL, Period covering 23 December 2009 – 14 January 2010*, report to the Australian Taxation Office, Canberra, January 2010, pp. 3-4.

ATO acceptance of likely significant post-deployment defects and the implementation of post-deployment problem mitigation plans

3.71 From the above account, it is clear that the ATO was aware of the risk that significant unidentified problems or defects may arise in production. The ATO's approach to managing those risks was to implement a range of post-deployment problem mitigation mechanisms which included the following elements:

- **Transition team** — The ATO has advised the IGT that it had intended to retain 20 of the original program development team for a further five months after deployment to identify and fix systems errors, if and when they arose.
- **Production pilot** — In the first two weeks after deployment, the ATO intended to pilot the processing of tax returns. This involved feeding a small number of returns into the system and verifying the outputs of that processing before issuing any correspondence to taxpayers. This production pilot would be 'ramped up' progressively and checked for performance outcomes.
- **Safety net** — In December 2009, Accenture developed a 'safety net' which could reduce the adverse impacts of incorrect assessments and correspondence issuing by stockpiling these if they contained any known or suspected defects. It would allow the ATO to suspend a form with particular characteristics from progressing further in the system, such as income tax returns involving primary production averaging calculations. Once the underlying defect affecting the stockpiled forms was fixed, the safety net allowed the ATO to re-process those forms. This mechanism reduced the risk of issuing incorrect assessments to taxpayers, but did so at a cost because there would be significant delays encountered by taxpayers and tax practitioners. However, there was still a residual risk of issuing incorrect assessments where the ATO was unaware of the defect and that defect had progressed through the system.
- **Integrated support model** — Generally, the integrated support model was an ATO framework for identifying, escalating, prioritising and resolving potential problems encountered. An overview is reproduced in Appendix 8. At the ground level, there were expected to be some 12,000 ATO staff, supported by 600 'expert users', using the new systems and processes after the income tax release's deployment. If, after consulting a list of known issues and workarounds, these problems were unable to be resolved by ATO staff, the problem was to be escalated to an expert user. Expert users were involved in the business pilot and received training on the new systems. Expert users were expected to have daily phone hook ups to exchange observations and experiences. If the expert user was unable to resolve the issue, the matter would be logged as an 'Infra'. The Business Issues Management (BIMs) team met daily to prioritise new Infras and ensure that they were being referred to the appropriate areas for resolution. Those Infras with significant impacts were raised with the Leadership Strategy Group forum, who then would refer the matters to the nerve centre, a forum chaired by the Second Commissioner responsible for the ATO's Operations. In this way senior ATO management were made aware of the most significant defects with the system.
- **Release updates** — Release updates deploy consolidated changes to the system after sufficient testing. The ATO scheduled the following releases post-deployment:

TaxTime 10 Sub-release for 26 March 2010, ITR Stabilisation release for 26 April 2010, and the TaxTime 10 pilot release for 26 June 2010. Other releases were also scheduled for deployment in September/October 2010 and December 2010.

- **Emergency fixes ('e-fixes')** – Emergency fixes are applied on an ad hoc basis to remedy particular and significant defects, indicating a lack of a stable code base. Generally, these fixes are so urgent that the ATO considers they must be dealt with before the next software update release is deployed. The testing for e-fixes is limited compared to the testing for scheduled release updates. This is due to the urgency to implement these fixes. However, it also imports an increased risk because it may give rise to unintended and significant consequences.
- **Workarounds** – Non-critical system problems could also be addressed through manual workarounds. Sustainable workarounds were a feature of the ATO's pre-existing legacy systems. Problems with unsustainable workarounds were classified as 'Severity 2' defects (see above). Unsustainable workarounds are by their very nature very costly and difficult to maintain for any extended period.
- **Staffing** – The ATO also prepared to have at its disposal a large number of staff. In terms of processing returns for previous years, the ATO would normally have around 300 full-time equivalent (FTE) staff. After deployment of the income tax release the ATO aimed to have an additional 440 to 680 FTE staff to help manage the deployment from February through to June 2010, with an ability to draw on an extra 1300 to manage workarounds for any systems defects from January through to June 2010. The ATO could also transfer incoming telephone calls to an external service provider if needed.
- **Hardship/Priority processing** – The ATO was prepared to apply 'an adjusted interpretation' to the technical definition of hardship to minimise the impact that delayed refunds may have on cash flows.
- **External Readiness and Intelligence Knowledge reporting** – The ATO implemented a system of capturing community feedback to highlight key topics generating the most enquiries, the community impacts identified and provided a level of insight into the ATO's responses to the community feedback. The framework for this reporting is set out in Appendix 9.
- **Full regression testing** – Accenture advised the ATO that it would complete full regression testing before the deployment of the income tax release. The regression testing was to cover the income tax, FBT, superannuation and Interpretative Assistance releases. Accenture advises that this testing was completed in January 2010.
- **Run ahead** – A post-'go live' process where the ATO would run full production files in a parallel test environment prior to running them in a live environment, in order to warn of any potential issues. The process ran for approximately 2-3 weeks.

ATO income tax release — 21 January 2010 'go live' deployment assessment

3.72 On 21 January 2010, the CPSC met to decide whether the ATO was ready to deploy the income tax release. Overall, the ATO's own internal advice was that significant defects would arise in production:⁴²

Conclusions

Significant progress has been made over the past few weeks to complete execution of the inventory of Product Test scripts and to achieve pass rates that indicate satisfactory remediation. Testing of OA functionality and resolution of defects seems likely to be also achieved close to "Go Live" and before the functionality is needed in a production sense.

Despite an unprecedented range of testing, it is virtually certain that significant errors will emerge as processing ramps up. Critical to the decision to deploy is assurance that sufficient capacity exists to effectively deal with these issues as they emerge. In response to this, learnings from previous releases have been accommodated in a revised support structure, and additional resources have been quarantined to be on "standby" as needed.

3.73 The ATO also assessed the risk of key ATO business functionalities:

Key Production Scenarios — at the CPSC of 22 December five production scenarios were considered at risk:

- scenario 1 and 2 (return processing credit assessment and debit assessment);
- scenario 3 (manage lodgment obligations);
- scenario 5 (manage accounts in debt); and,
- scenario 14 (data marts and reporting cubes).

All scenarios were reviewed at a workshop on Monday 11 January 2010 and the results were tabled at the CPSC meeting on 14 January 2010. Further work is required to update these scenarios with the final Product Test Memo listing of outstanding defects. This will be completed before Go Live. Key points are:

- Scenario 1 and 2 risks are mitigated largely through the resourcing to monitor messaging queues and replay messages. In addition the proposed safety net utility will enable forms with potential calculations errors to suspend. While this safety net utility is a blunt tool (that is will not be able to discriminate in terms of variations within a calculation set) it will enable forms not impacted to issue.
- Scenario 3 is dependant on the availability and operational maturity of the treatment plans.

42 Australian Taxation Office, *Deployment Release 3 Income Tax*, document attached to the agenda for the 21 January 2010 meeting of the Change Program Steering Committee, p. 1.

- Scenario 5 is also dependant on the availability and operational maturity of the supporting treatment plans. This scenario also requires payment plans to be operational. The risks here are understood.
- Scenario 14 has mitigations (or planned mitigations) for scenarios where reports may not be available Day one.⁴³

3.74 The ATO also considered whether it could support the income tax release after deployment:⁴⁴

This point is made up of several sub points:

- Tax-time 2010. Overall the current status for Tax-time 2010 for ICP is rated amber. Key risks for the Tax-time 2010 release are delivery the Employee Share Scheme measure and finalisation of the scope of change requests associated with Super Co contributions and calculations of assessable income for eligibility of benefits purposes.

At the CPSC of 14 January you agreed that to ensure that the Income Tax deployment does not impact the delivery of Tax-time 2010 it is critical that staffing and environments required to deliver Tax-time 2010 are quarantined – that is kept dedicated to Tax-time 2010 delivery.

Stabilising the Income Tax code base before 1 July 2010 is the key Tax Time 2010 risk.

The detail provided later in this submission under supporting the Income Tax Release in production provides further assurance that every effort is being taken to stabilise the Income Tax code base ahead of the Tax Time processing period from 1 July 2010.

- Delivering deferred functionality, severity two defects fixes, and deferred approved change requests; and, responding to critical production issues – progressing but not completed.

Support manual reconciliation and retrieval of errors in the messaging system

The assessment of capacity to support Income Tax post deployment has been completed. Key points:

- ☐ There is sufficient capacity to deliver the known program of work for April 2010 – this is work agreed with Operations, Compliance Subplans and CFO representatives required before the 2010 tax processing cycle. ...
- ☐ There is sufficient capacity to support Production across the following areas:
 - Deferred ITR defects,

43 Australian Taxation Office, *Change Program Steering Committee Briefing Paper, Release 3 Income Tax Go Live Decision Framework*, document attached to the agenda for the 21 January 2010 meeting of the Change Program Steering Committee, p. 2.

44 Australian Taxation Office, *Change Program Steering Committee Briefing Paper, Release 3 Income Tax – Four key areas for assessment from CPSC of 22 December 2009*, document attached to the agenda for the 21 January 2010 meeting of the Change Program Steering Committee, pp. 2-3.

- Mandatory items from the backlog of production defects,
 - Unapplied Retro fit items
 - Operational reporting (includes queue management and reconciliations)
 - BAU [Business As Usual] Productions Support, and
 - Technical workarounds
- There is additional capacity to respond to critical production issues that will arise post deployment. 54% of available resources will be retained for this work effort. Critical production defects will be corrected through emergency fixes (e-fixes) and e-fix windows have been established for Tuesdays and Thursday evenings and weekends.
- The level of resourcing has been set to provide maximum capacity respond to critical production incidents. This level of resourcing will be reviewed in April as a transition checkpoint.
- We have assessed the capacity to support manual reconciliations and the retrieval of errors in the messaging system. We have put in place a quarantined workforce that has been sized based on operational experience as well as anticipated workloads that have been modelled based on results from performance testing. In addition to the quarantined workforce we have an additional capacity of 40% that can be quickly re-tasked to provide additional support.

3.75 In relation to the progress in resolving defects, Accenture advised that of the Severity 1 defects, 20 had been tested and awaiting ATO sign off; 20 were in the code, had been executed and were awaiting verification; three had been reclassified according to remediation plans; and the remainder were in the code and awaiting execution. The ATO confirmed that the numbers had changed as a result of rectifying and successfully retesting some of the defects and reclassifying the defects according to mitigation and/or remediation plans (such as fixing them after deployment). As at 21 January 2010, the ATO agreed⁴⁵ that the number of defects was:

- Severity 1 defects – 0
- Severity 2 defects – 229

3.76 Of these 229 Severity 2 defects, the ATO:

- identified 6 defects as e-fix candidates
- scheduled 153 defects for resolution in the April 2010 release update
- scheduled 24 defects for resolution in the December 2010 release update

⁴⁵ Australian Taxation Office, Minutes of the 21 January 2010 meeting of the Change Program Steering Committee, p. 6.

- was still awaiting scheduling the remaining 46 defects for resolution.⁴⁶

3.77 Both Capgemini and Aquitaine accepted that the re-evaluation presented significant business risks for the ATO as they considered that it was certain that defects would arise after deployment. However, they advised that the risks could be reduced by the post-deployment problem mitigation mechanisms (outlined above).

3.78 In any event the ATO planned to use the late-April release update to resolve any Severity 1 that might arise and many existing Severity 2 defects that had their resolution deferred:⁴⁷

Key Points:

3 Planned pre-July ICP Releases: March (FBT [Fringe Benefits Tax] TT10 [TaxTime 2010], Late April (ITR [Income Tax Release]/Maintenance) called "Planned ICP Fix Release April", June (IT TT10) ...

Late April planned ICP release will focus on deferred ITR SEV1 and SEV2 as well as critical post deployment defects that must be included in a release structure versus eFix approach

Rationale for late April is to provide bulk of change as late as possible but before code freeze / cut for final round of TT10 Regression Test.

ATO costs of delaying deployment after February 2010

3.79 Ultimately, the ATO needed to decide whether the risks of deployment (in light of post-deployment problem mitigation mechanisms) outweighed other factors, one of the main ones being the costs of delaying deployment.

3.80 The ATO estimated that delaying the deployment would mean that the next viable date for deployment was in January 2011. This was because this was the next date which provided enough time to fix defects identified after implementation and stabilise the system before preparations for the peak lodgement periods in May-November. Also an April deployment date may not give a sufficient settling in period and therefore was high risk because there was less capacity to gear up to deal with any potential problems.

3.81 The ATO also considered that major ATO data site management issues that were also on the work horizon had the potential to further restrict or delay the Change Program's development if the income tax release deployment was deferred.

⁴⁶ Australian Taxation Office, *Income Tax Summary Status 20th January 2010*, document attached to the agenda for the 21 January 2010 meeting of the Change Program Steering Committee, p. 4.

⁴⁷ Australian Taxation Office, *Income Tax Deployment, Tax Time 2010 and Transition Program of Work Plan: attachment B to Release 3 Income Tax – Four key areas for assessment from CPSC of 22 December 2009*, document attached to the agenda for the 21 January 2010 meeting of the Change Program Steering Committee.

3.82 The ATO was aware that delaying the deployment of the income tax release by one year would potentially result in the following:

- increase ATO costs by more than \$200 million
- increase ATO costs of around \$7-8 million to use pre-existing legacy systems to deliver that year's TaxTime
- a high risk of losing key people over another year, either to other international projects or retirement
- no significant reduction in the risk of unexpected or unknown problems or delays.

ATO independent assurers' assessments — income tax release 'go live' deployment decision

3.83 Both Capgemini and Aquitaine were prepared to support a 'go live' decision, subject to certain conditions.

3.84 Capgemini supported a 'go live' decision because, amongst other things, it had confirmed with the ATO that all pre-existing Severity 1 defects in the product code and conversion were either:

- a) Reclassified according to mitigation and or remediation plans such as fixing in production or during the weekend conversion, or
- b) Rectified sufficiently and successfully retested to the satisfaction of the ATO.⁴⁸

3.85 However, Capgemini advised that their role was to assure the technical implementation of the release on the basis of technical elements only. They noted that while there were significant risks in other areas (that is, non-technical elements), there were mitigation strategies in place for these risks and that, ultimately, it was a decision for the ATO as to whether these non-technical risks were acceptable.

3.86 Aquitaine assessed the systems readiness and rated it as ready to go (noting that it was previously rated not ready to go based on previous conversion issues and lack of clarity around support arrangements, but that these aspects were now covered off). In doing so, Aquitaine assessed staff readiness and external readiness as ready to go live. Key production scenarios were also assessed as ready to go live, with the outstanding defects as minimal because the ATO was well prepared to deal with those risks.

3.87 However, Aquitaine noted that there would be a number of risks. Aquitaine estimated that as at 11 January 2010, there would be an estimated 50,000 individual assessments affected:

A small number of assessment defects (in [key production] scenarios 1 and 2) are still outstanding, but are expected to impact less than 50,000 individual assessments annually,

48 Capgemini, letter to the Australian Taxation Office, 21 January 2010.

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;⁴⁹

3.88 Aquitaine also noted that due to the intended ramp up, activities around the maintenance release and preparation for TaxTime, it would be reasonable to expect widespread delays in processing that would affect most taxpayers across the board until the end of the year.

ATO decision to deploy the income tax release — the ‘go live’ decision

3.89 The ATO decided, after considering the internal and external advice, to continue with the deployment schedule by deploying the income tax release on the Australia Day weekend, noting that if there was a catastrophic event, it had an option until 31 January 2010 to back out of the new systems.

3.90 An independent post implementation review conducted by CPT Global on the deployment also supported the ATO's decision to go live, but with important situational conditions:

The quality of the ICP software was not as high as it should have been (The ability to Safety Net and stockpile transactions essentially reduced the impact of defects that otherwise would be classified as Severity 1 defects. This in no way can [be] considered as a way to improve software quality.), but it was most likely as good as it was going to get in the short to medium term. A decision to defer implementation would have resulted in additional risks for the project that outweighed the risks of implementing.⁵⁰

ATO INCOME TAX RELEASE'S DEPLOYMENT

‘Go live’ — stockpiled returns, conversion, ramp up and back log catch up

3.91 In preparation for a possible deployment, from 23 December 2009 the ATO had stopped entering any new income tax returns received into its pre-existing legacy systems. It stockpiled any returns received after this date, with the intention of inputting those returns into the new ICP system soon after that new system was deployed. The ATO advises this stockpiling was needed to give the pre-existing legacy systems a month to ‘flush through’ returns before any conversion of records could take place.

3.92 The income tax release was deployed over the Australia Day long weekend (23–26 January 2010) by converting around 27 million taxpayer records, 32 million

49 Aquitaine Consulting, letter to the Australian Taxation Office, 21 January 2010, p. 2.

50 CPT Global, *Release 3 – Income Tax Implementation Review*, report to the Australian Taxation Office, August 2010, p. 6.

accounts and 282 million forms. Accenture reported that a number of e-fixes were applied.

3.93 By 2 February 2010, the ATO had passed the point of being able to 'roll back' the ICP system and use the legacy systems.

3.94 Over the next two weeks the ATO started a pilot process for tax returns – a production pilot. This involved feeding a small number of returns into the system and verifying the outputs of that processing before issuing any correspondence to taxpayers.

3.95 By 9 February 2010, the ATO had caught up on accounts and payments and these were being processed as received. Also, 3700 income tax returns and schedules had been processed and verifications done. Some of the errors found, as explained above, were resolved through e-fixes. Non-critical errors were scheduled for later releases. However, the ATO considered that it was coping with the pace of e-fixes.

3.96 From 15 February 2010, the ATO progressively increased the number of tax returns it entered into the system. By 1 March 2010, all returns on hand (around 1.03 million returns) had been entered into the new system.

3.97 On 2 March 2010, Accenture reported to the ATO that they:

Have caught up on back log. All of the February's forms received are now into system. Ran a batch on those last night. Normal processing will now begin and forms will now be processed as received and not stockpiled.⁵¹

3.98 On 2 March 2010, the ATO publicly reported on its website that:

We have processed around one million income tax returns using our new system, including all stockpiled returns and returns received up until the end of February. Refunds and assessments have progressively been issuing since mid-February, and some people have already received refunds ... The majority of refunds for returns lodged in December or January have been issued, and the majority of refunds for returns lodged in February will issue by the end of next week, 12 March 2010 ...

If we take longer than 30 days to process returns, we will pay interest.

As usual, some refunds will take longer to issue – for example, if they involve complex tax affairs or we need to check the legitimacy of a claim for a refund.

Please note, it can still take a few days from the time we issue a refund for it to reach its destination as it goes through the mailing and distribution process. From now on, the majority of people who lodge should receive their refund or notice of assessment within our normal turnaround time of 14 days. If they lodge by paper, individuals should have it within 42 days and non-individuals within 56 days.

51 Australian Taxation Office, Minutes of the 2 March 2010 meeting of the Enterprise Solutions & Technology Sub Plan Executive, p. 16.

If people are expecting a refund and want to check its progress they can call us on 13 28 61 ...

We understand the delays have caused problems for some people, and we are grateful for their patience. Our thanks also to the tax profession for their input, advice and patience throughout this process. We appreciate their efforts to complete and lodge their clients 2008-09 returns and look forward to working with them again as the 2010 tax time period fast approaches.⁵²

3.99 Over the next few days, the content of this information was disseminated at various forums.

TAXPAYER AND TAX PRACTITIONER EXPERIENCES WITH THE NEW SYSTEM DURING FEBRUARY-JUNE 2010

3.100 Set out in narrative form below are the main concerns raised by taxpayers and tax practitioners with the IGT. This is not an exhaustive list of those concerns, but it conveys the typical problems encountered by affected taxpayers and tax practitioners over the February-June 2010 period and the tone of their interactions with the ATO.

3.101 As previously stated, the ATO's planned communication and intelligence collection strategy included providing information to the community and regular teleconferences with tax practitioners and their representative bodies and associations. This group, called the Change Program Consultative Group, had its first teleconference on 5 February 2010 with twice weekly teleconferences until 2 March 2010, when planned teleconferences were intended to be discontinued. During these teleconferences, issues with the Change Program, including those relating to the income tax release deployment, were raised and discussed.

3.102 The ATO's publicly stated expectations leading up to the deployment of the income tax release were that processing delays would be experienced from end of December through until March 2010. During these scheduled teleconferences no significant concerns or complaints were raised by tax practitioners or their representatives.

Problems created by new ATO Notice of Assessment (NOA) and Statement of Account (SOA)

3.103 From 26 February 2010, some tax practitioners had started to raise concerns with the ATO as they received their clients' Notices of Assessment (NOAs). These initial concerns mainly centred on the design and functionality of the NOA and the related costs. For example, some tax practitioners said that the NOA was lengthy, did not identify the taxpayer on every page, and there were problems with some of the data being read by commercial software and optical character recognition (OCR) equipment. Some tax practitioners stated that their costs had almost doubled due to the

52 Australian Taxation Office, *Latest update from Second Commissioner David Butler - 2 March 2010*, available from www.ato.gov.au.

increased size and that the SOA and NOA were sent in two separate envelopes. The following is an extract from one of the tax profession representative bodies' submissions. It quotes material that one of their member tax practitioners provided to it.

[The NOA] is in 2 separate documents, 4 pages each. There is a separate page to show how the PAYG and other credits on the assessment notice has been calculated (2 lines only) but no subtotal to indicate that these figures relate to a single amount printed on the face of the assessment notice. No wonder clients cannot read these documents! and there is no reason it would not have easily have fitted on the first page anyway.

The Statement of Account, which arrived 3 days later, has a nil balance, (page 1), 3 entries on page 2, with other confusing YTD figures that are in no way relevant to the point of the statement, with past year figures provided (why on earth??).

... This is such a waste of my time and that of my staff. I am sure it does not bother the ATO because we have to do it all ourselves on the Portal.

Concerns that delays were much longer than expected and confusion with new ATO terminology

3.104 By 5 March 2010, some tax practitioners were also concerned about the delay in issuing NOAs for returns lodged during December 2009. They pointed to the ATO's November and December 2009 communications that stated that delays were expected to be resolved by March. They also pointed to the ATO's recent communications (such as the 2 March 2010 communication extract quoted above) saying that all returns were processed and there was no backlog. Tax practitioners understood this to mean that most of the previously delayed returns were about to issue.

3.105 From 8 March, a number of further problems were identified by taxpayers and tax practitioners. Tax practitioners were now expressing concerns with electronic funds transfer (EFT) reconciliation summaries and confusion on what some of the terminology of postings on the new system meant (such as 'processed date' and 'effective date' and the time between both).

3.106 Tax practitioners were unaware that one of the main material differences between the ICP system and the ATO's pre-existing legacy systems was that the ICP system will post an amount to the taxpayer's account before running credit risk assessments and offsetting amounts against other liabilities. The legacy system posted the amount to the account after running these routines. This means that under the legacy systems, tax practitioners who accessed the tax agents' portal would only see an amount posted to their client's account when a NOA was ready to be issued. In contrast, under the ICP system an amount could be shown on the client's account but a NOA would not be posted for a substantial time later if there were delays experienced after posting — such as credit risk assessments or offsetting against Centrelink debts.

3.107 Another material difference between the legacy and ICP system was the use of unfamiliar terminology or terminology that was familiar but had a different meaning. For example, under the legacy systems, tax practitioners understood 'processed' to mean that the tax return had been assessed by the system and the NOA was to issue

(subject to its position in the printing queue). However, under the ICP system, the ATO used the word 'processed' to mean that the tax return form had successfully entered the forms and payment processing module – that is, the ICP system had recognised the form. It did not mean that the form had passed all checks or that the form was not subject to officer intervention or remedial action (for example, because the form had suspended).⁵³

3.108 Tax practitioners also observed that interest was being incorrectly calculated and not being offset against other accounts in debit. Some practitioners also expressed concern that Centrelink were demanding payment from their clients, which was based on incorrect data from the ATO. They claimed that the ATO system was treating negative taxable income amounts as positive and communicating that amount to Centrelink as a positive amount. (Although, the ATO has advised that this was a Centrelink problem – the ATO sent it across as a negative value and Centrelink interpreted it as a positive figure.) This threatened their clients' eligibility to Commonwealth benefits.

3.109 On 8 March 2010, the ATO call centres were unable to deal with the volume of incoming calls. A recorded message told callers that the ATO was unable to answer their calls immediately because of the 'high level of calls'. Until 16 April 2010, no alternative number was given and any calls that did not enter the telephony queues were disconnected. Tax practitioners expressed concerns with the amount of unproductive time that they were spending in dealing with the 'ATO's errors'. Tax practitioners said that they were losing confidence in the ATO call centre's ability to understand and explain what was happening, and at times giving messages inconsistent with those on the ATO's website:

The ATO stated in its press releases that it has processed 1 million returns to date. Previously it stated that they had processed 400,000 returns in the week ending 24 February and would process 300,000 in the week ending 5 March. We told our clients that the word "processing" might not have the same meaning as they would expect because the refunds still needed to go to a mail house and they had to allow another week on top of this. Today, Monday 8 March, a client rang me asking about his refund that he desperately needs. So we rang the ATO and they stated that they still had a large backlog and that they will fast track this taxpayer's refund. However they also stated that this fast tracking will take 14 days. We have received very few Notices of Assessment so far. The only conclusion that we are able to draw is that the ATO is not being truthful in its press releases.

3.110 By 12 March 2010, some of the tax profession representative bodies were concerned with the increasing numbers of complaints from their members and the escalating tone of these complaints. They approached the ATO for clarification. The ATO advised the tax profession representative bodies that they expected delays to be resolved by 12 March 2010. However, tax practitioners continued to observe delays. Some tax practitioners remained sceptical:

⁵³ It should be noted that the ATO published a description of these terms six months later on 9 September 2010.

Returns lodged before Christmas still not processed as promised, back log caught up by the end of February hasn't happened as promised, call centre team leaders do not call back with answers as promised, "Relationship Managers" ignore faxes, ELS reconciliation reports still not being received. And obviously nobody cares, we are expected to try and work with the mess. Does anybody have any idea when things might start to happen again? The excuses are starting to wear thin and we are getting no support from the ATO.

3.111 Some tax practitioners said that their clients were concerned with the delays. The tax practitioners had told their clients that they had already lodged the tax returns but they were being told by the ATO that the ATO had problems with the new system and was slow in issuing refunds. However, when some of these taxpayers contacted the ATO, the call centres said that the system was telling them that the return had not been lodged. Taxpayers questioned tax practitioners and asked the tax practitioner to provide proof that they had lodged the return.

3.112 By this time, tax practitioners and taxpayers observed that the ATO call centres were no longer giving expected dates for issue, but were telling them that the matter had been escalated and to wait another two weeks.

ATO problems with issuing certain taxpayer refunds

3.113 Some tax practitioners also observed that certain refund cheques were not issued to taxpayers:

Just received a statement for a client's income tax account ... but it would appear that the ATO is back to its bad old tricks and retaining refunds due from an Activity Statement and applying the money to the income tax debt, due 15 May 2010. I thought that this was something that we jumped up and down about several years ago. I contacted the ATO and received the party line as read out, but when asking why this was something that was stamped out previously was put on hold for 10 minutes. I will have an answer "shortly", but the service standard is, of course, 28 days. Will not hold my breath.

3.114 On 15 March, the ATO provided another website update:

At our last update on 2 March 2010, we were on track to issue the remaining stockpiled refunds and assessments for income tax returns lodged in February by the end of last week.

Last week we experienced some minor problems which have delayed us issuing some of those remaining stockpiled refunds and assessments while we ensure the integrity of our data.

There are approximately 200,000 stockpiled assessments yet to issue (of which we estimate 100,000 are refunds). These include assessments which involve a baby bonus, entrepreneur tax offset, primary production averaging, exempt foreign employment income, special professional averaging, eligible termination payments or superannuation lump sum payments and non-resident withholding tax.

We have fixed these minor problems and can start releasing most of these refunds and assessments from today (with the exception of assessments involving non-resident withholding tax).

We remain committed to ensure the reliability of our processes even if this slows us down.

If you are expecting a refund

For the past two weeks, we have been processing returns within our normal turnaround times. As usual, some refunds will take longer to issue – for example, if they involve complex tax affairs or we need to check the legitimacy of a claim for a refund. It can also take a few days from the time we issue a refund for it to reach its destination as it goes through the mailing and distribution process.

If you are expecting a refund and want to check its progress, call us on 13 28 61. If we take longer than 30 days to process returns, we will pay interest.⁵⁴

3.115 Over the next few days, the content of this information was disseminated at various forums.

3.116 Many tax practitioners, however, remained sceptical:

We all accepted that there would be delays in processing assessments, however it is getting beyond a joke. I checked 21 clients' status on the Portal the other day and to my amazement 12 are shown as "Not Lodged" and the remaining 9 are showing that assessments have issued with "Effective Dates" varying from 24 February to 15 March 2010, yet as of today's date (17th) not one assessment notice has been received. The oldest lodged returns date back to 23 December 2009 and in frustration I contacted the RM [Relationship Manager] section of the ATO. The person from RM has escalated these 2 returns and assures me that another "Case Officer" will contact me about these 2 returns. I won't hold my breath waiting.

...

I've got numerous cases in my firm (including me as my own client!) where refund due returns aren't being processed anywhere near as quickly as payables in the new system. For example:

1.. My return – lodged start of Feb 2010 – have been told that the reason it still shows as "unlodged" on the portal is (a) due to a family tax benefit claim, (b) due to a scripting error in the system, or (c) because they're trying to verify some other data. I've been promised a refund by 12 March which has come and gone, new update is 19 March but don't hold your breath, still unlodged on the portal. ATO have confirmed lodgement. Threatening ATO with a hardship release claim because I've got two car registrations and insurances due end of the month!!!

54 Australian Taxation Office, *Latest update from Second Commissioner David Butler – 15 March 2010*, available from www.ato.gov.au.

2. Group of company returns all lodged on the same day 26 Feb – assessments already received for nil or payable clients, but refund of \$59k for one company still showing as unlodged on portal. Refund is entirely due to overpaid PAYG instalments.

3. Group of 5 family members – all lodged in the same transmission report – assessments received for payable family members, trust return showing as lodged, but two refunds owing to family members still showing as unlodged on the portal.

There is only so many times we can tell the client to remain patient, but who can blame them when they get the bills to pay but not the money they're owed? What more clear cut evidence do we need that the ATO is systematically not processing refund returns and blaming the "delays" on their change program?

3.117 On 19 March 2010, an extraordinary meeting (teleconference) of the Change Program Consultative Group was held with tax practitioners and their representatives to discuss the progress of returns and ELS reports. The minutes of this teleconference record that, amongst other things, the ATO advised that:

due to recent technical difficulties income tax refunds and assessments were delayed. We have now rectified the technical problem and are planning to forward refunds and notices of assessments to Australia Post early next week. This means that taxpayers should receive their refunds by the end of next week.

3.118 By 22 March 2010, tax practitioners also observed changes to the ATO call centre's responses to their inquiries on progress of assessments – they generally conveyed that the matter had been escalated and to call back in two weeks if the NOA had not been received by then.

3.119 On 22 March 2010, the ATO directly contacted tax practitioners in a special broadcast (mainly by email and facsimile):

Last week, we experienced an issue that meant we had to stop a significant number of refund cheques from being sent out. This did not affect refunds paid by electronic funds transfer (EFT).

We apologise for the delay, have fixed the problem and resumed processing. The majority of these refunds will be delivered by the end of this week.

The date of issue on these cheques is likely to be from the week end 12 March 2010.⁵⁵

3.120 On 23 March 2010, the ATO held a workshop with tax practitioners to obtain feedback on the NOA and SOA. A number of issues were raised and the ATO advised that it was aiming to 'revamp' the NOA/SOA by 30 June 2010.

Escalating public frustration

3.121 By 24 March 2010, some Federal Members of Parliament and Senators had been approached by their constituents on the issue, with at least one publishing a

55 Australian Taxation Office, email broadcast to tax practitioners, 22 March 2010.

media release on the problem. Tax practitioners' frustrations were escalating as demonstrated in the quotes below:

Extremely slow processing of refunds & the huge backlog our clients are experiencing. It has gone on too long. Not only are we every day getting phone calls from clients asking where their money is which is very time consuming, they often blame us for the delay rather than the ATO. Living in a small regional town my staff & I are also being stopped in the street by clients asking about their refunds. This happened to me again today. Enough is enough! Our cash flow is also being affected as a number of clients only pay us once they have received their refund.

The ATO [should] pay for a national media campaign acknowledging their problem immediately & give us all a definite date when they will be up to date. They should set up a special hotline for the taxpayer to ring the ATO rather than their tax agent having to spend time on the portal etc trying to find out where their refund! The ATO need to bear the administrative time answering taxpayers queries not the tax agents! ...

I have clients who have not received their refunds when their ITRs were lodged electronically in late December 2009. We have asked for a number of refunds to be "escalated" without much success.

Our cashflow is also being affected as a number of clients only pay us once they have received their refund.

3.122 Some tax practitioners also expressed frustration that the delays in providing refunds was affecting cash flows.

Our client has been waiting for a tax refund of over \$100,000 which is recorded on their tax account effective late January but no one I talk to in the ATO can tell me why the refund has not issued. Not to worry! The ATO has escalated the issue and by their own lofty performance standards we should hear something within 2 weeks ... With the 14 days having passed since the matter was escalated, I was then put in contact with the relationship manager area. Someone there then called me within the requisite 72 hours they give themselves to respond. The answer?

They have done all they can and the refund should issue but they can't say when. As this delay is causing the client severe cash flow problems I asked whether there was any other option. Apparently we can call the ATO on 132866 and plead our case. Tried to call, but received the message that they are receiving peak demand at the moment and can't answer our call. Well done ATO.

ATO apologies, concerns with the transparency of ATO communications and continuing problems

3.123 The issue of the delayed refunds was also canvassed with the Prime Minister during a radio interview on 26 March 2010. In response to a question relating to the delays, the Prime Minister commented that 'I get the Treasurer on to your program and go through the complaints which have been made, and how they'll be rectified.'⁵⁶

56 Rudd, Kevin, Interview with Jon Faine, 774 ABC Melbourne, ABC Radio, 26 March 2010.

On this day the Shadow Assistant Treasurer also met with the ATO on the problems and later stated publicly that 'I was assured that the backlog had been well and truly dealt with.'⁵⁷

3.124 By 29 March 2010, some tax practitioners were publicly commenting that they had lost faith in how the ATO was dealing with the problem, including their public communications. They raised a range of problems they were experiencing, including impediments to accessing client details on the portal and general delays.

3.125 On 29 March 2010, the ATO published another update to its processing and included an apology:

Processing status of tax returns

I would like to reassure tax agents and the community we are doing everything we can to issue outstanding notices of assessment for 2008-09 income tax returns and I apologise for any inconvenience you have experienced.

We know some people have experienced delays and frustration caused by our essential systems upgrade. Unfortunately, the size of the systems we deal with means they are incredibly complex. Also, given the importance of the tax and superannuation systems to Australia, we need to ensure the reliability of our processes. We appreciate the patience and support people have shown us.

In the information below you will find the status of our processing and answers to some of the questions we are hearing from tax agents and people who have been calling us.

Again, I apologise for any inconvenience by this systems upgrade. ...

What has happened over the last two to three weeks?

We had largely caught up with the backlog of returns by the end of February, however on 9 March we discovered a problem with the data in some notices of assessment which had been printed but not sent to taxpayers. Unfortunately, this meant we could not send anything for printing and posting until we fixed the problem.

It took us longer than expected to fix the problem and we recommenced sending notices of assessments to be printed and posted on Monday 22 March.

What if people lodged in December, January or February and still haven't received a notice assessment?

All remaining 2008-09 tax returns are now moving through our system. As per our published service standards, we aim to process 94 per cent of electronically lodged returns within 14 days and 80 percent of paper returns within 42 days.

Some cases may take longer to process where we may need more information from taxpayers. Sometimes we may also closely examine a return to ensure there are no fraudulent claims or we need to ensure claims are legitimate.

57 Ley, Susan, Interview with Sabra Lane, *PM*, ABC Radio, 15 April 2010.

If people think their notice of assessment should be with them by now and they haven't received it, please call us on 13 28 61. ...

What about people experiencing financial hardship?

We have been working hard to ensure we get refunds to people experiencing genuine financial hardship. To date we have helped over 1,000 people who were in this situation.

If people are in this situation we ask that they do not hesitate to call us on 13 28 61 and we will do what we can to help.

Overall are we happy with the implementation of the new income tax processing system?

Yes.

While we have had some problems, you would expect that with an implementation of an IT system as large as this one. There have been no critical systems problems. Overall, the new income tax processing system is working well and, as the figures demonstrate, the vast majority of processing has been completed.

We know some people have experienced delays and frustration caused by our essential systems upgrade. Unfortunately, the size of the systems we deal with means they are incredibly complex. Also, given the importance of the tax and superannuation systems to Australia, we need to ensure the reliability of our processes.

We appreciate the patience and support people have shown us and apologise for the inconvenience.⁵⁸

3.126 Over the next few days, the content of this ATO information was disseminated at various forums.

3.127 By 30 March 2010, tax practitioners had started to receive cheques that were held up due to a problem with the SOAs not being sent out. However, it appeared that no interest was paid for the delays.

On 29 March, I received a cheque for over \$6000 for a client and the cheque was dated 9 March. As the return was lodged on 22 February, an issue date of 9 March would have been the normal turnaround period that was being achieved under the old system so no interest would have accrued. If the assessment were correctly issued on 26 March which must have been the date of posting, a minor amount of interest would be due. My issue is that an observant client will think I have been sitting on their cheque for three weeks but, actually, the Tax Office should be paying them interest. Rang the ATO and (after a long period waiting for a 'specialist' to look into the matter) first I am told that as the cheque was issued within the 30 day service period as it was raised on 9 March so no interest applies then (second long wait) – it was accepted that today is outside the 30 day 'service period' so the 'specialist' was contacted again (third long wait).

58 Australian Taxation Office, *Latest update from Second Commissioner David Butler - 29 March 2010*, available from www.ato.gov.au.

Now the question will be sent off to [the] accounts department for review as the 'activity' was 23 March and then I pointed out it was received today so the assessment must have been posted on 26 March so it gets an escalation number with an action date of 9 April and I know that I will have to spend another half hour in the middle of April to get an apology and the client's few dollars of interest.

I have observed that the Tax Office also seems to have changed their telephone answering system so that when the operator does not know the answer, which is normally the case or I would be able to find out the answer, they check with a 'specialist' and if the facts asked are not quite correct when they ask the 'specialist' you end up on hold for another 15 minutes whilst they try again and again and again ... it has taken so long for the 'specialist' to work things out after receiving the wrong question for the operator that I just keep typing to prevent the steam from lifting the lid!

3.128 On 1 April 2010, the ATO published another apology and an update on its processing:

I would like to reassure tax agents and the community we are doing everything we can to issue outstanding notices of assessment for 2008-09 income tax returns and I apologise for any inconvenience you have experienced.

We know some people have experienced delays and frustration caused by our essential systems upgrade. Unfortunately, the size of the systems we deal with means they are incredibly complex. Also, given the importance of the tax and superannuation systems to Australia, we need to ensure the reliability of our processes. We appreciate the patience and support people have shown us.

In the information below you will find the status of our processing and answers to some of the questions we are hearing from tax agents and people who have been calling us.

Again, I apologise for any inconvenience caused by this systems upgrade. ...

Total returns loaded to the new system February to 24 March 2010 – 1,086,000

Notices of assessment

Total issued to taxpayers (of which 170,000 issued this week) – 720,000

processing through the system and will be printed shortly – 216,000 (Planned issue date – During the week commencing 5 April)

normally on hand at any given time – 150,000 (Some cases take longer to process where we may need more information from taxpayers. Sometimes we may also closely examine a return to ensure there are no fraudulent claims or we need to ensure claims are legitimate.)⁵⁹

3.129 The ATO also directly contacted tax practitioners in a special broadcast on 1 April 2010:

59 Australian Taxation Office, *Processing status of tax returns - latest update 1 April 2010*, available from www.ato.gov.au.

Incorrect due date on notices of assessment

Some debit notices of assessment that issued since 23 March 2010 have incorrect due dates between 6 and 9 April 2010. We are aware that these dates do not allow sufficient time for payment.

We apologise for any inconvenience this may have caused. We are fixing the problem and will advise you of an extended due date for your affected clients.

Please do not contact the ATO about this issue.⁶⁰

3.130 By this time, many tax practitioners were increasingly concerned with the ATO's response to problems:

It is accepted that when major systems upgrades occur, there will be issues and problems that arise that will need to be corrected. The "right" way to approach these issues and problems is to be upfront, open and candid about what has occurred and how long it is expected to take fix the problem. The ATO has instead bombarded us with self-congratulatory "slaps on the back" for managing a major change well, telling us (initially) that delays are fixed and everything will be fine. The original news was that the backlog would be cleared by end of February 2010, then came the "one more week" messages and here, on 1 April 2010, we are still waiting for about three quarters of the assessments relating to returns lodged between 23 December 2009 and the end of January 2010, with some returns still being listed on the Portal as being "Not Lodged" (which we are assured have been received).

3.131 On 6 April 2010, the ATO directly contacted tax practitioners in another special broadcast:

Notices of assessment incorrectly advising refunds paid to bank accounts

Some of your clients may have recently received a notice of assessment which advised their refund was paid electronically to their nominated bank account in instances where they have not provided bank account details.

We have identified the clients affected and will issue their refund via cheque.

Your clients can expect to receive their refund cheque from 12 April 2010.⁶¹

3.132 By 6 April 2010, a small number of tax practitioners and taxpayers had also made compensation claims. Taxpayers claimed the costs of delays and managing their tax affairs while waiting for the refund. Tax practitioners claimed the costs of having staff idle, the costs in dealing with disgruntled clients inquiring about the progress of their refunds and the reduced number of client refunds from which they recovered their fees.

3.133 On another front, by 8 April 2010, representatives of primary producers said that they had been told by the ATO that:

⁶⁰ Australian Taxation Office, email broadcast to tax practitioners, 1 April 2010.

⁶¹ Australian Taxation Office, email broadcast to tax practitioners, 6 April 2010.

In January the ATO advised of an upgrade of their computer systems. The computer upgrade when completed had a bug in the new system meaning that it was not able to process income averaging. Primary producers have been told that the ATO therefore will not commit to a time frame for having their income tax returns assessed.

Primary producers have been told that there are 350,000 outstanding income tax assessments and those primary producers make up 100,000 of these, and that the backlog is mainly due to the computer upgrade.

3.134 On 12 April 2010, the Commissioner gave an apology in one of his speeches:

.... Of course, with great change there is a degree of upheaval. We are aware that some agents experienced issues with delays in processing income tax returns and client refunds as we moved to our new systems. I can say that we have now issued 940,000 notices of assessments for individual taxpayers. However, as always we will take more time to look at some returns more closely and overall we intend to be on track to meet normal processing times by the end of April.

These sort of issues can test our relationship, but we have a history of working together to smooth out rough times. Indeed, tax agents have been helping the community meet their tax obligations since the early days of last century. ...

However, as the new system is bedded in we appreciate that there have been issues for some tax agents around client refunds and processing of income tax returns. While we apologise for the inconvenience, some disruption was unavoidable given the scale of our endeavour.⁶²

3.135 However, delays and problems continued to be experienced by tax practitioners and their clients, causing the call centre phone lines to experience peak demand and not connect calls. Some taxpayers and tax practitioners said that they were facing cash flow difficulties and problems in meeting upcoming lodgement obligations:

This assessment & refund backlog situation is getting to a crisis point

- we are a small practice and usually get a large amount of our revenue via the tax refunds for clients – we have clients complaining re late assessments and refunds and yet the ATO is still chasing for outstanding payments. Many small businesses including my own will be relying on refunds to fund other tax payments so it is wrong for the ATO to be chasing payments when they owe money to related parties/directors/shareholders etc.

The combination of no/insufficient tax refunds and the banks not lending is hurting small business big time, our business employs/is supporting 5 different families and is currently experiencing a severe cash flow crisis, please ensure positive action is taken immediately to relieve the situation.

62 Commissioner of Taxation, *Commissioner's speech to the Association of Taxation and Management Accountants 25th Anniversary Conference*, Novotel Hotel, Sydney Olympic Park, 12 April 2010.

In Mid February when we rang we were told that they would be up to date by the end of February with the processing. To the end of February there were no assessment notices received since before Christmas. ...

It is now one month before I have to have everything finished under the standard lodgement programme.

I am behind again this year – this time because of the Change Programme debacle and (over the last 2 ½ months) I have wasted hours calling the Tax Office for numerous clients who need help with trying to extract refunds out of the new “System”. It reminds me very much of the Tax Bonus times.

I (and presumably others) need your help in requesting the Commissioner to extend the lodgement programme to take this into account.

3.136 On 14 April 2010, the ATO directly contacted tax practitioners again with another special broadcast:

Refund cheque delays

We have identified an error where some of your clients may have received a notice of assessment without a corresponding statement of account or refund cheque. Due to this error, approximately 140,000 cheques were not printed.

We are fixing the problem and the cheques should be with your clients by the end of next week.⁶³

Questions about ATO accountability and calls for independent scrutiny

3.137 On 14–15 April, the ABC radio program, *PM*, ran a couple of reports on the Change Program and the problems experienced, including a reference to an internal ATO report that noted the emotive tone of tax practitioner complaints (see for example, a later internal ATO report reproduced in Appendix 9). On 15 April 2010, the Assistant Treasurer announced on the program that he was considering directing the IGT to review the Change Program.⁶⁴

3.138 On 15 April, the ATO published another update:

Anyone who has not already lodged their 2008-09 tax return, and does so now, should receive their refund or notice of assessment within our normal service standards – 94 per cent of electronically lodged returns within 14 days and 80 percent of paper returns within 42 days.

However, I would like to provide another update on where we are in processing the returns we stockpiled due to our upgrade to the income tax processing system.

⁶³ Australian Taxation Office, email broadcast to tax practitioners, 14 April 2010.

⁶⁴ Sherry, Nick, Interview with Sabra Lane, *PM*, ABC Radio, 15 April 2010.

While we are experiencing some problems which unfortunately are affecting some people in the community we are working as hard as we can to resolve the problems. ...

Current issues and what we are doing

Last week we noticed an increase in calls from people who received a notice of assessment and were entitled to a refund, but the cheque was not included. Unfortunately, approximately 140,000 cheques were not printed. They are now being printed and will be with Australia Post by Monday 19 April.

We currently have around 100,000 returns from individuals that we estimate are over 30 days old in our system. Not all of these will generate refunds. In fact, we would anticipate roughly half might generate a refund, where the remainder would be tax bills.

While this is more than we would normally have on hand, it reflects the shorter processing time we have had given the need to stockpile any outstanding 2008-09 returns while we switched over to the new system. We are working hard to be back to normal processing service standards with this work as soon as possible.

The reality is that some cases take longer to process and we would always hold some up for legitimate reasons.

For example, we would not release refunds that appeared to be fraudulent or where people may owe money to the Commonwealth, for example, other agencies such as Centrelink and the Child Support Agency. Sometimes, we also check information reported in tax returns where we find discrepancies or need more information on particular claims.

Of the estimated 100,000, approximately 30,000 returns are in this category.

We understand our upgrade has caused frustration and inconvenience for some people and are doing everything we can to ensure any outstanding returns are processed as soon as possible.

For example, we have brought in an additional 320 people, have extended work shifts and are working as much overtime as is possible. We are in the process of bringing on an additional 500 temporary people over the next few weeks.

We have been working hard to ensure we get refunds to people experiencing genuine financial hardship and to date have helped over 1,440 people. If people are in this situation we ask that they do not hesitate to call us on 13 28 61 and we will do everything we can to help.⁶⁵

3.139 By 16 April 2010, many tax practitioners were frustrated with the perceived level of ATO accountability.

In his ATO Web site update of last night Second Commissioner ... provided "the facts" about the ATO's computer upgrade which included comments such as "the system is

65 Australian Taxation Office, *Processing status of stockpiled tax returns - latest update 15 April*, available from www.ato.gov.au.

working well” sitting beside comments saying that you and me (the Australian taxpayer) are paying for an extra 820 people to come in and fix the system that is working well.

He says the reasons for the delays are due to Centrelink, due to tax debts owing by taxpayers; due to people lodging multiple years of returns and finally due to taxpayers and presumably Tax Agents lodging returns full of errors – for some reason there is no mention of the delays being an ATO problem at all.

3.140 Some tax practitioners also called for compensation as a means to impose a higher level of accountability.

Can you also raise the issue of why taxpayers only receive a reduced rate of interest from the ATO as opposed to the GIC or shortfall rate the ATO charges. The majority of my business clients would be using overdraft facilities etc to operate their business + personal affairs & hence the interest rate they have been charged re delay in receiving refunds is significantly higher than the corresponding interest they have (or are yet to) receive from the ATO. Really there is no justifiable reason for such double standards in today's environment.

I understand that one argument the ATO puts forward for the justification in the difference of the rates is that taxpayers should be encouraged to pay their tax bills & hence a higher rate is charged. However, conversely, the argument applies to the ATO in that they should be encouraged to perform their jobs efficiently & if they can't & cause delays in processing client refunds (for whatever reason) then compensation in the form of at least commercially realistic rates of interest should be paid to the taxpayer.

Given the ATO unbelievable ineptitude together with a reluctance to publicly admit their errors and lack of display of any empathy ... over this long running saga, then surely they need to be encouraged to ensure such errors do not occur in the future by being made to pay a commercially realistic interest from now on in. If this requires legislative change so be it.

The ATO's silence has perpetuated the belief that their processing & other delays have been the tax agents fault rather than the ATO. Us tax agents are bearing the administrative cost of replying to taxpayers queries rather than the ATO. We are not being paid for this yet no doubt the ATO managers / employees are. Thus the question of should the ATO compensate tax agents for the unpaid time we have spent due to their errors needs to be raised as well!

...

Two matters that need to be emphasised apart from financial loss is the emotional strain placed on work colleagues and serious loss of credibility with clients which will impact on my client base this coming financial year.

3.141 By 16 April 2010, tax practitioners noticed more errors with the date due for payments on NOAs:

We recently lodged a number of tax returns for clients and had advised them that their due date for payment of outstanding tax was to be 5 June 2010 (based on notification from ATO of due dates for payment when lodgment was made by certain dates).

Assessment notices were then issued by the ATO for these customers and detailed a payment due date of 21 April 2010 (directly against their previously published advice). [Note that this date due for payment is different to the error referred to in the ATO's 1 April 2010 email to tax practitioners – set out above] One of my team then spent 40 minutes on the phone to them regarding the date for payment during which the ATO confirmed that the due date should be 5 June but have “refused to confirm” what date the customer should actually pay the assessed amount. They have escalated the situation but that will take our clients over the date due for payment as detailed in the erroneous assessment notices.

This is an absolute debacle as our clients have budgeted to pay their tax payables in June and the ATO appears to have arbitrarily changed the dates – this is placing our clients in an invidious cash flow position. By effectively shortening the payment period by 7.5 weeks with no reason, they are creating difficulties which should not exist.

I know what will happen – for each and every client affected, we will need to get on the phone to the ATO and argue the case regarding payment dates which will take about 1 hour per client. Who is going to pay for this?

3.142 On 16 April 2010, senior ATO staff briefed the Assistant Treasurer and, on 19 April 2009, the Assistant Treasurer directed the IGT to review the Change Program with broad ranging terms of reference.

3.143 On 19 April 2010, senior ATO officers briefed the CEOs of the tax professional bodies and industry associations on the Change Program. The Minutes report that the ATO advised the attendees, among other things, that:

... there have been two issues which had caused the majority of concern:

1) Data provided to Centrelink was incorrect and 2) Cheques not included with NOA. These two issues ultimately caused bigger delays than first thought and both were due to human error.

The system itself has been extensively tested and was working as it should. The problem was caused by the work we had put into it, as well as the staff getting used to running a new system. The second issue was due to cheques not being printed, this has been rectified and the cheques will be with Australia Post this afternoon.

The system upgrade has been the largest system update. [The ATO] reiterated that the ATO has now processed 2 million items through the new system of which close to 900,000 were refunds, the ATO is confident it is working well. There have been some delays, we don't deny, however the crucial aim is to get refunds out.

[The ATO] recognised there was pressure on Tax Practitioners regarding delayed refunds but also in relation to May lodgments. This is not yet been announced however it has been decided to not apply FTL penalty for May lodgments.

[In response to a question regarding whether there were any other issues of significance that the ATO was aware of which would potentially cause major concerns in the next few weeks]. [The ATO] advised that there was nothing we were aware of at this stage, staff are getting used to the system. The new system was built to support Taxtime 2010 and we

are very advanced with this process and it is still tracking green which raises confidence. ABR is running more effectively and we are confirming that other future deployments scheduled to occur, for instance AusKey, does not impact on other systems like the portal. [The ATO] advised that [there is an ATO internal] meeting every morning tracking the progress carefully, this meeting now occurs twice a week. If we didn't have the two human errors situations, we would be more confident.

3.144 On 20 April, the ATO published another update:

Last week we said there were 140,000 delayed refund cheques which were being printed. I would like to provide a brief update on those cheques.

Some people will have already received their cheque and we can confirm the balance are in the process of distribution with Australia Post.

We have also issued another 74,000 refunds directly to bank accounts or via cheque since Friday last week. Overall we have sent 898,000 refunds to people and businesses.⁶⁶

3.145 By 20 April 2010, tax practitioners were noticing that the ATO was providing incorrect information to the Child Support Agency, which affected payments, and had cancelled the issue of numbers of Business Activity Statements. They observed that these problems imposed unrecoverable costs on tax practitioners.

The ATO have thus far been incredibly negligent in their actions. To issue a press release stating that 140,000 refunds cheques did not issue is one thing but to now have them lobbying into my office dated 1 April and post marked 19 April is a disgrace. I now have to phone every affected client to explain to them that I have not been sitting on their refund cheque for almost 3 weeks. The client gets no interest paid by the ATO as the system places it in their account dated 1 April, I even have one here that the client was charged \$9 of interest somehow then this was remitted by the ATO (how generous) despite a refund cheque being owed.

On top of this I am expected to somehow attend to my own personal tax return and have that lodged on time.

Even without the cost of potentially losing client, I would estimate the extra work involved mopping up the ATO mess to us at around \$50 a client at least (this is at cost not at charge out rates). Multiply this by the hundred or so that a firm our size has affected by this and the damage is around \$5k at cost or closer to \$15k at charge out value lost.

...

Not only have we had to organise additional finance to survive which has been exhausted we are faced with Clients contacting the ATO to change address so refund goes to them although we had a signed agreement for their fees to come from their refund. Now we have additional costs to chase our debt and are unable to get a copy of

66 Australian Taxation Office, *Processing status of stockpiled tax returns - latest update 20 April*, available from www.ato.gov.au.

the assessment notice for our records. The ATO should not change addresses when returns are issued by Accountants and Tax Agents.

We have spent unproductive time chasing returns, refunds, assessment notices and when returns would be processed as they appear as not lodged on the portal but were lodged months ago. Some days we spend 2 – 3 hrs on the phone to the ATO.

It takes a week for assessments to be issued after the refund has hit our trust account. We have to manually work through lodgements to work out who the refund belongs too then incur additional costs in sending out the assessment notice when received a week later. We do this as we feel clients have waited long enough for the refund a week later also breaches our guidelines issued by the NIA [National Institute of Accountants] which is 24 hrs.

The new assessment notice is causing problems and having to spend hours explaining to clients what it means. Explaining to finance companies that this is the new assessment notices. The new notice opens up to fraud. As where is their name or TFN [tax file number] on each page. How does the finance company know who earned what?

If pages get mixed up in the sheet feeder on the copies who does it belong too?

Plus more pages for us to copy and additional postage to send out a larger envelope to take the additional pages.

The majority of people want the old one page assessment back.

The cost in phone calls alone has gone up along with postage and stationery costs.

What a burden to place on small business especially in this difficult financial climate. Did we not suffer enough last year with the additional costs labour to hand out all the bonus cheques that were sent via Accountants and Tax Agents and as instructed by the ATO at no cost to anyone but us poor bastards the Accountants. Who said become an Accountant great job and you would make money. It only cost me quality of life and money.

3.146 On 22 April 2010, senior ATO officials appeared before the Joint Committee for Parliamentary Accounts and Audit. Amongst other evidence given at this hearing, the following was provided:

Ms LEY— ... is it not the case that the IT [income tax] module of the existing system has cost \$400 million and that it is not working particularly well at the moment; although, we note that it may at some point in the future? That is half the total budget of the change program. ...

Mr D'Ascenzo— We are starting from a proposition that the IT integrated system is quite a significant achievement in where we are at. Any systems changes of that order would require a range of issues in terms of their bedding down. A lot of the issues associated with people indicating delays were advised to tax agents before Christmas. We said: 'We have to close the system down. This is not the system not working. This is closing down the system while we convert.' Some people heard that, and some people did not, or chose not to, act on it. We had a five per cent spike in terms of increased claims for refunds

before December. That was probably not as high as it could have been to try to lessen the impact later on in the year.

Issues of bedding down are of a level that I do not think you can justifiably say that the system is not working. The system is working very well. I am sure that if you get expert opinion about the complexity of what an implementation of this size means and the sorts of issues we have had, you will see that they are the sorts of issues that you would expect from this sort of implementation. I was very concerned with the conversion in January because, if the conversion failed, that would be the system not working, and that would be quite catastrophic in the scheme of things. We have not had that catastrophic failure. We have had expected delays while we implement the new system. We have had, I think, two glitches that have impacted on that. ...⁶⁷

Mr Butler ... [the first glitch occurred] on 9 March [when] we identified an issue that unfortunately did take us longer than we thought—it took us almost two weeks to fix that and be very confident that it was not going to occur again. ...

It was complex. It was difficult. We had returns part way through the system. We had to back them out, put the fix in place and thoroughly test that it was not going to cause any more problems. We told the community about that particular issue on 15 March, on our online update—that there was this problem which delayed us. We resumed processing on 23 March. ...

The 140,000 [the second glitch] occurred after that. The assessment went out, but there should have been a statement of account with a cheque. So those are the two issues that happened which have caused delays. As I said earlier this morning, we are very confident that the calculations are correct in the assessments—which is very important, of course, for a tax administration. I guess the environment that we were in was one where, as the commissioner alluded to, there was an increase in the filing of returns before Christmas, though it was not substantial. Tax agents are quite used to getting refunds on electronic returns within two or three days, although our service standard is 14 days. We could not process returns for six weeks and then another two weeks—we had, effectively, eight weeks in which we could not process returns. There have been four months since Christmas, and during the two months we could process them we have tried to do four months' work. We have worked very, very hard to catch up.

CHAIR—For us, representing the people of Australia, you may have tried to warn your tax agents and the taxation community that there could be delays, but that does not mean that they would have absorbed that. There is always planning around getting that tax return back, whether it is by a small business, an individual or the agents who depend on that for their income. So there will be genuine hardship cases. Could you tell us what you are doing to assist in that matter?

Mr Butler—We have been quite overt from early March about what we would do. We actually caught up with the processing at the end of February. So we were very pleased, but we had this one problem and lost two weeks. Right from that point, we made it very clear what we would [do] around hardship. We have produced some refunds in

⁶⁷ Joint Committee of Public Accounts and Audit, Reference: Auditor-General's reports Nos 4 to 21 (2009–10), *Proof Committee Hansard*, 22 April 2010, Canberra, p. 7.

1½ hours from the time someone raised a concern with us. We have had agents approach us who might have been waiting on assessments. We have checked those thoroughly and processed returns as quickly as we can. We have just over 3,800 cases processed as hardship. It is not a long period since we started processing on 22 March. People ring us and say that they need the money quickly. We can tell from the system that the refund might go out on, say, next Monday, or something like that, and they have chosen to wait for that. In strict cases we have applied the criteria very openly. We have basically said, 'If you need the money, tell us and we will do everything possible to get you the refund.'⁶⁸

3.147 On 23 April 2010, the ATO met with a number of key tax profession representative bodies. IGT staff also attended. At this meeting the ATO advised that 'the code, to our knowledge, is not giving rise to errors' and that it was not aware that it had issued any incorrect assessments (apart from those involving operator errors – for example, those processed manually). It explained that there were unavoidable delays because returns were held until the ATO was sure that the assessments were right. It explained that, but for two key errors (the 'glitches' referred to above – the ATO's explanation of these two key errors is set out in Appendix 10), every delay now is due to a valid reason. The ATO considered that it would take 12 to 18 months to 'bed the system down' and kept key Accenture and ATO staff on.

3.148 The ATO also commented that it had relaxed its 'hardship' process to allow those experiencing cash flow problems to receive refunds through the manual processing processes. In some cases, this has allowed people to receive refunds within one and a half hours.

3.149 The ATO also explained that it was reluctant to communicate problems unless it was confident of the diagnosis of the problem. However, the tax profession representatives argued that the ATO needs to give reasons to tax practitioners so that they do not waste time following it up with the ATO.

3.150 At this meeting, the bodies identified five broad impacts on taxpayers and tax practitioners. These impacts are discussed in more detail below.

3.151 Many taxpayers also complained to the Commonwealth Ombudsman. By the end of May 2010, the Ombudsman had received around 220 complaints. The main types of complaints include:

- delays in receiving expected refunds
- delays in receiving superannuation co-contribution payments
- delays in receiving a replacement tax file number (TFN) (where the TFN had been compromised)
- government benefits delayed/changed due to information from the ATO not being received by Centrelink

68 Joint Committee of Public Accounts and Audit, Reference: Biannual hearing with Commissioner of Taxation, *Proof Committee Hansard*, 22 April 2010, Canberra, pp. 4-5.

- inadequate communication from the ATO
- inadequate responses by the ATO when a complaint has been made.

RECONCILIATION OF THE MAIN PROBLEMS ENCOUNTERED BY THE ATO WITH THE ATO'S PUBLIC COMMUNICATIONS

3.152 Many tax practitioners were concerned that the ATO's communications did not reflect their experience of what was happening. Some considered that the ATO was not telling the whole story:

I normally do not comment on ATO efficiency as I feel it can be counterproductive. The ATO it seems is ironing out bugs in its new system and once that is done I'm sure that it will work well. But it seems to me that the ATO is not keeping the public informed about late Notice of Assessments. This office is being run off its feet taking client calls about notices of assessment & refunds and then having to ring the ATO to get the standard response that it has been issued & should be here in 1-2 weeks. Then the call to the client to explain.

The ATO should be proactive in advising the public about the lateness of its assessments at the moment and not just spruiking about how many it has issued.

3.153 A discussion of the main problems follows below. However, a reconciliation of the ATO-identified major problems (up to 3 May 2010) and ATO's external communications is provided in Appendix 11. The IGT's observations of those communications are set out in Chapter 4.

ATO EXPERIENCE OF PROBLEMS OVER FEBRUARY — JUNE 2010

3.154 The ATO was aware of a number of problems or defects with the income tax release from the 'go live' date. The ATO worked hard with Accenture to fix these problems and considered that it could cope with the rate of defects.

3.155 However, on 18 March 2010, Accenture reported to the ATO a sudden increase in defects as a result of the 'big ramp up process'. These defects, amongst other things, contributed to the delays in issuing NOAs.

Significant problems impacting on taxpayers and tax practitioners

3.156 At 30 June 2010, more than 4500 problems had been raised through the ATO's internal escalation process. However, many of these problems did not impact on taxpayers and tax practitioners directly or were not defects with the systems themselves (such as problems with the ATO's procedures for the new systems).

3.157 The IGT has examined the ATO's records up to 3 May 2010. Up to this point in time, the most significant problems with impact on taxpayers and tax practitioners were:

- Income tax returns in error queues
- Fatal form definition facility errors
- Electronic Lodgement Service reporting for tax practitioners not available
- Problems with amendment processing
- Extended delays in resolving High Risk Refund (HRR) review items
- Data transfer from the integrated core processing system (ICP) to the tax return database (TRDB) impacting on pay as you go (PAYG) instalments
- Low income tax offset and non residents
- Payment greater than liability review item
- Delays with assigning new TFNs where these were feared compromised
- SOA/NOA incorrect Electronic Funds transfer (EFT)/cheque advice
- NOAs issued but SOAs with attached cheques were cancelled
- Taxable income on the NOA incorrectly displayed a zero (the 'result of this notice' calculation is correct)
- Higher Education Loan Accounts (HELA) correspondence issues
- Problems with Child Support Agency (CSA) data exchange and debts
- Problems with Centrelink data exchange and debts
- Superannuation co-contributions
- Incorrect diversion of interactive voice response (IVR) calls – where's my refund self help
- Verify super income tax offset
- Incorrect information on Notices of Amended Assessment – previous taxable income shown as \$0.00, and impacts Interest on Overpayments (IOP) calculations
- Suspense items contributing to delays in assessing returns and issuing NOAs.

3.158 These problems are explained in more detail in Appendix 11.

Delays in ATO issuing taxpayer Notices of Assessment (NOAs)

3.159 Overall, from the date of the income tax release deployment until 30 June 2010, around 3.87 million tax returns were lodged (compared with around 4.14 million

lodged for the same period in 2008)⁶⁹ and around 145,000 tax returns were on hand at 30 June 2010 (compared with around 217,000 as at 30 June 2008).

3.160 Of the 3.87 million income tax return forms lodged, it is not known how many were assessed and NOAs issued within the ATO's service standard of 14 days of the tax return being lodged or the income tax release's deployment. However, the ATO has advised that of the individual's lodging tax returns, around 2.4 million were lodged over this period, with about 1.3 million (around 54 per cent) being processed and NOAs issued within the 14-day service standard. A monthly break up of the ATO's performance in issuing individual NOAs within its service standard is provided in Appendix 12. It is unknown, however, how much of this delay is attributable to the period in which tax returns were stockpiled.

3.161 It is also not known in relation to these delayed returns, what proportion of the period of delay was attributable to the problems that the ATO encountered. The ATO advises the IGT that it is unable, at this point in time, to collate this information. The ATO has also told the IGT that it does not plan to collate this information for returns lodged prior to 1 July 2010.

3.162 Therefore, it is impossible to ascertain the exact extent of delays experienced and the proportion of the lodgement population affected.

3.163 It is also unknown what proportion of these tax returns was relatively simple in nature (for example, salary and wage earners with minimal deductions/tax offsets).

A number of problems giving rise to large numbers of suspended forms, review items and returns held in the safety net

3.164 A proportion of the delayed NOAs were due to income tax returns being suspended in the system, being held up due to review items or in the safety net, and other related issues. Although, a certain degree of suspensions are expected as part of the normal operation of the systems, and similar functionality (such as exceptions and error codes) were a feature of the ATO's pre-existing systems, these contributed to the overall delays experienced in processing returns.

3.165 As at 30 June 2010, around 10 million 'forms' were created in ICP since the income tax release's deployment. A 'form' is a term that includes non-tax return forms (such as payments). Forms were suspended approximately 728,500 times.

3.166 The ICP system also generated approximately 350,000 review items for ATO staff action. The total figures may also include multiple suspensions and review items for the same tax returns.

3.167 These total figures only broadly indicate the potential number of delayed returns because any one return could be subject to many suspensions and/or review items. However, the total figures do reasonably indicate the workload for ATO staff.

⁶⁹ Note, 2009 figures are not used because of the distortionary effect that the tax bonus had on income tax lodgements in 2009.

3.168 Details of problems adversely affecting taxpayers and tax practitioners are set out in Appendix 11. For example, problems with the data transfers between the ATO and Centrelink and the Child Support Agency also contributed to delays in relation to thousands of cases and millions of dollars in refunds. Further, many thousands of returns were held in errors queues because the ICP system could not recognise the form.

3.169 There were a number of contributing factors which impacted on workloads, having a flow on effect to delays in issuing NOAs and dealing with taxpayers. This required the ATO to employ extra staff, to redeploy other officers from other areas to deal with the problems and to extend the hours of staff to get through peak workloads quicker. During April 2010 staff numbers working on processing tasks was at its peak.

3.170 Over the February–June 2010 period, the safety net held over 180,000 income tax returns for a number of different reasons. This was higher than the 50,000 individual assessments estimated by Aquitaine, in its advice to the ATO at the time of deciding whether to 'go live', to be impacted by the assessment defects. By mid March, 117,500 returns had been released from the safety net. By 9 April 2010, a further 29,000 had been released and by mid-May a further 31,000 had been released. As at the date of drafting this report, 11,000 remain held in the safety net. The following table sets out the types of returns held by the safety net and the periods for which they were held there.

Safety net holdings

Date held	Date released	Line of Business	Volumes
1/3/2010	8/5/2010	Shortfall Interest Charge (SIC)	18,000
11/2/2010	17/3/2010	Baby Bonus	4
11/2/2010	17/3/2010	Entrepreneurs Tax Offset (ETO)	48,500
21/2/2010	17/3/2010	Primary Production Averaging	69,000
2/3/2010	31/3/2010	Exempt Foreign Employment Income	1,800
13/3/2010	31/3/2010	Special Professional Averaging	1,300
6/3/2010	9/4/2010	Employment Termination Payments/ Superannuation Lump Sum Payments	26,000
21/3/2010	14/5/2010	Non Resident Withholding Tax	13,000
28/4/2010	n/a	Super Income Tax Offset	11,000

Source: CPT Global, *Release 3 — Income Tax Implementation Review*, report to the Australian Taxation Office, August 2010, p. 30.

Initial ATO reporting inadequate to properly understand processing problems or deploy resources effectively

3.171 The ATO has advised the IGT that the systems reporting which was available immediately following deployment, and the ATO's understanding of the data that the ICP system was providing, impeded the ATO's initial ability to quickly deploy resources to areas of greatest need.

3.172 For example, at one point the ATO was concerned with the increasing numbers of particular types of review items. It deployed significant numbers of staff working overtime to resolve these review items. Managers were aware that thousands

had been resolved. However, the subsequent reports appeared to show that these resources had not been effective in reducing numbers. After some investigation, the ATO realised that the time at which a review item was raised by the system and resolved by the staff would affect whether the system subsequently re-raised the same review item. Once this was understood, the ATO was able to develop an effective work around (i.e advising staff to wait 24 hours before telling the system that the particular case had been resolved).

3.173 For the income tax release, only the critical transactional reporting functionality to enable the ATO to operate was developed. The ATO advises that in the lead up to deployment, the ATO did not want to divert resources to developing management reporting which may not give the right sort of information needed. It decided to wait until it developed an understanding of the system in production and how the data was different to the ATO's pre-existing legacy systems so that it could properly build its reporting. This was based on the ATO's experience with developing management reporting in Release 2. In relation to the income tax release, the reporting facility was deliberately delayed because all resources were being used to prepare the release for deployment. Also, some of the reporting functionality may have fallen outside of the contract with Accenture and therefore required extra ATO expenditure.

ATO systems problems preventing timely completion of High Risk Refund (HRR) work

3.174 The ATO also noticed that the system was assigning large numbers of forms for high risk refund review (HRR). These forms were effectively suppressed from moving forward through the system until the compliance risk (that is, risk of unsustainable deduction, refund, etc.) was reviewed by an ATO officer.

3.175 As at 6 June 2010, just over 27,500 returns had been selected for HRR under the new system.⁷⁰ Of these, the ATO had completed HRR review in just under 20,000 cases, with just over 6500 taking more than 28 days from the date of being flagged for review to being completed and allowed to continue in the system. Of the approximate 8000 cases on hand as at 6 June 2010, just over 2400 were more than 28 days old of being flagged for review.

3.176 The ATO advises that on closer inspection, many of these returns were not awaiting information from taxpayers or being reviewed by officers; they were prevented from being resolved because of other systems problems, such as amendment cases or shipping and entertainers' returns. Stops and starts in the upstream flows of returns also accentuated the peaks and troughs of workloads for ATO staff in the HRR area.

⁷⁰ Note that as at the shutdown of the legacy systems, over 8800 high risk refund cases were in the system. Of these cases around 4000 were being reviewed for fraud, resulting in around 3700 cases being cancelled or allocated for potential prosecution.

ATO staff diverted from their work to answer telephones

3.177 As part of the contingency plan, the ATO deployed 1200 staff to process forms and handle phone calls. These included staff from other areas (such as the debt and processing area) and temporary staff that the ATO employed as part of its normal Tax Time activities.

3.178 Some frontline staff were experiencing increased stress in dealing with enquiries and complaints as a result of the reduced level of service to taxpayers and tax practitioners. The IGT heard directly from some of these staff that they felt stressed when being asked to tell taxpayers and tax practitioners that their complaint had been escalated and would be dealt with within a certain period of time, when they perceived that nothing would happen within that time period. These ATO officers explained that their perceptions were based on prior experience in which they would escalate a case, see the relevant work item routed to a particular area for action and that work item remain unallocated for substantial periods of time.

3.179 The ICP system was also unavailable for periods of time, which contributed to an intermittent inability to process work.

3.180 ATO staff also experienced impacts in other areas of the Change Program, such as those related to the Case Management System.

ATO audit trail issues as a result of changes to the posting of payments

3.181 The IGT has been advised that most of the payment processing is operating effectively, in certain circumstances. However, the ledgers for the new system do not record the total amounts paid by taxpayers in an easy to follow format. This increases the risk of reconciliation errors and workloads for ATO revenue accounting staff. For example, where one aggregated taxpayer payment is made by cheque for a number of tax liabilities, the new system will not record the face value of the cheque. It will only record the subtotals that are attributable to each tax liability on separate accounts. Furthermore, there is no visible trail to record which payment is transferred to which account, although there are logs that provide this information. This can increase the risk of potential ATO officer fraud.

Manual ATO processing used to minimise impacts

3.182 Manual processing of an income tax return is carried out by the Client Account Services (CAS) area within the ATO's Operations Sub Plan.

3.183 In previous years, the ATO had around four FTE people manually processing hardship cases. From January 2010, the ATO employed 15 people as a contingency plan for the December/January shutdown. The number of staff was increased through February to around 200 people in April, with many working extended hours and substantial overtime. As at 27 May 2010, the ATO had around 7000 hardship cases to process.

3.184 In addition to the post-deployment problem mitigation mechanisms (set out above), the ATO took action to manually process income tax returns and payments. Primarily this work focussed on those taxpayers and tax practitioners who claimed financial hardship. Although the ATO's criteria for claiming financial hardship involved a level of proof of that hardship, from mid-April 2010, the ATO substantially relaxed that standard until July 2010. Effectively during this period a taxpayer or tax practitioner only had to mention the term 'financial hardship' and the return would be manually processed. From 28 April 2010 and 5 May 2010, the ATO allowed people to lodge these applications electronically on the tax agents' portal and ATO website, respectively.

3.185 Processing a return manually is a resource intensive and time consuming exercise. Firstly, an officer must obtain the information that was lodged and electronically captured from systems upstream of the ICP system. The officer must then manually input that information into pre-existing legacy systems and rely on it to provide an assessment based on the information provided on the return form. The electronic print out of this assessment is attached to the Case Management System as a record of the manual assessment.

3.186 The officer then must run the assessment through a stand-alone system which replicates the ATO's risk filters in the ICP system. This stand-alone system was created by CAS staff as an interim measure pending the resolution of problems with the ICP system. If the stand-alone system flags the return for further inquiry then the officer must send an email to an officer in the HRR area for action and await the response before issuing a NOA. If there is no such flag, then the officer sends emails to the Higher Education Contributions Scheme/Higher Education Loan Program, Superannuation and CAS accounting people in the ATO requested them to check whether there is an outstanding debt linked to the taxpayer. Depending on the responses received, adjustments to the assessment are then made.

3.187 The officer then prepares the NOA by manually typing the figures on the NOA into an electronic template (a Microsoft Word document). Another officer must double check that this is done accurately. Following this double-check, the ATO officer must go onto the ICP system and post the total amount on the NOA as a 'sundry item' on the taxpayer's account. This posting is made at this stage because the ICP system has not processed the tax return on the system. If the total amount of the NOA is a refund due to the taxpayer, the case is referred to another ATO officer for approval to disperse monies. Once approved, a hardcopy cheque is manually prepared on another system. The cheque is then printed and is either sent in the post to the taxpayer, or, if the taxpayer requested an EFT transfer, it is physically taken by the ATO to the Reserve Bank. From 12 April 2010, the Reserve Bank had agreed to clear the cheque and transmit to the taxpayer's bank overnight. This reduced the time taken for the cheque to clear by a number of days.

3.188 The above manual process can involve more work if there are multiple returns or matters of complexity (such as income averaging).

3.189 After the refund is issued, the ATO will need to complete remedial work in the future to update the new systems to reflect the manual assessment, payment and correspondence. This remedial work is not expected to take place until after October

2010. The ATO is awaiting systems fixes so that it can re-run the income tax return through the ICP system to update the systems with the correct postings data. The ATO has deferred this work until after October 2010. Unless, the systems are able to automate this process, staff will be required to manually populate all the required fields on the system – a considerable resource intensive exercise.

TAX PRACTITIONER CALLS FOR REPARATION AND THE ATO'S RESPONSE

3.190 As noted above, tax professional bodies had approached the ATO about the problems and delays experienced. The ATO had received around 15,000 tax practitioner complaints from 1 March until 31 May 2010 and 3600 taxpayer complaints.

3.191 Tax practitioners, both individually and through representative bodies, have called for various ATO actions as a means to remedy the adverse impacts they suffered. These actions were clearly expressed during a 23 April 2010 meeting with the ATO and include the following.

ATO public apology

3.192 Tax practitioners argued that a combination of the ATO's delays and communication had damaged their reputation with many of their clients. This was because they were of the view that the ATO communications appeared to imply that the tax practitioner was the cause of the delays and errors.

3.193 Typically, taxpayers would ask their tax practitioner about the progress of their returns and the tax practitioners would respond that they had followed this up with the ATO, but because of problems with the new systems it was still being processed. Some taxpayers would compare this explanation with the ATO's public messages that all the backlog had been processed. Some would also call the ATO and, in some circumstances, be told that the return had not been lodged.

3.194 In relation to the problem where SOAs had been cancelled (to which the refund cheque was attached), the taxpayer received their refund cheques around three weeks after the date on the face of the cheque. Many taxpayers were left with the impression that the tax practitioner had been tardy in forwarding their cheque.

3.195 The relationship between tax practitioner and taxpayer is generally one of trust. The tax practitioner holds themselves out to be knowledgeable and to act in the best interests of their client taxpayers. Inherent in this trust is that lodgements and payments are made when the tax practitioners say they have been.

3.196 Tax practitioners wanted the Commissioner to issue a letter explaining the problems and stating that the tax practitioner was not to blame. Tax practitioners wanted a public apology.

3.197 On 29 April 2010, the Commissioner published an open letter on the ATO website which included the following apology.

The introduction of our new income tax processing system has inevitably impacted both taxpayers and tax agents. I apologise if you waited longer than usual for your notice of assessment and/or refund.

I would like to especially thank tax agents for their patience and support while we completed this essential work. Without knowing each individual circumstance, I am not aware of situations where agents have been holding things up. Rather, they have been working with us to ensure the impacts on their clients have been minimised.

If you are due a refund and we have taken longer than 30 days since your return was lodged to issue a notice of assessment, you are entitled to interest.⁷¹

Improved quality and timeliness of ATO communications

3.198 Tax practitioners expressed concern that the type, timing and currency of information published by the ATO on known problems with the new system did not allow tax practitioners to take action to minimise the adverse effects of these problems on their business or their clients.

3.199 They asked that the ATO publish a complete list of current issues impacting on taxpayers and tax practitioners (as understood by taxpayers and tax practitioners) that the ATO was aware of, the method the ATO would take in fixing the identified issues and a date by which the ATO either expects to have implemented a fix or the date for a further update on the status. They pointed to a number of instances where information was published too late to help stop tax practitioners wasting time in working out what the problem could be and discussing this with ATO call centre staff (sometimes many times and for prolonged periods).

3.200 On 25 May 2010, the ATO published a list of some problems with the system. The ATO provided an update of known problems and expected resolution dates on 25 August 2010.

Extensions of time to lodge and pay

3.201 Tax practitioner representatives also argued that smaller tax practitioners should receive a blanket extension to lodge until 21 June 2010 for income tax returns and activity statements. They argued that many weeks of tax practitioners' time had been taken up to chase up months of delayed returns and other problems with the system. This was compounded by the unavailability of the tax agents' portal for periods of time. As such, they had been unable to devote much time to preparing for upcoming lodgement obligations.

3.202 Tax practitioner representatives also argued for a blanket extension on times to pay tax debts if clients were waiting on a large refund.

71 Australian Taxation Office, *Message from the Commissioner of Taxation*, 29 April 2010, available from www.ato.gov.au.

3.203 On 4 May 2010, the ATO agreed to a blanket one-week extension for certain types of lodgement obligations.

The Commissioner has granted a general lodgment deferral for all 2009 individual and trust income tax returns due to be lodged by 15 May to 22 May 2010. Payment (if required) will be due as per the notice of assessment.

5 June lodgment program concession date for individual income tax returns

In the Lodgment Program 2009–10, individuals and trusts who are due to lodge by 15 May are able to lodge by 5 June without penalty, provided that any payment due is also made by this date.

As the 15 May lodgment due date has been extended, the concessional lodgment date of 5 June has also been extended to 12 June 2010 for lodgment and payment.⁷²

Compensation for unproductive tax practitioner work

3.204 Tax practitioners also argued that although taxpayers may be compensated for delays in receiving refunds, tax practitioners were not compensated for the adverse impacts of these delays. They argued that compensation should be paid on the basis of two main grounds:

- for unproductive work in unnecessarily chasing the progress of delayed returns due to a combination of the system's problems and the ATO's communications
- the adverse impacts of reduced expected cash flows.

3.205 Tax practitioners argue that the ATO's communications did not alert tax practitioners to the potential for delays occurring after 1 March 2010. In support, they point to the ATO's communications occurring before and after the deployment of the income tax release. This, they argued, did not alert them to take action to minimise the adverse impacts of potential extended delays.

3.206 In relation to reduced cash flows, some tax practitioners have a business model which pays their client taxpayers the expected refund within a period of time – for example 48 hours. Generally, these tax practitioners pay their clients out of their own business funds after conducting a number of checks (such as whether other Government departments are seeking to garnish any expected refund for those clients). In this business model, the tax practitioner accepts the risk for the cost of money between the time it is paid to their client to the time that it is received from the ATO. The ATO has a public service standard of issuing NOAs within 14 days of a tax return's electronic lodgement in 94 per cent of cases. The general tax practitioner experience has been that tax returns involving relatively simple affairs and conservative claims have been issued within 3–5 days of electronic lodgement.

72 Australian Taxation Office, *General lodgment deferral for 15 May individual and trust income tax returns to 22 May 2010*, 4 May 2010, available from www.ato.gov.au.

3.207 The tax professional representative bodies argued that compensation should be initiated by the ATO, as requiring tax practitioners to lodge claims for compensation would exacerbate the adverse impacts they had suffered. They argued that this compensation should be based on an agreed set of factors including the number of tax practitioners' clients, and that they should be involved in the process to ensure the right factors are taken into account.

3.208 They pointed to the Commonwealth Ombudsman's *Compensation for detriment caused by defective administration – Fact Sheet 9*⁷³, which specifically states as a common example of a payment under the Scheme for Compensation for Detriment caused by Defective Administration (the CDDA Scheme) being made where a 'person incurs expenses or loses eligibility for a benefit because ... a computer error results in a delayed payment'. The Fact Sheet also states that avoiding a legalistic approach is best practice as the agency should consider the claim 'from the perspective of a moral obligation and should not involve a compensation minimisation approach'.

3.209 The ATO had, by 31 August 2010, received 80 claims for compensation from taxpayers and tax practitioners. The ATO considered compensation claims received on a case by case basis. However, it decided against initiating steps to provide a process for compensation in the manner requested by tax practitioners:

As is ATO normal practice, if there are tax agents (and taxpayers) who wish to lodge a claim for compensation, they are able to do so. Each claim will be considered on its merits. However, it will be for the claimant, in their circumstances, to demonstrate how the ATO's actions in implementing the Change Program are defective.⁷⁴

3.210 The ATO has declined providing compensation because it has decided that there has been no defective administration, as outlined below in the ATO's formal response:

Has there been defective administration by the Tax Office?

26. The answer to this is no.

27. The implementation of the Tax Office's new system is a major upgrade, involving the transfer of a significant amount of data and complex systems. There have been no critical systems problems, and overall it is working well. A considerable number of returns have been processed and refunds have been paid.

28. We have accepted that there have been processing delays brought about by the implementation of our new system, but we do not consider that our actions in managing this implementation give rise to compensation. The Tax Office remains committed to ensure the reliability of our processes and the integrity of our information, even if this slows down the implementation and processing times overall. Given the magnitude of the systems overhaul, we do not consider that the consequential delays in the processing of returns, activity statements and related documents were either unreasonable or

⁷³ Commonwealth Ombudsman's *Compensation for detriment caused by defective administration – Fact Sheet*, Canberra, February 2010.

⁷⁴ Australian Taxation Office, correspondence to the IGT, 23 September 2010, p. 3.

avoidable. Specifically, we do not consider that the time taken to implement our Change program and process tax returns amounts to defective administration within the meaning of the CDDA scheme.

29. In determining whether there has been defective administration, the test is not what would or should have occurred in a perfect world, but what a reasonable person would expect given the same circumstances, same powers and access to resources. The reality is that no implementation of a major computer upgrade of the kind undertaken by the Tax Office could be achieved without some delay or minor processing issues. This had been acknowledged by the Tax Office in its public broadcasts, and the timing of the implementation over the Australia Day long weekend in 2010 was chosen due to the reduced impact on taxpayers and tax agents. Accordingly, the fact that there have been delays and some processing issues does not mean that there is defective administration. The assessment of defective administration must be based on what another reasonable agency could achieve with the same circumstances, powers and resources, and such a comparison would not lead to a conclusion that the Tax Office has been defective or unreasonable in its implementation. ...

Should compensation be paid?

33. As we have determined that there has not been any defective administration, there is no basis on which to pay compensation.

34. In relation to taxpayers, if the refund is delayed by more than 30 days after the receipt of the return, then interest is paid under the *Taxation (Interest on Overpayments and Early Payments) Act 1983*. This is a legislative provision, and is intended to compensate individuals for the fact that they have not been in possession of their money for a period of time. Paragraph 23 of the CDDA scheme stipulates the limitations of the scheme, explaining that the scheme does not apply where there is another legislative or administrative remedy and a further payment would supplement payments set by other specific legislation. As interest is paid pursuant to legislation for delayed refunds, the CDDA scheme should not apply to make a further payment to taxpayers in relation to refunds delayed by the implementation of the Change program. ...

37. The compensation claims received from tax agents have sought reimbursement for idle staff and for loss of drawings/cash flow of the agent during the decline in processing of returns in recent months. These losses are not normally the kind that would be considered compensable under the CDDA scheme, as they are not “real” losses. For example, the claim for loss of earnings is not a quantifiable loss until the end of the financial year, and even then it would be difficult for the tax agent to establish that such a loss was caused by the implementation of the Change program and not other factors. The likely scenario is that there may have been a slight decrease in income during the implementation months, but once the returns were being processed, then the money due to the tax agent should have been paid, and should essentially equate to the amount that would have been paid if the implementation had not occurred.

38. Another argument against compensation is that the tax agents have not done all they could to mitigate any loss. It appears that the tax agents who are most disgruntled are those who take their fees from refunds. This is a business model that the tax agent has chosen to apply, and as such they are responsible for any risks associated with that

strategy, including any delay in refunds being received, for whatever reason. Further, tax agents were on notice that there would be some delay in processing returns, and could have modified their fee structure appropriately, for example, to have sought payment in another manner than via the refund.⁷⁵

3.211 Taxpayer and tax practitioner claims for compensation were declined by the ATO on the above basis.

3.212 Some tax practitioners asked the Ombudsman to review the ATO's decision. They received a response that the Ombudsman could not stand in the shoes of the Commissioner in relation to these decisions and could only examine the process taken to arrive at the decision. However, the Ombudsman also commented that:

We also note that the ATO's apology to tax agents and the community for the inconvenience and frustration caused by the systems delays. However, during the Change Program systems implementation we queried the ATO's actions to resolve systems problems and communicate with stakeholders about the situations as they arose. In our view the delays you and your clients experienced during the recent systems upgrades in the ATO were unacceptable, notwithstanding that some of the problems that arose may not have been predictable.

We recognise that the ATO attempted to make taxpayers and tax agents aware, through various communication channels, of the impending delays. However, complaints to this office show that these communications were not as effective as they might have been. In many cases delays in refunds and issue of amended assessments extended well beyond the timeframes announced by the ATO. We are also aware of instances of sudden systems errors causing further delays beyond those anticipated and publicly announced.

We have also been critical of the ATO's communication with this office during the peak period of Change Program implementation. In our submissions to the Inspector-General of Taxation's review of the ATO's Change Program we raised our concerns about the ATO's communication processes, and the impact of the systems delays on both taxpayers and tax professionals.⁷⁶

Improve the presentation of the Notice of Assessment (NOA) and Statement of Account (SOA)

3.213 Tax practitioners also expressed confusion surrounding the changes to the NOA and SOA.

3.214 The NOA is the cornerstone of the tax administration system because it expresses the ATO's assessment of tax liability. Various legal rights and obligations arise from this document. The SOA was intended to provide a single account for the various tax accounts that a taxpayer may have.

3.215 The ATO advises that it had consulted with tax professionals on the new design and format of the NOA and SOA. Some tax practitioners, however, have

⁷⁵ Australian Taxation Office, Internal ATO correspondence, 13 April 2010.

⁷⁶ Commonwealth Ombudsman, correspondence with complainant, 17 August 2010.

expressed concern that issues identified in these consultations were not addressed in the NOAs and SOAs that were actually issued.

3.216 The ATO had advised that it will consult again in the future to identify, and then take action to rectify tax practitioners' concerns.

TaxTime 2010 (JULY 2010 TO OCTOBER 2010)

3.217 TaxTime comprises the individual income tax lodgement period (July-October) and the work done in preparation of that period by the ATO.

3.218 Heading into TaxTime 2010, the ATO released a document on 28 June 2010 which stated that it expected delays and that it would do its best to issue NOAs within 14 days.

3.219 During late July and early August 2010, some tax practitioners (notably those with business models that offer taxpayers prompt refunds) advised the ATO that they were experiencing processing difficulties again. Compared to previous years, these practitioners were experiencing an approximate 30 per cent drop in numbers of NOAs issuing within 14 days of lodgement.

3.220 From 27 July 2010, the ATO published website updates on a regular basis providing overall numbers of lodgements, NOAs issued and refunds issued. From 20 August 2010, the ATO included figures on what percentage of returns were processed within its service standard periods, which confirmed that delays of more than 14 days were being experienced by a substantial percentage of those who had lodged returns. These updates showed that as at 20 August, 23 per cent of electronically lodged income tax returns were taking more than 14 days to assess and issue NOAs. On 10 September 2010, the ATO provided percentages of returns assessed and NOAs issued within the service standards since 1 July 2010 on a two-weekly basis. The ATO continued to publish updates which showed that service standards for electronically lodged income tax returns were met by mid-August.

3.221 The ATO experienced some problems in relation to e-tax verification (date of birth), returns involving eligible termination payments and Higher Education Loan Accounts correspondence. ATO sent communications on 10 and 13 August to alert people that these problems had been fixed. The ATO also experienced a problem which effectively delayed some returns due to a bottle neck caused by an imposed limit on the numbers of returns that could be input into the pre-existing 'refunder' system. Once this problem was identified it was quickly addressed.

3.222 On 25 August 2010, the ATO sent the following communication.

Refunds — For the latest news on refund updates and the progress of income tax returns, read the Commissioner's online update.

Pre-filling — Dividend transactions — From the week beginning 23 August 2010, 16 million transactions (93% of last year's financial transactions) have been made available.

Bank interest — From the week beginning 23 August 2010, 18.8 million transactions have been made available.

Known issues

Tax agents have reported some issues to which the following brief updates apply:

HELP [Higher Education Loan Program] and SFSS [Student Financial Supplement Scheme] amendments — We are processing HELP and SFSS returns but a small number of amended returns (less than 2,000) are still being held. We anticipate this issue to be resolved by the end of August.

Payment slips for companies and super funds — We are working to rectify the issue but advise that payment slips can be printed from the portal.

Incorrect lodgment due dates — Companies newly registered in 2010 have an incorrect due date set. The correct due date is 15 May 2010 and we are working to rectify this issue.

Portal related issues

Clients with two or more income tax accounts — Some agents are receiving a message that implies the portal has failed. We are working to rectify access to these accounts by the end of August. If urgent access to these accounts is necessary, phone us on 13 72 86.

Refund requests failing — Some agents are receiving the message 'no financial information details provided'. We are working to have the correct system message display. Agents should stop requesting refunds until the effective date passes.

Client updates not processed — Some client update lists are not yet processed. If an urgent update is necessary, phone us on 13 72 86.⁷⁷

⁷⁷ Australian Taxation Office, *Tax time update*, 25 August 2010, available from www.ato.gov.au.

CHAPTER 4 — IGT OBSERVATIONS AND RECOMMENDATIONS

4.1 This report has focused on the ATO's income tax release and other areas of the Change Program in so far as they relate to the income tax release. For the reasons outlined in the IGT submission guidelines, a staged approach has been adopted for this review, and as a consequence, the IGT has only sought to address matters within that scope. However, during the review some matters outside this scope did arise and where appropriate these have been identified for further review consideration.

4.2 Overall, the Change Program was an ambitious and far-reaching project that aimed to deliver a range of significant capabilities designed to improve tax administration into the future. Although it may be too early to determine the proportion of benefits as against the costs of the project, assessments commissioned by the ATO quantified some benefits and expect other benefits to be realised in the short-term and accumulate further into the future. Whilst investigating the events leading up to and including the deployment of the income tax release and identifying areas for improvement set out below, the IGT specifically acknowledges the commitment from relevant ATO staff and contractors on a sustained basis over a number of years that was required for the project. Without this work, the project would not have achieved the deliverables it has to date.

THE CHANGE PROGRAM — A LARGE, COMPLEX INFORMATION AND COMMUNICATIONS TECHNOLOGY (ICT) PROJECT

4.3 The Change Program was a large, complex ICT project that took around seven years to deliver. The Change Program itself was subject to constant change with components removed and added to the initial contract scope.

4.4 The ATO had sought to replace over 180 ICT systems with a number of integrated systems. These integrated systems would help the ATO to administer Australia's taxation and superannuation laws, which for 2008-09 included:

- collecting \$264.5 billion in revenue, involving the processing of 50 million forms and making of 16.9 million electronic payments
- managing 22.7 million taxpayer accounts involving the handling of 12.5 million phone calls, receiving 4 million pieces of correspondence and receiving 41 million electronic lodgements
- managing the work of around 24,800 ATO officers on an operating budget of around \$3.05 billion.

LARGE ICT PROJECT — RISK RETURN OR COST BENEFIT DECISION

4.5 The key issue for Government, ATO management and the community at large is whether the ATO carries out its work of tax administration efficiently and effectively. The ATO uses a combination of manual and ICT systems to complete this work. The important consideration is how this work is to be carried out effectively and at lowest possible overall cost to the community.

4.6 ATO management uses ICT systems extensively in discharging this responsibility because, like other large organisations, it could not meet community expectations any other way. Indeed, the ATO is a significant software house in its own right, particularly after the implementation of the key Change Program releases. In designing ICT systems, a cost benefit or risk return trade off decision is required by management. This is a difficult but important matter. The question is, 'what cost is acceptable for a given level of risk in developing and maintaining an ICT system?' Or to express it another way, how close to perfect does the ICT system need to be? Is it acceptable to have certain defects or problems? If so, what kind and for how long? The ATO, like any agency, must identify and measure these costs and benefits, both tangible and intangible, and report transparently on these matters to ensure there is proper community understanding.

4.7 Certain software systems have an extremely low level of defect or problem tolerance. At one extreme, a nuclear power station or human life support system may have nil problem or defect tolerance level due to their potential cost consequences, but the associated cost of system design and its testing is much greater. Where should the tax administration ICT system be placed on this risk spectrum? Should the risks be analogous to a banking and payment transfer system?

4.8 Importantly, in using the system there is a direct cost of the system borne by the community which is outside of the direct cost to Government. This direct community cost represents a significant cost to the economy and needs to be similarly taken into account in a meaningful fashion in assessing the tax administration system's effectiveness. Indeed, many of the taxpayer and tax practitioner frustrations arise from the problems exported by the system onto them as a consequence of the new ICT systems' implementation.

4.9 The IGT has not had the opportunity to conduct any research on this matter, but it may be that community attitudes and expectations have shifted in relation to the level of direct costs that they are willing to bear in the running of the tax system, as being fair and reasonable in this context.

4.10 There may be some benefit in considering this further in the context of determining the value of goodwill and possible compensation for large ICT system short-term dislocation for disadvantaged parties (be they taxpayer or tax practitioners), where the greater good of the community is served through the operation of new ICT system.

4.11 Given the potential systemic risk for serious community dislocation from large ICT projects, it may be that the level of risk for return, or cost and benefit trade off, is

one that Government may wish to consider both in more detail and also more broadly in a whole of Government sense and not just left solely to a given agency.

4.12 In relation to the Change Program, a number of key risks existed for ATO management, including the following:

- Contract execution risk — a risk that the contractor did not have the resource capacity, skills and expertise to deliver the required ICT systems. The ATO sought to minimise this risk by engaging one of the larger contractors in the industry who it believed had a proven ability to deliver tax administration systems.
- Technology risk — a risk that the technology either did not exist, or was not sufficiently proven to be reliable in providing services on the same scale and context for which the ATO required in administering the tax system. The ATO sought to minimise this risk by basing its design on an existing system, namely Singapore's Tax Administration System (TAS).
- Financial risks — a risk that the contract was not performed within the scope initially identified and therefore may lead to cost blow-outs and extended periods for delivery. The ATO sought to minimise this risk by concluding a fixed price contract not to exceed \$230.7 million for outcomes.
- Contract capture risk — a risk that the ATO would become 'captive' to a contractor's judgments, to the ATO's own detriment. The ATO sought to minimise this risk by engaging two independent assurers, Capgemini and Aquitaine (although Aquitaine was engaged some years after the contract was started).
- Government policy change risk — a risk that delivery of a new Government policy would require the ATO to reallocate those resources needed for the contract's timely and cost effective completion, resulting in cost blow-outs and extended timeframes for delivery. This risk was difficult to mitigate directly because the ATO cannot reasonably ask the Government to refrain from delivering any new taxation or retirement income policy pending the completion of an ICT change. However, it is clear that the longer the contract, the greater the size of the project and the potential for that risk to be realised.

4.13 A number of other issues arose from the nature of the Change Program. The size and complexity of the Change Program demanded a high level of focus and energy over a many years. The Change Program was a highly stressful exercise that took a toll on ATO personnel. Realistically, this stretched their capacity to continue to deliver and operate as an effective team over such a long period. Certain dysfunctional behaviours were identified by the ATO assurance providers at times in this context.⁷⁸

4.14 The ATO Change program system architecture design approach also has an important history. The ATO initially employed a more integrated system design approach, rather than a more modularised one. The ATO has advised that the adopted design reflected the latest proven technology available at the time.

78 Aquitaine Consulting, *Review of the Change Program at the June 2008 Replan*, report to the Australian Taxation Office, Canberra, 15 July 2008, p. 1.

4.15 The ATO also wished to minimise the technology risk by seeking a proven system. The TAS was built by Accenture and had attractive elements. It had proven reliable and had functional design features that appealed to the ATO. At the time, there was no reliable off-the-shelf technology solutions for interfaces between modules that facilitated such a development approach.

4.16 However, we are advised that the more recent industry thinking has shifted towards a more 'modular' software design approach, particularly now that effective interface technology solutions are available off-the-shelf (so called 'middle-ware').

4.17 Changes to the design of the system were inevitable in such a large, complex project, especially where Government policy initiatives must be implemented due to legislative enactment. Strong discipline is required to incorporate these changes into an already complex system design because of the high risk of costs overruns and delays in delivery.

4.18 At this stage, it is difficult for the IGT to assess the extent to which changes due to Government policy initiatives impacted on the ATO's discipline of maintaining the program's original scope and, therefore, costs (see for example, the extracts of Capgemini's reports in relation to the testing of the income tax release, as set out in Chapter 3). This issue may be examined in any future review of the management of the contract delivery (see below).

4.19 An integrated system that takes around seven years to deliver by a single contractor increases the overall level of risk. Contract management over such a long duration becomes increasingly difficult for a range of practical, commercial and organisational reasons. The likelihood of major Government policy initiatives arising during lengthy projects is significant.

4.20 Fixed price contracts for projects over a long duration also increase the risk of non-delivery in part or whole in the event that the contract becomes uneconomical for the contractor. This can pressure the Government agency to become captive to the contract and accept sub-optimal performance as a means to realise some benefits from the contract.

4.21 In a state government environment, the Victorian Auditor-General has also observed from his audits of a number of major, complex ICT projects over five years that fixed price contracts for large, complex ICT projects are often problematic and often deliver reduced functionality, as outlined below:

Be aware of the risks of a fixed-price contract

Issues we have observed

Fixed-price contracts are one response to the desire for certainty, transparency and probity in acquiring and using ICT resources. Such contracts can be an effective way of managing small, tightly specified projects. For larger, more complex projects; however, fixed-price contracts are often problematic.

Complex projects are not typically, (and often cannot be) completely specified in advance—the details of later stages of the project are determined by the outcomes of

earlier stages. This is not necessarily an indication of weak or incomplete planning, but rather simply a recognition that knowledge will increase as the project progresses.

In this environment, using a fixed-price contract for the entire project is at best optimistic and at worst deceptive.

The result often is a project delivered with reduced functionality—for the purposes of staying within the agreed budget—or a project delivered with increased cost to provide the agreed functionality.

Practical steps to take

‘Chunk’ large investments

Agencies that use fixed-price contracts for ICT projects should attempt to break the projects into small pieces and contract for each piece separately.

This will require additional time for contract negotiation and funding approval, but will increase the likelihood that the expected functionality is actually delivered at the expected cost.

Agencies that use a single fixed-price contract for a large, complex ICT project should make contingency plans for the likely outcomes of overspending and under delivery.⁷⁹

Need for modularised approach to large, complex ICT contracts

4.22 In light of the above risks and observations, in future, ICT projects of this size and complexity should seek to address these risks and consider a modularised design approach, minimising single contractor concentration risks, and carefully consider the commercial realities of pricing and rewarding contractor performance.

Need for independent Government governance

4.23 The ATO's independent assurers, Capgemini and Aquitaine, and the ATO's post-implementation Release 3 reviewer, CPT Global, are strongly of the view that a close working relationship between the ATO and Accenture was essential to ensure both parties were aligned and working towards the same project outcomes.

4.24 The ATO endorsed this approach as it also wanted to ensure it obtained a full understanding of the new system software by, in effect, co-developing it, so it could largely maintain the new technology in-house in the future.

4.25 Such an approach also seeks to avoid antagonistic, legalistic relationship management and better facilitates actual system software delivery. There is a residual risk that parties can become too close and lose strategic direction or get captured in a situation. The ATO sought to mitigate this risk via two main checks:

79 Victorian Auditor-General's Office, *Investing Smarter in Public Sector ICT*, July 2008, Melbourne, p. 29.

- engaging two independent assurers who, as a condition of engagement, knew they would be prevented from bidding for other the Change Program contract work
- ATO business line staff (and not the Change Program staff, be they from ATO or Accenture) were responsible for checking that the software in production met the required outcomes.

4.26 Generally, in large ICT projects such as the Change Program, there is a need for a cohesive team working together in a partnership sense as well as having the right checks and balances so that they deliver effective outcomes and robust project scrutiny.

4.27 The process for selecting the correct contractors, independent assurers and scrutineers for the risk assessment and advisory task in this context is absolutely critical for large ICT projects. An agency's peak decision-making body appropriately augmented with an independent, authoritative and specifically skilled government representative (external to the agency embarking on the project), as well as business-line personnel, is an important governance matter which also mitigates against any perception that there may not be appropriate checks in place.

Intra-Government issues

4.28 One of the causes of adverse impacts on taxpayers was the delays and errors attributable to the initial lack of a full and operationally effective interface between the ATO, Centrelink and the Child Support Agency as discussed in Chapter 3 and Appendix 11. Many refunds were delayed and some were incorrectly issued when they should have been garnished.

4.29 All parties expressed frustration at the lack of effective test interfaces between government agencies in a genuine end-to-end test environment. In relation to the income tax release, a major impediment was the absence of an ATO, Centrelink or Child Support Agency test environment in which the interface could be tested end-to-end without affecting their clients' 'live' data. With the benefit of hindsight, many government officers interviewed (both ATO and others) cited a need for joint testing using real data in larger volumes, testing of the flow-on effects of using that data, and testing over a few cycles with a large scope of cases and scenarios. Inherently, this would also require a shared understanding of each agency's business requirements at a more granular level.

4.30 More broadly, Government agencies have an ever increasing inter-dependence on each others' data. Agencies now exchange and re-exchange citizen data many times over in an iterative fashion for a range of reasons. The data is used iteratively in the determination of income tax assessments and social transfer payments and also for direct offset of citizen refunds from Government against debts to Government.

4.31 This indicates an increasing need for Government ICT contracts to specifically consider significant inter-agency software interfaces and the needed for end-to-end test environments in other agencies as part of the development process. It also raises important privacy and related integrity matters.

4.32 The form or structure of the underlying data itself is also an important consideration. Where there are consistent standards across programs, the interfaces and interactions between different Government systems should be more reliably developed and maintained.

4.33 Agreed standards for data and testing (that are appropriately modified for best practice emergence) should enable more robust and reliable data exchange via interfaces, maintaining greater data integrity across Government. A key question arises as to how this should be achieved and who is accountable for ICT program governance scrutiny and the integrity of standards setting and compliance.

4.34 The IGT considers that the ATO as one of the largest government agencies is, in a prima facie sense, much better placed to manage large ICT projects of this nature than many other agencies due to its resourcing and scale of activities. Had the ATO not had this considerable organisational scale, crisis management culture and perhaps a touch of good fortune, it would not have been able to achieve this outcome effectively. Even the ATO was heavily tested and it is considered by certain parties to be in the vanguard of government ICT development.

4.35 The IGT remit only addresses the Australian tax administration system, and while there are clear learnings from this experience for the ATO, it also raises a much broader consideration for government in relation to large ICT projects and significant inter-agency data exchanges.

4.36 Important management features of the Change Program were considered and addressed by ATO management. The IGT recognises this and the recommendation below incorporates certain features adopted by ATO management for the Change Program. The important issue for the IGT is that certain standards are set for large projects development as a key management requirement and that these are maintained into the future to reduce associated risks.

RECOMMENDATION 1

For the purpose of minimising risks arising in future large scale ICT projects, the IGT recommends that the Government consider requiring the ATO, and agencies with which it has ICT interfaces, to:

a. employ best practice modularised design approaches, avoid single contractor over-reliance, avoid lengthy projects and consider the commercial realities of pricing and rewarding contractor performance;

b. establish improved governance and scrutiny functions by ensuring:

i. the agency's peak decision-making body (appropriately augmented with skilled and experienced ICT and key business line personnel) is directly responsible for managing the oversight of the project;

- ii. *an independent, authoritative and ICT-skilled government representative (from outside the contracting agency) be a mandatory addition to the augmented agency's peak decision-making body for the project's duration (including post implementation follow up where appropriate); and*
 - iii. *the independent government representative report directly to Government and be required to furnish appropriate, periodic written progress reports that are publicly released at appropriate times; and,*
- c. *fully explore formal intra-Governmental protocols or standards to provide reliable system function testing, both internal to the agency and for system interfaces between relevant Government agencies, during any ICT upgrades or changes, including:*
- i. *standards for system data form, structure and definitions;*
 - ii. *specifying how intra-Government testing should be conducted and who is accountable for that testing and ensuring compliance with the standards; and,*
 - iii. *requiring periodic review processes to ensure such protocols or standards conform to current best practice.*

ATO response: This recommendation is a matter for Government.

ATO INCOME TAX RELEASE AND ATO COMMUNICATIONS

4.37 In making the following observations and recommendations, the IGT has relied on the reports produced by the independent assurers, Capgemini and Aquitaine, and the Release 3 post-implementation reviewer, CPT Global. It is acknowledged that these parties were contracted by the ATO, therefore the IGT accepts that there may be a perception that such relationships are not completely independent as direct IGT appointments would be. The IGT has also relied on interviews with Accenture, ATO officers (past and present) and the ATO's own documentation.

Income Tax Release Testing — behind schedule

4.38 The ATO planned (in August 2008) for income tax release product testing to be completed by the end of May 2009, with user acceptance testing occurring from May to June 2009, so that the ATO could then assess the impact of the new system on its business practices and workforce for a six-month period.

4.39 However, it was clear that up until January 2010, the ATO was behind in its planned testing schedule.⁸⁰ The ATO advised that this was due to a combination of factors, including:

- the unavailability of environments for extended periods at critical times
- the fact that the TaxTime 2009 build took more work than estimated due to new legislative requirements and late amendments
- the difficulty and level of complexity involved in maintaining the ATO's pre-existing legacy systems and the new Integrated Core Processing (ICP) system in parallel.

4.40 It also appears that the ATO was aware on a number of occasions that changes in design also materially contributed to the reduced timeframes for, and compression of, testing. In relation to the impact of these types of changes, Capgemini reported to the ATO in June 2008 that:

30. In the previous releases, the IA [Capgemini] observed that there has been multiple occurrences of late design change requests leading to the slippage of design schedule. This then has a cascading effect on the downstream activities affecting the overall delivery schedule. It is common and inevitable that requirements constantly change and the business knowledge is ever-evolving. The IA expects that the Change Program [CP] adheres to the design stage schedules that are agreed and endorsed in the plan, and most of all, that the CP implements the new Design Approach.⁸¹

4.41 Capgemini also reported to the ATO in November 2008 that:

The effort required to design and deliver CRs [Change Requests] is frequently underestimated.

Unanticipated CRs are being approved with limited consideration of the overall impact of the schedule.

71% of the critical resources in the CP [Change Program] are within design creating consequential delays / impacts

Planning has not adapted for a parallel release paradigm, causing compounding impacts.⁸²

4.42 The ATO was aware that not adhering to delivery timeframes was a material risk. Since the FBT release's deployment in April 2008, Capgemini had made the ATO

80 See for example, Capgemini's report, *Australian Taxation Office Easier, Cheaper and More Personalised Change Program, Independent Assurer Report Version 1.0, Period covering 7th February 2009 – 27th February 2009*, report to the Australian Taxation Office, Canberra, February 2009, pp. 3-4.

81 Capgemini, *Australian Taxation Office Easier, Cheaper and More Personalised Change Program, Independent Assurer Report Version 1.1, Period covering 1st June 2008 – 30th June 2008*, report to the Australian Taxation Office, Canberra, June 2008, p. 17.

82 Capgemini, *Australian Taxation Office Easier, Cheaper and More Personalised Change Program, Independent Assurer Report Version 1.0, Period covering 10th November 2008 – 5th December 2008*, report to the Australian Taxation Office, Canberra, November 2008, p. 8.

aware that, based on prior experience, there was a real risk that a failure to adhere to estimated timeframes for delivery would reduce the quality of the software product released into production:

Principles for Delivery

In the agreed and endorsed Delivery Methods and Plans, the delivery approach contains many valuable elements. Historically, the IA [Capgemini] has observed deviations from the delivery principles in the actual execution, and would like to see specific measures in place that ensure best practices and the delivery approach are rigorously followed. This will ensure that the solution delivered will be aligned to the documented Quality Plans.

Findings:

29. In previous reports, the IA has reported that build activity eroded into testing, and that the production environment was used as testing bed. There have been many defects emerging after technical deployment into production because of insufficient testing and the lack of a real Level 4 environment that mirrors the exact environment in production, as seen since Release 3.1a FBT has gone live. The IA expects the Change Program to adhere to rigorous quality standards with regard to IPT, Partnership Testing, UAT [User Acceptance Testing] and Business Pilot, including the use of a true Level 4 environment that enables proper test of the system before it goes into production. This will help prevent the majority of defects from emerging in production.⁸³

4.43 Capgemini repeatedly advised the ATO from December 2008 that product testing for the income tax release was behind schedule. In June 2008, Aquitaine also advised the ATO that compressing timeframes by conducting parallel product testing with business testing was also 'highly unrealistic'. It observed, among other things, that longer delivery times were needed to increase the quality of testing to ensure a high confidence in the delivery of future releases.⁸⁴

4.44 It is clear that contrary to initial plans for the income tax release, the upstream delays cascaded into downstream work, contributing to significant defects being released into production (albeit that the ATO sought to reduce impacts on taxpayers and tax practitioners through mitigation mechanisms). Although the ATO had planned from August 2008 to have a stable code base, 'synched' with the TaxTime 2009 code, delivered in July 2009, the income tax release product testing was not complete until January 2010.

4.45 The ATO originally planned to conduct end-to-end business testing on a stable codebase for six months, but this business testing was repeatedly delayed and ultimately done in parallel with the product testing.

83 Capgemini, *Australian Taxation Office Easier, Cheaper and More Personalised Change Program, Independent Assurer Report Version 1.1, Period covering 1st June 2008 – 30th June 2008*, report to the Australian Taxation Office, Canberra, June 2008, pp. 16-17.

84 Aquitaine Consulting, *Review of the Change Program at the June 2008 Replan*, report to the Australian Taxation Office, Canberra, 15 July 2008, p. 1.

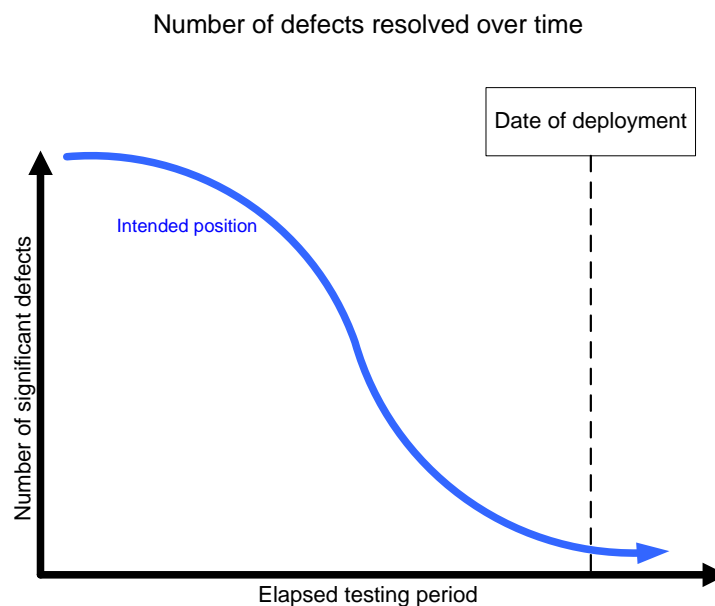
4.46 In taking a staged approach to the review, the IGT is not in a position to precisely determine why the income tax release was not delivered by June 2009 without significant further review and directly engaging independent ICT expertise.

4.47 Such a further review would examine the extent to which the independent assurers' recommendations were implemented and, if not implemented in full, whether that failure was a material contributing factor to the unexpected schedule slippage and reduced standard of quality of implementation into production.

ATO 'go live' decision

4.48 The ATO's independent assurers say that in large ICT projects it is not unusual for problems to arise after the deployment of the software. Accenture expressed the same view. Given the systems and business readiness assessment support provided by all the relevant parties, the more important issue was to identify problems and understand their impact and the nature of the required action. There are a range of reasons that have been advanced in support of this view and a number of them are discussed below.

4.49 At the outset, it is important to acknowledge that there is a point in time at which further testing delivers diminishing returns and the costs of testing outweigh the benefits (the diagram below provides a visual representation of this principle).



4.50 In relation to the income tax release, it was clear that in January 2010 the income tax release was not in an ideal state in terms of the number of existing defects or defects likely to arise in production. At the time, there were 229 known 'Severity 2'

defects.⁸⁵ The ATO was also aware that an unknown number of unidentified defects would likely arise in production, as the rate of new defects emerging to the date of deployment of the income tax release was substantial.

4.51 More testing would have been beneficial. However, further testing would delay release deployment for another year, as January was the optimal deployment time because it minimised potential adverse community impacts. An April deployment date did not give the ATO enough of a settling in period and restricted its capacity to deal with any crises before the peak processing period in July to November.

4.52 Delaying the deployment for another year would not have addressed the interface issues with external systems unless the ATO and other agencies changed the way testing was done.

4.53 There were also perceived risks that the future viability of the project could not be sustained – for example, key people would likely move on, taking critical knowledge with them.

4.54 At the time of the decision, the ATO had considered the costs and benefits of going live. It also received substantial independent advice on the extent of the likely errors that could eventuate and the resulting impacts. Aquitaine had advised the ATO that as a result of known assessment defects it had estimated there would be an estimated 50,000 individual assessments affected annually. Aquitaine also advised that due to the ramp up and activities around the maintenance release update and preparation for TaxTime 10, it would be reasonable to expect widespread delays in processing affecting most taxpayers across the board until the end of the year.

4.55 Capgemini advised that their role was to assure the technical implementation of the release on the basis of technical elements only, not the business risks for the ATO. They noted that there were significant risks in other areas (that is, non-technical elements), but that there were mitigation strategies in place for these risks and that ultimately it was a decision for the ATO as to whether these non-technical risks were acceptable.

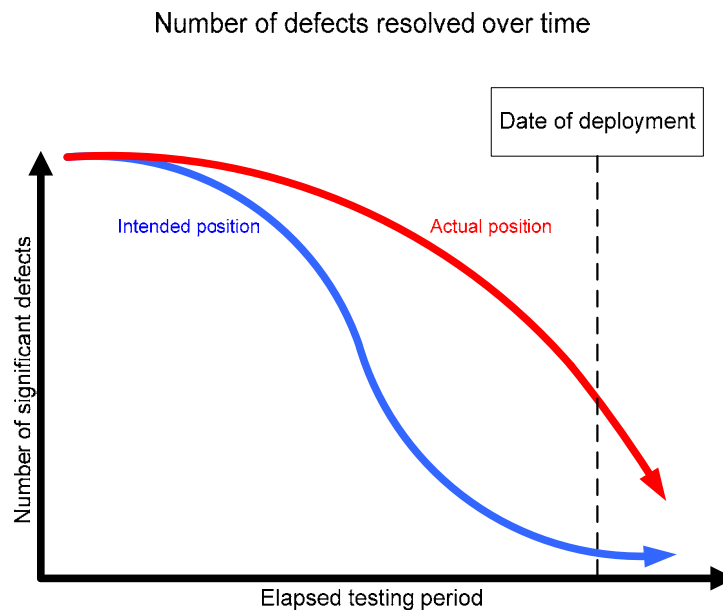
4.56 The ATO was confident that the incorrect assessments would be caught by the safety net, therefore no incorrect assessments would issue but would rather be delayed.

4.57 The ATO was also confident in its post-deployment problem mitigation mechanisms (see Chapter 3). The ATO could bring substantial resources to bear to ensure that all significant defects could be managed by preventing incorrect assessments from issuing to taxpayers and that those defects would be progressively resolved during the year.

4.58 One of these problem mitigation mechanisms was to fix defects through emergency fixes (e-fixes). As at 5 May 2010, 395 e-fixes were deployed, an average of approximately 28 per week from the date of deployment, although a number were the

85 A Severity 2 defect is defined as 'the incident restricts the usability of the application/system, but the application/system itself is running. There is no sustainable workaround available': CPT Global, *Release 3 – Income Tax Implementation Review*, report to the Australian Taxation Office, August 2010, p. 29.

ATO manually manipulating systems controls, such as 'turning on and off' the safety net. (See the diagram below).



4.59 It is clear that from the rate and number of e-fixes that needed to be deployed within the first three months of the income tax release's deployment, the ATO was in an invidious position where testing was effectively being extended into production (see also Capgemini's observations on previous releases in the extract reproduced in Chapter 3).

4.60 Having found itself in such a position, based on:

- the independent assurers' opinions, as well as that of Accenture and the ATO itself and inferences that may be reasonably drawn from them, and
- the cost and risk of further delay in deploying the income tax release,

the IGT has concluded that the ATO had little choice but to go live when it did.

4.61 Having made the go live decision, the approach to problems, defects and wider system difficulties, including how these were to be communicated to the community, required careful consideration and timely remediation by the ATO.

ATO did not communicate the significant risk of potential external impacts adequately

4.62 As stated earlier, the ATO did carry out its planned communication and intelligence collection strategy. This strategy included providing information to taxpayers, businesses and tax practitioners on the Change Program, particularly in relation to the income tax release. However, this plan and subsequent ATO communications ultimately proved to be inadequate in alerting the taxpaying community to adopt strategies that would minimise any potential adverse impacts.

4.63 At the time of deciding to deploy the income tax release, the ATO estimated that there would be significant risks.

4.64 In terms of anticipated delays in return and amendment processing, if full system functionality was achieved by May 2010, the ATO estimated that it would meet its service standards (for example, process 94 per cent of individual electronic income tax returns within 14 days) by the 2010–11 income year. If functionality was not achieved by May 2010, the ATO estimated that it would likely achieve these service standards by the 2011–12 income year.

4.65 The ATO also estimated that around 170,000 taxpayers would ask for priority processing of refunds over the February to April (inclusive) period, requiring up to approximately 520 full-time equivalent staff to action them.

4.66 The ATO also estimated that there may be significant impacts on taxpayers and tax practitioners: ...

5. External Readiness

The external community have been provided with the information that can be provided to them at this stage. Our focus has been on tax agents, BAS Service Providers, legal practitioners and large corporates. ...

However, it should be noted that other than messages to lodge early and potential impacts on processing in the new year, there has been no direct impact on the external community at this time. With the potential for significant systems errors impacting on certain classes of clients in their assessments or accounts' records, coupled with the general difficulties of a deployment of this size, the level of tolerance from the business community and tax practitioners in particular will be greatly tested.

Through the external forums it is clear that the large corporates, professional associations and tax agents do appreciate that the system will not be without significant impact on the ATO service delivery. As experienced in the tax bonus [initiative, it was shown that] as soon as there is an impact on their individual practices there is a point the ATO risks the lose [sic] of patience from the community. This has been sought to be managed through planned communication and intelligence collection processes to keep the external community informed on how to work with the new system. The success of this will not only be influenced by our actions but also the level of leeway given to the ATO over a long period.

Tax professions have advised that while they appreciate the size of the deployment and will be understanding; their members will need to be able to explain to their client's reasons for delay and any inaccuracy. How long this can be accepted will be determined by their general perceptions and feedback based on perhaps isolated instances, rather than the rate of our systems corrections or ongoing contingencies.

Based on the identified systems issues at this time, it is reasonable to assume that there is a greatly increased risk that the tax profession generally or the representative groups could much earlier than previously anticipated, lose confidence in the ATO's data

integrity and processing ability or their belief that the system was ready for deployment from their perspective.⁸⁶

4.67 In light of the above, the ATO publicly communicated general warnings that delays were likely to be experienced until March 2010. However, the ATO did not communicate:

- the potential risks, such as there may be unforeseen circumstances and then update the public if and when these unforeseen circumstances were encountered; or
- the invidious position that the ATO found itself in January 2010.

4.68 Further, when problems were encountered after deployment, the ATO did not adequately communicate (until 25 August 2010) those problems in a manner, or on a timely basis, which would have materially assisted relevant taxpayers to minimise the adverse impact on them.

4.69 The ATO did not communicate the existence of many errors until after the problems had been purportedly fixed. For example, on 29 March 2010, the ATO told the public⁸⁷ of two errors (or 'glitches') three weeks after the ATO was aware of the problem and after many people had taken time to understand the error and contact the ATO to try to resolve their confusion (see also Appendix 11).

4.70 The ATO also did not adequately convey the reasons for problems encountered. For example, the ATO's 15 April 2010 website update indicated that around 30,000 returns were subject to a pre-issue compliance review (high risk refunds):

The reality is that some cases take longer to process and we would always hold some up for legitimate reasons.

For example, we would not release refunds that appeared to be fraudulent or where people may owe money to the Commonwealth, for example, other agencies such as Centrelink and the Child Support Agency. Sometimes, we also check information reported in tax returns where we find discrepancies or need more information on particular claims.

Of the estimated 100,000, approximately 30,000 returns are in this category.⁸⁸

4.71 However, the ATO information did not cover all reasons. There were some returns that were not awaiting information from taxpayers or being reviewed by officers, as indicated in the website update. They were prevented from being resolved because of other systems problems, such as problems preventing the processing of

⁸⁶ Australian Taxation Office, *Business Readiness: Executive Summary, Business Readiness Assessment for Change Program Release 3 Income Tax*, document attached to the agenda for the 22 December 2009 meeting of the Change Program Steering Committee, pp. 1-6.

⁸⁷ Australian Taxation Office, *Latest update from Second Commissioner David Butler - 29 March 2010*, available from www.ato.gov.au.

⁸⁸ Australian Taxation Office, *Processing status of stockpiled tax returns - latest update 15 April*, available from www.ato.gov.au.

amendment cases or shipping and entertainers' returns. Although the system had attached high risk refund review items to these returns, staff were unable to process these returns for significant periods because of other problems with the systems that prevented the removal of the review item (see Appendix 11). Another example is the ATO's 15 March 2010 website update which gave the impression that the problems holding up the approximate 200,000 returns held in the safety net were 'minor' in nature:

At our last update on 2 March 2010, we were on track to issue the remaining stockpiled refunds and assessments for income tax returns lodged in February by the end of last week.

Last week we experienced some minor problems which have delayed us issuing some of those remaining stockpiled refunds and assessments while we ensure the integrity of our data.

There are approximately 200,000 stockpiled assessments yet to issue (of which we estimate 100,000 are refunds). These include assessments which involve a baby bonus, entrepreneur tax offset, primary production averaging, exempt foreign employment income, special professional averaging, eligible termination payments or superannuation lump sum payments and non-resident withholding tax.

We have fixed these minor problems and can start releasing most of these refunds and assessments from today (with the exception of assessments involving non-resident withholding tax).⁸⁹

4.72 However, the errors preventing the issuing of assessments for these returns would have likely been classified as Severity 1 defects because the errors may have led to incorrect assessments being issued, if it were not for the existence of the safety net.

4.73 It is clear that with the benefit of hindsight, the ATO's publicly expressed confidence in resolving delays by March 2010 was optimistic. However, if the ATO had given early, clear warnings of the potential problems in a manner that enabled people to take action to minimise the potential risks, then it is likely that the community would have given the ATO more leeway, suffered the impacts with a reduced level of emotive reaction and been better placed to minimise the adverse impacts on themselves.

4.74 The ATO could have better managed expectations by communicating the worst case scenario as well as the best case scenario and the risks associated with each of these scenarios for taxpayers. For example, in the dynamic environment of fixing problems in the first couple of months of deployment, the ATO should have recognised that taxpayers and tax practitioners (although not happy that matters were not running smoothly) only wanted to be assured that the ATO was aware of the problem, working to address it and could give a future date for the taxpayer to take action if they had not received by that date either their NOA or a further update.

89 Australian Taxation Office, *Latest update from Second Commissioner David Butler - 15 March 2010*, available from www.ato.gov.au.

Taxpayers did not necessarily want a firm undertaking on when returns would issue if that could not be met with a reasonable degree of certainty.

4.75 Tax practitioners wanted advance and specific warning of potential adverse impacts and made in a manner which would allow them to take action to mitigate them. This was made clear to the ATO at a meeting between the ATO and tax professional bodies on 22 April 2010. The ATO responded to this by issuing on 28 May 2010 a list of issues it was working on or had recently resolved.⁹⁰ However, until 25 August 2010, the ATO did not do this with sufficient specificity. Without detailed knowledge of the likely risks, one can form the impression that the ATO perceived the delays to be insubstantial, small in number or that the majority of delayed returns were due to compliance risk checks.

4.76 Generally where the ATO did seek to warn parties, the word 'delay' proved too simple and subtle in communication. If there is a problem, it needs to be communicated transparently and specifically rather than just the consequence of the problem, being a delay. Such an approach did not allow people to assess their own position and risk effectively.

4.77 During August 2010, some tax practitioners with business models that offer fast refunds advised the ATO (for example, at the 6 August 2010 ATO-Tax Practitioner Forum meeting) that they were experiencing processing difficulties. Compared to previous years, these practitioners were experiencing an approximate 30 per cent drop in numbers of NOAs issuing within 14 days of lodgement. The ATO did not acknowledge that such delays existed until 20 August 2010.⁹¹

4.78 However, based on the ATO's 10 September 2010 website communication,⁹² these tax practitioners' observations appear to be justified.

RECOMMENDATION 2

To ensure that the community is fully informed and is in a position to take appropriate action with respect to potential adverse effects of significant software releases or large ICT implementations (including TaxTime requirements), the IGT recommends that the ATO, in future, communicate via the appropriate mediums and in real time:

- a. the risks, in specific, meaningful and transparent terms;*
- b. the impact of the risks; and*
- c. any changes to the identification or impact of those risks, (including additions, solutions or mitigation strategies).*

90 Australian Taxation Office, *Income tax processing – issues and status – 28 May 2010*, available at www.ato.gov.au.

91 Australian Taxation Office, *Progress report 4 - income tax returns since 1 July 2010*, 20 August 2010, available at www.ato.gov.au.

92 Australian Taxation Office, *Progress report 7 - income tax returns since 1 July 2010*, 10 September 2010, available at www.ato.gov.au.

ATO response: Agree

For major ICT deployments (such as TaxTime), the ATO will incorporate into our organisational project management methodology a requirement that specific consideration should be given to communicating:

- a. the risks, in specific, meaningful and transparent terms;*
- b. the impact of the risks; and*
- c. any changes to the identification or impact of those risks, (including additions, solutions or mitigation strategies).*

ATO did its best in the circumstances to fix problems as they arose

4.79 Notwithstanding the concerns regarding the ATO's communications, the ATO did its best in the given circumstances to fix problems as they arose, diverting significant resources to mitigate and resolve issues. It was suggested to the IGT that the ATO has a good crisis management culture. It was also fortunate that certain events and strategies did come together at the right time to facilitate this outcome. In saying this, it is equally important to recognise, however, that in certain cases individual taxpayers and tax practitioners suffered (and in some cases are still suffering) adverse impacts from the new systems' introduction until the problems were fixed.

4.80 Set out below is a discussion of some of the ways in which the ATO sought to mitigate risk and resolve issues.

E-fixes

4.81 In production, the income tax release was subject to an average of just under 28 e-fixes per week during the first 3 months (as at 3 May 2010, 382 e-fixes were deployed from the date of deployment).

4.82 CPT Global has since advised the ATO that e-fixes have the potential to create significant problems in production (as two of the main problems were caused by e-fixes with limited testing) and that ad hoc e-fixes should be consolidated into releases to enable greater testing.

Safety net

4.83 The safety net became an important feature of the system. In fact, without it, the ATO may not have decided to go live when it did.

4.84 The safety net was a late feature that was designed after the October 2009 pre-deployment testing identified numbers of errors that could not be fixed before deployment and for which there was no developed workaround. It was a preventative measure designed to minimise such adverse impacts.

4.85 The ATO successfully used the safety net to minimise the risk of incorrect assessments being issued. Around 180,000 returns were held in the safety net over differing periods of time pending the resolution of identified problems.

4.86 There was also potential to improve the functionality of the safety net by allowing it to distinguish on the basis of combinations of data fields. It is triggered if an identified field is present. In some circumstances, it is not the existence of a particular data field that is of concern, but its combination with other data fields that may cause problems – therefore, some returns may be caught by the safety net unnecessarily. An improved functionality would allow the ATO to release returns which, although they have a particular data field present, do not otherwise give rise to concern.

4.87 It should be noted, however, that there are downsides to the overuse of the safety net. It should not become a permanent feature because, without a strong business impact focus, it may create a temptation to delay resolution of issues and provide a false sense of security. By its very nature, it also ensures that certain taxpayers will experience delays in the issuing of their NOAs.

Integrated support model

4.88 The ATO had a disciplined problem identification, escalation and prioritisation system – the integrated support model (see Appendix 8). This allowed any ATO officer to raise an issue, have it considered and prioritised for resolution. This system helped the ATO to quickly respond to identified problems on the basis of risk.

4.89 Overall, over 3900 issues, including around 2300 problems with business processes, were identified and managed by the ATO through its integrated support model.

4.90 This model could be further improved if tax practitioners were incorporated into it. Tax practitioners provide another reasonable perspective to the functioning of the tax administration system. As is evident by some of the problems encountered, tax practitioners were sometimes the first to identify those problems.

Manual processing of assessments

4.91 The ATO also undertook to manually process (when requested by taxpayers) around 7000 returns that were significantly delayed. Manually processing a tax return required the ATO to invest significant resources, not only in being able to deliver a refund quickly to taxpayers, but also in terms of the remedial work that needs to be done to correctly reflect the calculations on the ICP system.

Staff levels and internal management reporting

4.92 The ATO had ample numbers of staff to work on mitigation strategies. However, the initial management reporting did not enable the ATO to best understand how the system worked and where forms were in the system. Specifically, it did not enable the ATO to identify 'hot spots' so that problems could be proactively mitigated. Initial reporting somewhat hamstrung the ATO's ability to identify where staff should be deployed. If the ATO had deployed the income tax release with better reporting on review items, then problems would have been identified and resolved earlier. However, as internal reporting developed, targeted deployment of staff improved in effectiveness. Better familiarity with the system should also improve the ATO's ongoing ability to accurately predict the volume and type of work and also the time at which it will arrive.

4.93 The IGT found that the ATO's internal management reporting is not as comprehensive or detailed in relation to particular aspects of the ICT output performance or processing details. As noted earlier, the ATO prioritised resources towards the key income tax release system processing for go live readiness. Aspects of management reporting were affected by this decision. The ATO had a range of broad aggregate information on how the income tax release system was progressing. However, specific details of exactly what kinds of returns were moving through the system and their associated level of complexity was not readily available. Many concerns were raised in this context by tax practitioners in particular as to what kinds of returns were being successfully processed, rather than understanding just the broad system aggregate number the ATO were announcing.

4.94 A collateral impact of the ICT system being so large and complex is that particular categories of taxpayer or tax practitioner may have concerns or problems that are not readily seen in the management reporting from the ICT systems. It may be that other reporting mechanisms do seek to overcome any perceived shortfalls in service delivery, but there are risks that they may not work.

4.95 Clearly from the materials and submissions the IGT has received, some real problems for specific taxpayers and tax practitioners continue to arise. Whether these are so called 'glitches' or bigger administrative problems, it is difficult to assess at a high level without more granular reporting processes. As noted previously, there needs to be some recognition of these difficulties and the impact that they have on the affected parties. Where the ICT systems are said by the ATO to be working effectively, the assumption is that they are meeting the expectations of both Government and the broader community as to what is acceptable cost effective service delivery in this context.

4.96 A similar concern was raised regarding the impact that these difficulties may have in certain hardship situations. The ATO does seek to address hardship situations as raised by affected parties, but perhaps this area requires deeper consideration in a proactive management sense as other agencies like Centrelink recognise.

RECOMMENDATION 3

The IGT recommends that the ATO design and implement improved ICT reporting of output performance and processing details, in consultation with external stakeholders, to ensure there is better transparency and understanding of the system's operation, for example, the type of returns that are not successfully processed as opposed to broad system aggregate statistics.

ATO response: Agree

The ATO will continue to publish regular “issues logs” on the Tax Professionals section of the ATO website to alert tax agents of any issues as they arise where the processing of returns may be delayed.

Further, the ATO will continue its consultation with tax agents and professional associations to assist them to better understand and utilise information on the Tax Agent Portal.

Intra-Government interactions

4.97 The ATO also relied upon a strong relationship with the Child Support Agency (CSA) and Centrelink. This relationship enabled the ATO to quickly identify and resolve problems (subject to the two areas noted below) based on frequent and routine inter-agency contact with people who knew how the problems would affect clients. This interaction was based on a shared understanding that where potential problems might arise there was a need for both agencies to take action to resolve them. For example, the ATO and Centrelink shared call centre scripting to enable taxpayers to receive consistent messages from both agencies.

4.98 However, quicker remedial action by the ATO to address certain problems would have reduced the extent of delays and therefore numbers of complaints and resulting reverse work flows. For example, the ATO told the CSA that a certain problem was not a priority to resolve. The ATO escalated the priority for resolution (3-4 months after the problem was identified).

4.99 The issues of inter-agency compensation is worthy of consideration in this context. The CSA needed to dedicate resources to work around the problems that the ATO's systems created. It may be a difficult area, but with ever increasing complexity in ICT data interchange between Government agencies, this may be a very significant issue in future where formal protocols are appropriate. To do otherwise may send the wrong signal to larger agencies about the true cost impact in a whole-of-Government sense. Naturally, as with any important working relationship, the matters would need to be of sufficient significance to warrant engaging in the process or effecting actual payments.

Economic accountability for adverse economic impacts on taxpayers and tax practitioners

4.100 Currently there is a range of compensation options open to claimants who believe they have been adversely affected by the income tax release problems and insufficient ATO communication, including:

- payments made under the *Taxation (Interest on Overpayments and Early Payments) Act 1983* – to compensate taxpayers for the time-value of taxpayers' refunds where the ATO takes more than 30 days to issue credit NOAs after tax returns are lodged
- payments made under the Commonwealth Scheme for Compensation for Detriment caused by Defective Administration (the CDDA Scheme)

- act of grace payments made under section 33 of the *Financial Management and Accountability Act 1997*
- ex gratia payments (the power to make these payments emanates from the Government's executive powers under section 61 of the Constitution).

4.101 Many tax practitioners have asked the IGT what steps they could take to seek compensation for the losses they claim to have incurred. This indicates a need for the ATO to better advise the community on their avenues for compensation.

RECOMMENDATION 4

For the purpose of addressing tax practitioners' lack of awareness of the appropriate avenues for compensation claims, the ATO should ensure that it specifically notifies tax practitioners of the different avenues for compensation claims, including how to make claims for:

- *payments made under the Scheme for Compensation for Detriment caused by Defective Administration;*
- *act of grace payments made under section 33 of the Financial Management and Accountability Act 1997;*
- *ex gratia payments; and*
- *any other relevant legislative or administrative compensation payments that may exist.*

ATO response: Agree

The ATO website provides information on how taxpayers and tax agents can make a claim for compensation. This includes information about when losses can be compensated, service standards and where further information can be obtained. The ATO website also provides an application form which details what information is required to be submitted as part of a claim.

The ATO will highlight this information and the relevant application forms for tax agents in future communications.

4.102 The IGT also considers that the ATO should assess, as part of the initial design of the project, the potential detriments that a large scale ICT project may impose on taxpayers. This should include principles or guidelines against which claims for compensation could be assessed and processed to evaluate claims for compensation. Such an assessment should help focus the ATO on the ground rules for which compensation is payable and focus initial risk assessments as projects develop. The ATO would benefit from the reduced resources needed to consider numbers of claims. The IGT has not had the opportunity to conduct any significant research into international norms that may exist in this regard, but it is certainly an issue of some concern to the community.

4.103 The IGT remit is only directed at the ATO, but as noted earlier the IGT considers that developing a proactive approach to the issue of compensation is worthy of consideration by other Government agencies.

RECOMMENDATION 5

For the purpose of minimising risks arising in future large, complex ICT projects, the IGT recommends that the ATO consider for future projects, whether it should have guidelines in place early in the development of the project to assess and process claims for compensation by members of the community for substantial detrimental impacts imposed.

ATO response: Agree in part

For future large and complex ICT projects the ATO will consider whether additional guidelines are needed to assess and process possible compensation cases.

4.104 As a result of problems arising from the income tax release deployment, the main loss suffered by taxpayers was the time value for money held by the ATO for extended periods of time. Compensation for this type of loss is currently addressed by the *Taxation (Interest on Overpayments and Early Payments) Act 1983*. The ATO had encountered difficulties in meeting its obligations to make such payments to these types of taxpayers due to problems with the ICP system. However, in September 2010 the ATO completed the payment of interest to those who are known to be owed amounts greater than \$50. Amounts less than \$50 have not yet been posted to accounts; the proposed ATO course of action is to post the credits to the accounts and then write them off. The credits will then be re-raised when future action occurs on the account. This process is to stop small dollar amounts being released/issued to agents when they are posted to the account.

4.105 Tax practitioners claimed, amongst other things, that they incurred the following types of losses:

- damage to their reputation by reason of ATO communications that did not acknowledge ATO problems
- lost time in dealing with the ATO and their clients in attempting to resolve problems, which they would not have done so if the ATO had acknowledged the specific problems and given expected dates for resolution or update
- obtaining third party finance to maintain cash flows for periods after 1 March 2010 where the level of expected refunds did not occur and the actual levels did not allow outgoings to be met.

4.106 In late April 2010, the ATO moved to reduce the risk of reputational damage to tax practitioners by issuing an open letter containing an apology from the Commissioner for the delays experienced.

4.107 In late August 2010, the ATO also published a list of known issues in a manner that would help taxpayers and tax practitioners to reduce unnecessary costs in

following up certain types of returns. A list of some of the known issues had been published earlier, however, this list was not communicated in a manner that helped taxpayers and tax practitioners to minimise their costs. This is because it was communicated after the issues had been resolved or had not specifically identified the problems.

4.108 In relation to the impacts of delayed returns on certain tax practitioners' cash flows, the IGT considers that the ATO has been sufficiently aware for a number of years of the business model of certain tax practitioners – that is, those that rely on high volume, prompt taxpayer refunds. These businesses typically minimised risk by accepting certain clients who were of lower risk of delayed returns (for example, salary and wage earners with lower risk profiles).

4.109 Tax practitioners were also concerned with the process for claiming compensation. They claimed that, given the large numbers of practitioners affected and the likely low amounts involved, the costs for claiming compensation was disproportionate to the likely amounts payable. They suggested that the ATO could implement an expedited compensation system which imposed minimal cost to tax practitioners and provided clear criteria for compensation.

4.110 The ATO advises, on the basis of its internal advice, that compensation is not payable under the CDDA scheme because there is no defective administration:

Has there been defective administration by the Tax Office?

26. The answer to this is no.

27. The implementation of the Tax Office's new system is a major upgrade, involving the transfer of a significant amount of data and complex systems. There have been no critical systems problems, and overall it is working well. A considerable number of returns have been processed and refunds have been paid.

28. We have accepted that there have been processing delays brought about by the implementation of our new system, but we do not consider that our actions in managing this implementation give rise to compensation. The Tax Office remains committed to ensure the reliability of our processes and the integrity of our information, even if this slows down the implementation and processing times overall. Given the magnitude of the systems overhaul, we do not consider that the consequential delays in the processing of returns, activity statements and related documents were either unreasonable or avoidable. Specifically, we do not consider that the time taken to implement our Change program and process tax returns amounts to defective administration within the meaning of the CDDA scheme.

29. In determining whether there has been defective administration, the test is not what would or should have occurred in a perfect world, but what a reasonable person would expect given the same circumstances, same powers and access to resources. The reality is that no implementation of a major computer upgrade of the kind undertaken by the Tax Office could be achieved without some delay or minor processing issues. This had been acknowledged by the Tax Office in its public broadcasts, and the timing of the implementation over the Australia Day long weekend in 2010 was chosen due to the reduced impact on taxpayers and tax agents. Accordingly, the fact that there have been

delays and some processing issues does not mean that there is defective administration. The assessment of defective administration must be based on what another reasonable agency could achieve with the same circumstances, powers and resources, and such a comparison would not lead to a conclusion that the Tax Office has been defective or unreasonable in its implementation. ...

48. Adopting this uniform approach is not to say that under no circumstances would a compensation claim relating to delayed refunds or delayed processing not be considered and paid, but in order to accept a claim, a decision maker would need to be satisfied that there had been defective administration in the processing of the income tax return other than the mere fact of the implementation of the Change program.⁹³

4.111 It could be argued that all tax practitioners were aware that a project of this size was likely to adversely impact certain taxpayers and tax practitioners. However, the IGT considers that this conduct is not the only relevant ATO conduct that has caused taxpayers and tax practitioners' loss. The ATO also:

- was aware of the problems that were likely to be encountered and that these would result in delays to issuing refunds causing loss to taxpayers and tax practitioners
- communicated that general delays would be experienced from December 2009 to March 2010, however, did not communicate the delays occurring after 1 March 2010 in manner that allowed taxpayers and tax practitioners to take action to mitigate their losses (see Appendix 11).

4.112 The IGT also considers that it would have been reasonable to alert these taxpayers and tax practitioners to specific problems or potential problems that impacted on them so that:

- it allowed taxpayers and tax practitioners to take alternative action to mitigate their losses
- the agency could minimise the number and negative emotive tone of taxpayers and tax practitioners' contacts with the agency.

4.113 On the above basis, the IGT considers that the ATO should, in consultation with the tax practitioner community, robustly and openly reconsider its position on compensation claims under the CDDA scheme in light of the facts above and, in the event that the ATO decides to change its position on these claims, reconsider the process by which such claims be made.

RECOMMENDATION 6

For the purpose of addressing tax practitioners' concerns with the basis for, and process to obtain, compensation, the IGT recommends that the ATO work with the tax practitioner community to robustly and openly reconsider its position on compensation claims under the CDDA scheme and the process by which such claims should be made.

93 Australian Taxation Office, Internal ATO correspondence, 13 April 2010.

ATO response: Not agreed

The CDDA scheme does not operate on the basis which involves consultation about findings of defective administration. The ATO considers each case on its merits.

As at 30 November 2010, the ATO has received 59 claims from taxpayers and 35 claims from tax agents for a total of 94 claims. Each of these claims for compensation under the CDDA scheme are considered on their merits. For an individual taxpayer, interest is paid with the delayed refund if a notice of assessment is issued more than 30 days after the income tax return is lodged. The ATO will continue to consider current claims and any future claims received on their merits.

CHANGE PROGRAM IMPACTS ON ATO STAFF

4.114 The IGT received a number of submissions from ATO staff concerning a range of issues, including the following:

- Front line ATO staff cited increased stress levels dealing with taxpayers and tax practitioners in an environment where they considered that they could not offer reasonable solutions.
- Processing staff cited increased stress levels dealing with increased workloads, with workdays sometimes extending until the early hours of the morning.
- Accounting staff cited concerns with back-end accounting integrity and reconciliation issues arising in the new system.
- Interpretative assistance staff and compliance assurance staff considered that the CMWS reduced functionality and productiveness.
- A range of staff considered that the CMWS did not comply with occupational health and safety requirements and that the ATO may have also breached disability discrimination law.
- A range of staff were dissatisfied with ATO management's consideration of their input into the system's design and usability and the ATO approach to change management.

4.115 ATO management advises that substantial work was done within the organisation to minimise the risk of adverse impacts on ATO staff. ATO management advises that it considered that it had ensured that its business leaders were involved in the design and configuration of the system.

4.116 The ATO understands that there were concerns around the customisation of the CWMS. ATO management considers that the new CWMS imposed new disciplines and visibility on case work. Managers were now able to understand workloads of staff and how they were progressing against case plans.

4.117 The IGT understands that the ATO decided to implement a 'one-size fits all' CWMS, balancing customisation against the adaptability of the system into the future – the ATO's priority at the time was to implement a CWMS and consider

customisation after the completion of the Change Program. Submissions to the IGT assert that there are now other products on the market, such as Infopath, that have the potential to provide ATO staff in differing areas with effective front-end customisation of the Siebel CWMS. This would mean that the Siebel CWMS itself would remain untouched, only the user interface would be tailored to suit particular ATO functionalities. Whilst the IGT has not fully investigated the possibility of such software solutions, it seems that customisation of a front-end interface with Siebel would be likely to increase user acceptance.

4.118 Although the ATO had taken substantial steps to minimise the adverse impacts on staff, the level of ATO staff angst indicates that further work is to be done.

RECOMMENDATION 7

For the purpose of addressing ATO staff concerns in relation to the systems arising as a consequence of the Change Program, the ATO should conduct open and frank post-implementation consultation with its staff and:

- a. understand the causes for ATO staff concerns; and*
- b. communicate the ATO's consideration of those concerns including what action, if any, the ATO intends to take in relation to each particular concern.*

ATO response: Agree in part

The ATO undertook extensive consultation with our people during the various phases of the Change Program. The engagement of our people to ATO values, objectives and priorities is very important to us and we will continue to consult with our people to understand and where possible, resolve any issues which may be a concern for them.

THE ATO'S ICT CAPABILITY DEVELOPMENT AND ONGOING CARE AND MAINTENANCE OF THE NEW SYSTEMS

4.119 Having spent just under \$800 million in implementing the Change Program (see further discussion below) steps need to be taken to minimise the risk of the ATO finding itself in similar circumstances to that which required the initiation of the Change Program. The new system needs to be maintained and steps taken to make full use of its value.

4.120 One of the main reasons for the need to change the ATO's existing legacy systems was that these systems were encumbered with a range of limitations with the software's design. For example, the ATO's main system to process income tax returns, the NTS, was based on a batch processing system which impeded tax practitioners and taxpayers' real time access to data held on that system. As the batch processing and edit checks were performed overnight, it prevented real-time correction of forms with multiple errors.

4.121 There is a risk that a similar deterioration of adaptability could happen with the new systems. This is discussed below.

CPT Global's recommendations

4.122 The ATO engaged an independent ICT specialist, CPT Global, to conduct a technical review of the income tax release in order to learn from what had taken place and determine a forward strategy with TaxTime 10 looming.

4.123 Upon the completion of CPT Global's review, the IGT was able to study the resulting report and held discussions with the author. CPT Global made a number of observations and recommendations (which are set out in Appendix 13). Many of the observations and recommendations are consistent with the IGT findings.

RECOMMENDATION 8

The IGT recommends that:

- a. the ATO continue to consider CPT Global's recommendations (as set out in appendix 13) and publicly report on their progressive implementation; and*
- b. in the event that the ATO does not implement any of CPT Global's recommendations, the ATO provide public reasons for not so doing.*

ATO response: Agree

The ATO's Change Program Steering Committee agreed on 19 August 2010 to implement all of the recommendations made by CPT Global. Work on all recommendations has commenced. Some recommendations have already been implemented. A report on progress will be provided on the ATO's website.

IMPLEMENTING NEW GOVERNMENT TAX AND RETIREMENT SAVINGS POLICY IN THE NEW ICT ENVIRONMENT

4.124 The cost savings or benefits of the new ICT system may not be fully realised if the design of future Government tax and retirement savings initiatives fall outside the functionality of the new system. A new tax or retirement savings policy may incur more set up cost if the ATO cannot accommodate it within the current system functionality.

4.125 The policy and legislative design process for new tax measures currently requires that the ATO provide advice to Treasury on administration issues. The *ATO/Treasury protocol – Tax Policy and Legislation* sets out that the ATO will provide advice on administrative issues, including the design and build of systems to administer tax measures. The IGT reinforces the need for this advice to include that avoidable costs have not been incurred for the ATO to redesign systems due to a policy or legislative mismatch with existing ATO systems.

CHANGES IN SCOPE OF THE CHANGE PROGRAM

Change Program finished on 30 June 2010, with work continuing until 30 June 2011

4.126 The ATO has advised that the contract with Accenture finished on 30 June 2010, with work under the contract continuing until 30 June 2011. During the life of the contract there were substantial changes.

4.127 The ATO attributes one of the main changes to the contract to the requirement to implement the Government's new superannuation policy – Change Order 38 to Work Order 9, which incorporated the superannuation changes into the contract and cost around \$204 million in direct contract costs.

4.128 Although implementing the Government's new superannuation policy was incorporated into the contract, some significant deliverables were also later excluded from the scope of the contract. The ATO has decided not to complete the Superannuation Guarantee and Business Activity Statement (BAS) releases under the contract. The ATO has negotiated a refund from Accenture. However, the ATO has recently issued a 'work order' to Accenture to do work on the design of the Income Tax Instalments release. At this stage it is unclear how this work will be funded or performed.

4.129 Notwithstanding these major changes, there remains other major uncompleted work.

4.130 The ATO systems still have no single client register or a single back-end accounting system. Very general estimates are that it may need another 30,000 to 40,000 work days to complete this work. It is unclear whether this work will be completed in the future.

4.131 In particular, during the course of this review, ATO personnel had raised concerns with internal reconciliation processes relating to the back-end accounting systems and receipt allocation to taxpayer accounts. It would be appropriate for the ATO to arrange an internal audit review of these specific back-end accounting system issues, whether the above work is completed or not.

4.132 The above indicates the need for a broader review to examine the exact scope and cost of the Change Program, including variations and an assessment of indirect costs (such as staff involved in the implementation but not included in the Change Program cost centre).

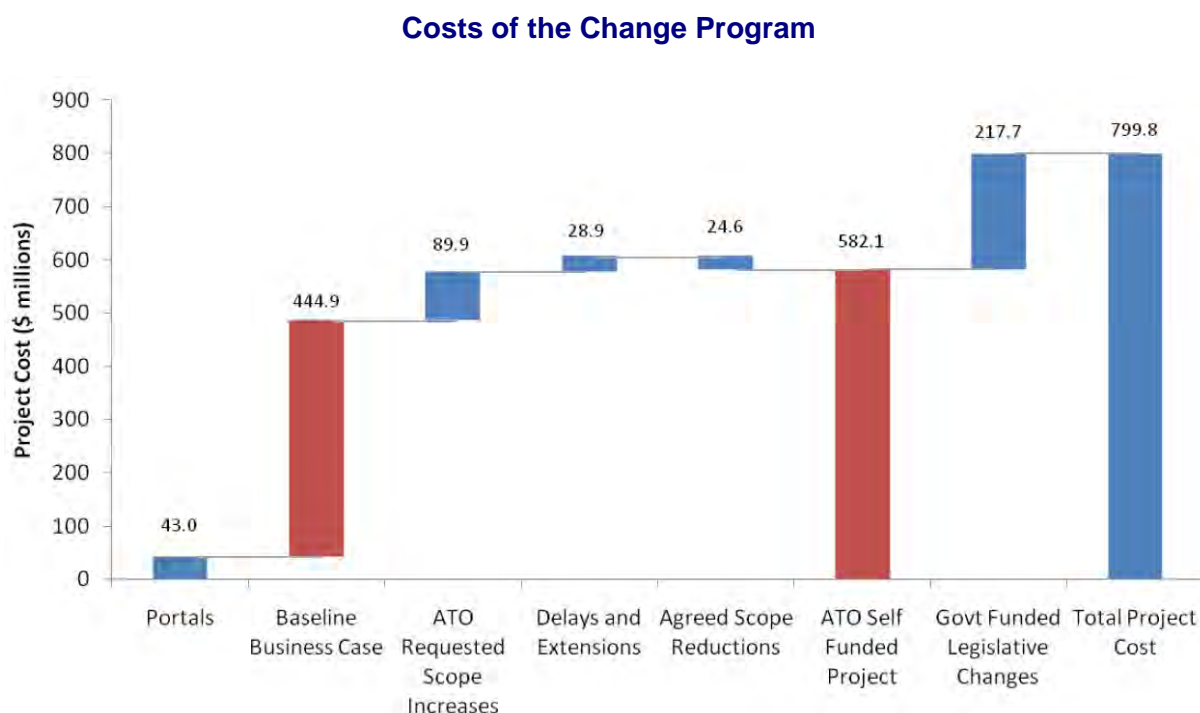
4.133 As previously noted, the IGT has taken a staged approach with this review and has not sought to review contract performance due to current resource constraints and the need to engage specific ICT expertise. A review of the performance under this contract would be useful for broader understanding of large ICT project management in the future and should be considered at a later stage.

4.134 Such a review could also examine whether anything could be learnt to minimise the risk of under-estimation in the planning phase of work needed to deliver

such products and how that work should best be tracked to provide an evidentiary basis for more accurate predictions of completion dates.

The costs and benefits of the Change Program

4.135 The ATO recently engaged Aquitaine to assess the costs and benefits of the Change Program. In its final report, issued on 22 September 2010, Aquitaine set out the costs of the Change Program as follows:⁹⁴



Source: EST Change Program Program Management Office, ATO Finance

4.136 It is also important to take note of Aquitaine's conclusions, some of which are set out below:

As at its completion in June 2010 the Change Program had cost \$799 million, of which \$582.1 million was self funded by the ATO from the expected efficiency gains. The balance was funded by government to implement a range of major legislative reforms between 2005 and 2010.

The Change Program delivered a series of major releases of new capabilities from 2003 to 2010. The final planned release, to convert [Business Activity Statement] BAS-related products such as GST [Goods and Services Tax] and PAYGI [Pay As You Go Instalments] to the new Integrated Core Processing System (ICP), was not completed. We have not adjusted the planned benefits for the BAS Release and so have tracked against the originally planned budget and benefits.

⁹⁴ Aquitaine Consulting, *Review of the Benefits from the Change Program: Final report*, report to the Australian Taxation Office, Canberra, 22 September 2010, pp. 6-7.

In 2004, the Change Program business case had identified \$155 million in direct and specific efficiency gains expected to be enabled by the new capabilities to be introduced. When converted to 2010 equivalent value, this represents \$183 million in expected benefits. However the many changes in the ATO since 2004 made these specific benefits difficult to track. Therefore in this review, we have analysed the benefits from a top-down perspective – examining the changes in the ATO from 2003 to 2010 and then seeking to understand any linkage to the Change Program capabilities.

Overall, we have identified \$147-153 million in annual efficiency benefits in the Operations and Compliance Sub-Plans. This represents a 4 year payback period on the self-funded component of the Change Program. These benefits have come from three principal areas:

- Headcount reductions in Client Account Services;
- Headcount reductions in Customer Service & Solutions;
- Productivity gains in MEI [the ATO's Micro-Enterprise and Individuals business line] for desk-based audit activities supported by analytical models. ...

The non-financial benefits to the ATO are also quite extensive, in particular the use of enterprise systems to replace many fragmented product-based systems. We have contrasted the “before” and “after” situations to illustrate the extent of this change. Overall, we believe that the ATO has gained significant benefits in a more flexible workforce using common enterprise systems. This allows the ATO, in large part, to assign work nationally based on need and the national availability of the required skills. Teams can be reassigned to different work as required and work can be reallocated electronically to meet targeted service standards. Most of these benefits stem from the introduction of enterprise work management and case management, which are now mature products and well integrated into the ATO's business processes.

We note that the enterprise systems in concert with an improved use of analytics for case selection have contributed to creating a more transparent and accountable ATO. ...

We have observed a relatively long lead time for the realisation of benefits of 2-3 years following a particular release, as new systems and processes are assimilated into the organisation. Consistent with this, for some major deliverables where benefits were expected, we have found the new systems and processes still too recent to determine whether the expected outcomes will be achieved. These include:

- The introduction of new systems for income tax processing. This was delivered in January 2010 and resulted in delays to processing returns while residual defects were eliminated, it is now processing peak volumes satisfactorily;
- New systems and processes for provision of interpretive assistance to the community. This has experienced difficulties in some aspects of its functionality, such as correspondence generation, and is currently being reviewed and refined to address these;
- The expected reduced effort in modifying systems to deliver new tax products. While we see promising signs of gains in productivity and flexibility, the recent introduction of the full ICP system has provided insufficient evidence as yet of substantially faster effort;

□ Similarly, the annual systems rollover of the tax year appears to have reduced in effort and time, but on the basis of one year's data we regard this as too early to be conclusive. ...

Overall, the Change Program has been an ambitious and far reaching undertaking for the ATO. Not all of the planned scope was completed, and a number of major legislative reforms were required to be introduced to addition to the already major program of work. We believe that the ATO has derived significant benefits in internal efficiencies from the program, as indicated by a 4 year simple payback calculation on the \$582 million self-funded investment. This is based on the benefits observed and does not take account of benefits that have yet to be realised from the more recent releases. Moreover, the ATO has created a strong capability that extensively rationalises their internal processes and systems and which provides a strong platform for future development. The short term issues following the Income Tax release should be seen in this context.⁹⁵

4.137 Aquitaine's report provides a useful first step in assessing the costs and benefits of the Change Program. It may be useful to conduct a further cost/benefit analysis sometime after the Change Program work is completed and the new ICT systems have achieved full functionality and are well-settled operationally. In the meantime, there are likely to be many ongoing opinions on what should be considered in such an assessment and how they should be accounted for – for example, should the costs include those borne by the wider community in relation to problems encountered post-deployment as well? To this end, as a starting point, the ATO should release relevant information in its possession to promote open and transparent discussion in this regard.

RECOMMENDATION 9

For the purpose of improving the transparency surrounding the assessment of the costs and benefits of the Change Program, the IGT recommends that the ATO publish in full Aquitaine's final report on its review of the costs and benefits of the Change Program.

ATO response: Agree

The ATO will publish on the ATO website the final Aquitaine report on the Costs and Benefits of the Change Program.

95 *ibid.*, pp. i –iii.

APPENDIX 1 — DEFINITION OF THE CHANGE PROGRAM

A.1.1 The contract between the ATO and Accenture defines the 'Change Program' as the following:

1. Through consultation and co-design with its clients, [the ATO] has identified a number of improvements to our products and services that will deliver an improvement in client experience. Collectively, they form [the ATO's] blueprint for future tax administration. [The ATO] has commenced a program to deliver these improvements (Change Program).
2. The Change Program is to achieve the following:
 - (a) dealing with the tax system will become easier for the community;
 - (b) use of on-line channels will increase the availability and access to information about tax processes and advice;
 - (c) the taxpayer experience will be more personalised through more on-line services, reduced record keeping, targeted information, access to own data, and all client history available at point of contact;
 - (d) [The ATO] will deliver a more responsive service to the community through significantly improved service standards; and
 - (e) [The ATO] will have the flexibility to implement future changes, in a seamless manner, to the taxation system required by governments.
3. The Change Program will:
 - (a) enhance the client experience;
 - (b) create a seamless client experience across channels, products and operational processes;
 - (c) build a more sustainable basis for [the ATO] to meet expectations by:
 - (i) bringing its systems into a current day technology framework, making them Web enabled and able to respond to the community in real or near-real time;
 - (ii) replacing its core legacy applications that continue to be a large drain on its resources and impede it from delivering client expectations;
 - (iii) building new capability and capacity to respond more quickly and flexibly to demands from the government and the community;
 - (iv) reducing the marginal costs of implementing change; and
 - (v) enhancing operational performance through improved productivity.

A.1.2 The ATO publication, *The Australian Taxation Office: Change Program, Canberra* March 2010, also defines the Change Program. Extracts from that publication are reproduced below.

The Change Program

THE START OF THE CHANGE PROGRAM

In March 2002, the Change Program journey began when we started our 'Listening to the Community' initiative. This was a new way for us to obtain feedback, one that involved working with small businesses, tax agents, industry and the community in general.

'Listening to the Community' allowed us to comprehend the range of difficulties and issues that taxpayers had experienced when they interacted with the Australian tax system.

This consultation process enabled us to develop an array of short and long-term improvements to the way we administer the tax system.

Collectively, these improvements were a key input into what is now commonly known as our Change Program.

THE CHANGE PROGRAM OBJECTIVES

Based on the findings of the 'Listening to the Community' initiative the objectives we developed for the Change Program were to:

- deliver improvements to the client experience
- reduce operational costs
- improve flexibility and sustainability for future change.

To achieve this we set out to:

- develop systems that are integrated, flexible and easier to change
- have a single system for case management
- have a single system for client relationship management
- provide staff with a single view of client information
- enable staff to undertake all work electronically (no paper).

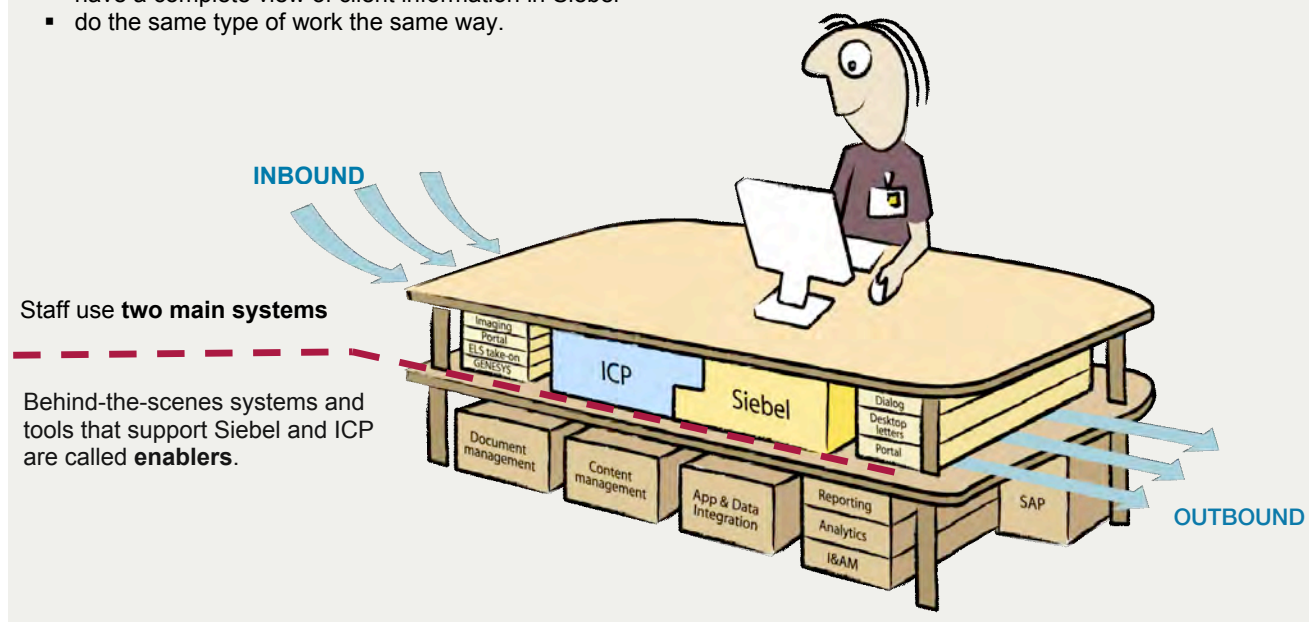
CHANGE PROGRAM TIMELINE

- 2002** 'Listening to the community' program helps us develop ideas to make it easier and cheaper for people to comply with their tax obligations.
- A web portal is developed for tax agents to interact with us securely online.
- 2003** Further improvements to the web portal for tax agents introduced
- A web portal for small business is developed and launched for small business
- Improvements to our call centres and correspondence are introduced, increasing consistency for our clients.
- 2004–05** Accenture is contracted in December 2004 to deliver a single integrated system through three releases.
- Release 1** sees the implementation of a single client relationship management system. This provides improved staff efficiencies and client experiences.
- information about each client is accessible from one system rather than multiple systems
 - electronic versions of client correspondence can be viewed in the same system as client information
 - more prompt and personalised service delivered to the client with more queries answered in a single call
 - Tax officers are able to view client's entire tax history
- 2006–07** **Release 2** enables over 13,000 staff in over 1,000 teams across 60 sites to fundamentally change the way they carry out their work.
- We replace approximately 180 case management systems with a single ATO-wide case management system.
- staff can better understand what else is happening to a client they are working with
 - staff can better plan, predict and track work more effectively
 - turnaround time for client queries is reduced
 - clients now deal with a Tax officer who has a more complete understanding of their dealings with us
 - online, phone and paper products and services improved
 - all inbound letters are actioned electronically
- 2008–10** **Release 3** is the largest information technology deployment the ATO has ever undertaken.
- It provides a single way of working across the ATO and involves rolling out:
- our new Integrated Core Processing system
 - updates to Siebel Case Management to action requests for advice

A SINGLE WAY OF WORKING ACROSS THE TAX OFFICE

Most Tax Office staff:

- use the same systems
- have a complete view of client information in Siebel
- do the same type of work the same way.



A single integrated system provides many benefits.

New ATO-wide business processes and two systems – Siebel and Integrated Core Processing system – make it much easier for staff to do their job.

New business processes and better systems help us to:

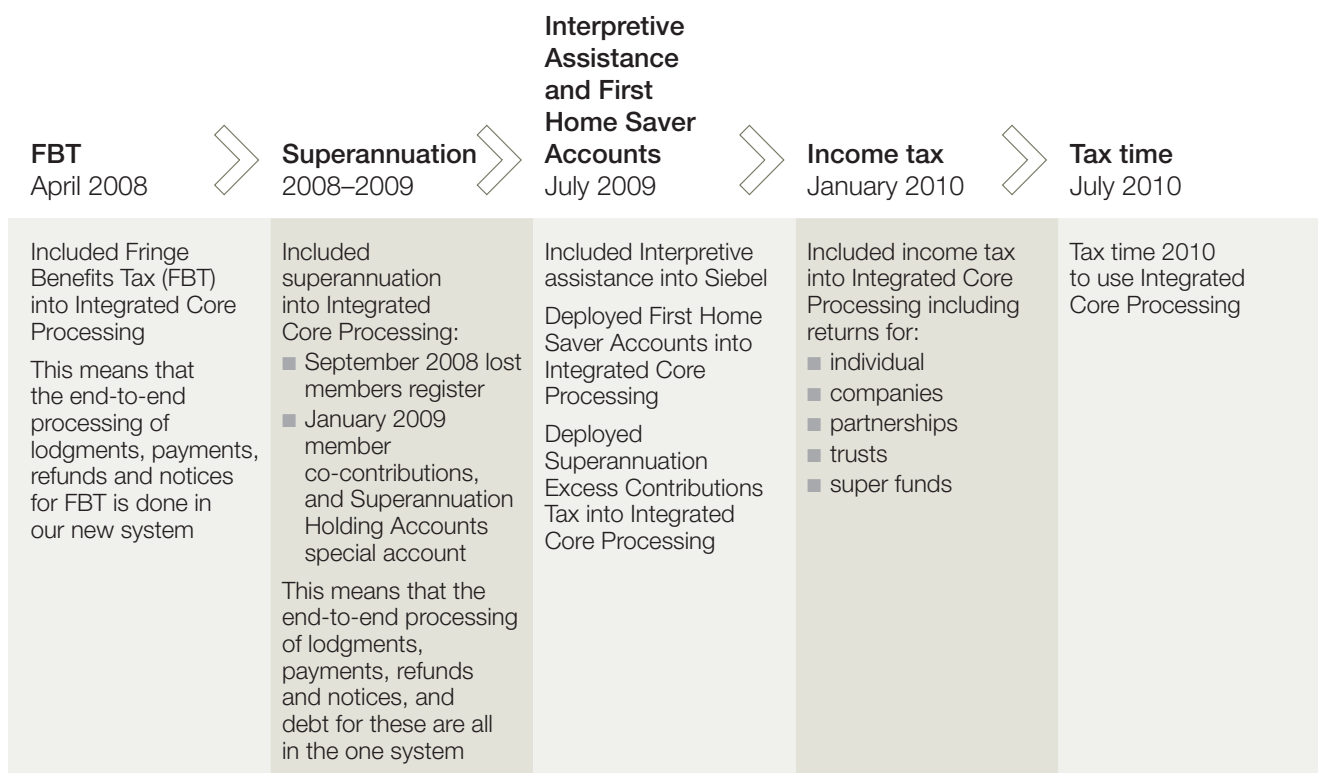
- provide a more efficient service to the community
- manage our workload better because of improved reporting and streamlined processes
- gain more transportable skills to use across the office.

Integrated systems will also be more responsive to policy and legislation changes, making it easier to incorporate these changes into our work.

RELEASE 3

Release 3 was the largest and most complex release ever undertaken by the ATO. It was broken up into stages spread over a number of years to:

- minimise risk
- minimise impact on the community
- allow policy and legislative changes to be incorporated.



Having a single integrated system means all our work is being carried out electronically:

- Integrated Core Processing is the key part of our plans to have an integrated system for all our work.
- All tax and superannuation accounts, registrations, forms and payments, and follow-up work relating to debts and lodgements will be processed using the single integrated system.

- Siebel has provided the ATO with a single case management, workflow and client relationship management system.
- The Change Program has also delivered an enhanced reporting capability and a range of tools to support the business and tax agent communities.

OUR NEW INCOME TAX SYSTEM

Our new income tax system is the largest IT deployment we have ever undertaken and is amongst the largest anywhere in Australia.

It replaces the National Taxpayer System (NTS), which has processed income tax returns for the past 30 years and processes all tax returns for:

- individuals
- companies
- superannuation funds
- trusts
- partnerships.

We took a careful and cautious approach to implementing our new income tax system:

- We stopped processing returns from early January 2010 so that we could transfer all taxpayer records from the old system to the new.
- The transfer began on 24 January 2010 and it took us two days to successfully convert and verify they had transferred correctly approximately:
 - 27 million taxpayer records
 - 32 million accounts
 - 282 million forms.

We began processing income tax returns in the new system on 1 February 2010:

- Between 1 February and 12 February we undertook a production pilot where we processed small numbers of returns to verify the system was working as expected.
- From 15 February we progressively increased the number of returns processed until 1 March 2010, by which time all returns on hand had been entered into the new system.
- We returned to normal processing turnarounds on 1 March 2010.

Between 1 February and 10 March 2010 we processed over 1.2 million returns in the new system.

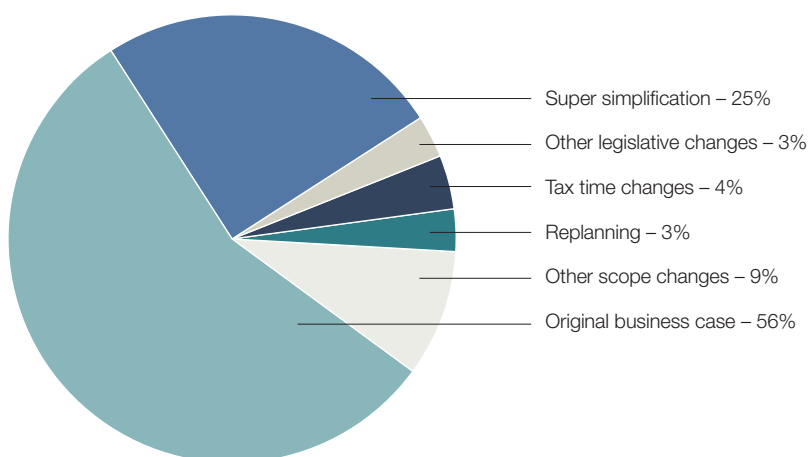
COST OF THE CHANGE PROGRAM

Since it began, scope of the Change Program has changed several times largely due to legislative changes.

- In December 2004 the original budget was \$445 million.
- At 30 June 2009 the budget was \$749 million.
- At 31 December 2009 the budget was \$780 million.

\$245 million of the Change Program budget increases relates to legislative changes (principally superannuation simplification – \$196 million).

FIGURE: Breakdown of overall Change Program budget



	\$	%
Original business case	444,864,694	56
Super simplification	195,845,955	25
Other legislative changes	21,817,130	3
Tax time changes	27,537,381	4
Replanning	20,035,432	3
Other scope changes	70,560,663	9
Total	780,661,255	100

CHANGE PROGRAM ACHIEVEMENTS

The objectives we developed for the Change Program were to:

- deliver improvements to the client experience ☒
- reduce operational costs ☒
- improve flexibility and sustainability for future change. ☒

To achieve this we set out to:

- develop systems that are integrated, flexible and easier to change ☒
- have a single system for case management..... ☒
- have a single system for client relationship management ☒
- provide staff with a single view of client information..... ☒
- enable staff to undertake all work electronically (no paper). ☒

BENEFITS OF THE CHANGE PROGRAM

Benefits include:

- Tax agents now have better online access to more integrated and personalised information
- Individuals can notify us about changes to their personal details *once*, for all their tax and superannuation affairs
- Businesses experience more timely processing of forms and more certainty of status
- People contacting the ATO can be confident that we will quickly understand their position and provide a more tailored service to meet their needs.

NOW AND IN FUTURE

Currently, we are focusing on:

- bedding in our new income tax system to ensure it continues to work well
- making sure that our new income tax system and our people are ready for our peak lodgement period between July and October
- ensuring that we have a stable platform to implement any policy and legislative changes asked of us.

APPENDIX 2 — TERMS OF REFERENCE AND SUBMISSION GUIDELINES

TERMS OF REFERENCE

A.2.1 On 19 April 2010, the Assistant Treasurer, Senator the Hon Nick Sherry, directed the Inspector-General of Taxation (IGT) to conduct a comprehensive review of the implementation of the Australian Taxation Office's (ATO) Change Program and publicly released the following terms of reference:

A.2.2 The review should include an examination of:

- a. the impacts of the Change Program on taxpayers, taxpayer representatives and other external clients of the Australian Taxation Office;
- b. the impacts of the Change Program within the Australian Taxation Office;
- c. the resources used to implement the Change Program and whether these resources have been efficiently applied; and
- d. any other related matters.

Background

A.2.3 On 10 December 2004, the ATO approved a business case to spend \$445 million in direct costs over four years to replace all tax processing information and communications technology with one Integrated Core Processing (ICP) system. This replacement and related work has been called the Change Program. A replacement was considered necessary because the ATO's pre-existing administrative processes relied on over 180 specialised information and communication technology systems as well as a number of core processing systems. These were a source of inefficiency that contributed to a number of administrative difficulties.

A.2.4 The Change Program was to be implemented in three phases, with implementation to be completed by June 2008. The first two phases included the installation of a client relationship management system and a single case and work management system. The third phase was, amongst other things, the installation of the ICP system for all tax products. By December 2007, the ATO had implemented the first two phases of the program and considered it necessary to implement the third phase by deploying it in a number of smaller discrete modules. The first module to be deployed was the processing of fringe benefit tax returns for the 2007-08 year. The deployments of other modules, such as those relating to superannuation, were carried out in 2008 and 2009.

A.2.5 During January 2010, the ATO progressed the implementation of the third phase by deploying the module processing income tax returns and payments (the income tax release) through the new system.

A.2.6 Recently, the Assistant Treasurer as well as the IGT received information from taxpayers, tax practitioners and their representatives that the ATO was experiencing processing delays and errors in relation to income tax return payments and lodgements.

A.2.7 Tax practitioners pointed out that they understood that the implementation of the income tax release would give rise to 'teething problems'. However, particular frustration was expressed in relation to the nature of the ATO's communication of the errors, the ATO's inability to fix identified errors within reasonable times, the ATO's shifting advice on the timeframes to fix those errors and the ATO's lack of awareness of the impact that such communications and errors had on taxpayers and tax practitioners. Over time these frustrations have increased substantially.

SUBMISSION GUIDELINES

A.2.8 In connection with the above terms of reference, we are seeking submissions which give detailed information on observations and experiences relating to the ATO's Change Program.

A.2.9 At the outset, it is important to acknowledge that key taxpayer and tax practitioner representatives have indicated that the immediate focus of the review be on terms of reference (a) and (b) in relation to the income tax release.

A.2.10 Accordingly, the IGT will take a staged approach to this review by first focusing on terms of reference (a) and (b) (to the extent that it affects taxpayers and tax practitioners) in relation to the income tax release, and then focusing on the remaining scope of the of the review as required. That being said, however, it is open to you to provide submissions on any aspect of this review.

A.2.11 Set out below are some guidelines for you to consider in making your submissions. This would greatly assist us to identify potential systemic issues and allow us to examine these issues more efficiently and effectively.

A.2.12 You should note that we have not verified the concerns set out in this document. Therefore, we ask that if you believe that concerns exist, you provide evidence to support your views.

Impacts on taxpayers, taxpayer representatives and other external ATO clients

A.2.13 We have received information from taxpayers, tax practitioners and their representatives on ATO practices and the resulting adverse impacts. We are now seeking detailed information and examples.

Identification of any errors and delays

A.2.14 Where your submission deals with the impacts of the income tax release on taxpayers, tax practitioners or other external ATO clients, it is important to provide a detailed account of any specific errors and delays that you have observed or experienced. You should also provide a time line of your interactions with the ATO.

A.2.15 Concerns have been raised with us about ATO delays and errors in processing tax lodgements and payments. In some cases the concerns include:

- Incorrect liabilities shown on notices of assessment;
- Delays in issuing refunds and refund cheques not being attached to credit notices of assessment;
- Shifting ATO advice on when refund cheques would be issued;
- Incorrect dates of lodgement of tax returns and consequent incorrect general interest charge calculations; and
- Payment liabilities being brought forward by seven weeks incorrectly.

A.2.16 In addition to any errors or delays that you may have observed or experienced, you should also comment and elaborate on whether the examples above are accurate and substantiated.

A.2.17 You should note that the ATO has advised that the reasons for extended delays were mainly due to two human errors within the ATO, and that there are valid reasons for other delays – such as incorrectly lodged returns. Therefore, you should explain whether the errors or delays that you have experienced were due to such valid reasons or not.

A.2.18 To the extent that you are able, your submission should also specify whether you have noticed particular ATO income tax processing treatment of particular kinds of taxpayers or different types of assessments. You should consider whether there are common characteristics amongst those experiencing problems – for example, the type of income earned (such as primary production income), the resulting liability (such as debit or credit assessments) and/or the type of non-ATO liabilities (such as Centrelink or Child Support Agency debts).

ATO's management of the income tax release implementation

A.2.19 The Change Program is a large undertaking which impacts on many aspects of tax administration. Given the scale and extent of this undertaking, you may wish to consider the ATO's management of the implementation of the income tax release.

A.2.20 One of the main aims of the Change Program was to improve tax administration. As the project has unfolded over the years changes have been made to the scope of the program. To the extent you are able, you should comment on the specific extent of these changes and contrast these with your expectations and its impact on you.

A.2.21 To the extent you are able to comment, you should consider the nature and adequacy of testing on the income tax release's interaction with end users and, to the extent you are aware, testing with other non-ATO computer systems, such as Centrelink and financial institutions.

A.2.22 Once again, in relation to your views on the above management issues, your submission should provide evidence for those views.

A.2.23 Your submission should also consider the ATO's communication during different times of its design and implementation of the income tax release:

- During the initial design and implementation of the Change Program – You should consider whether initial ATO communications on the potential impacts were well publicised and informative. How did the ATO manage taxpayer and tax practitioners' expectations and was this effective?
- Immediately before the implementation of the income tax release – If you identify delays in your submission, you should consider ATO warnings late last year concerning potential delays and whether the actual delays were in excess of that which the ATO had warned.
- In response to errors and delays that arose – Your submission should also consider the steps that the ATO took to identify and respond to those errors and delays.
 - For example, the tax professional bodies advise that when the income tax processing was implemented in January, the ATO established a daily discussion with them on emerging issues with the profession. However, at that time no issues were raised and therefore the ATO de-escalated that discussion. The ATO advises that it continues to monitor common types of inquiries raised in its call centre. You may wish to consider whether these steps allow the ATO to adequately identify and respond to emerging problems.
 - Tax practitioners have also raised concerns with the ATO's public communication of identified issues of concern and what work is being done to fix them, including whether any interim solutions exist. If you identify this as an issue, you should also set out what alternative action the ATO could have undertaken to avoid the need for taxpayers and tax practitioners to contact the ATO about these issues of concern.
 - You should also consider the extent to which subsequent ATO communications have been sensitive to the potential negative impact that the delays and errors may have on taxpayers' confidence in their tax practitioner.

Identification of impacts on taxpayers, tax practitioners and other external clients

A.2.24 It is also important that you provide a detailed account of the specific impacts of the problems with the income tax release. Examples that have been provided to us include:

- impacts on businesses — for example, some business models rely on expected ATO refunds, with any extended delays causing cash flow problems;
- increased time spent dealing with ATO to identify the reasons and solutions for the delays and errors, which detract from tax practitioners other work, such as lodging other taxpayers' returns;
- stress arising from the increased workloads and unpredictability of when particular refunds would be made available by the ATO (especially when combined with the pressure of upcoming payment obligations);
- unwarranted taxpayers' erosion of confidence in tax practitioners' abilities — for example, taxpayers perceive that their tax practitioners have lodged their income tax returns late and delayed providing the refund to the client, perceptions which are confirmed when senior ATO staff comment that the Change Program is working well.

A.2.25 You should also consider how the ATO is addressing the impacts on you. For example:

- Interest on delayed refunds — Is the ATO promptly paying the correct amount of interest for the delays encountered?
- Hardship — If you experienced hardship, is the ATO appropriately responding to your concerns?

A.2.26 Where your submission identifies negative impacts, you should also set out any alternative actions, practices or behaviours which, in your view, could minimise those impacts.

A.2.27 We are also interested in receiving details on positive impacts. For example, although not a part of income tax release, the Tax Agent's portal was implemented some time ago which, amongst other things, provided tax practitioners with access to certain ATO-held taxpayer information and obviated the need to contact the ATO by phone or in writing to obtain this information.

Impacts within the ATO

A.2.28 As stated above, we intend to take a staged approach to this review. This will mean that we will review the impacts within the ATO to the extent that they impact on taxpayers, tax practitioners and other external clients arising from the income tax release of phase 3 of the Change Program.

A.2.29 Where your submission recounts information on the impacts within the ATO, it is important to provide a detailed account of the specific event or practice that, in your view, impacted on taxpayers, tax practitioners and other external clients. These impacts may be positive in nature or negative.

A.2.30 To assist you in preparing your submission on this aspect of the terms of reference, some of the issues that have been raised with us thus far are:

- potential project fatigue;
- impacts on call centres workloads and flow on effects to other areas of the ATO;
- ATO relationship managers ability to adequately deal with some tax practitioner enquiries;
- the limited windows of opportunity in which the ATO could implement the income tax release this year and consequent costs for missing those windows;
- adequacy of ATO staff training on the new systems;
- occupational health and safety requirements in relation to the ATO officer user-system interface.

Efficient application of resources to implement the Change Program

A.2.31 As noted above, we intend to take a staged approach to this review by first focusing on the first two terms of reference above in relation to the income tax release of phase 3 of the Change Program. However, it is open to you to provide submissions on any aspect of this review.

A.2.32 Where your submission does consider whether resources were efficiently applied to implement the Change Program, it is important to provide detailed and verifiable information supporting your view.

A.2.33 Submissions on this aspect of the terms of reference should also have regard to the Auditor-General's recent performance audit report, The Australian Taxation Office's implementation of the change program: a strategic overview. It is important to note that at the time the Auditor-General finalised his report, the ATO had not deployed the income tax release of the Change Program.

Any other related matters

A.2.34 It is also open to you to provide any information that relates to the Change Program. If you do so, please ensure that you clearly identify the underlying systemic issue to which such information relates.

Lodgement of submissions

A.2.35 The closing date for submissions is 7 June 2010. Submissions can be sent by:

Post to: Inspector-General of Taxation
GPO Box 551
SYDNEY NSW 2001

Email to: changeprogram@igt.gov.au

Confidentiality

A.2.36 Submissions provided to the IGT are in strict confidence (unless you specify otherwise). This means that the identity of the taxpayer, the identity of the adviser and any information contained in such submissions will not be made available to any other person, including the ATO. Sections 23, 26 and 37 of the IGT Act 2003 safeguard the confidentiality and secrecy of such information provided to the IGT — for example, the IGT cannot disclose the information as a result of an FOI request, or as a result of a court order generally. Furthermore, if such information is the subject of client legal privilege (or legal professional privilege), disclosing that information to the IGT will not result in a waiver of the privilege.

APPENDIX 3 — SUBMISSIONS AND PEOPLE CONSULTED DURING THE REVIEW

A.3.1 The IGT received over 90 submissions from a range of interested parties, including:

- individual taxpayers
- small and large businesses
- tax practitioners in small practices
- tax practitioner representative bodies
- ATO staff from a number of different areas, such as areas within the Operations Sub-Plan (including Client Account Services), the Compliance Sub-Plan (including Tax Practitioner and Lodgement Strategy), and the Law Sub-Plan
- ATO staff representatives
- the Commonwealth Ombudsman.

A.3.2 The IGT has decided to keep confidential the identity of individuals and businesses making submissions. IGT staff met with a number of people who made submissions to clarify observations and issues raised in their submissions.

A.3.3 IGT staff also met the following organisations to discuss issues raised in the review:

- Accenture
- Aquitaine
- Australian Government Information Management Office
- Australian National Audit Office
- Capgemini
- Centrelink
- Child Support Agency
- CPT Global.

A.3.4 During the review, IGT staff interviewed a range of former and current ATO officers across the ATO's different business areas — predominately within the Operations Sub-Plan.

A.3.5 Section 24 of the *Inspector-General of Taxation Act 2003* provides that the IGT cannot name ATO officials, other than the Commissioner of Taxation.

APPENDIX 4 — GOVERNANCE ARRANGEMENTS ESTABLISHED BY THE ATO-ACCENTURE CONTRACT

A.4.1 The following reproduces the governance arrangements established under the ATO’s contract with Accenture (Schedule 2).

Schedule 2 — Governance

1. Individual Roles and Responsibilities

1.1 The following table describes the roles and responsibilities of the representatives of the Customer involved in the governance of the Change Program:

Role	Responsibility
Second Commissioner, EST Contract Authority with overall responsibility for the contract and the management of the relationship between the ATO and Accenture	Approve invoice payment Approve contract variation <ul style="list-style-type: none">Escalation point for Contract issues, relationship issues and disputesEscalation point for high level design (BAS) and detailed design issuesOther responsibilities as are set out in individual Work Orders

Role	Responsibility
<p>Chief Information Officer</p> <p>Operational responsibility for the Change Program</p>	<ul style="list-style-type: none"> Responsible for the Contract and the management of the relationship between Customer and Service Provider Recommend invoice payment Recommend contract variation Escalation point for contract issues In relation to time critical change requests under each relevant Work Order (TCCRs): <ul style="list-style-type: none"> determining that it is critical that the work commence immediately (if this determination is not made by the Release Sponsor); determining that a TCCR can commence notwithstanding that it may substantially alter the risk profile associated with the relevant Products and Services; approving the number of work hours for a TCCR; determining that a TCCR can commence notwithstanding that there will be no Outcomes relating to the time critical work; and approving a proposed increase in the combined total of Customer/ Service Provider work hours for an approved TCCR which exceeds 1600 work hours Recommend Tax Office action in response to stage gate report under Work Order 9 Recommend to Change Program Steering Committee updates to the ECMP Business Case Escalation point for CPSF governance issues under Work Order 9
<p>First Assistant Commissioner ATO</p> <p>Business Solutions</p> <p>Solution design</p>	<ul style="list-style-type: none"> Recommend Design sign off Sign off of co-design and law conformance Certify achievement of design milestone Approve detailed analysis work of minor solution changes Business case funding design resources Performance monitoring

Role	Responsibility
<p>First Assistant Commissioner Enterprise Applications</p> <p>Post implementation Business operations</p>	<ul style="list-style-type: none"> • Advise on quality and progress of warranty work • Withdraw an item from production • Certify that all warranty work has been completed • Supply customer supplied items • Approve client requested travel Accenture staff • Recommendation to pay EAM/CPSP (Work Order 9), warranty, CPOSE (Work Order 9) and EM (Work Order 9) invoices • Applications maintenance and support • Performance monitoring
<p>Release Sponsor</p> <p>CP Release Delivery</p> <p>(The Release Sponsors are supported in this role by the Deputy Release Sponsors)</p>	<ul style="list-style-type: none"> • Monitor scope and quality of release activity, and advise Customer Executive on progress against schedule as reported by Accenture Release Manager • Pre-deployment sign off and endorsement of design sign off • Determine whether an activity is a Necessary Customer Activity and undertake/arrange necessary customer activities • Ensure the supply of Customer Supplied Items • Endorse external change requests • In relation to TCCRs under each relevant Work Order: <ul style="list-style-type: none"> – determining that it is critical that the work commence immediately; – determining that the value of the TCCR will not exceed the TCCR fund pool / capped amount set out in the Work Order; – determining, based on advice from Customer and Service Provider Design Leads, that performance of time critical work is not likely to substantially alter the relevant risk profile (unless the CIO determines that the time critical work can commence notwithstanding that it may substantially alter the risk profile); – determining that the combined Customer / Service Provider work hours will not exceed 800 work hours for a TCCR (unless the CIO approves the number of work hours); and – where the relevant Work Order requires the achievement of Outcomes — determining that the TCCR is within the scope of the Outcomes (unless the CIO determines that the work can commence notwithstanding that there will be no Outcomes relating to it). • Ensure Customer components of the agreed Resource Profile and Resource Model for Work Order 9 are satisfied • Approval of Service Provider personnel to fill Customer roles • Making any other determinations required as specified in the relevant Work Order.

Role	Responsibility
Deputy Release Sponsor CP Release Delivery	<ul style="list-style-type: none"> • Monitor scope and quality of release activity, and advise Release Sponsor on progress against schedule as advised by Release Managers • Assist the Release Sponsor to ensure the supply of customer supplied items • Approve requested travel for Accenture staff • Arrange for necessary customer activities
Assistant Commissioner Procurement Projects Contract Manager	<ul style="list-style-type: none"> • Customer representative to whom disputes are initially referred to in accordance with clause 68.2 of the Contract. • Management of Contract and Work Orders • Ownership of contract risks • Prepares contract variations • Contract administration • Contract education • Contract conformance • Invoice payments/processes • Contract operational issues
Assistant Commissioner Corporate Procurement Direct Source Approval — ATO authorised officer for this method of procurement	<ul style="list-style-type: none"> • Approves contract variations that involve a direct sourcing above the threshold set out in the Commonwealth Procurement Guidelines.
Assistant Commissioner Enterprise Program Management Office Program Management	<ul style="list-style-type: none"> • Assurance on schedule/cost issues • Business case monitor/maintain • Recommend payment of invoices and provide advice on SEV invoice • Manage stage gate process under Work Order 9 • Approve Key Personnel nominated by Service Provider • Record time of Service Provider key personnel spent on Change Program and table the Key Personnel Report at contract management meetings

1.2 The following table describes the roles and responsibilities of the representatives of the Service Provider involved in the governance of the Change Program:

Role	Responsibility
Client Relationship Manager	<ul style="list-style-type: none"> • Approves contract variations • Service Provider representative to whom disputes are initially referred to in accordance with clause 68.2 of the Contract.
Accenture Program Director	<ul style="list-style-type: none"> • Responsible for managing delivery on behalf of Service Provider • Responsible for making decisions and taking action once new code has been deployed during the warranty period on behalf of Service Provider
Accenture Release Managers	<ul style="list-style-type: none"> • Effectively manage all things within his/her direct control so as to meet Service Provider's obligations under the Contract and any Work Order. • Provide overall accountability for the delivery of the release, the capabilities that make up the release and the business outcomes, if any, designed to be delivered by the release on behalf of Service Provider • Plan work in accordance with the Delivery Methods and report status against the plan. Manage issues and risk • Plan and drive program level assurance as agreed in the Quality Framework • Report on matters relating to the release • Provide performance management for Service Provider staff on the release team • Identify internal and external dependencies between Change Program teams and BAU • Manage Customer and Service Provider work day budgets and directing day to day work activities • Provide advice on production environment and support processes that are appropriate for delivery of the release

1.3 An independent assurer has been appointed by the Customer to provide independent assurance in relation to the Change Program and its governance.

2. Committees

2.1 There are a number of different Committees which contribute to the governance of the Enterprise Solutions and Technology Change Program.

2.2 Where a Service Provider representative is a member of a committee or is invited to attend a committee meeting, the Service Provider must provide a suitable representative at no additional cost.

2.3 The following table sets out the membership, role and frequency of meetings of each committee.

Name	Members	Role	Timings of meetings
EST Management Committee	Chief Information Officer First Assistant Commissioners <ul style="list-style-type: none"> Enterprise Applications Management Business Solutions Service Provider Management Strategy Planning and Assurance Change Program OCHO 	Provide direction and management of enterprise solution and technology services and capabilities.	Monthly
EST Sub-plan Executive	Second Commissioner Chief Information Officer Chief Technical Officer Chief Knowledge Officer First Assistant Commissioner, ATO Business Solutions Deputy Commissioner, Tax Practitioner & Lodgement Strategy Deputy Commissioner, Operations Sub-plan Chief Finance Officer, ATO Finance and People & Place Sub-plan First Assistant Commissioner, Enterprise Applications Management Assistant Commissioners, Change Program	Provide leadership, governance and decision making on enterprise solution and technology investments that align with the four elements of strategic direction of the EST sub-plan: <ul style="list-style-type: none"> Helping the community Improving compliance while promoting a level field for all Effective corporate governance Building organisational agility 	Monthly

Name	Members	Role	Timings of meetings
Change Program Steering Committee	<p>Commissioner</p> <p>Second Commissioner (Law)</p> <p>Second Commissioner (ECMP/IT)</p> <p>Second Commissioner (Compliance)</p> <p>Chief Operating Officer, Operations</p> <p>Other Attendees:</p> <p>First Assistant Commissioner Change Program Integration & Management</p> <p>First Assistant Commissioner ATO Finance</p> <p>First Assistant Commissioner, Business Solutions</p> <p>Deputy Commissioner, Client Account Services</p> <p>First Assistant Commissioner (Release Sponsors) for the Change Program</p> <p>First Assistant Commissioner (Release Sponsors) for the Change Program</p> <p>NPM, Tax Practitioners and Lodgement Strategy</p> <p>Chief Knowledge Officer</p> <p>Chief Information Officer Senior representative — Accenture, Program Director</p> <p>Senior representative — Accenture, PMO Executive</p> <p>Independent Assurer — Capgemini</p> <p>Independent Assurer — Aquitaine Consulting</p>	<p>To direct the Change Program by:</p> <ul style="list-style-type: none"> • setting direction and outcomes • priority setting and resource allocation • endorsement of Change Program scope, strategy and design • integration of change initiatives with ATO Plan and sub-plans 	Monthly

APPENDIX 5 — MAIN CHANGES IN THE CHANGE PROGRAM'S SCHEDULING

Change Program delivery schedule

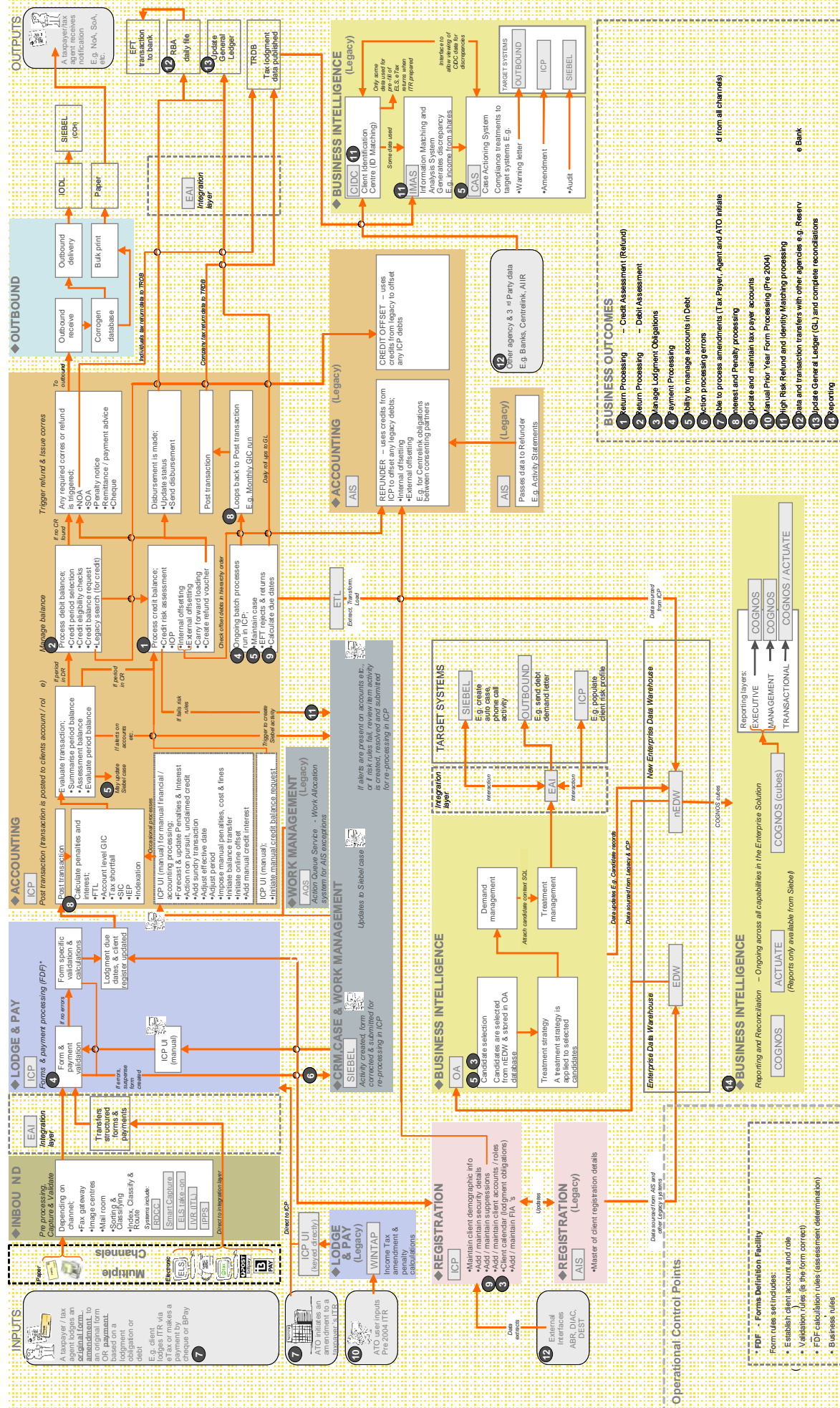
	2003	2004	2005	2006	2007	2008	2009	2010
	Early improvement and quick wins							
	Investigation and strategy		Design, procurement and assurance	Contract implementation				
				Release 1 Portal update (online capability) Client Relationship Management (CRM) Document management Records management Analytical models	Release 2 Case management (active compliance) Work management Content management Analytical models	Release 3 Integrated Core Processing (ICP) pilot and ICP production (fringe benefits tax, income tax, activity statements) Case management (interpretive assistance) New online functionality (portals)		
				Release 2 Case management Work management Content management Analytical models Executive information system	Release 3 Integrated Core Processing (ICP) pilot and ICP production (fringe benefits tax, income tax)	Super ICP extended to include Superannuation	Release 3 ICP production (activity statements) New online capabilities (portals) Case management (interpretive assistance)	
					Release 3 ICP technical deployment Siebel upgrades ICP production (fringe benefits tax)	Release 3 ICP production (lost members register, co-contributions) ICP production (super holding accounts special account, surcharge, excess contributions tax, unclaimed monies) Case management (interpretive assistance) First Home Saver Account (FHSA) ICP production (first home saver account)	Release 3 ICP production (super guarantee) ICP pilot and production (income tax) ICP production (activity statements) New online capabilities (portals)	
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APPENDIX 6 — THE ATO'S INCOME TAX RETURN AND PAYMENT PROCESSING SUMMARY

Income tax return & payment processing

INCOME TAX RETURN & PAYMENT PROCESSING (Automated Processing)

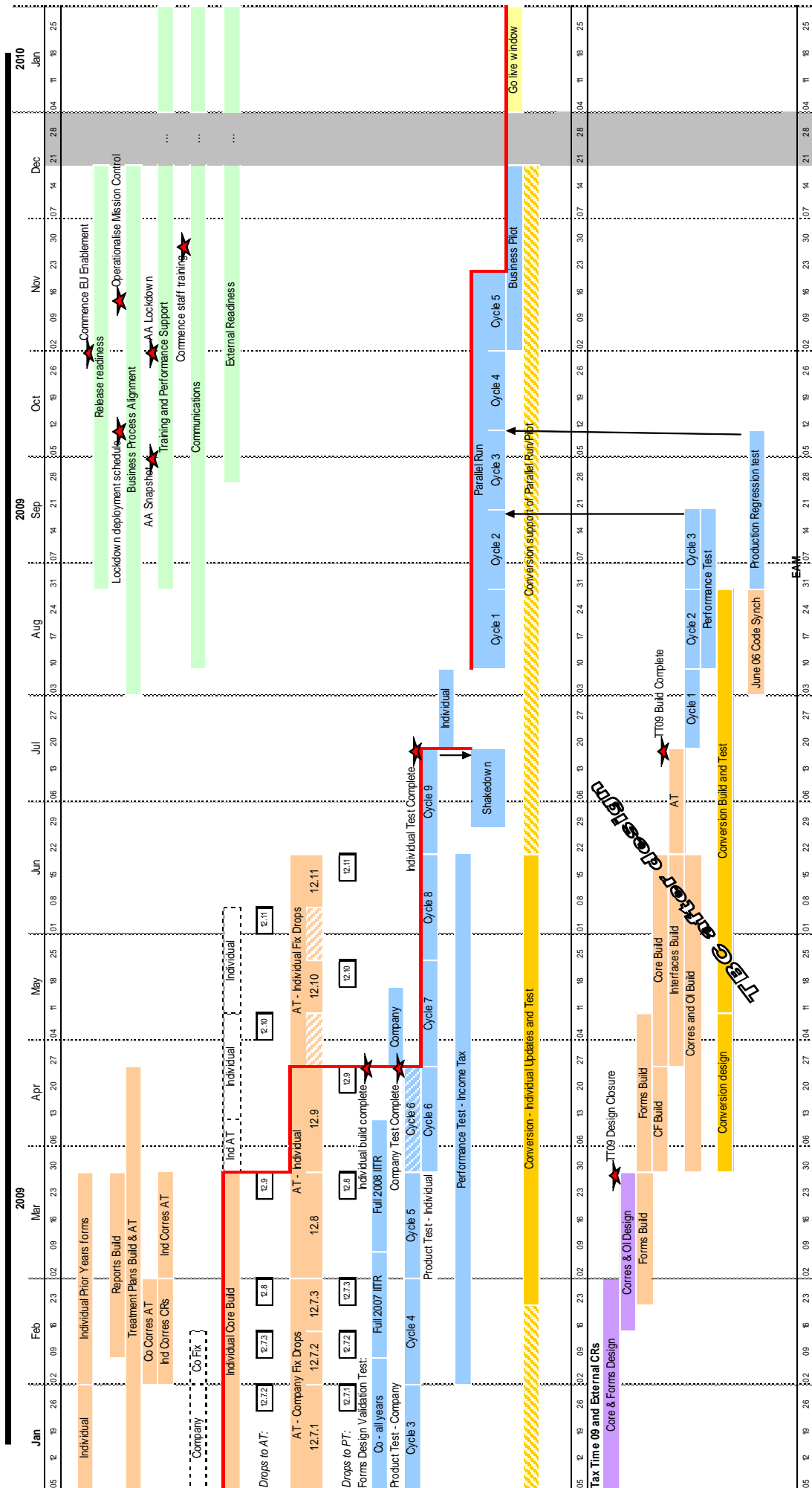
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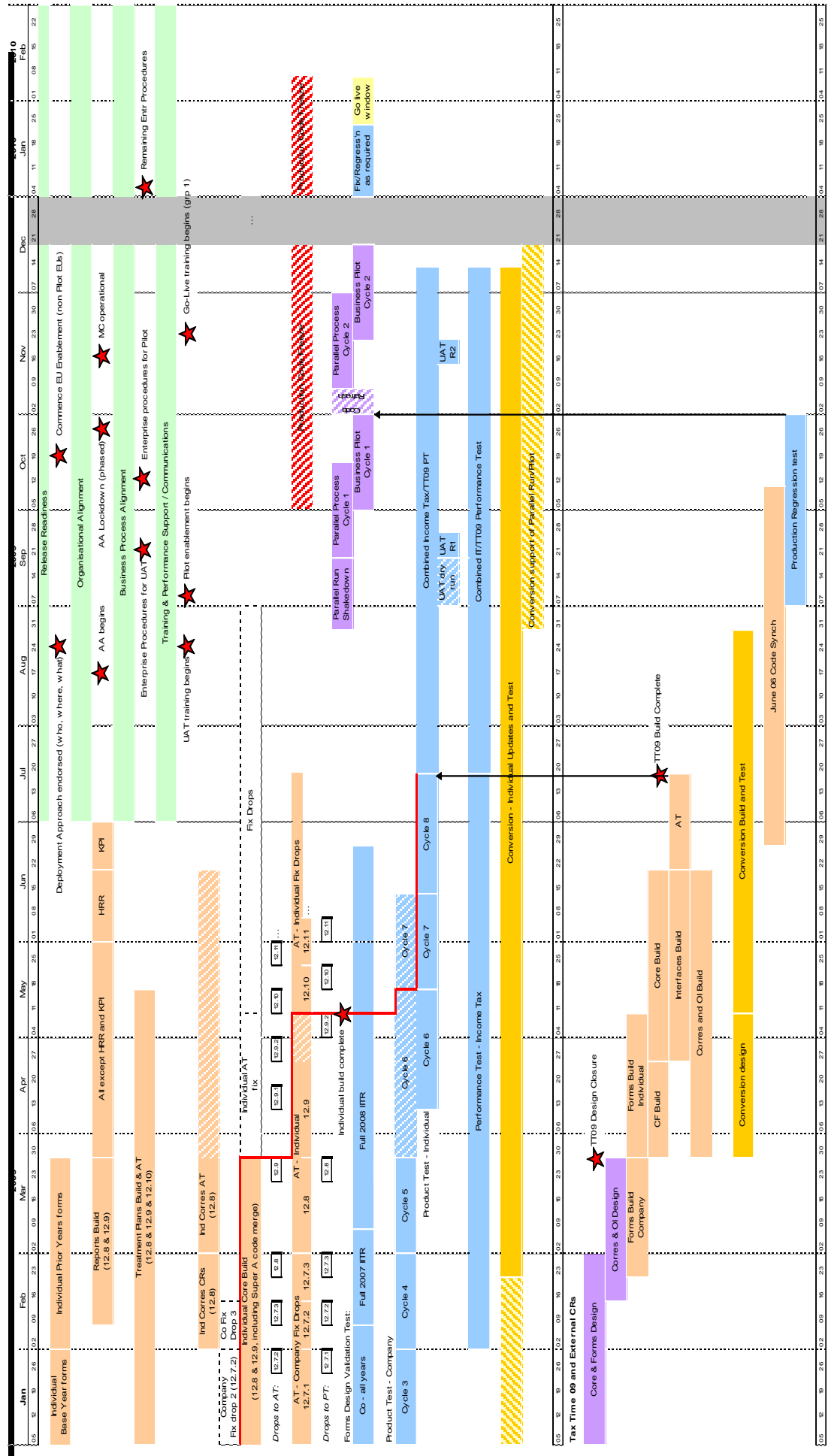
APPENDIX 7 — INCOME TAX RELEASE TESTING



Income Tax Test Plan – As at March 2009



Income Tax Test Plan – As at December 2009





Key Integrated Product Test (IPT) Metrics

Integrated Product Test (IPT)

- > 20,000 days of IPT effort.
- 12 months duration.
- 339 End-to-end Business Scenarios, including
 - 8,158 total test steps made up of 3,651 primary test steps and 4,501 ancillary test steps.
- 13 Performance Test scenarios, covering 429 test conditions and multiple day in the life tests.
- 300 separate Penalty & Interest (P&I) scenarios.
- Multiple conversion tests across full production data volume, results used in IPT, Parallel Run and Business Pilot testing.



Test Phase Descriptions

- **Unit Testing:** Testing performed at the discrete code module level. It is structured to test boundary type conditions and is designed to test each branch of logic within a discrete code module.
- **Disconnected Test:** Testing performed specifically on modules that exchange or interface data between one or more code modules (e.g. using an Enterprise Application Integration (EAI) module to exchange data). It is structured to test each path through a flow of data exchanges by stopping at each step of the flow and examining the payload of data for completeness in format and content.
- **Assembly Test (or String Test):** Testing performed on a group of modules or code components that make up a discrete function (e.g. posting a form, executing a specific set of subroutines in a batch). It is structured to test one or more (but not all) logic paths within the functional area subject to the test against a set of expected results.
- **Integrated Product Test:** This title represents a suite of testing comprised of the following test types:
 - **Product Test:** Testing based on scripts that cover the entire inventory of test conditions and expected results. These conditions are based on the functional designs of the software. It is structured in a “follow the script” fashion that includes the input / use of data chosen to cover a high percentage (but not all) logic scenarios. The list of scenarios was signed off by ATO staff.
 - **Integration Testing:** Script based testing targeted specifically at interfaces between ICP and external agencies (e.g. Centrelink, CSA) as well as other internal ATO systems (e.g. Tax Return Database, WINCAS). This testing is scripted much the same as Product Test; however these tests often required special timing / file handling procedures to cater for inter-agency or inter-system testing and thus it was treated as a separate type of test.
 - **Legacy Testing:** Testing of Legacy Systems to verify changes required by the migration of Income Tax processing in to ICP. This testing was a combination of script-based and adhoc testing conducted by the Enterprise Test organisation within EST.



Test Phase Descriptions

• Integrated Product Test: (continued)

- **Performance Testing:** Testing designed to prove the achievement of throughput targets derived from volumetrics provided by the ATO Strategy & Architecture organisation. This automated testing exercised code at the discrete batch / process level, at a “Day In the Life” level, and at a stress test level.
- **Penalty and Interest Regime Testing:** This testing represented a “deep dive” into the various Penalty and Interest regimes within the accounting areas of ICP. This test was structured for the ATO Business to test until they were satisfied that all Penalty and Interest regimes were verified.
- **Form Definition Verification:** This testing represented a “deep dive” into the verification of labels, mappings, and calculations contained in the form definitions that would deploy in the Income Tax Release.
- **Regression Testing:** re-execution of impacted IPT scenarios following code changes to the production candidate code base.
- **Conversion Testing:** Broad title applied to the suite of testing performed as part of the Conversion effort within the Income Tax Release. It was comprised of:
 - **Database Testing:** Testing performed to verify data at the individual table and field level.
 - **Balance & Reconciliation:** Testing to verify converted account balances (individual and GL level) as well as converted form data matched the expected results as derived from source data.
 - **Discard Analysis:** Testing to verify that any data which resulted in a discard (error) from the conversion processing was identified as expected (known data quality issue) or manually remediated.
- **User Acceptance Testing:** Testing designed to provide a subset of end users an opportunity to execute a subset of end-to-end scripts.



Test Phase Descriptions

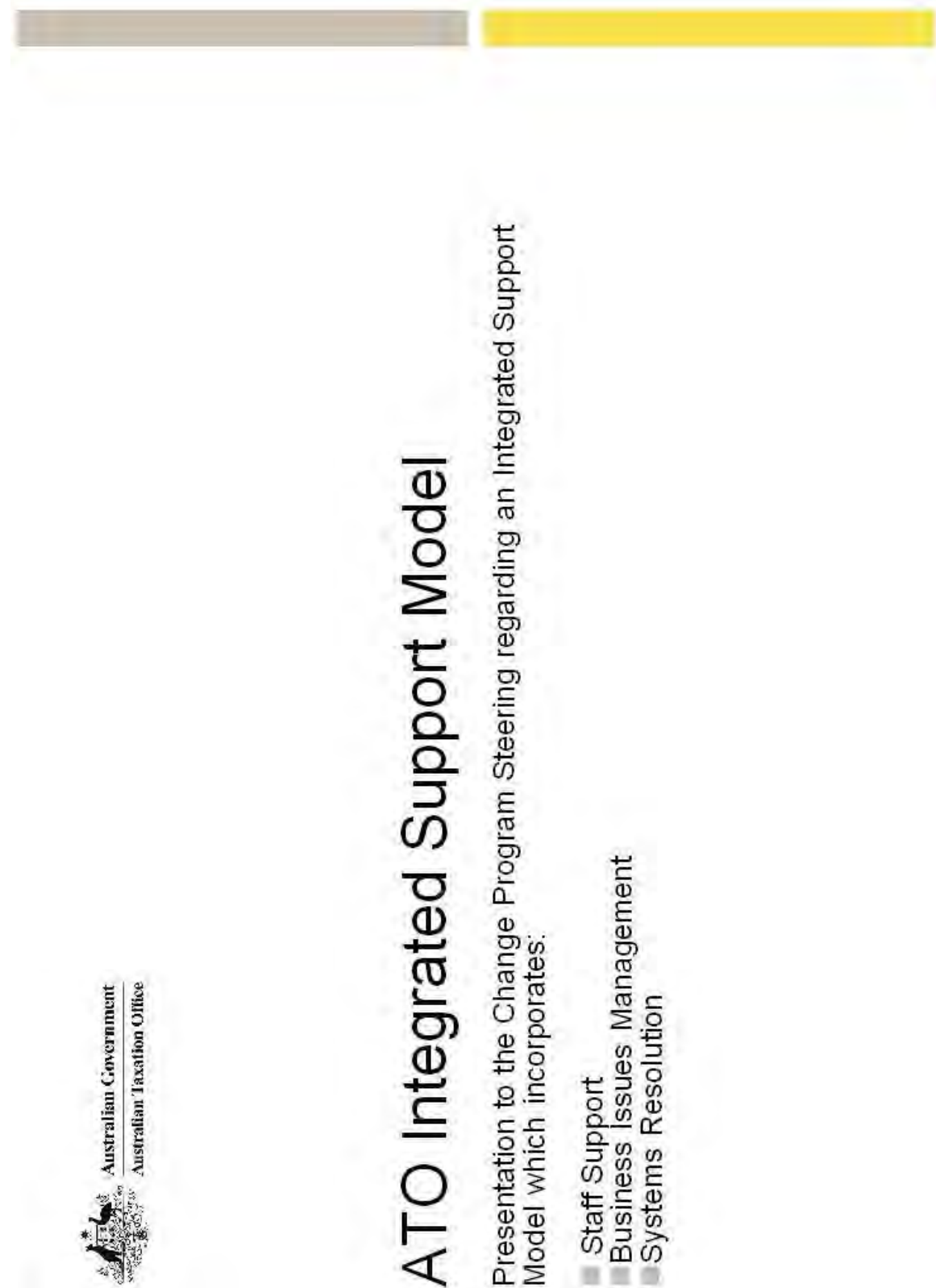
- **Production Regression Testing:** Execution and verification of current production end-to-end business scenarios to verify that the Income Tax release did not impact current production functionality for both ICP and Legacy applications.
- **Parallel Run:** Execution and verification of a single days execution in ICP based on data as processed in to the legacy (NTS) system. The test process began with a conversion run to bring ICP up to the day before the target parallel day and then a single days (a real day already processed in NTS) lodgments were processed in to ICP. Once loaded, the batches were executed in ICP and the results of these batch runs on the accounts were compared to the results from NTS.
- **Business Pilot:** This testing was unscripted and followed on from the Parallel Run activity. It was designed to provide a broader user group an opportunity to verify business procedures and get a “real life” feel for the new system. It also provided an opportunity for the operations staff to test issue escalation and communication procedures.
- **Run Ahead:** This activity was less a test and more a confidence building / predictive exercise. The run ahead process was designed to predict how the production system would behave in a processing sense in advance of actually processing data into live production. The Run Ahead process essentially started loading the stockpile of inbound forms into a non-production environment to give advance intelligence to the ATO operations staff regarding error and suspense rates as well as predictive timings.



Causes of Testing Schedule Delays

- Difficulty in locking down final designs for complex function areas leading to build and test changes later than planned
- Shortage of ATO resources due to Tax Time projects and other mandatory work
- Late delivery of final Tax Time 2009 requirements due to legislative requirements and late amendments driving changes to build and testing scope during product testing timeframes
- Environment outages – variety of causes including data centre power outages
- Increasing testing coverage to lower implementation risk and bolster user confidence e.g. Penalty and Interest Testing, additional Product test scenarios
- Underestimating the complexity of certain testing scenarios, driven by:
 - The delays mentioned above drove later than planned build delivery putting additional pressure on testing
 - End to end business scenarios that included multiple inter-agency data exchanges
 - Conducting product testing against true converted data rather than manufactured data meant a high investment of time to find data that would align across ICP and related systems to satisfy complex scenarios
- The end to end nature of some scripts required some test environments to include many integrated tax systems that while providing very thorough test coverage did require more complex environment support
- The delays in product test mentioned above also meant that when parallel run and business pilot commenced they overlapped with product test making it more difficult to manage environments and fix work across more environments
- A higher than planned number of required legacy production changes during the code freeze window driving additional retrofit and testing work in final testing stage

APPENDIX 8 — THE ATO'S INTEGRATED SUPPORT MODEL

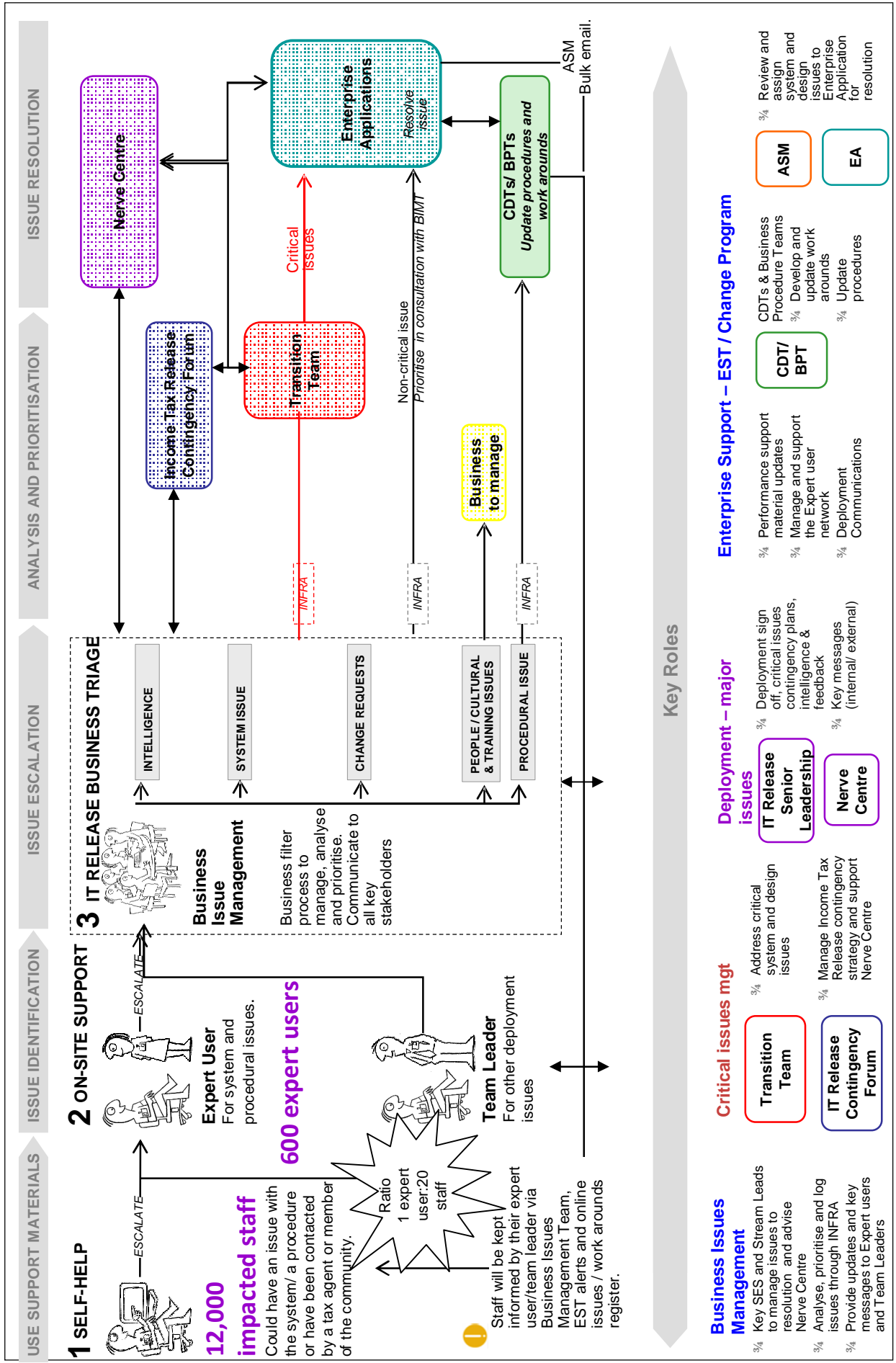


Executive Summary

- ✓ The Integrated Support Model is the result of broad consultation, applying the learning's from previous releases and the positive results from trialling this design in the Pre Production Pilot
- ✓ The model will deliver:
 - 1. A streamlined issues escalation process by applying a business filter process
 - 2. Timely transfer of knowledge due to the close links between business and technical staff
 - 3. A clearly defined end to end process
 - 4. Better integrated support materials
- ✓ The support model will begin with the commencement of the Production Pilot.

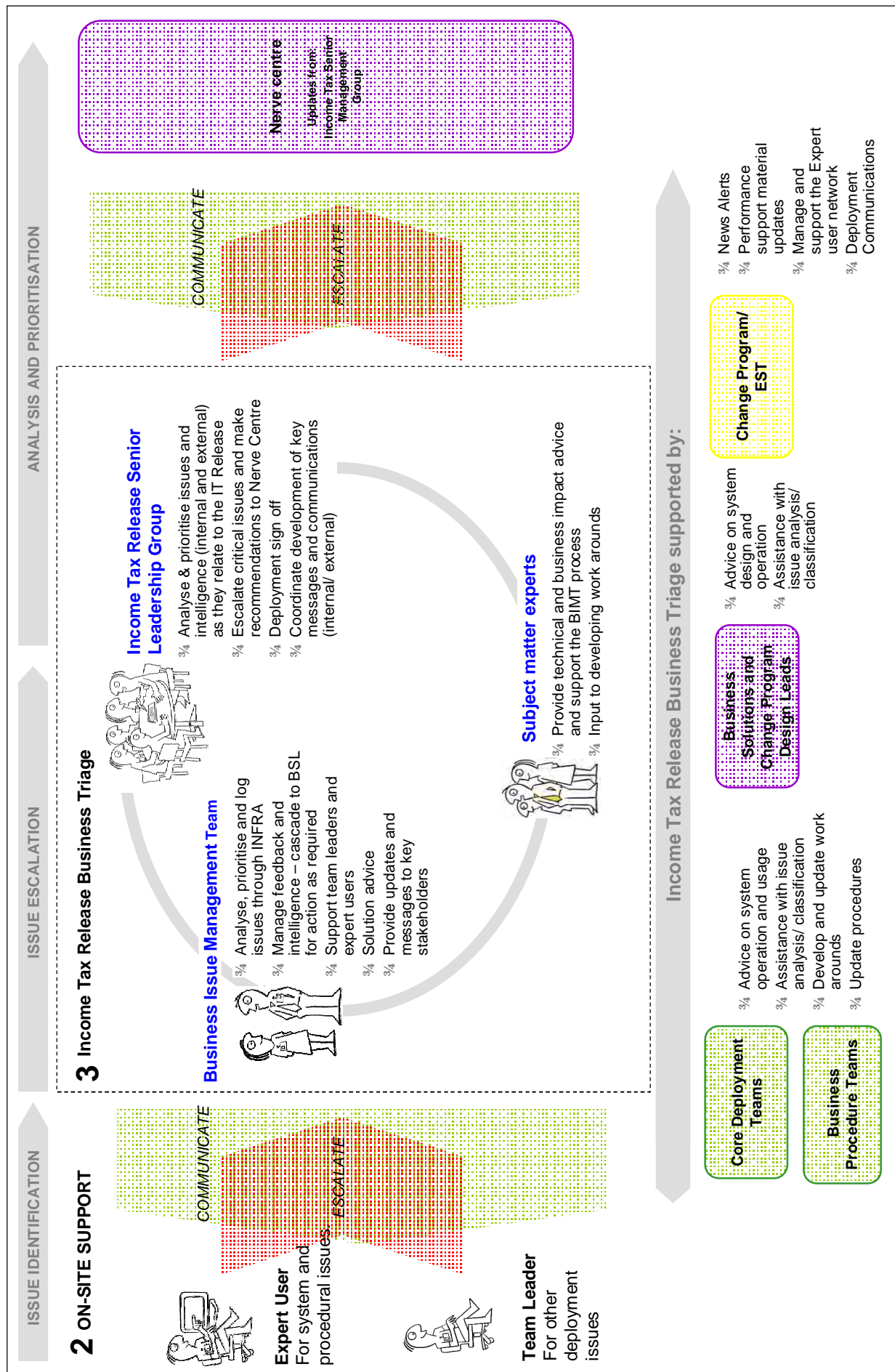
Updated 14 January 2010

ATO INTEGRATED SUPPORT MODEL: OVERVIEW



Updated 14 January 2010

ATO INTEGRATED SUPPORT MODEL: INCOME TAX RELEASE BUSINESS TRIAGE



Australian Government

Australian Taxation Office

ATO



APPENDIX 9 — THE ATO'S SUMMARY OF EXTERNAL READINESS AND INTELLIGENCE KNOWLEDGE (ERIK) REPORTING FROM JANUARY TO APRIL 2010



Document control

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Reviewers:	[Names deleted]		
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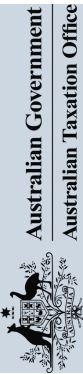
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Related documents

Document title	Date	Author
1. External Communication Report	TBA	[Names deleted]
2. BIM (TBC)	TBA	[Names deleted]
3. Internal Readiness (TBC)	TBA	[Names deleted]

Disclaimer

This report highlights incidents and raw intelligence which is as yet to be verified and should not necessarily be seen as representative this stage.



SECTION ONE
EXECUTIVE SUMMARY



Purpose of this report

This report provides a consolidated view of the community feedback received in relation to the Australian Taxation Office (ATO) Change Program (Release 3) Income Tax deployment. The report:

- \$ highlights the 'key topics' which generated most enquiries
- \$ summarises the community impacts identified, and
- \$ provides a high level insight into the ATO's response to the community feedback provided.

Methodology

This report has been compiled using the data from the External Readiness Intelligence and Knowledge (ERIK) dashboard reports which were prepared during the period 28 January 2010 to 30 April 2010. Refer to 'Background' below for details on how the ERIK dashboard reports were produced.

This report provides a monthly summary of:

- \$ key issues (including details of the most frequently asked topics)
- \$ complaints received, and
- \$ community impacts.

Commentary about the 'tone' of enquiries has been included to illustrate the shifting community attitudes towards the ATO. Reference to the internal 'rating' of the project has been included to demonstrate the correlation between the rising community concerns and the status of the project.

Due to the specific risks associated with large corporates, this feedback is reported separately.

Background

Change Program Release 3 was the largest and most complex information technology deployment ever undertaken by the ATO. It was broken up into stages, spread over a number of years, to minimise risk, minimise impact on the community, and allow policy and legislative changes to be incorporated¹ (as illustrated below).



- An External Readiness Intelligence and Knowledge (ERIK) model was developed and implemented to:
- \$ ensure the knowledge gathered (during the Change Program Release 3 deployment) was captured and shared effectively
 - \$ enable the rapid identification of significant risks and issues impacting on the community, and
 - \$ support the ATO's senior executive in decision making to address the issues raised.

ERIK provided an integrated, end-to-end model, which enabled community feedback to be captured, analysed and reported to the ATO's senior decision makers. The ERIK model consisted of three key elements:

- \$ activities to gather community feedback
- \$ collaborative discussions and analysis of the data to understand the impacts, and
- \$ reporting.

Gathering community feedback

A range of engagement and observation capture activities were undertaken to ensure the quick identification of issues impacting on the community. This included:

- \$ Change Program Consultative Group (CPCG). The CPCG was chaired by Annamaria Carey, Assistant Commissioner Change Program External Readiness and consisted of representatives from key professional accounting associations. It was formed to:
 - ensure an appropriate level of engagement and communication with the key professional accounting associations, and
 - facilitate the timely collection of feedback.
- \$ Feedback from established ATO / tax practitioner forum members and secretariats.
- \$ Feedback from tax practitioners via Relationship Manager field visits and outbound phone calls.
- \$ Analysis of call and complaint data
- \$ Monitoring a sample of inbound calls received in the ATO's call centres
- \$ Debriefing frontline staff
- \$ Feedback from key ATO business lines (including Customer Services and Solutions, Micro Enterprises and Individuals, Large Business and International, Tax Practitioner and Lodgment Strategy, Small and Medium Enterprises, Media Unit and ATO complaints). Each area nominated a person (knowledge officer), responsible for:
 - coordinating and where required, undertaking the feedback gathering activities for their areas
 - reporting their findings, and
 - participating in collaborative discussions to build a corporate understanding of the impacts the deployment was having on the community.

Understanding the impacts

A key component of the ERIK model was the establishment of a cross business line, knowledge network. This network consisted of business line knowledge officers and a corporate knowledge integrator. They met by phone hook-up on a daily basis to share and discuss their findings/observations and to build a corporate view and understanding of the community impacts. These conversations assisted the external readiness team to quickly identify potential systemic issues and trends.

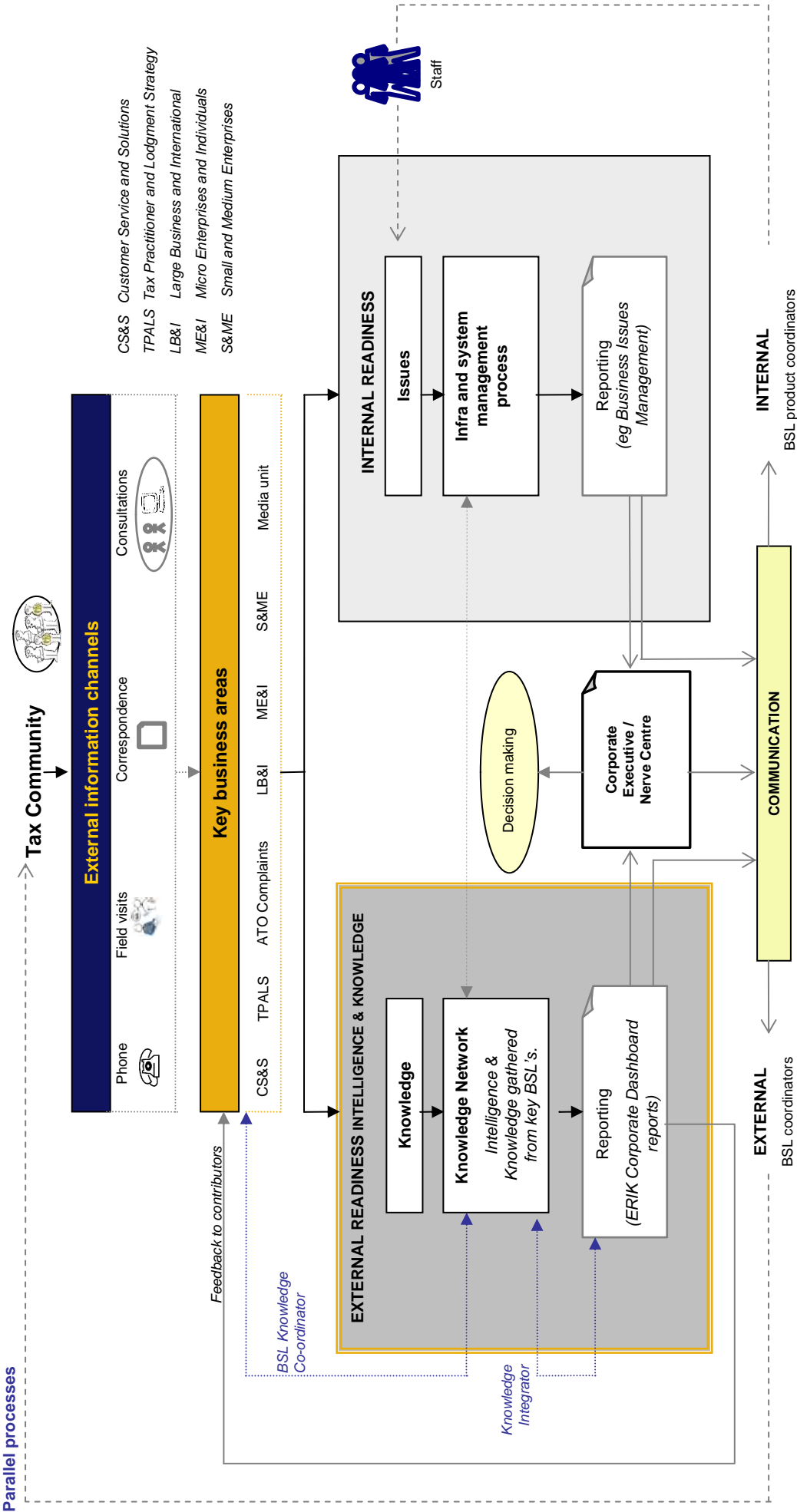
Reporting

The knowledge integrator collated and analysed the contributions provided by the business line knowledge officers on a daily basis. The output from this process was the development of a corporate ERIK dashboard report. The report was produced daily from 28 January 2010, with the frequency shifting to twice a week in March. The corporate ERIK dashboard report provided a consolidated, corporate view of the community impacts of the deployment. It was circulated to key stakeholders (specifically, the ATO's 'Nerve Centre') to:

- \$ inform them of the feedback provided
- \$ assist the ATO's senior executive in decision making processes, and
- \$ trigger appropriate ATO responses/action.

It is important to note that the ERIK model operated in parallel with the internal issues escalation process (as illustrated in the diagram below). The ERIK process provided qualitative information to assist decision makers in:

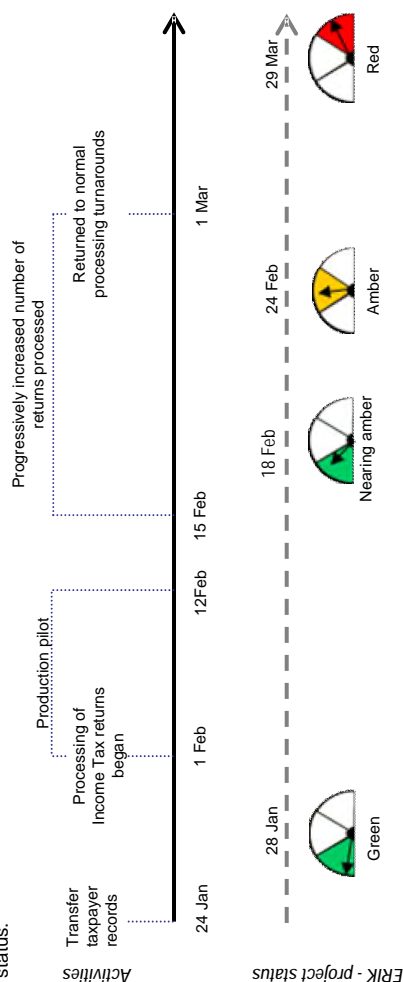
- § developing an understanding of the breadth and depth of the community impacts, and
- § prioritising the resolution of issues having an impact.



SECTION 1 - EXECUTIVE SUMMARY

Key dates²

The timeline below highlights the key dates throughout the deployment and illustrates the shifting ERIK project status.

**Key findings**

Initially, there appeared to be a level of acceptance and understanding about the complexity of the change and the challenges being faced. However, frustrations started to emerge mid February as people began to experience the flow on and financial impacts of the processing delays. These frustrations escalated over time and this was reflected in a steady upward trend in complaints (as illustrated in the diagrams opposite).

1. Tax practitioner awareness and understanding of the Change Program deployment

Although tax practitioners appeared to have a high awareness of the Change Program deployment, feedback throughout the deployment suggested that some practitioners did not fully understand the scope of the change (specifically, the length of time for which ATO systems would be affected) and the ongoing impacts this would have on their practices.

2. Communication

In regards to communication, there was some ongoing criticism from tax practitioners about the lack of information provided by the ATO:

- \$ directly to the general public (via the general media), and
- \$ about the issues / processing delays (including Centrelink issues).

3. Primary concerns

During the period (28/01/10 – 21/04/10), the primary concerns raised were:

- \$ Processing delays - progress of return (POR) enquiries.
Raised by both taxpayers and tax practitioners
- \$ Issues relating to the Tax Agent Portal (including difficulties in accessing the Portal and inability to perform functions within the Portal).
Raised by tax practitioners

In April, there was a notable increase in the volume of enquiries relating to the Notice of Assessment (NOA) / Statement of Account (SOA) correspondence.
This issue primarily was raised by tax practitioners.

ATO complaints received and finalised – by product, by month
The tables below show the complaints received and finalised – by product and month.

Complaints received – February 2010

Product	Feb 10
BSL Managed	849
TPS Managed	452
ATO Review	20
Ombudsman Inv.	19
Total	1340

Complaints finalised – February 2010

Product	Feb 10
BSL Managed	725
TPS Managed	386
ATO Review	21
Ombudsman Inv.	7
Total	1133

Complaints received – March 2010

Product	Mar 10
BSL Managed	1782
TPS Managed	2165
ATO Review	27
Ombudsman Inv.	20
Total	3994

Complaints finalised – March 2010

Product	Mar 10
BSL Managed	1058
TPS Managed	476
ATO Review	20
Ombudsman Inv.	20
Total	1574

Complaints received – April 2010

Product	April 10
BSL Managed	1942
TPS Managed	6736
ATO Review	24
Ombudsman Inv.	29
Total	8731

Complaints finalised – April 2010

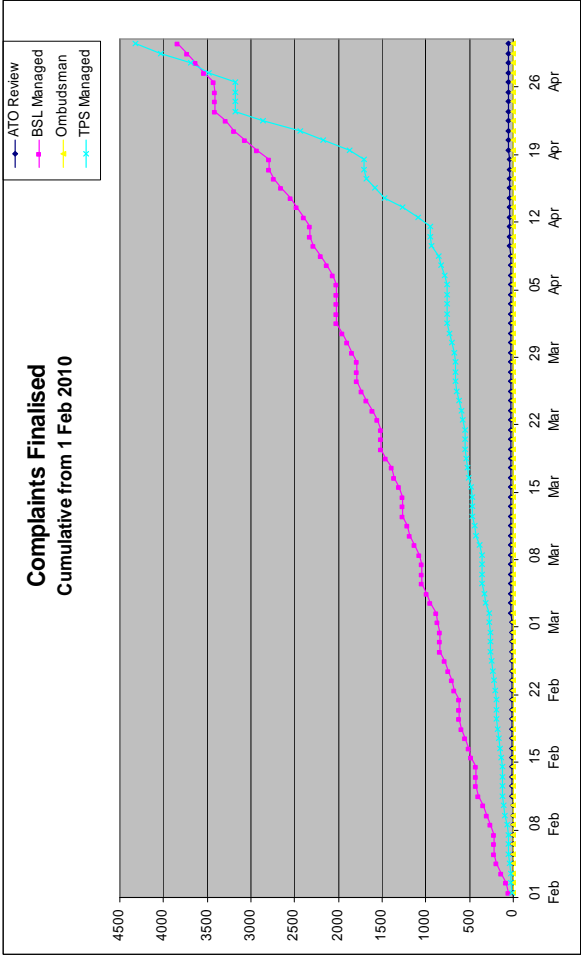
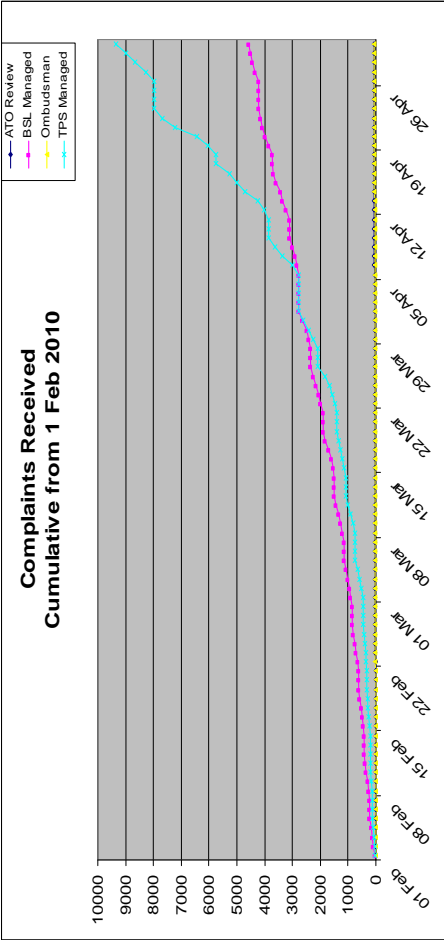
Product	April 10
BSL Managed	1881
TPS Managed	3586
ATO Review	26
Ombudsman Inv.	12
Total	5505

² Source: JS 16043-03.2010 The Australian Taxation Office Change Program

SECTION 1 - EXECUTIVE SUMMARY

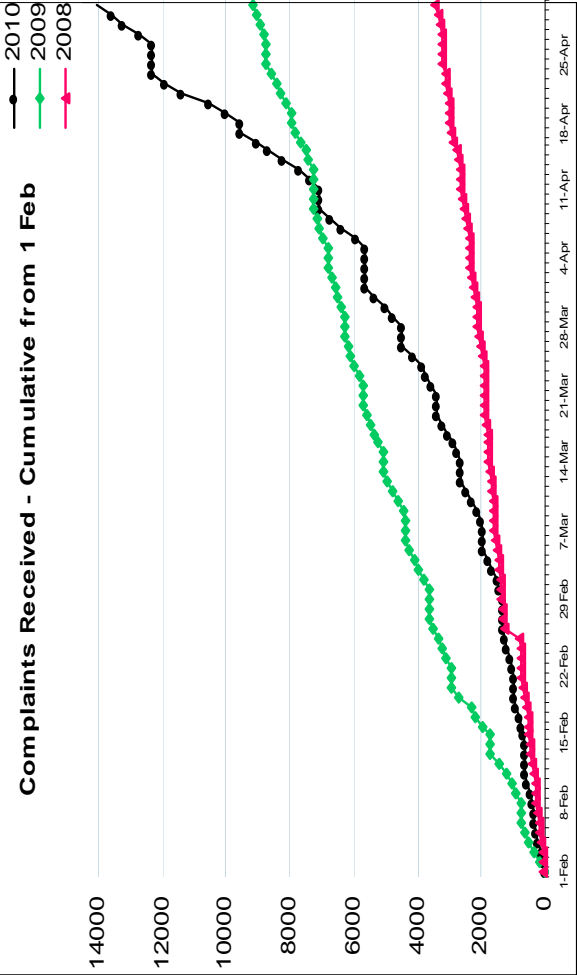
ATO complaints received – cumulative, by product

The graphs below illustrate the cumulative complaints received and finalised, by product, during the period 1 February to 30 April.



ATO complaints received – cumulative

The graph and table below illustrate the cumulative complaints received during the period 1 February to 30 April. The graph also provides comparative data against previous years. There was a notable increase in the volume of complaints received during April.



Date (as at)	Cumulative total (complaints received)	Date (as at)	Cumulative total (complaints received)
1 February	0	21 March	3376
8 February	416	28 March	4520
15 February	700	4 April	5631
22 February	1049	11 April	7075
29 February	1340	18 April	9580
7 March	1943	25 April	12329
14 March	2635	30 April	14065

Community impacts

The community impacts resulting from the Release 3 Income Tax deployment can be broadly categorised into four areas:

- \$ Financial / cash flow impacts (for both tax practitioners and taxpayers)
- \$ Impacts on tax practitioner workloads
- \$ Impacts on the tax practitioner – client relationship
- \$ Impacts on community confidence (for both tax practitioners and taxpayers)

Financial / cash flow impacts (for both tax practitioners and taxpayers)

The most significant impact on the community was the financial and cash flow impacts resulting from the processing delays. This issue was consistently reported by both tax practitioners and taxpayers throughout the period January 2010 – April 2010. Taxpayers and tax practitioners cited various examples of how the delays were causing them financial stress. For example, some clients advised they were unable to pay bills, while others reported that this would force them to lay off staff in their businesses. In some instances, the financial difficulties appeared to be compounded by recent adverse events (including natural disasters and the Global Financial Crisis). In addition, people reported that:

- \$ Centrelink was delaying or ceasing Family Tax Benefit (FTB) payments because they were unable to confirm lodgment of 2009 returns, and
- \$ they were unable to provide proof of income (NOA) to third parties (including banks and Centrelink).

Impacts on tax practitioner workloads

Tax practitioners consistently reported that the delays were adversely impacting on their workloads. Specifically, they referred to the increased volume of calls to and from both clients and the ATO, to keep abreast of what was happening. The impact was exacerbated as they would often be required to deal with angry or frustrated clients. Confusion over the design of the NOAs/SOAs also generated client enquiries for tax practitioners. Some practitioners indicated that the additional workloads generated by the deployment may impact on their ability to meet upcoming lodgment commitments. Some practitioners raised the issue of 'compensation' – stating that the ATO should compensate them for the adverse impacts the deployment has had on their businesses.

Impacts on the tax practitioner-client relationship

Tax practitioners reported an increased strain on the practitioner-client relationship. They cited several factors which contributed to this tension:

- \$ Having to relay changing messages regarding the processing timeframes and delays.
- \$ Discrepancies between the issue date and delivery date of NOAs contributed to perceptions that the practitioner was 'holding on to the refund'.
- \$ The lack of general, direct media by the ATO (to the public) - resulted in clients blaming practitioners for the extended delays.

Lost community confidence

Complaints regarding the ATO's shifting advice on processing times, poor customer service (reports that calls were not returned promptly or excessive wait times on call centre phone lines) and the design of the NOA/SOA has resulted in lost community confidence. Tax practitioners have expressed increasing scepticism over the ATO's advice and this may be detrimental to the long term relationship.

ATO action

The ATO implemented various procedures and mechanisms for identifying, escalating and resolving issues impacting on the external community. As issues became evident, contingency plans were invoked across the ATO, including:

- \$ shifting resources to assist with processing backlogs, issues management, online support and administering financial hardship cases.
- \$ engaging non-ongoing staff to process items suspended in ICP
- \$ conducting outbound call campaigns to tax practitioners for groups of taxpayers affected by specific issues
- \$ ceasing the application of Failure to Lodge penalty for the period 1 April to 30 April 2010 for IT returns due 31 March 2010.³

For further details of the ATO's internal readiness activities, refer to the *Internal Readiness report*.

Financial hardship

The ATO has been working hard to ensure people experiencing genuine financial hardship receive their refunds. In David Butler's update (published to ato.gov.au on 20 April 2010), he announced that we have helped over 1,000 people who were in this situation⁴.

System issues

Although there were no 'critical' system problems, a high volume of system issues were identified throughout the deployment. The ATO's Business Issues Management process was used to prioritise, track, manage and resolve these issues.

Design issues

In April, there was a notable increase in the volume of enquiries relating to the design of the Notice of Assessment (NOA) / Statement of Account (SOA) correspondence. Negative feedback was being received from both tax practitioners and taxpayers. These concerns were noted and escalated. As a result, the ATO organised a workshop with agent and software industry representatives on 23rd March 2010. At this workshop, a series of proposed designs were iteratively tested with participants and the outcomes used to develop prototypes. External usability testing of these prototypes (directly with taxpayers) occurred between 13th and 19th April⁵. As a result, it is envisaged that changes will be made to these statements. This is an excellent example of the ATO's ability to be adaptive, collaborative and responsive to the concerns of the community.

Communication

The Change Program Consultative Group was actively engaged throughout the deployment, with nine meetings occurring to date. Members were provided with regular updates on the status of the deployment and an opportunity to discuss issues or raise concerns. The ATO provided regular updates to tax practitioners - via the existing communication channels (including eLink, broadcasts and ato.gov.au). For full details of the communication activities undertaken, refer to the *External Communication report*.

There was regular communication between the ATO and Centrelink. Initially, phone hook-ups occurred daily, with the frequency later changing to approximately three times per week. Phone hook-ups were also conducted between the ATO and Child Support Agency, as required.

³ Source: TPALS Release 3 IT Update (23/04/10)

⁴ Source: David Butler's update (20/04/10) on ato.gov.au

⁵ Source: Email from [Name deleted] (27/04/10)

SECTION TWO
MONTHLY SNAPSHOTS



SECTION 2 - JANUARY/FEBRUARY 2010 SNAPSHOT

Overview

- \$ The main concern for the external community was the processing delays and lack of information about when income tax returns would be processed and refunds issued.
- \$ The limited functionality of the Tax agent portal (Portal) was also a major concern for tax practitioners.
- \$ The majority of calls were neutral/ business like in tone, however increasing frustrations began to surface mid February (post 15/02/10).
- \$ The financial hardship and flow on impacts from the processing delays also began to emerge.

Rating**Key topics raised by external community (including tax practitioners)**

Topic	Frequency raised over 22 reports	% of total issues raised over the month (77)
Progress of return (POR)	100%	29 %
Portal	91%	29 %
ABN/TFN applications	55%	16%
Accounts	45%	13 %
Notice of Assessment (NOA)/Statement of Account (SOA)	18%	5 %
Other (eg ELS functionality, payment arrangements)		

Large Corporate**\$ POR enquiries:**

- (1) The client was unable to see on the Portal whether the delay was due to the system shutdown or a fatal error which needed to be rectified.
- (2) Delay in large activity statement refund – potential Interest on Overpayment on \$2.9 million.
- (3) 2008 and 2009 amendments stockpiled for processing. Expected refund \$147.2 million.

Complaints

Refer to Section 3 for a monthly breakdown of ATO complaints received.

Tone of external community

Overall, primarily neutral. Signs of frustration emerged mid February (post 15/02/10), increasing towards the end of the month.

**Tone of tax practitioners**

Overall, primarily neutral. While initially accepting of the change/issues, signs of frustration emerged mid February, increasing towards the end of the month. Some positive sentiments were evident throughout the month.

**Community impacts identified**

- \$ While tax practitioners' awareness of the Change Program deployment appeared to be high, feedback indicated that some agents did not fully understand the details of the change or the impacts it would have on their practice (specifically, the length of time for which ATO systems and Income Tax Return processing would be affected).
- \$ Comments were made by some tax practitioners about the lack of information provided by the ATO to the general community.
- \$ Initially, agents appeared happy with the communications provided by the ATO (eg broadcast, eLink) and accepting of the change/issues. However, ongoing uncertainties around processing timeframes and the shifting advice from the ATO regarding when processing would return to normal, created increasing frustrations.
- \$ Tax practitioners reported various portal problems throughout the month, including access difficulties and inability to perform specific tasks (eg updating client details, accessing reports, viewing accounts).
- \$ The volume of POR enquiries increased post 15 February (ie the date the ATO advised processing would return to normal).
- \$ People began to experience a range of financial and flow on impacts from the processing delays. These impacts included:
 - financial hardship / cash flow problems experienced by both tax practitioners and the general community
 - Centrelink delaying or ceasing FTB payments (because there were unable to confirm lodgment of 2009 returns), and
 - taxpayers unable to provide proof of income (NOA) to third parties, including banks and Centrelink.
- \$ In some cases, financial difficulties appeared to be compounded by recent adverse events, including natural disasters and the Global Financial Crisis.
- \$ Tax practitioners provided mixed feedback on the NOAs/SOA. Specific concerns included the length of the statement, confusing content, print being too small and the reference number being incompatible with practitioners' software.

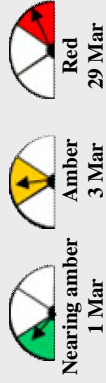
ATO action

- \$ Briefing note forwarded to the ATO/Tax Practitioner Forum (ATPF) members. Update provided to ATPF members on 26/02/10
- \$ Change Program Consultative Group meetings conducted (05/02/10, 09/02/10, 11/02/10, 16/02/10, 23/02/10, 25/02/10)
- \$ Communication products issued (eg broadcast, eLink, Portal messages)
- \$ Ongoing discussions with Centrelink / CSA
- \$ Information reported to key stakeholders / decision makers (including the ATO's nerve centre).

SECTION 2 - MARCH 2010 SNAPSHOT

Overview

- \$ Processing delays and the flow on financial impacts / difficulties continued to be the main concern for the external community.
- \$ The majority of calls remained neutral/ business like in tone, however there was evidence of increasing unhappiness and frustration.
- \$ Tax practitioners began reporting adverse impacts on the practitioner/client relationship.
- \$ Negative feedback on the NOA/SOA continued.

Rating**Key topics raised by external community (including tax practitioners)**

Topic	Frequency raised over 14 reports	% of total issues raised over the month (45)
Progress of return (POR)	100%	31 %
Portal	86%	27 %
Notice of Assessment (NOA)/Statement of Account (SOA)	86%	27 %
ELS functionality	29%	9 %
Accounts	21%	6%

Large Corporate

- \$ Extended delay in refund cheque.
- \$ Delays in getting a replacement cheque to a corporate. Issue escalated. Potential for Interest on Overpayment (IOP) on refund.

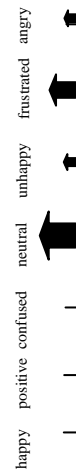
Complaints

Refer to Section 3 for a monthly breakdown of ATO complaints received.

Change Program complaints continued in an upward trend throughout March, with the general mood / tone of complaints tending to be 'anger' and 'lower tolerance'.

Tone of external community

Overall primarily neutral. Undertones of frustration were evident at the start of the month. This shifted to frustration and anger towards end of the month.

**Tone of tax practitioners**

Overall primarily neutral. Mixed sentiments (positive and frustration) were evident at the start of the month. This shifted to frustration and anger towards the end of the month.

**Community impacts identified**

- \$ POR requests continued to be the main trigger of enquiries from the community. Some of these calls were received from taxpayers requiring proof of income to provide to third parties (eg banks and Centrelink). Calls were also prompted by the inconsistencies / confusion regarding the priority for processing returns (eg returns lodged in February had been processed, while those from December remained unactioned).
- \$ Tax practitioners and taxpayers continued reporting cash flow problems resulting from the processing delays.
- \$ Tax practitioners began reporting adverse impacts on their practice and the practitioner-client relationship. For example:
 - Tax practitioners experienced increased call volumes, as clients (some angry) contacted them about their refunds.
 - Having to pass on messages about processing delays is negatively impacting on the relationship (especially when messages keep changing – due to the ATO's shifting advice).
 - Instances of clients accusing practitioners of providing false assurances that returns have been lodged (because when the client contacts the ATO directly, they were being advised there was no record of lodgment)
 - Discrepancies between the issue date and delivery date of NOAs is creating a perception that the practitioner is 'holding on to refunds'.
- \$ Some criticism about the ATO'S communication:
 - Lack of messages provided directly to the general public (eg via general media).
 - Lack of reference to Centrelink issues in the ATO's communication.
- \$ Tax practitioners began expressing increasing scepticism about the advice provided by the ATO.
- \$ While tax practitioners continued to provide primarily negative feedback on NOAs/SOAs (eg too many pages to photocopy to put on the client file (increases costs), TFN or client ID only appears on first page and not on subsequent pages), some positive comments were also received.
- \$ NOA – Error identified
Taxable income displayed on all Income Tax NOAs generated from Friday 5th March was incorrect.
- ATO action**
 - \$ Change Program Consultative Group meetings (02/03/10, 12/03/10, 19/03/10).
 - \$ Email (including link to David Butler's update) sent to all professional associations and forum secretariats for distribution to members (03/03/10).
 - \$ David Butler's update published on ato.gov.au (15/03/10).
 - \$ Broadcast issued (22/03/10).
 - \$ Workshop held with ATO representatives, tax practitioner representatives and software developers to discuss issues and possible redesign options for NOA/SOAs (23/03/10).
 - \$ NOA error - Stopped correspondence being posted to clients affected by 05/03/10 incorrect taxable income error.

Overview

- \$ The continued delays with the processing of returns/issuing refunds, and subsequent flow on effects remain the main concern of the external community.
- \$ Practitioners continue to express frustration with the ATO.
- \$ Change Program related complaints continue to be high (trending upward), with repeat calls for existing complaints also high.
- \$ Negative feedback on NOA/SOA is continuing and increasing.

Rating**Key topics raised by external community (including tax practitioners)**

Progress of returns and the flow on impacts (eg cash flows, tax practitioner workloads) remain the main concerns for the external community. People are expressing frustration and anger about the ongoing delays and the ATO's shifting advice on when refunds will be received.

As the volume of returns processed increases, there has been an increase in the number of enquiries relating to the NOA/SOA. Complaints about the design of the correspondence continue, as well as confusion about the content and the order in which NOAs, SOAs and cheques are received.

Large Corporate

- \$ Six 2009 ITR refunds (totalling approx \$80mil) are accruing IOP.
- \$ Life company has not received a \$15mil refund from early lodgment of 2009 return. These funds are needed to pay \$9mil March quarter AS (due 21/04/10)
- \$ Delay in issuing Activity Statements for Jan-Mar quarter. Fix failed and now expects Activity Statements will be generated 16/04/10. Impact – delayed lodgment and payment of BAS liabilities.

Complaints

Refer to Section 3 for a monthly breakdown of ATO complaints received.

There has been a significant upward trend in the volume of complaints received during April.

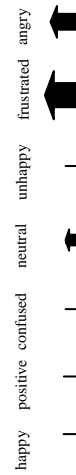
There has also been a number of complaints about poor customer service (in the form of conflicting advice, long wait times on phone queues and delays in receiving call backs).

Tone of external community

There has been a clear shift in community attitudes, with an increasing number of callers expressing unhappiness, frustration and anger. This is particularly evident in calls made to the complaints line.

**Tone of tax practitioners**

Tax practitioners are expressing increasing levels of frustration and anger. The tolerance and positive sentiments shown in earlier months has diminished.

**Community impacts identified**

- \$ Continued delays with the processing of returns/issuing refunds, and subsequent flow on effects, remain the main concerns. Taxpayers and tax practitioners continue to chase returns lodged in December 2009 and January 2010. There is confusion and frustration over the apparent indiscriminate way in which returns are being processed (with the perception that returns lodged in December have been overlooked).
- \$ Tax practitioners expressed frustration at the ATO's communication, stating that:
 - the ATO had done little to create general public awareness (eg via newspaper or TV) about issues being experienced. As a consequence, taxpayers are continuing to blame the practitioners for the extended delays.
 - they are unhappy with the lack of timely communication from the ATO regarding the issues being experienced and the progress on rectifying the problems.

\$ Tax practitioners continue to comment about impacts on their workloads. Specifically, the high volume of calls to/from clients to keep them updated. Some practitioners have expressed concern that the additional workloads being created will impact on their ability to meet future lodgment commitments. One practitioner received two batches of SOAs/NOAs with all envelopes unsealed.

\$ Some tax practitioners expressed a view that the ATO should compensate them for the ongoing problems affecting their business.

- \$ Tax practitioners have provided examples of how the ATO's internal processes are not recognising the impacts of the delays. For example:
 - One practitioner reported that 20 clients received lodgment warning letters on 31 March although many had already lodged.
 - Debt collection notice issued, but the ATO did not factor in an amendment (not been processed due to 'system issues') which would result in a refund.

\$ NOA/SOA – Errors identified

- (1) Approximately 140,000 NOAs were issued without a cheque
- (2) Clients received NOAs advising their refunds had been EFT'd, but the taxpayer did not nominate a bank account.

ATO action

\$ NOA/SOA errors. Communication (broadcasts) with tax practitioners to advise of the errors and remedies.

- (1) Error is being fixed
- (2) Outbound campaign commenced on 06/04/10. Cheques to issue 12/04/10.

Communication – David Butler briefed CEOs of the professional associations (19/04/10 and 23/04/10)

\$ CEO briefing (19/04/10)

\$ Professional association representatives – briefing (23/04/10)

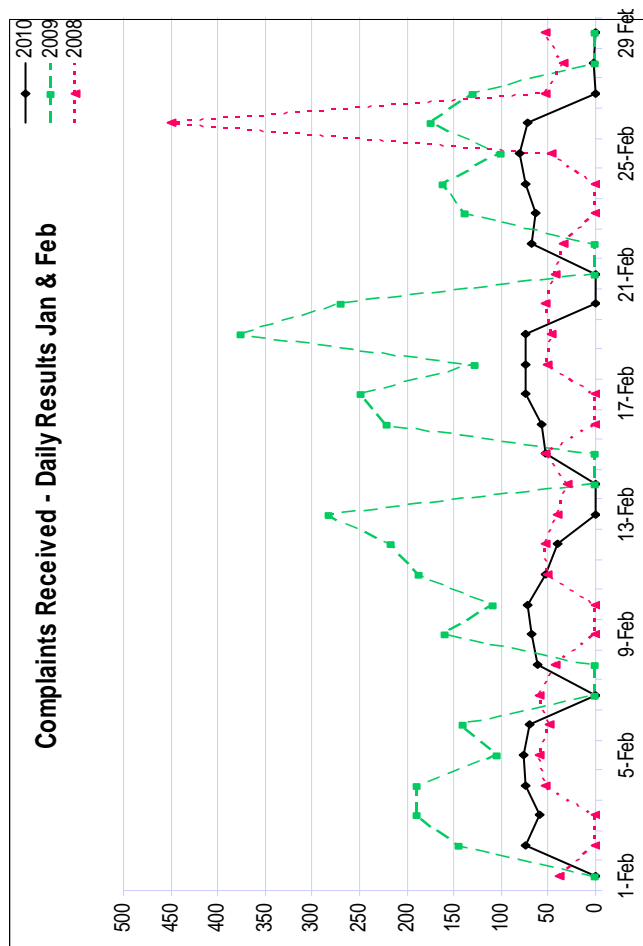
\$ Message from the Commissioner issued on 29 April (ato.gov.au) – apologising for the delays and thanking tax agents for their patience and support.

SECTION THREE
COMPLAINTS



SECTION 3 - COMPLAINTS

ATO complaints received and finalised – monthly breakdown

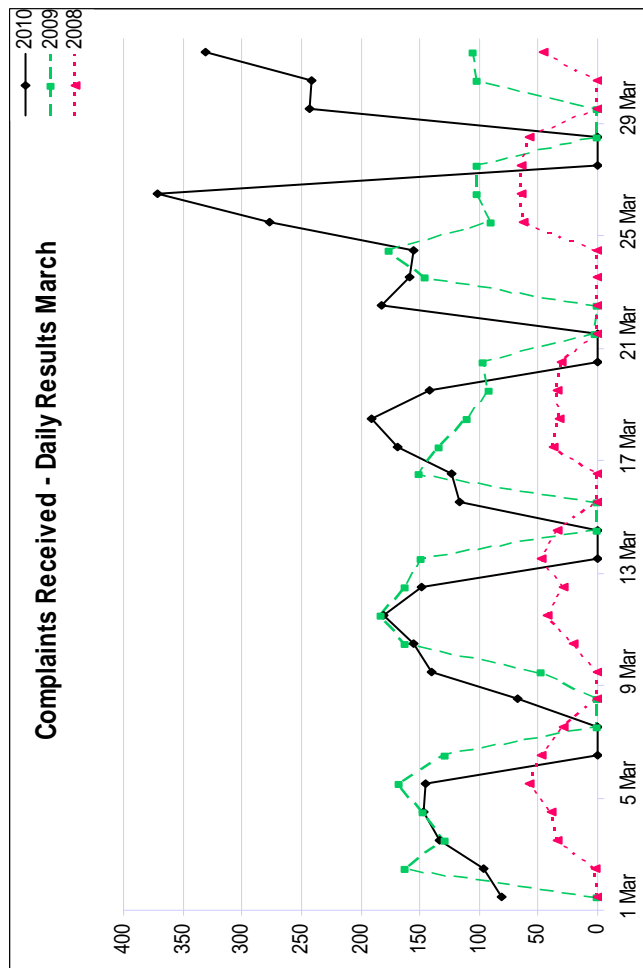


Complaints received – February 2010

Product	Feb 10
BSL Managed	849
TPS Managed	452
ATO Review	20
Ombudsman Inv.	19
Total	1340

Complaints finalised – February 2010

Product	Feb 10
BSL Managed	725
TPS Managed	386
ATO Review	21
Ombudsman Inv.	7
Total	1133



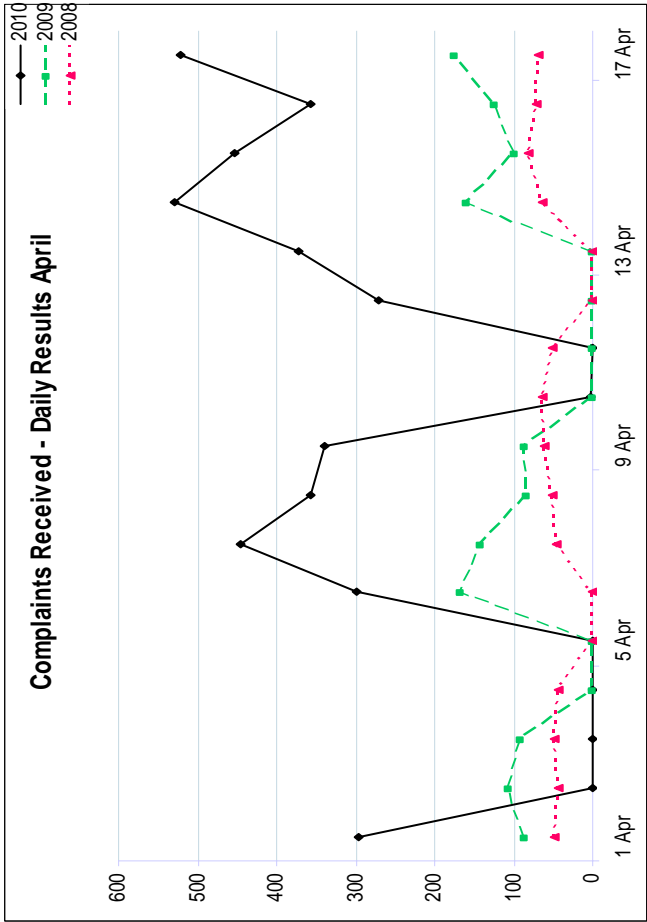
Complaints received – March 2010

Product	Mar 10
BSL Managed	1782
TPS Managed	2165
ATO Review	27
Ombudsman Inv.	20
Total	3994

Complaints finalised – March 2010

Product	Mar 10
BSL Managed	1058
TPS Managed	476
ATO Review	20
Ombudsman Inv.	20
Total	1574

ATO complaints received and finalised – monthly breakdown



May 2010

For the period 1-17 May, 5,315 complaints were received and 5,442 complaints were finalised.

Complaints received – April 2010

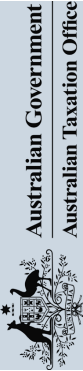
Product	Apr 10
BSL Managed	1942
TPS Managed	6736
ATO Review	24
Ombudsman Inv.	29
Total	8731

Complaints finalised – April 2010

Product	Apr 10
BSL Managed	1881
TPS Managed	3586
ATO Review	26
Ombudsman Inv.	12
Total	5505

Note: Complaints data is indicative only.

APPENDIX A
EXAMPLE – ERIK CORPORATE
DASHBOARD REPORT



Overview

- Delay with the processing of returns/issuing refunds, and subsequent flow on effects, remains the main concern of the external community
- Practitioners continue to raise concerns about the new NOAs being too long, confusing and not necessarily arriving with the SOA or cheque attached

Complaints

Overall, complaint levels remain high.

-190 complaints were received by CS&S over two day period (no data available for Wednesday). 43 (23%) were change program and 25 (58%) of these related to progress of returns. CS&S report that frustration and anger continue to be the main mood for complaints.

-731 complaints were received by TPALS ⁽¹⁾ for the three day period. Approximately 80% of complaint cases received related to the progress of clients' income tax returns. The majority of the balance of complaints related to issues about the progress of amendments. Of the 80 progress of return complaints sampled, 4% related to November lodgments, 7% December, 9% January, 29% February, 44% March and 7% April.

- Problems with ATO telephone systems continue to impact TPALS staff contacting practitioners about their complaints.

Media

• *Adelaide Advertiser* (Lauren Novak) contacted the ATO to ask how many returns were over 30 days old, how interest was paid and an estimate of total interest payable. We were able to advise that approximately 9,500 refund were more than 50 days old, however we were not in a position to provide an estimate of total interest at this stage. She also wanted to know if interest was assessable income for tax purposes. We confirmed that, like any other interest payments, it was. Expect the story to run tomorrow.

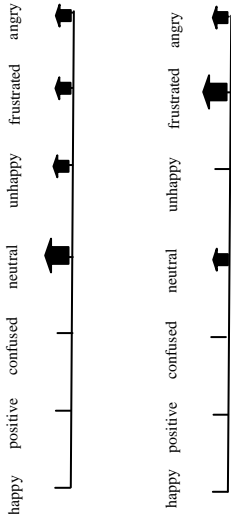
- 6th May, 2010. Article about the IGOT review in the Australian Financial Review. In the article, CPA's Paul Drum commented that the Commissioner's recent statement was 'the first public acknowledgment that there have been mistakes made'. In relation to the IGOT review, the Institute of Chartered Accountant's Yassar El-Ansary said Change Program issues 'have caused considerable pain to many taxpayers and their agents'.
- Member comments posted in Tax Institute of Australia Taxvine newsletter expressed dissatisfaction at the minimal extension to lodgments, with one member calling for a blanket extension until 30 June. A number of other member comments related to previously reported issues and the Commissioner's message to tax agents and their clients.

Large Corporate, Small / Medium Business and Micro Enterprises and Individuals

- No issues reported

Tone of external community

The majority of general calls sampled by CS&S were neutral/business like in tone. From the CS&S complaints calls sampled it appears the main tone of individuals continues to be unhappiness, frustration and anger.



Tone of tax practitioners

There were 14 Relationship Manger contacts with practitioners which related to the Change Program and confusion, frustration or anger was expressed in 11 (79%) of these contacts.

Footnotes (1) Each TPALS complaint may relate to multiple clients
(2) Call volumes as advised by TPALS, CS&S and MEI



Call Volumes ⁽²⁾

Progress of return/issuing of refunds remains the main concern for the external community and continues to be the main call driver reflected CS&S general call queue data.

	Call Type	5 May	6 May	7 May
CS&S	General	24,807	25,569	22,668
	Tax Practitioner	5,387	5,173	4,714
TPALS	Tax Practitioner	883	885	729
	General	281	276	Not avail
MEI	Tax Practitioner	386	397	Not avail

Community impacts being identified

Tax practitioners and taxpayers continue to chase up returns lodged in December 09 and January 10.

Tax practitioners continue to comment that it appears that the ATO is processing returns on a last in first out (LIFO) instead of first in first out (FIFO) basis and that processing of debit assessments occurs quickly, whilst refunds tend to take longer.

Following the meeting on Friday 23rd April with Tax Professional Association representatives, the Associations continue to forward issues through to the ERIK team for assistance with resolution. Issues identified include:

- clients who have received a refund, but the ATO has failed to pay the clients the interest for the delay in processing their tax assessment.

The community continues to experience and complain about the inability to get through or long delays in getting through on ATO phone lines. There was also an instance in complaint samples where a resolver has not contacted the client within specified timeframes.

The main issues raised by tax practitioners in contacts with Relationship Mangers continue to be around the new notices of assessment (NOAs):

- The main concerns raised remain the same - about two thirds of practitioners said the new notices are too long (ie have too many pages) and about two fifths said they are confusing for clients.
- Practitioners continue to say they are spending additional time having to explain the confusing new notices to clients. One agent commented that the complexity of the new NOAs means they have to be reviewed by accounting staff rather than administrative staff, further increasing costs.

As reported over recent weeks, tax practitioners continue to comment on the time separation between receiving different notices (NOAs and SOAs), or the cheque. Practitioners would rather the correspondence all arrived together.

One practitioner said they have had to deal with clients who are frustrated and angry. Another practitioner said their client had rung the ATO and managed to get the refund processed – the client now thinks the agent is ineffective as the agent had been trying to achieve the same result for weeks without success.

Disclaimer

This report highlights incidents and raw intelligence which is as yet to be verified and should not necessarily be seen as representative at this stage. Information provided by TPALS, CS&S, ATO Complaints, Media Unit and MEI.

Approved by: [Name deleted]
Prepared by: [name deleted]

APPENDIX 10 — THE ATO'S EXPLANATION OF UNANTICIPATED ERRORS

A.10.1 This appendix provides the ATO's chronology of the following errors:

- Notice of Assessment (NOA) issuing to clients advising to refer to Statement of Account (SOA), SOA is not attached (problem number 11 in Appendix 11).
- Nil taxable income on NOA — this covers the issue where NOAs generated on 9 March 2010 had a zero taxable income amount, even though the account details were correct in the Integrated Core Processing (ICP) system and all other assessment details were correct on the NOA (problem number 12 in Appendix 11).
- NOA/SOA Account issuing without cheques attached. This covers the situation where the NOA indicated payment had been made to a financial Institution as a direct credit, but the attached SOA indicated payment was by cheque, but no cheque was attached to the SOA (problem number 10 in Appendix 11).

A.10.2 The following chronologies are quoted from ATO correspondence to the IGT.

The following information provides the chronology of unanticipated delays including dates, key steps and external impacts.

Notice of Assessment (NOA) issuing to clients advising to refer to Statement of Account (SOA), SOA is not attached.

Impact

- The client has received an NOA, referring to monies on their associated SOA. The SOA isn't attached, cheque clients have no cheque, EFT clients have the money in their bank account
- The client account is still intact — no financial integrity issues have been found, the only issue is that the client didn't receive the money (which is a significant issue)
- Subsequent SOA's that were sent will have been handled correctly — they will have included all transactions (including those intended for this SOA), and if appropriate will have included the cheque/EFT details.
- Numbers impacted — approximately 140,000

12 April 2010

- Issue identified (08 April) and analysis is the root cause linked to solution applied to INFRA 1175974 (to fully update GIC before issuing a refund) combined with the fix to reduce the volume of monthly statements sent to community
- Resolution involves data fix then reprocessing SOA

14 April 2010

- ☐ Accounting batches processing put on hold pending resolution of issue
- ☐ Planned to resend statements to printer (14 April)

15 April 2010

- ☐ Outbound processes commenced and completed
- ☐ Confirmed sample pdf's were okay
- ☐ Transmitted 140,000 print files to Salmat
- ☐ Expected printing to take place 16 April or over weekend

16 April 2010

- ☐ Confirmed final file received by Salmat at 7.30pm 15 April
- ☐ 60,000 SOA's lodged by Salmat with Australia Post by 6pm in 3 states (NSW, QLD & VIC)

19 April 2010

- ☐ Balance of 80,000 SOA's lodged with Australia Post between 11.30am and 6pm

Nil taxable income on Notice Of Assessment (NOA) – this covers the issue where NOA's generated on 09 March 2010 had a zero taxable income amount, even though the account details were correct in Integrated Core Processing (ICP) system and all other assessment details were correct on the NOA.

09 March 2010

- ☐ Detected an issue where all NOAs were showing a zero taxable income. This resulted from the fix to ensure that where the taxable income is a negative value, the amount of taxable income on the return is zero rather than the negative value.

10 March 2010

- ☐ The root cause of the problem was identified and the issue contained to forms that posted to ICP between Wednesday 03 March when the NoA generate batch processed and the time the fix was deployed (2am, 05 March). All NOA's before and after this period are unaffected by the issue.

- ☐ Identified two actions which took place:

1. All work impacted was cancelled in Outbound (including physical output at Salmat) – this was achieved by destroying the current output

2. Data fix to populate the new 'display taxable income field' with the correct value and regenerate the outbound messages

15 March 2010

□ Data fix built within ICP and underwent final review / test closure on Monday 15 March pm. The intent was to execute the fix on 100 impacted NOA's in the first instance, verify the output and then proceed with the remaining impacted files. Both executions were scheduled for evening of Monday 15 March with the intent of producing a file for SALMAT to print Tuesday 16 March.

17 March 2010

□ Data fix built, tested, and executed on the impacted correspondence (approximately 200K impacted correspondence were generated) in the outbound database. Verification of the initial 58 (originally estimated to be 100, but 58 cases satisfied the criteria) was completed and fix proven. The original intent was to complete the fix / generation by late Tuesday 16 March — however some delays were encountered in regard to overnight activities. The revised estimate to complete the data fix and begin print file generation was estimated to be approximately 24hours. Anticipated delivery of the corrected file to SALMAT for printing Thursday 18 March (afternoon).

□ All posted forms with a NOA pending/approved status (review items, suppressions, future credits) undertook the same data fix. Accounting review also suspended until the data fix completed.

19 March 2010

□ Generated print files (post-scripts) sent to SALMAT for printing (99K of the 290K impacted correspondence)

□ Sample of the post-script file sent to business to verify

□ In parallel, files were packaged up and sent to SALMAT so that printing could commence once verification of corrected data was confirmed.

22 March 2010

□ Generated remaining print files (post-scripts) sent to Salmat — approximately 190K (total is approximately 290K)

□ Recommenced generation of print files

□ Approximately 245K of the approximate 290K originally held correspondence (both NOA and SOA) related to the Nil taxable income issue were generated into print files and sent to SALMAT for printing and posting.

□ Upon further review of the print files, an issue was identified where some NOAs were not updated with correct taxable income value. These files were stopped before correspondence was produced. Approximately 45K remained with the fix team to make updates and reprocess through outbound (Tuesday 23 March PM) for sending to SALMAT/posting (Wednesday 24 March AM).

24 March 2010

- ☐ Remediation activities finalised on the remaining 45K impacted NOA.
- ☐ Investigation found that approximately 11K had no issue and could be released, 38K had to be data fixed in the same manner as the impacted correspondence above.
- ☐ The 38K impacted NOAs were generated as print files on Monday 29 March.

Notice of Assessment/Statement of Account issuing without cheques attached. This covers situation where the Notice of Assessment indicated payment had been made to a financial Institution as a direct credit, but the attached Statement of Account indicated payment was by cheque, but no cheque was attached to Statement of Account.

07 April 2010

- ☐ NoA advises that refund sent to clients nominated financial institution, but no FIA details on file. SOA issues with no cheque but advises refund cheque was sent.
- ☐ Increase of calls to CS&S, approximately 17,000 clients affected. Plan to quarantine any further cases before fix is deployed

12 April 2010

- ☐ Stop to placed against affected cheques to mitigate fraud risk
- ☐ Remediation — cancel the SoAs and reset the account with the credit so that the refund is re-triggered. 16K of 17K affected items should be delivered to Salmat tomorrow (8 April)
- ☐ Fix has been deployed and is currently being validated

14 April 2010

- ☐ 16,867 of 17,906 affected items have been confirmed as delivered to Salmat.

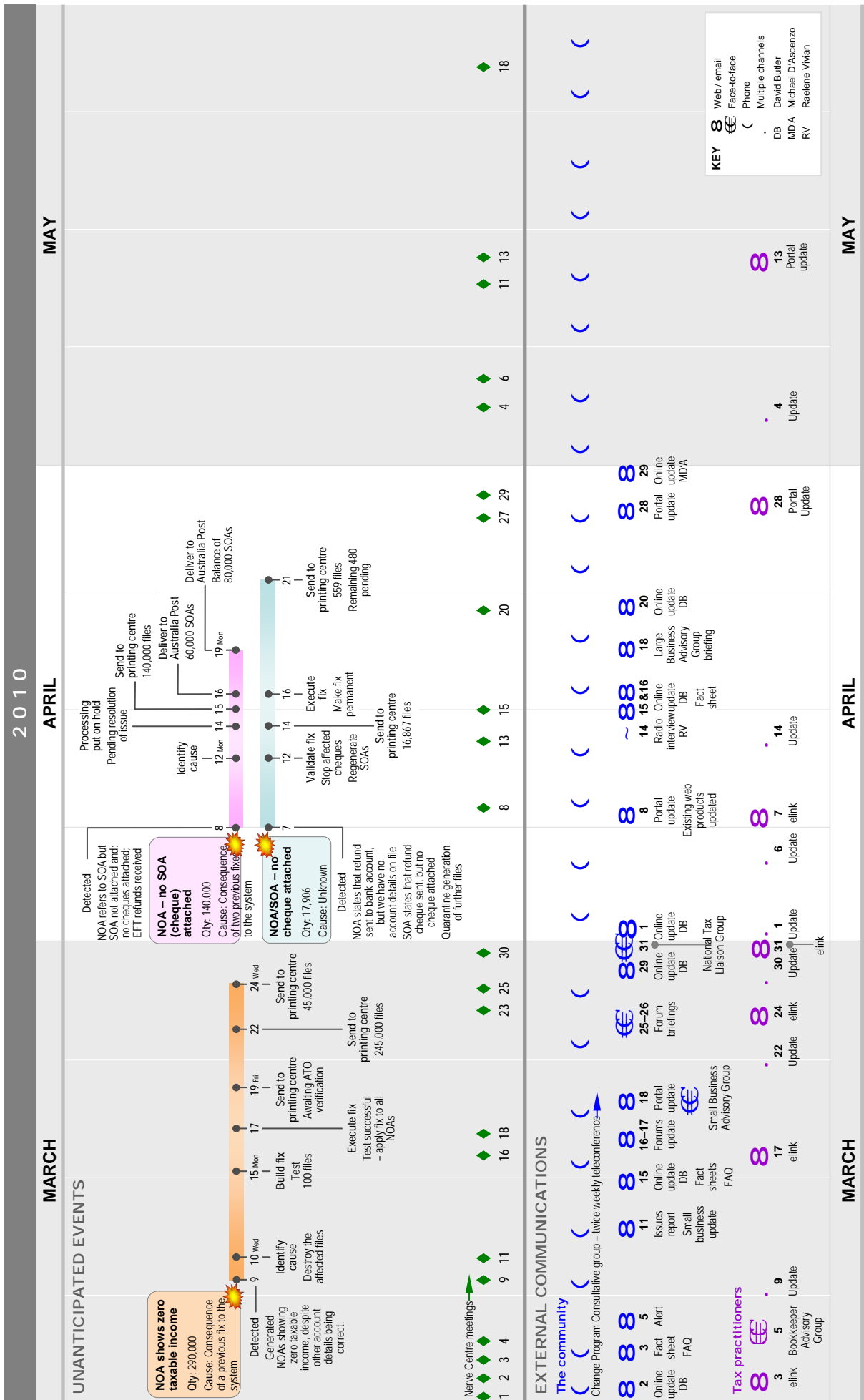
16 April 2010

- ☐ Permanent fix deployed and undergoes validation

21 April 2010

- ☐ Further 559 affected statements confirmed as delivered to Salmat
- ☐ Balance of 480 confirmed as pending refunder offset or has triggered a review item

ATO Change Program – income tax release



APPENDIX 11 — SUMMARY OF THE MAIN PROBLEMS ENCOUNTERED (UP TO 3 MAY 2010), RELEVANT ATO PUBLIC COMMUNICATIONS AND IMPACT ON TAXPAYERS AND TAX PRACTITIONERS

A.11.1 The source material for the description of the problems below is the minutes of the ATO's Nerve Centre meetings and material provided by the ATO and other Government departments. The Nerve Centre is chaired by the Second Commissioner of Taxation and comprises senior ATO officers.

A.11.2 This appendix comprises a graphic of the ATO's income tax processing system (reproduced on the next page) and a table containing descriptions of the identified problems and related public ATO communications.

income Tax return processing through ATO systems showing events having a significant impact



A.11.3 The number of the problem in the table below corresponds to the graphic on the previous page.

Summary of the main problems encountered (up to 3 May 2010), relevant ATO public communications and impacts on taxpayers and tax practitioners

Number of problem on graphic	Description of problem	Relevant public ATO communication of the issue and the impact on taxpayers and tax practitioners
1	<p>Income tax returns in error queues</p> <p>From 10 March 2010, the ATO was encountering errors in successfully inputting around 7000 income tax return forms onto ICP. No Siebel activity was created as a result and the system did not recognise that these returns had in fact been lodged. When tax practitioners and taxpayers called to check on the progress of their return, where those returns encountered these errors they were told by ATO staff that the system was showing these returns as 'not lodged'. The ATO later developed a database to allow ATO staff (such as call centre staff) to input a TFN and see if a return had been lodged for that TFN.</p> <p>As at 16 April 2010, the number of income tax returns in error queues had grown to almost 9700, with more than 56 per cent being more than 30 days old. The majority of forms were not being manually re-keyed (as at 19 April – 750 return forms were identified for manual keying) but were instead being 'replayed' once the root cause fixes were deployed.</p> <p>As at 23 April, the number of returns in error queues had reduced to around 5000 after the ATO successfully input these returns onto ICP after replaying returns. This left around 500 of these returns more than 30 days old. The ATO identified that almost all of the remaining forms could be successfully replayed after the April release, with manual re-keying only needed of 450 returns.</p> <p>As at 3 May 2010, only around 2200 of these returns were in error queues with around 200 being more than 30 days in the queue.</p> <p>Related to this, on 19 April 2010, the ATO identified 19,500 returns that were processed twice in ICP. The ATO was aware that taxpayers and tax practitioners may call the ATO about this. The ATO scheduled to manually cancel around 8000 of these returns from 28 April. As at 3 May 2010 the ATO was investigating an appropriate solution for amendments and schedules.</p>	<p>Relevant ATO communications</p> <p>No ATO communication in any general broadcast (such as at the Federal Parliament's Joint Committee of Public Accounts and Audit or Senate Economics Legislation Committee's Estimates hearings, in the media, in professional association newsletters/circulars or on the ATO website) explained to tax practitioners why returns which had been received by the ATO were classified by ICP as 'not lodged'.</p> <p>No ATO communications of the issue were made in ATO-initiated targeted communications (such as emails, letters or outbound telephone calls).</p> <p>Only once ATO call centre staff had access to the newly developed database could they explain whether a return was received or not. This communication depended on taxpayers and tax practitioners initiating the communication.</p> <p>Impact on taxpayers and tax practitioners</p> <p>Up to the point in time at which call centres had access to this database, taxpayers and tax practitioners phoned to check on the progress of the return and were told the return was not lodged. Tax practitioners then needed to access their own records to confirm lodgement (e.g. the ELS validation receipts) and then call the ATO again to discuss the problem with ATO staff, only to be told that the matter had been 'escalated'. Taxpayers phoning the ATO to check on the progress of their return and told that the return was not lodged were left with the impression that tax practitioners had lied or were mistaken when they said they had lodged the return on the taxpayer's behalf. When taxpayers and tax practitioners were sure that the return was received by ATO (it's just that the ATO couldn't find it), their confidence was reduced in the ATO's administration.</p> <p>This problem added to delays in issuing assessments and (for those expecting refunds) contributed to a reduction in expected cash flows.</p>

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2	<p>Fatal Form Definition Facility (FDF) errors</p> <p>From 19 March 2010, the ATO was aware of generic errors that prevented a form from processing. As a result the ICP system would list a return form as 'not lodged'. This error occurred in both automated and manual processes. Although the ATO had a workaround of waiting 24 hours and then trying again, an average of 20 new Infra issues were raised daily for persistent FDF errors. The ATO investigated the root cause and remediation work required.</p> <p>On 28 April 2010, the ATO identified that a systems fix would address the majority of fatal FDF errors impacting manual processing. The ATO planned to re-key/re-submit all forms that encountered manual FDF errors, which was expected to commence week commencing 3 May 2010. This was dependent on the resolution and deployment verification of a number of Infras:</p> <p>Infra 833214 — deployed, undergoing deployment verification</p> <p>Infra 1174054 — scheduled for Wednesday 28 April</p> <p>Infra 1170095 — scheduled date TBA</p> <p>Infra 1185025 — scheduled for Thursday 6 May</p> <p>Further analysis would be required for any FDF errored forms that were not resolved by the above fixes.</p>	<p>Relevant ATO communications</p> <p>No ATO communication in any general broadcast explained to tax practitioners why returns which had been received by the ATO were classified by ICP as 'not lodged'.</p> <p>No ATO communications of the issue were made in ATO-initiated targeted communications (such as emails, letters or outbound telephone calls).</p> <p>Only once ATO call centre staff had access to the newly developed database could they explain whether a return was received or not. This communication depended on taxpayers and tax practitioners initiating the communication.</p> <p>Impact on taxpayers and tax practitioners</p> <p>Taxpayers and tax practitioners phoning to check on the progress of the return were told the return was not lodged. Tax practitioners then needed to access their own records to confirm lodgement (e.g. the ELS validation receipts) and then call the ATO again to discuss the problem with ATO staff, only to be told that the matter had been 'escalated'. Taxpayers phoning the ATO to check on the progress of their return and told that the return was not lodged were left with the impression that tax practitioners lied or were mistaken when they said they had lodged the return. When externals were sure that the return was received by ATO (it's just that the ATO couldn't find it), their confidence was reduced in the ATO's administration.</p> <p>This problem added to delays in issuing assessments and (for those expecting refunds) contributed to a reduction in expected cash flows.</p>
3	<p>ELS reporting for tax practitioners not available</p> <p>Tax practitioners use Electronic Lodgement Service (ELS) reports to track EFT/lodgement/status of their clients to assist in the running of their business.</p> <p>From 10 March 2010 (at the latest), none of the four ELS reports for tax practitioners were available (that is, the ELS (EFT) report, Solicited Client List, Client Statistics report, and the Unsolicited Due Lodgment reports). However, ELS legacy reporting was available, but it did not provide up to date client details and information.</p>	<p>Relevant ATO communications</p> <p>On 17 February 2010, an ATO communication to tax practitioners ('e-link') said that the ELS EFT reconciliation reports were delayed by 2 days and that the ATO was working to resolve this. However, tax practitioners could use the tax agents' portal to request this information, so long as that request was limited.</p> <p>On 25 February 2010, an ATO communication ('e-link') said that the ATO was working to restore the availability of the Solicited Client List reports and the Client Statistics reports.</p>

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	<p>From 15 March 2010, the ELS (EFT) report was available with a workaround and fixed on 22 March. From 29 March 2010, the ATO was aiming to fix the remaining 3 ELS reports as part of the April release update and have these fixes verified by 5 May and backlog of reports processed by 6 May.</p> <p>However, as at 22 June 2010 tax practitioners reported to the IGT that they were still unable to get client lists through ELS (after waiting four days and then emailing ATO), and even then the lists were not accurate or up-to-date.</p>	<p>On 30 March 2010, the ATO sent an email to tax practitioners saying that the Solicited Client List, Client Statistics report, and the Unsolicited Due Lodgment report were unavailable.</p> <p>Impact on taxpayers and tax practitioners</p> <p>Tax practitioners received inaccurate client lists, including receiving details for taxpayers who are not their clients as well as not receiving details of the taxpayers that are their clients. Tax practitioners are unable to deal with the ATO on behalf of these clients because the agent cannot establish that they act for the client when calling the ATO for those clients not on their lists. Tax practitioners also are unsure as to which clients have moved to another tax practitioner and therefore unsure whether to contact them further.</p> <p>These problems are also related to problems with incorrectly addressed correspondence.</p>
4	<p>Problems with amendment processing</p> <p>From January 2010, the ATO did not process debit amendments to income tax assessments, whether initiated by either the ATO or taxpayers. The ATO continued to stockpile these amendments. This was due to a number of problems with shortfall interest charge (SIC), tax shortfall penalty and amendment notices. During this time all amendments were held in the safety net, until they were released from 3 May 2010. On 8 April, the ATO aimed to manually remit SIC in cases that suspended after this date.</p> <p>Problems were also experienced with credit amendments.</p> <p>Differing problems required different types of resolutions.</p> <ol style="list-style-type: none"> 1. Incorrect interest calculations <p>From 10 March 2010, the ATO started processing some taxpayer-initiated credit amendments (debit amendments were held in the safety net pending a fix of the continuing incorrect SIC calculations, and certain credit amendments that were suspended for certain reasons needed approval before being processed) with the knowledge that these credit amendments may underpay the interest on overpayments (IOP). The ATO decided that it was better to provide the refund and later follow up with an IOP payment later (possibly after TaxTime 10).</p>	<p>Relevant ATO communications</p> <p>No ATO communication in any general broadcast explained that debit amendments were not being processed.</p> <p>No ATO communications of the issue were made in ATO initiated targeted communications (such as emails, letters or outbound telephone calls).</p> <p>Taxpayers and tax practitioners who initiated a communication (chasing up the progress of the amendment), were told that the problem had been 'escalated'. Taxpayers and tax practitioners made repeated calls checking on the progress to be told the same thing.</p> <p>Impact on taxpayers and tax practitioners</p> <p>Taxpayers expecting a refund from an amendment were forced to wait longer than anticipated for their refund, sometimes many months.</p> <p>Tax practitioners incurred unproductive work in contacting the ATO repeatedly to check on the progress of amendments. If the ATO had initiated clear communication of this problem if and when it first became aware of it, then much of this adverse impact could have been reduced if not avoided.</p>

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	<p>2. Incorrect effective dates</p> <p>From 29 March 2010, the ATO became aware that both credit and debit amendments were not being processed with the correct effective dates for SIC calculation purposes. Fixes for these problems were deployed on 10 April and the effectiveness of the fix for debit amendments was verified on 28 April.</p> <p>3. SIC calculation not appearing on Notices of Assessment (NOAs)</p> <p>From 19 April 2010, the ATO considered a proposal to release all the returns in the SIC safety net as it considered that, although the calculation block did not appear on all NOAs, the SIC was calculated correctly and legal advice confirmed that the absence of dates did not compromise the notice. The ATO would release these returns by 4 May and a fix was scheduled for mid-May.</p> <p>4. Second amendments</p> <p>Related to this problem, on the 19 April 2010, the ATO identified problems with the processing of second amendments. It placed this work on hold. On 23 April, it identified the root cause as Higher Education Loan Account assessment debts which manifested as an incorrect income tax amendment. The ATO could not identify these cases until after they were received by the taxpayer and therefore decided that these cases would be 'managed post issue'.</p> <p>5. WINCAS (a pre-existing ATO software program used to calculate liabilities for amendments)</p> <p>As at 19 April, the ATO processed 3250 amendments as part of its ramp up strategy for ATO-initiated amendments, leaving 2200 amendments yet to be processed. A further 3700 amendments were to be released pending the above SIC remediation work. The ATO aimed to process all the backlog of WINCAS records (approx. 10,000) into ICP on the week of 29 April.</p>	
5	<p>Extended delays in resolving high risk refund (HRR) review items</p> <p>A high risk refund (HRR) review item flags that a tax return has tripped certain risk filters. This requires an ATO officer to determine whether the return should be subject to further investigation. Refunds flagged as HRRs cannot be automatically issued to the taxpayer without ATO officer review, according to the ATO's business rules.</p> <p>As at the time of the January 2010 shutdown, the ATO had 1,893 standard High Risk Refund cases together with a further 6,798 cases which were</p>	<p>Relevant ATO communications</p> <p>On 15 April 2010, the Second Commissioner published a general update on the ATO website saying:</p> <p>'We currently have around 100,000 returns from individuals that we estimate are over 30 days old in our system ...</p> <p>The reality is that some cases take longer to process and we would always hold some up for legitimate reasons.</p>

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	<p>being withheld from completion due to potential fraud-related issues. Data regarding the age of the cases on hand is not readily available, however as the large majority were cases on hand as a result of fraud-related issues, it is likely that they had been on hand for some time whilst appropriate action was undertaken.</p> <p>A number of problems are related to HRRs.</p> <ol style="list-style-type: none"> 1. Client risk profiles <p>From 15 March 2010, the ATO identified that incorrect 'client risk profiles' values for a portion of the client base (client risk profile attributes were truncating) would mean that they would get their tax returns or refunds suspended more often. This would increase the potential workload of the ATO to manage refunds. The ATO fixed this problem on 24 March and verified the effectiveness of the fix on 19 April.</p> 2. Delayed resolution of HRRs <p>Although the total number of review items triggering a HRR review was similar to the previous year, more than half of completed HRR review items took 21 days or more to finalise (a significantly higher proportion than in prior years).</p> <p>As at 17 May 2010, 20,478 HRR review items had been completed, with 8177 review items in hand.</p> <p>As at 6 June 2010, 8181 HRR review items were on hand. At the same time in 2009, only 20 per cent of these review items (1589) were less than 15 days old. Whereas at the same time in 2009, 5741 HRR review items were on hand, with 40 per cent less than 15 days old (2264). The ATO advised the IGT that the main reason for the increased number of aged HRR review items in 2010 was that some HRR review items also involved other problems that needed to be resolved before the HRR review item could be removed and the NOA issued — such as those returns which have had their processing suspended because of other problems with the system.</p> 	<p>For example, we would not release refunds that appeared to be fraudulent or where people may owe money to the Commonwealth, for example, other agencies such as Centrelink and the Child Support Agency. Sometimes, we also check information reported in tax returns where we find discrepancies or need more information on particular claims.</p> <p>Of the estimated 100,000, approximately 30,000 returns are in this category.'</p> <p>On 20 April 2010, the ATO published on its website a FAQ document which included the following wording:</p> <p>'Will any refunds you check be delayed more than usual?</p> <p>The ATO does delay some refunds so that it can verify they are payable. These checks continue before and after our systems shutdown to upgrade a system.</p> <p>In order to prevent your refund being delayed, we may ask you to provide information quicker than usual. We may attempt to contact you by phone. But where we cannot obtain information supporting the refund, it may be amended or not issued, depending on the circumstances.'</p> <p>On 22 April 2010, the ATO published a document on its website ('Income tax processing — current processing problems and how they might affect you'); 'Issue</p> <p>We may have taken longer that expected to process your income tax return and issue a refund if you are entitled to one. These delays have been temporary, and we apologise for any inconvenience.</p> <p>How this affects you</p> <p>Refunds and assessments have progressively been issuing since mid-February, and many people have recently received refunds.</p> <p>As usual some refunds take longer to issue if they involve complex tax affairs or we need to check the legitimacy of a claim for a refund. It can also take a few days from the time we issue a refund for it to reach its destination as it goes through the mailing and distribution process.'</p>

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		<p>On 22 April 2010, the ATO provided further information at the Federal Parliament's Joint Committee on Public Accounts and Audit hearing:</p> <p>'Ms LEY — How many [income tax returns] are outside the service standard? If you would normally have some outside the service standards then maybe that is a number you could include.</p> <p>Mr Butler — There are 108,000 outside the service standard today [this incorrect figure was later corrected to 188,000] ...</p> <p>CHAIR — How many of those can you attribute to a problem with your e-fixes?</p> <p>Mr Butler — None. We know all these cases. We are working through them. They are all cases where there is a high-risk refund, there is an error in the return. Our fixes have not caused this problem.</p> <p>Ms LEY — But they are delayed because of a backlog — would that be fair to say?</p> <p>Mr Butler — We stockpiled returns for six weeks, as I mentioned, so we had 700,000 returns when we started to use the system again. We have caught up with most of those. They started the processing in the system by the end of February. As of today, there are 15,000 individual taxpayers who are waiting on a refund above 50 days in our system, but they are all cases where there is a good and valid reason the assessment has not gone out.'</p> <p>On 1 June 2010 at the Senate Economics Estimates hearings the ATO said:</p> <p>'Mr Butler — There is no backlog of returns because we have fewer returns on hand being scrutinised, as I said before, than at this time last year or the year before. We have not had returns sitting around waiting to go into the system to be processed since early March and we have met all our service standards since 1 April. So there is no backlog of returns right now. Of the returns we have on hand, some would be older than we normally would have at this time of year. But we are down now to individual tax returns. The number that were filed before early April that have not been processed is 6,000 returns. Of that, 3,500 returns are suspected fraud cases or other areas where we will not issue an assessment. So there are 2,500 turns on hand for individuals filed before the end of April that we cannot process. Largely we are waiting for more information from tax practitioners and accountants to finalise them. So there are very small numbers of returns on hand.'</p>

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		<p>Impact on taxpayers and tax practitioners</p> <p>These delays in HRR cases contributed to delays in issuing NOAs. For those taxpayers and tax practitioners expecting refunds, this had the effect of reducing expected cash flows.</p> <p>Tax practitioners incurred unproductive work in contacting the ATO repeatedly to check on the progress of their returns. If the ATO had initiated clear communication of this problem if and when it first became aware, then much of this adverse impact could have been reduced if not avoided.</p> <p>Additionally, taxpayers and tax practitioners suffered the effects of reduced expected cash flows due to the contribution of this problem to delays.</p> <p>As a result taxpayers and tax practitioners have reduced their confidence in the ATO's ability to administer the system.</p>
6	<p>Data transfer from the integrated core processing (ICP) system to the tax return database (TRDB) impacting on pay as you go (PAYG) instalments</p> <p>Data from tax returns processed in the ICP system are 'replicated' on the TRDB. The PAYG system (a pre-existing system which is separate from the ICP system and the TRDB) uses the most recent tax return information from the TRDB to generate PAYG instalments notifications.</p> <p>From 1 March 2010, the ATO was aware that the TRDB-PAYG interface was not running due to three main issues: the slowness of data being sent from the ICP system to the TRDB; the large number of income tax returns being rejected by the TRDB; and data quality issues in the income tax returns that have been loaded into the TRDB.</p> <p>The ATO resolved some of the underlying problems by the time of the 31 March 2010 PAYG instalment generate date. However, remaining problems resulted in around 46,000 PAYG instalments being generated on 2008 income figures, even though those taxpayers had lodged their 2009 tax returns.</p>	<p>Relevant ATO communications</p> <p>On 15 April 2010, the ATO published a facts sheet on its website saying (amongst other things),</p> <p>'Check your PAYG instalment rate or amount</p> <p>If you are affected by an income tax return processing delay, the PAYG instalment rate or amount on your Quarter 2 or Quarter 3 activity statement may still be based on your income tax assessment for the previous income year and will remain so until your current return is processed.</p> <p>In the interim, if you think the amount or rate we have calculated will mean you would pay more (or less) than your expected tax for the current income year, you may choose to vary your PAYG instalment rate or amount.</p> <p>You will then use the updated amount or rate for the remaining quarterly instalments in the income year, unless you vary again.</p> <p>A guide on how to vary your PAYG instalments is available on our website.'</p> <p>The ATO also sent out this information to tax practitioners as part of the mail out of Activity Statements.</p>

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	<p>On 19 April, the ATO switched off the transfer of data from the ICP system to the TRDB after it identified data issues. The impacts of these issues included incorrect PAYG instalment rates on Activity Statements (5324 April 2010 Activity Statements were processed on 12 April using out-of-date TRDB data). From 28 April, the transfer functionality from the ICP system to the TRDB was switched on, but the transfer functionality from the TRDB to the ICP system was switched off.</p> <p>The ATO decided to verify data before the June 2010 generate date and to deploy fixes before TaxTime 10.</p> <p>The transfer of data from the ICP system to TRDB also affected other areas of the ATO, including:</p> <ul style="list-style-type: none"> - Pre-fill for e-Tax and tax agent portals read from the TRDB. There was a potential for forms to be completed incorrectly. - STAC (a pre-existing system) displayed incorrect or missing tax return form data. There was a potential for ATO staff to provide incorrect information to taxpayers and tax practitioners. - Revenue reporting was unable to provide analysis of high level revenue collection information received from the ATO's Revenue Analysis Branch as required. - Extracts for Centrelink were compromised. There was a risk of not meeting the 27 April 2010 deadline for inputting the data required for the next scheduled Data Matching Agency cycle with Centrelink, Veterans Affairs and the Families Assistance Office. 	<p>Impact on taxpayers and tax practitioners</p> <p>A significant number of taxpayers received PAYG instalment amounts based on 2008 income amounts. Taxpayers and their representatives incurred unnecessary expense in contacting the ATO to understand the basis for the ATO-notified PAYG instalment amount. It should be noted that any inaccurate PAYG instalment amount notified by the ATO could be corrected by taxpayers lodging a PAYG instalment variation. If the taxpayer variation underestimates the actual amount for the financial year by more than 15 per cent they are liable for a penalty. Taxpayers would then incur the expense of estimating the PAYG instalment amount and preparing and lodging a variation with the ATO, even though the ATO was in possession of the information to correctly calculate these amounts.</p>

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7	<p>Low income tax offset and non residents</p> <p>Under the tax laws, non-residents are not entitled to the low income tax offset (LITO). From 29 March 2010, the ATO became aware that the ICP system was holding around 17,000 non-resident tax returns in suspense and when the suspense was released the return had the LITO applied. The reason was that the correction of the suspense changed the client to a non-resident, however the LITO calculated previously was not reset. Although this problem was fixed on 12 April, the ATO did not release these returns from suspense until after the April release update (around 28 April).</p>	<p>Relevant ATO communications</p> <p>No ATO communication in any general broadcast explained why these types of returns were being delayed.</p> <p>No ATO communications of the issue were made in ATO-initiated targeted communications (such as emails, letters or outbound telephone calls).</p> <p>There is no evidence that ATO call centre staff were able to explain the reasons for delays of these types of returns if these taxpayers or their representatives called to ask why these returns had been delayed.</p> <p>Impact on taxpayers and tax practitioners</p> <p>These delays in non-resident LITO cases contributed to delays in issuing NOAs. For those tax practitioners and taxpayers expecting refunds, this had the effect of reducing expected cash flows.</p>
8	<p>Payment greater than liability review item</p> <p>A payment greater than liability review item is designed to ensure that the ATO does not refund an overpayment that is subsequently dishonoured. The ATO intended that the review item should exist for three days after the payment is made, then automatically close so that the funds could be released.</p> <p>On 19 April 2010, the ATO became aware that the automatic closing of the review item was not occurring and refunds were being held indefinitely.</p> <p>As at 19 April, there were around 605,000 review items holding \$371 million dollars; with the largest refund amounting to around \$203 million, although around 500,000 of affected taxpayers had refunds of less than 50 cents.</p> <p>The ATO proposed to automatically release on 28 April those review items that were more than three days old and involved a refund of less than \$20,000 (allowing the ATO to review large dollar value items before releasing them) and greater than 50 cents (to prevent performance issues expected from 500,000 records).</p> <p>A data fix was partially deployed on 19 April, but no returns were issued as a result. On 28 April, the ATO changed the criteria for those returns to be released to those which had an absence of a lodgement obligation. This would release about 27,000 returns with payments totalling around \$240 million, of which most would be offset by other debts. The ATO proposed to run regular data fixes until a permanent fix was deployed.</p>	<p>Relevant ATO communications</p> <p>No ATO communication in any general broadcast explained to taxpayers or tax practitioners why these types of credits were being held more than three days.</p> <p>No ATO communications of the issue were made in ATO-initiated targeted communications (such as emails, letters or outbound telephone calls).</p> <p>Impact on taxpayers and tax practitioners</p> <p>For those taxpayers and tax practitioners expecting refunds, this had the effect of reducing expected cash flows.</p>

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	<p>This release strategy was refined by 3 May, to divide the affected review items into three groups:</p> <p>Group 1 — non-payment credits incorrectly triggering this review item — as at 3 May 115 were still remaining;</p> <p>Group 2 — actual payments that were more than the liability — the ATO intended to release these with some conditions to guard against refunding pre-payments (16,216 review items) and tentatively scheduled the release for 4 May; and</p> <p>Group 3 — review items on debit cases—the ATO intended to release on 3 May all of these cases as a lower priority clean-up as this review item did not affect debit balance processing (more than 450,000 review items).</p> <p>The ATO proposed to consider pre-payments where it had received a payment but not yet the form, to ensure that the form had not been submitted but was stuck in error queues or suspense.</p>	
9	<p>Delays with assigning new tax file numbers (TFNs) where feared compromised</p> <p>The ATO will not issue a NOA if the TFN is suspected to have been compromised (such as someone using a TFN that legitimately belongs to another taxpayer). In these circumstances, under the pre-existing systems, there have been extended delays in assigning a new TFN to people. The ATO intended to build a single back-end register, which would help to reduce timeframes. The ATO did not complete the build of the single back-end register. Approximately 2300 TFNs were thought to be compromised.</p>	<p>Relevant ATO communications</p> <p>The ATO initiated an outbound telephone campaign to contact all affected taxpayers between 21 April 2010 and 18 May 2010. The ATO advises that a total of 2377 calls were made to both individuals (1468) and tax agents (909) resulting in 1947 successful contacts. Clients were advised that we were:</p> <p>'working hard to resolve these problems and expect to begin [sic] As a result of these delays the ATO has put in place a number of safeguards to ensure the privacy and protection of your personal tax information.</p> <p>These safeguards prevent the automatic issuing of assessments and activity on your account until a new TFN has been issued.</p> <p>Note: In some circumstances we still have the ability to manually undertaken activity on your account following appropriate verification processes.</p> <p>Until the ATO advises you of your new TFN you may still use the existing TFN for any normal purpose such as completing a TFN declaration or opening a Bank account.</p>

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		<p>When your TFN is replaced, you will need to quote your new TFN to any institution to which you have previously quoted your TFN, for example, investment bodies, employers, Centrelink, Department of Veterans Affairs (DVA) and superannuation funds. Inform the client that the ATO apologises for the delay being experienced in issuing the new TFN."</p> <p>With the client's permission, operatives worked through a few questions in order to reduce any further inconvenience, such as delays with lodgment or processing of an Income Tax Return</p> <p>Impact on taxpayers and tax practitioners</p> <p>These delays in compromised TFN cases contributed to delays in issuing NOAs. For those taxpayers and tax practitioners expecting refunds, this had the effect of reducing expected cash flows.</p>
10	<p>Statement of Account (SOA)/Notice of Assessment (NOA) incorrect Electronic Funds transfer (EFT)/cheque advice</p> <p>On 30 March 2010, the ATO became aware that NOAs were being issued to taxpayers advising them that refunds were sent to taxpayers' nominated financial institution. However, the ATO had no EFT details for the taxpayer on file and the taxpayer had not asked the refund to be made by EFT. SOAs had also issued with no cheque attached but advised taxpayers that a refund cheque was sent. Around 5800 tax agents representing around 17,000 taxpayers were affected. The ATO started receiving calls from taxpayers and their representatives.</p> <p>On 14 April, the ATO cancelled the refunds and re-issued the NOAs and SOAs. The ATO deployed an e-fix on 16 April. As at 23 April, it was awaiting verification of the effective implementation of the e-fix, as almost all re-triggered refunds were with the printers, with the remaining 300 still working their way through the ATO's systems. Around 40 still required manual intervention. As at 30 April, 17,608 (98.3 per cent) of the 17,906 affected returns were with the printers. The remainder of the returns were progressing through the ATO's refunder system (a pre-existing legacy system) as they had to be re-processed for a second time.</p> <p>The ATO advises that it completed the payment of interest to those who are known to be owed greater than \$50 in September 2010, as agreed through consultation with tax practitioners and their professional bodies. Amounts less than \$50 have not yet been posted to accounts; the proposed course of action is to post the credits to the accounts and then write them off. The</p>	<p>Relevant ATO communications</p> <p>On 6 April 2010, the ATO sent an email to tax practitioners saying:</p> <p>'Notices of assessment incorrectly advising refunds paid to bank accounts</p> <p>Some of your clients may have recently received a notice of assessment which advised their refund was paid electronically to their nominated bank account in instances where they have not provided bank account details.</p> <p>We have identified the clients affected and will issue their refund via cheque.</p> <p>Your clients can expect to receive their refund cheque from 12 April 2010.'</p> <p>Impact on taxpayers and tax practitioners</p> <p>The ATO communicated directly with tax practitioners via email within one week of becoming aware of the problem. This communication would have helped tax practitioners to avoid unnecessarily contacting the ATO until after 12 April. It is unknown how many tax practitioners and taxpayers called the ATO before this communication to find out what happened. Additionally, the ATO did not update its website or otherwise publicly advise taxpayers. It is also unknown how many of these taxpayers were self-lodgers and had to call the ATO to find out what happened.</p> <p>ATO call centre staff had scripting to explain the errors and resulting delays. However, these explanations depended on externals initiating the communication.</p>

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	<p>credits will then be re-raised when future action occurs on the account. This process is to stop small dollar amounts being released/issued to tax practitioners when they are posted to the account. The issue affects some 14,000 clients; 99 per cent are represented by tax practitioners. The average amount of the refund to be paid is \$4.</p>	<p>It should also be noted that the dates of the NOAs that did issue later were not changed to reflect the later date of issue. Although tax practitioners may have been able to explain to their clients the reasons for the delay on the basis of the email, it may have contributed to adverse impressions of their representatives.</p>
11	<p>Notices of Assessment (NOAs) issued but Statements of Account (SOAs) with attached cheques were cancelled</p> <p>Under the new system, the ATO will issue a NOA and a SOA where a refund is due. If the taxpayer is not paid through EFT then a cheque is attached to the SOA.</p> <p>On 8 April 2010, the ATO became aware that NOAs were issued which advised taxpayers that their cheque was attached to the SOA, however, the ICP system had cancelled the SOA and therefore no cheque was issued (note that this did not affect those taxpayers electing to have the refund sent to their bank account via EFT).</p> <p>This problem affected over 140,000 taxpayers, cancelling around \$569 million worth of refund cheques. When ATO staff accessed the system, the systems indicated that the cheque had in fact been sent. The ATO became aware that this was a problem on 8 April.</p> <p>The cause for this problem was that the e-fix for another problem had unintended consequences (that is, Infra 1175974 to fully update GIC before issuing the refund (before calling PCB) combined with the fix to reduce the volume of monthly statements sent to agents). This problem caused the ATO to put on hold its accounting batch processes for these types of taxpayers until 16 April, with all being sent to Australia Post by 19 April.</p> <p>On 4 May, the ATO resolved this problem by resetting the SOA back to 'approved status' in the system and issued the SOAs with cheques attached.</p> <p>The ATO also obtained legal advice that the Interest on Overpayments (IOP) was payable. The ATO advises that it completed the payment of interest to those who are known to be owed greater than \$50 in September 2010, as agreed through consultation with tax practitioners and their professional bodies. Amounts less than \$50 have not yet been posted to accounts; the proposed course of action is to post the credits onto the accounts and then write them off. The credits will then be re-raised when future action occurs on the account. This process is to stop small dollar amounts being released/issued to agents when they are posted to the account.</p>	<p>Relevant ATO communications</p> <p>On 14 April 2010 the ATO sent an email to tax practitioners saying:</p> <p>'Refund cheque delays</p> <p>We have identified an error where some of your clients may have received a notice of assessment without a corresponding statement of account or refund cheque. Due to this error, approximately 140,000 cheques were not printed.</p> <p>We are fixing the problem and the cheques should be with your clients by the end of next week.'</p> <p>On 15 April 2010, the Second Commissioner published a general update on the ATO website saying:</p> <p>'Last week we noticed an increase in calls from people who received a notice of assessment and were entitled to a refund, but the cheque was not included. Unfortunately, approximately 140,000 cheques were not printed. They are now being printed and will be with Australia Post by Monday 19 April.'</p> <p>On 20 April 2010, the Second Commissioner published a general update on the ATO website saying:</p> <p>'Will interest be paid on overdue refunds?</p> <p>Yes, it's a normal part of our operations no matter what the situation. If we take more than 30 days after your income tax return is lodged to issue a notice of assessment and that assessment entitles you to a refund of tax, we will pay interest.</p> <p>Interest is paid for the period beginning from the 30th day after the day on which we received the return and ends on the day the notice of assessment is issued.</p> <p>Where such interest is payable, people do not need to ask for it — we will calculate the interest. Interest will usually be paid with the delayed refund.</p>

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		<p>The interest is paid at the prescribed rate which is currently 3.95% (1 January 2010 to 31 March 2010) and 4.16% (1 April 2010 to 30 June 2010).</p> <p>How do I know whether I am entitled to interest on my tax refund and when will it be paid?</p> <p>Many taxpayers whose refund was delayed by our recent processing problems will be paid interest.</p> <p>You do not need to apply for this interest payment. We are currently working out who was affected and the quickest, most cost-efficient way of calculating and paying you the interest.</p> <p>We decided to make the interest payments after refunds issued, to further reduce any delays in paying the bulk of the refund to taxpayers.'</p> <p>On 22 April 2010 at the ATO gave evidence at the Federal Parliament's Joint Committee for Public Accounts and Audit hearing. The ATO said:</p> <p>'Mr Butler — There were 140,000 cheques that were not printed. We identified that Friday the week before last and then we moved during that particular week, last week, to understand that fully. By Friday of last week we had cheques already with the printers to be printed and sent to taxpayers. By Monday of this week the final batch of those cheques were with the printers. So during this week those cheques will go out.</p> <p>CHAIR — And when does that error date from? When would the first tax assessment have gone out without a refund included?</p> <p>Mr Butler — That varied. There were some that would have occurred literally the day before we found the problem and some back to late March. We had a period where we could not process returns and 22 March we started processing again. These were not all taxpayers; they were just taxpayers in a particular situation where they had what is called general interest charge on their account. Other refunds were absolutely going through.</p> <p>CHAIR — So the ones that did not have any deviation from a normal refund there was no problem?</p> <p>Mr Butler — That is right.</p> <p>CHAIR — But you have now identified that it is a specific type of taxpayer who has been caught up in this, as you say, glitch. The other question was how many taxpayers have been delayed by this failure in the system to receive their return?</p>

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		<p>Mr Butler — We do not see it as a failure in the system. There are two delays. I can explain. The first one, as I just explained, was to do with the 140,000 cheques.'</p> <p>On 1 June 2010 at Senate Estimates, the Commissioner said (amongst other things):</p> <p>'There was a dip in our service standards up to 1 April 2010 much of which was unavoidable. Two glitches with the system delayed some returns and refunds in March 2010.'</p> <p>On 1 June 2010 at Senate Estimates, the Second Commissioner said (amongst other things):</p> <p>'As the commissioner said, since 1 April we have met all of our service standards in processing returns and as of the end of May we had many fewer returns on hand being scrutinised than in May last year or May the year before. So we did have the two glitches that the commissioner referred to, but essentially we foreshadowed a delay, had a delay and caught up. Since 1 April all new returns have been processed in accordance with the service standards.'</p> <p>Impact on taxpayers and tax practitioners</p> <p>The ATO communicated directly with tax practitioners via email within one week of becoming aware of the problem. This communication would have helped tax practitioners to avoid unnecessarily contacting the ATO until after 14 April. It is unknown how many tax practitioners and taxpayers called the ATO before this communication to find out what happened.</p> <p>Most of the re-triggered refunds were sent to Australia Post on 19 April. Additionally, The ATO did not update its website or otherwise publicly advise taxpayers. It is also unknown how many of these taxpayers were self-lodgers and had to call the ATO to find out what happened.</p> <p>ATO call centre staff had scripting to explain the errors and resulting delays. However, these explanations depended on externals initiating the communication.</p> <p>It should also be noted that the dates of the NOAs that did issue later were not changed to reflect the later date of issue. Although tax practitioners may have been able to explain to their clients the reasons for the delay on the basis of the email, it may have contributed to adverse impressions of their representatives.</p>

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12	<p>Taxable income on the Notice of Assessment (NOA) incorrectly displayed a zero (the 'result of this notice' calculation is correct)</p> <p>All NOAs printed on the 9 March 2010 displayed a zero as the taxable income. The ATO identified this during its correspondence verification process and believes that no such NOAs were issued to taxpayers. The ATO computer systems recorded the correct taxable income on the account but the figure printed on the NOA was wrong.</p> <p>The ATO stopped all accounting batch processes. This meant that no NOAs were issued. Around 160,000 NOAs were affected. The reasons for the problem stemmed from an e-fix applied in early March 2010 — the e-fix applied to Infra 1179379. Fixes were required for already assessed NOAs as well as those in the process of being assessed (that is, those processed by the ICP system before 2am on 5 March but had not gone through the NOA batch).</p> <p>From 22 March, the ATO began progressively re-processing and issuing NOAs. Further e-fixes were required, but by 29 March the ATO considered that normal processing had resumed. However, the ATO encountered another problem and by 28 April it had stopped around 13,200 NOAs from issuing to taxpayers. The ATO released around 5000 of these after review and the remaining required another data fix prior to their release.</p> <p>By 3 May, the ATO had decided that the remediation plan was to pay Interest on Overpayments (IOP) for around 70,000 delayed refunds. The ATO advises that it completed the payment of interest to those who are known to be owed greater than \$50 in September 2010, as agreed through consultation with tax practitioners and their professional bodies. Amounts less than \$50 have not yet been posted onto accounts; the proposed course of action is to post the credits onto the accounts and then write them off. The credits will then be re-raised when future action occurs on the account. This process is to stop small dollar amounts being released/issued to agents when they are posted to the account.</p> <p>On 3 May, the ATO also identified that generic forms continued to generate NOAs with zero taxable income. The ATO scheduled to fix this on 7 May.</p>	<p>Relevant ATO communications</p> <p>On 15 March 2010, the Second Commissioner issued a general update which included the following wording:</p> <p>'At our last update on 2 March 2010, we were on track to issue the remaining stockpiled refunds and assessments for income tax returns lodged in February by the end of last week.</p> <p>Last week we experienced some minor problems which have delayed us issuing some of those remaining stockpiled refunds and assessments while we ensure the integrity of our data ...</p> <p>We have fixed these minor problems and can start releasing most of these refunds and assessments from today (with the exception of assessments involving non-resident withholding tax).'</p> <p>On 29 March 2010, the Second Commissioner issued a general update which included the following wording:</p> <p>'What has happened over the last two to three weeks?</p> <p>We had largely caught up with the backlog of returns by the end of February, however on 9 March we discovered a problem with the data in some notices of assessment which had been printed but not sent to taxpayers. Unfortunately, this meant we could not send anything for printing and posting until we fixed the problem.</p> <p>It took us longer than expected to fix the problem and we recommenced sending notices of assessments to be printed and posted on Monday 22 March.'</p> <p>On 22 April 2010, at the Federal Parliament's Joint Committee for Public Accounts and Audit, the ATO gave the following evidence:</p> <p>'Mr Butler — Yes. So on 9 March we identified an issue that unfortunately did take us longer than we thought — it took us almost two weeks to fix that and be very confident that it was not going to occur again.</p> <p>CHAIR — Why did it take two weeks?</p> <p>Mr Butler — It was complex. It was difficult. We had returns part way through the system. We had to back them out, put the fix in place and thoroughly test that it was not going to cause any more problems. We told the community about that particular issue on 15 March, on our online update — that there was this problem which delayed us. We resumed processing on 23 March ...</p>

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		<p>Mr Butler — We have been quite overt from early March about what we would do. We actually caught up with the processing at the end of February. So we were very pleased, but we had this one problem and lost two weeks ...</p> <p>Mr D'Ascenzo — To the extent that we have now found ourselves with unanticipated extra work because of the two-week extra delay that occurred, we have been putting on new staff to push that through. At the earlier point in time, we had not anticipated the fact that we would have the glitch that Mr Butler raised: one of our normal e-fixes impacted on what was going through the system. We had to black out all the systems and that added an unavoidable two weeks to what was already a planned process.</p> <p>Ms LEY — Which two weeks?</p> <p>Mr Butler — From 9 March to 22 March.'</p> <p>At the 1 June 2010 Senate Estimates hearing, the ATO gave the following evidence:</p> <p>Mr D'Ascenzo — ... There was a dip in our service standards up to 1 April 2010 much of which was unavoidable. Two glitches with the system delayed some returns and refunds in March 2010 ...</p> <p>Mr Butler — As the commissioner said, since 1 April we have met all of our service standards in processing returns and as of the end of May we had many fewer returns on hand being scrutinised than in May last year or May the year before. So we did have the two glitches that the commissioner referred to, but essentially we foreshadowed a delay, had a delay and caught up. Since 1 April all new returns have been processed in accordance with the service standards.</p> <p>Impact on taxpayers and tax practitioners</p> <p>The ATO communicated directly with tax practitioners via email within one week of becoming aware of the problem. This communication would have helped tax practitioners to avoid unnecessarily contacting the ATO until after 18 March. It is unknown how many tax practitioners and taxpayers called the ATO before this communication to find out what happened.</p> <p>As the ATO caught up on processing by 29 March, it is also unknown how many tax practitioners contacted the ATO during the period of 18 March to 2 April (allowing three days for postage). Additionally, The ATO did not update its website or otherwise publicly advise taxpayers. It is also unknown</p>

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		<p>how many of these taxpayers were self-lodgers and had to call the ATO to find out what happened.</p> <p>ATO call centre staff had scripting to explain the errors and resulting delays. However, these explanations depended on externals initiating the communication.</p> <p>It should also be noted that the dates of the NOAs that did issue later were not changed to reflect the later date of issue. Although tax practitioners may have been able to explain to their clients the reasons for the delay on the basis of the email, it may have contributed to adverse impressions of their representatives.</p> <p>There is also no evidence that the ATO alerted taxpayers or tax practitioners to the re-occurrence of the problems on 28 April or 5 May.</p>
13	<p>Higher Education Loan Accounts (HELA) correspondence issues</p> <p>The ATO notifies those taxpayers with a Higher Education Loan Program (HELP) or Student Financial Supplement Scheme (SFSS) debt of their liability on 1 June each year where there has been activity on their account in the past 15 months. On 1 June indexation is applied to the balance outstanding. The ATO estimated that around 1.6 million taxpayers have such a debt and that it would generate a SOA for around 1.4 million of these taxpayers.</p> <p>From 14 April 2010, the ATO identified problems and did not issue any HELA correspondence. It directed this correspondence to a dummy printer, pending resolution of the following issues.</p> <ol style="list-style-type: none"> 1. 'EAI' and Forms <p>Forms for second half year debts were posting to the wrong period and HELP debts were suspended as a result. This resulted in incorrect data placed on the taxpayer record, and incorrect reporting to the Department of Education, Employment and Workplace Relations. The consequences were that any individual income tax returns and amendments processed for any income year between the income tax release deployment and 1 June would calculate the incorrect collectible HELP debt and raise a higher compulsory repayment. Also, the incorrect indexation calculated on 1 June would be applied. By 28 April, the ATO scheduled a fix to this error for 7 May. It estimated that around 500,000 new debts received could then be loaded, which the ATO considered must be done before 1 June.</p>	<p>Relevant ATO communications</p> <p>No ATO communication in any general broadcast explained to taxpayers or tax practitioners why these errors were occurring.</p> <p>No ATO communications of the issue were made in ATO-initiated targeted communications (such as emails, letters or outbound telephone calls).</p> <p>There is no evidence that ATO call centre staff were able to explain the reasons for these errors if these taxpayers' representatives called to ask why these errors had occurred.</p> <p>Impact on taxpayers and tax practitioners</p> <p>Taxpayers and tax practitioners suffered expenses in contacting the ATO to resolve the problem.</p>

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	<p>2. Indexation</p> <p>There were a number of problems with indexation relating to its calculation, performance, indexation start dates, SOA selection, HELP/SFSS correspondence address hierarchies, including: Infra 1181178 — Incorrect date used to calculate indexation and bonuses, resulting in accounts with a nil balance to be reactivated and placed in debt incorrectly; Infra 1180191 Backdated bonus calculations pre-2005 is incorrect; Infra 1203141 Bonus not applied in all <\$500 situations; Infra 1170412 Indexation rounding is not correct in all cases; Infra 1170436 Indexation removing small credits; Infra 1189197 HELP/SFSS correspondence uses incorrect address hierarchy; Infra 1214983 Increase 'P&I batch' to 20 threads; Infra 1215013 Change P&I indexation selection to just the 2.4M select clients; Infra 222168 SOA trigger in Post Transaction; Infra 1181178 Change Indexation — does not calculate from the beginning of the account on converted records. The ATO advises that these problems had no impact on tax agents or taxpayers.</p> <p>The ATO planned to deploy fixes for these problems over the 25 April to 12 May period.</p> <p>3. Bonus payments</p> <p>Bonus payments were not being applied under certain conditions: Infra 1190815 Bonus not applied on partial payments/transfer in to HELP accounts; 1193036 Bonus not applied when two payments to different accounts occur on the same day.</p> <p>As at 3 May, the ATO was building a fix to one of these problems and had completed the fix for the other.</p> <p>4. Individual income tax return form processing</p> <p>On 3 May 2010, the ATO identified problems with a number of these assessments that were processed with incorrect calculations for HELP/SFSS. Notices were not being directed to the dummy printer as they were not HELA specific. The ATO intended to identify the impacted taxpayers and re-issue the correct calculations. However, this depended on resolving multiple Infrass, which the ATO had scheduled for 18 May.</p> <p>5. Other issues</p> <p>The monthly General Interest Charge (GIC) run was triggering indexation and production of the End of Year SOA for HELP and SFSS clients every month. However, indexation was only to be triggered annually on 1 June. The ATO was seeking to implement a fix before the first GIC monthly run.</p>	

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14	<p>Problems with Child Support Agency (CSA) data exchange</p> <p>Exchange of data between the ATO and the CSA is a multi-step process. One of the main aims of the data exchange is to enable the sharing of account information for the purposes of offsetting debts between the ATO and CSA and providing income details for child support purposes. There are inbound and outbound data processing components that support these processes. Generally these are: the file that the CSA provides to the ATO indicating clients of interest (the Client of Interest File); the file that the ATO sends to the CSA indicating that a client of interest has a refund (it should be noted that the ATO holds these clients' returns until it receives a response from the CSA in relation to these clients); the file that the CSA sends to the ATO stating that the CSA would like to determine whether some of the refund could be garnished; the file that the ATO sends to the CSA setting out the clients' refunds garnished and the relevant amounts (reconciliation file); the file that the ATO sends the CSA setting out the income of the clients of interest.</p> <p>Since 25 January 2010, the ATO and CSA experienced problems.</p> <p>Clients of Interest</p> <p>Under the ATO's pre-existing systems, the CSA uploading of this file was largely automated and was usually completed overnight. However, under the new systems, the CSA experienced problems in correctly loading records onto their system because of formatting errors in the income tax return transactions sent to the CSA. Some records also went missing in the transfer of data. As a result of these problems, the CSA had to manually input these records onto its system — on average 400 per week (compared with five per month under the ATO's pre-existing systems). Also, due to the substantial increase in ATO manually processed returns (under its post-deployment mitigation strategy of manually processing priority returns) this substantially increased the amount of manual work required by the CSA. This work held up approximately 20,000 income tax-related refunds and 7000 BAS refunds. The CSA estimates that, at its peak, this manual process added 3–4 weeks to the processing of their clients' tax returns. The CSA estimated that it required 12 extra staff to manually remedy these problems.</p> <p>Incoming CSA data</p> <p>The ATO also experienced a number of problems in its computer systems with incoming CSA data, meaning that the ATO may not be providing some</p>	<p>Relevant ATO communications</p> <p>At the 10 February 2010 Senate Estimates hearing, the ATO gave the following evidence:</p> <p>'Mr Butler — We will have caught up and be processing returns on a normal basis.</p> <p>Senator BUSHBY — By the end of February?</p> <p>Mr Butler — By the end of February. There might be some returns for which, for particular reasons, assessments are not issued. There could be a child support issue, a Centrelink issue or something we are concerned about — a high-risk refund, as we call it. Apart from those, which are relatively smallish in number, the vast majority will go through by the end of the month.'</p> <p>Impact on taxpayers and tax practitioners</p> <p>Tax practitioners and taxpayers who made repeated calls were told that the matter had been escalated. Callers were not given a time period for completion which was kept.</p> <p>Affected taxpayers expecting a refund were forced to wait longer than anticipated for their refund, sometimes many months.</p> <p>Some 300–400 CSA clients received less than they were otherwise entitled, having social impacts on both the custodial parent, paying parent and children.</p>

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	<p>CSA cases enough or all of the credit to pay off some or all of their CSA debt. The CSA estimated that the ATO released 300–400 refunds which should have been garnished. The CSA must now compensate the CSA client and recover this cost.</p> <p>From 15 March the ATO system was capable of processing all inbound data from CSA. However, it was unable to action offsets between ATO and CSA, resulting in the holding of refunds where a potential offset existed.</p> <p>After discussions with the CSA, the ATO implemented a twice weekly exchange of data (a daily process not achievable given the manual intervention required for outstanding systems issues) and run its refunder (a pre-existing legacy system) and Process Credit Balance (PCB) systems every day.</p> <p>TaxTime 10 problems</p> <p>Also, as a result of new data fields inserted in the TaxTime10 changes, the ATO and CSA systems 'did not talk to each other'. This meant that post-assessment taxable income data was not being received by the CSA in real time. This affected the processing of CSA assessments for some of its clients. The CSA considered that because of the risk of incorrect CSA assessment it needed to manually refresh the taxable income data for all of its clients. This problem was scheduled to be fixed in September 2010.</p> <p>Reconciliation data</p> <p>The CSA also experienced problems with reconciling the garnishee data from the ATO. The ATO had garnished money from the paying parent's income tax refund, but the custodial parent did not receive that money as the CSA was unable to identify the taxpayer concerned. This problem involves around \$2 million of garnished amounts and averaged around 10 CSA complaints a week, with some involving threats of violence. The ATO advised that it could implement a fix which would resolve around half of the cases.</p> <p>Point in time figures</p> <p>On 7 April, approximately 24,000 refunds were held (together with Centrelink held refunds. The ATO estimated that it held around \$25 million in refunds at this stage, with around \$6.5 million of this amount waiting more than seven days for the CSA/Centrelink offsetting to occur (increasing to \$7.8 million as at 19 April), with 14,000 expected to be released after a successful fix and the remainder to be picked up in a weekly 'batch harness'.</p>	

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	<p>As at 13 April 2010, around 15,500 cases involving around \$30 million of refunds were held, comprising the following:</p> <p>Ready for ATO to send to CSA to request whether offsetting should occur: 214 cases, totalling refunds of \$491,000</p> <p>Awaiting CSA advice whether offsetting should occur: 8994 totalling \$23,759,000</p> <p>Advice received from CSA that offsetting should occur not yet processed: 6177 cases requesting \$5,789,000 offsets</p> <p>As at 23 April, the ATO was holding around \$16.6 million in refunds pending the CSA's offsetting. Around \$6 million of this amount was delayed due to known issues, with the rest progressing through as 'business as usual'. As at 28 April this amount increased to holding around \$20.7 million in refunds pending the CSA's offsetting. Around \$7.6 million of this amount was delayed due to known issues (see below), with the rest progressing through as 'business as usual'. As at 3 May, this amount the ATO was holding increased again to around \$24.3 million in refunds pending the CSA's offsetting. However, only around \$0.5 million of this amount was delayed due to known issues (see below), with the rest progressing through as 'business as usual'.</p> <p>The following specific action was taken.</p> <p>INBOUND PROCESSING</p> <p>1. Client of Interest Input file</p> <p>As at 23 April, this file was being processed daily. However, by 28 April this was being processed tri-weekly.</p> <p>OUTBOUND PROCESSING</p> <p>2. Accounting Batch Harness workaround</p> <p>From 14 April, the ATO resolved further problems so that it could operate its garnishee batch every day and handed it over to the ICP Accounting Ops area — 20 per cent of cases picked up by 'business as usual' processing and the remaining picked up by the 'weekly Accounting Batch Harness Workaround' (which delayed these returns by up to one week). The ATO decided to continue with this workaround because implementing a permanent fix for the problem was too risky before TaxTime 10 had finished. However, as at 19 April this daily batch was still not run as the ATO was awaiting confirmation from the CSA that a particular fix was successful.</p>	

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	<p>From 23 April this workaround was processed weekly. The oldest backlog at any given time was five days which was then cleared when the weekly Accounting Batch Harness was run. The ATO planned a permanent fix for the August/September release update and a medium-term fix to be deployed before the TaxTime10 code freeze.</p> <p>3. CSA 'TRIPS' File</p> <p>As at 23 April, this file was being processed daily. However, by 28 April this was being processed tri-weekly.</p> <p>4. 'PARV Legacy' file</p> <p>As at 23 April, this file was being processed daily. However, by 28 April this was being processed tri-weekly. Deduction records generated by PARV contained incorrect year of assessment values. This meant that the year of assessment was populated incorrectly for amended income tax returns and some Business Activity Statement assessments. This caused a large manual workload for CSA, as they could not reconcile their systems. The ATO planned to have a permanent fix to this problem in the August/September release update.</p>	
15	<p>Problems with Centrelink information data exchange</p> <p>Exchange of data between the ATO and Centrelink is a multi-step process. The ultimate aim of which is to enable the sharing of account information for the purposes of either reflecting appropriate credits or offsetting debts between the ATO and Centrelink. There are a number of inbound and outbound data processing components that support this process. It should be noted that in relation to Family Assistance Office payments, Centrelink pays benefits based on estimated income which is later reconciled with the income data reported to the ATO. Benefit entitlements are reconciled at the time of assessing the tax return.</p> <p>The problems generally relate to the sharing of information and the garnishing of Centrelink debts.</p> <p>From 25 February 2010, the ATO stockpiled 850,000 verified income transactions (Note: one client can have multiple transactions) because of concerns (including that a number of income fields had not been populated) that would cause Centrelink to issue wrong payments to clients affected by the issue. It should also be noted that these figures are at a point in time and do not represent ongoing stockpiles. Similarly, a liability will be raised if the base payment estimate is too high. Notwithstanding this stockpiling of</p>	<p>Relevant ATO communications</p> <p>At the 10 February 2010 Senate Estimates hearing, the ATO gave the following evidence:</p> <p>'Mr Butler — We will have caught up and be processing returns on a normal basis.</p> <p>Senator BUSHBY — By the end of February?</p> <p>Mr Butler — By the end of February. There might be some returns for which, for particular reasons, assessments are not issued. There could be a child support issue, a Centrelink issue or something we are concerned about — a high-risk refund, as we call it. Apart from those, which are relatively smallish in number, the vast majority will go through by the end of the month.</p> <p>Senator BUSHBY — In respect of the backlog, does the tax office inform other agencies of government about the delays it is experiencing? For instance, is Centrelink informed so that people who are waiting for their 2009 tax returns in order to claim benefits and those sorts of things are not disadvantaged?</p> <p>Mr Butler — We have engaged with Centrelink for some time. They are fully aware of all the time frames and things like that.</p>

Number of problem on graphic	Description of problem	Relevant public ATO communication of the issue and the impact on taxpayers and tax practitioners
	<p>transactions, the ATO continued to process the affected taxpayers' returns (generally after three days) and the affected taxpayers' base Centrelink payments were still made. However, as Centrelink could not verify the income reported to the ATO, it could not assure itself whether payments were correct. These problems (and others encountered as the ATO started to transfer this data to Centrelink) were finally resolved to an extent which allowed the ATO to transfer details for all these clients by 7 April, with all backlog cleared by 19 April. During this period, there were an unknown number of missed opportunities to offset refunds against debts. The ATO also missed opportunities to top up Family Assistance Office entitlements. Incorrect lodgement dates for income tax returns (such as those caused by problems described above) also affected clients' entitlements to top up payments.</p> <p>Since 1 March, the ATO also experienced a 5 to 6 per cent suspense rate for its mutual client register forms — requiring intervention.</p> <p>The ATO also stockpiled returns which could potentially offset a Centrelink debt until a strategy was implemented from 29 March to run Garnishee Batch Job processes daily through refunder (a pre-existing legacy system) with a business check output on the ICP system. By 12 April all issues preventing the Garnishee Batch Job to be run daily were either resolved or a workaround applied. Together with CSA held refunds, the ATO estimated it held around \$25 million in refunds at this stage, with around \$6.5million of this amount waiting more than seven days for the CSA/Centrelink offsetting to occur (increasing to \$7.8 million as at 19 April).</p> <p>As at 13 April 2010, the numbers in relation to Centrelink comprised:</p> <p>Ready for ATO to send to Centrelink to request whether offsetting should occur: 1243 cases totalling \$2,126,000</p> <p>Awaiting Centrelink advice on whether offsetting should occur: Nil</p> <p>Advice received from Centrelink that offsetting should occur: 270 cases — zero offsetting required</p> <p>As at 23 and 28 April, the ATO was holding around \$2 million in refunds pending Centrelink's offsetting. Around \$1.6 million of this amount was delayed due to known issues (see below), with the rest progressing through as 'business as usual'.</p>	<p>Senator BUSHBY — Would they be aware of individual taxpayers who might be affected and the potential impact on their claims through Centrelink?</p> <p>Mr Butler — Some of our matching capabilities have not been available since the long weekend shutdown, and Centrelink are well aware of that. The way it essentially works is that we do matching for them. They let us know who they are concerned about and we will let them know if the tax return has been processed or not. They have been fully engaged the whole way through.'</p> <p>Impact on taxpayers and tax practitioners</p> <p>Tax practitioners and taxpayers who made repeated calls were told that the matter had been escalated. Callers were not given a time period for completion which was kept.</p> <p>Around 7200 Centrelink clients received an incorrect Centrelink assessment. Centrelink clients delayed in receiving their entitlements. Around 11,500 such clients called Centrelink to manually correct their forms. Centrelink estimates a backlog of around 750,000 transactions (note that a client may have multiple transactions).</p> <p>Taxpayers expecting a refund were forced to wait longer than anticipated for their refund.</p>

Number of problem on graphic	Description of problem	Relevant public ATO communication of the issue and the impact on taxpayers and tax practitioners
	<p>Garnishing tax refunds for Centrelink debts</p> <p>Due to problems with the data flows between agencies, the ATO delayed until after 30 March 2010 processing of garnishee action for around 2000 Centrelink debtors. Problems were also encountered, until June 2010, in reconciling amounts garnished and remitted to Centrelink. The ATO's manual processing of a number of returns also delayed the reconciliation and remission of amounts to Centrelink</p> <p>Specific problems are outlined below.</p> <p>INBOUND PROCESSING</p> <ol style="list-style-type: none"> 1. Income Verification Request <p>As at 23 April 2010, this request was processed on an ad hoc basis. Daily processing of Centrelink-initiated income verification requests ceased on 19 April due to issues with the response file (see below). A manual workaround was implemented from 21 April to clear a backlog of 1094 transactions. The ATO intended to commence daily processing once the backlog had been cleared by using a workaround. However, on 22 April, the ATO stopped processing these requests because Centrelink rejected the option of a manual intervention. This required the ATO to resolve the systems problem. The ATO had a backlog of around 1600 transactions, with around 100 received each day. The ATO intended to recommence daily processing once it resolved the problem.</p> <ol style="list-style-type: none"> 2. Mutual Client Register (MCR) <p>From 23 April 2010, this register was processed daily. However, around 7 per cent of the MCR forms were suspending as the MCR was not updating for these clients. As at 3 May, the ATO was still investigating the reasons for the rate of suspension.</p> <ol style="list-style-type: none"> 3. CCTR Input file <p>From 23 April, this file was processed daily and there was a backlog of around 1200 records.</p> <ol style="list-style-type: none"> 4. Determinations <p>From 19 April, these determinations were processed daily with no issues reported.</p>	

Number of problem on graphic	Description of problem	Relevant public ATO communication of the issue and the impact on taxpayers and tax practitioners
	<p>OUTBOUND PROCESSING</p> <p>5. Income Verification Response</p> <p>From 23 April 2010, this file was processed daily. Around 1 per cent of the income verification response file was not being sent due to an incorrect reason code. Centrelink-initiated client income verification responses affected by this issue were sent via a manual workaround. The ATO planned to deploy a fix for the two underlying problems on 3 May (Infra 1225629 — two reason code issues with response file: 'Client not Found' being provided when actual income details are supplied; Providing a reason code that income was verified when the correct outcome should be NIL).</p> <p>6. Income Tax Form Cancellation Notification</p> <p>From 23 April 2010, this notification was not processed. As at 23 April, there was a backlog of 99 client accounts, 55 had been manually checked with 41 accounts resubmitted due to other 'business as usual' transaction activities. By 28 April, Centrelink rejected manual interventions as an option. The ATO planned to deploy fixes on 7 May to correct missing data in the record and field validation errors for Cancellation Notifications.</p> <p>7. Family Tax Benefit Wash-up transactions</p> <p>From 23 April, these transactions were processed daily. However, by 28 April 2010, Centrelink advised that there were missing wash up transactions for determinations sent between 19 to 25 February.</p>	
16	<p>Superannuation Co-Contributions issues</p> <p>From 24 March 2010, the ATO identified a number of problems (detailed below) relating to eligibility for, aggregation of and correspondence concerning superannuation co-contributions (CoCons). The ATO identified that a number of fixes had to be deployed before it could execute a CoCons eligibility, aggregation and 'GAC execution run'. Delayed implementation of the fixes for these problems impacted on the ATO's ability to run CoCons aggregation. The ATO considered that it was unlikely to have time to run the CoCons eligibility in March and check the results. It identified that as a result, credit interest will be payable for the delays.</p>	<p>Relevant ATO communications</p> <p>The ATO communicated directly to Superannuation Funds via emails and at meetings to notify them of the delays in making payments.</p> <p>Impact on taxpayers and tax practitioners</p> <p>Taxpayers may have suffered lost earnings for payments that were made late to their Superannuation Funds. This would have been mitigated to the extent of the interest the ATO paid for periods occurring after 60 days of delay.</p>

Number of problem on graphic	Description of problem	Relevant public ATO communication of the issue and the impact on taxpayers and tax practitioners
	<p>The ATO advises that direct payments to relevant taxpayers, such as certain retirees, were made manually and on time, whereas payments to superannuation funds were delayed in agreement with the relevant funds. Interest would be payable for any payments made more than 60 days in arrears.</p> <p>Specific problems are outlined below.</p> <ol style="list-style-type: none"> 1. Remittance Aggregation <p>On 25 March 2010, corrective action of some review items in the ICP system was deployed.</p> <p>On 12 April, the ATO deployed a fix to resolve a problem with a corrupted message set in the 'EAI package' that prevented the ATO from issuing any 'RARN correspondence'. However, the ATO discovered another problem while verifying whether the fix was effective. Messages were successfully written to files, however, some mandatory fields were missing (due date, EFT Return Code, Recipient Name and other fields which were potentially missing). 'GAC processing of RARN to ECI' was 100 per cent blocked as a result. Mandatory data was missing. This problem was fixed on 20 April and some of the backlog cleared (that is, January remittances that had been held since 19 January) releasing around \$2.5 million of the estimated \$30 million held by completing an aggregation run without the initial CoCons eligibility entitlement run.</p> <p>The ATO intended to run a remittance aggregation on 21 May for remittances held for February, March and April.</p> 2. Co-Cons Eligibility Entitlement run <p>On 19 April 2010, the ATO identified that a number of implementation changes and fixes were required as a result of the legal conformance outcomes (as a result of changed legal advice) and income tax release go-live. Although, the ATO concluded that the system was working to design, and ICP logic aligned to legislation, several fixes were needed: Infra 1196866 — cannot use date/time update to determine latest ITR (deployed 28 April); Infra 1028900 — correct decimal point issue (deployed 29 April); Infra 1221606 — 2008 forms displays incorrect threshold amount (deployed 29 April); and Infra 1207676 — Member Contributions Statement (MCS) forms cancelling incorrectly. The ATO scheduled deployment for the fixes on 27 April and 4 May. The ATO intended to perform detailed deployment verification over a small sample of clients from 27 April to 6 May. A full CoCons entitlement run over the full population and First Home Savers' Account aggregation was intended to commence from 7 May. This was expected to include over \$100 million of new entitlements.</p> 	

Number of problem on graphic	Description of problem	Relevant public ATO communication of the issue and the impact on taxpayers and tax practitioners
	<p>3. First Home Savers' Account (FHSA) Aggregation</p> <p>By 23 April 2010, the ATO identified that the 'RSA supplier link' was causing FHSA information to be incorrectly redirected to the RSA supplier. A fix to this problem was scheduled to be deployed on 21 May because the fix was dependent on the resolution of another problem with recovery aggregation which was scheduled to be deployed on 14 May.</p> <p>4. Member Contributions Statement (MCS) remediation</p> <p>On 23 March 2010, the ATO scheduled a data fix to cancel MCS forms for deployment on 27 March. On 28 April, the ATO identified a process backlog of 893 parent forms, 1406 'OOLR requests' and 169,000 child forms. A fix to this problem was scheduled to be deployed on 14 May because the fix was dependent on the resolution of another problem with the CoCons entitlement run which was scheduled to be deployed on 3 May.</p> <p>5. Recovery Aggregation</p> <p>By 23 March 2010, the ATO identified two problems with recoveries. The 'PVA amount' was not being taken into consideration and multiple transactions were being generated. The ATO planned to finish the code fix by 16 April. However, the date for deployment was scheduled for 14 May and expected to run on 28 May.</p>	
17	<p>Incorrect diversion of interactive voice response (IVR) calls — where's my refund self help</p> <p>The 'Where's My Refund?' IVR was designed to allow taxpayers to query the status of their income tax lodgement, by providing their TFN to the phone service.</p> <p>In the situation where a client's lodgement had been received, processed, but a disbursement (refund) record had not been created, the ICP system was incorrectly diverting the client to a contact centre when the IVR should have provided the client with the required information.</p> <p>Also, the system could not drop the caller into the ATO's main enquiries telephone queue directly due to priority routing given to drop outs, and trunk capacity issues. The ATO implemented an interim solution on 30 April, changing the recorded message to tell callers to telephone the ATO's general enquiries telephone number. A permanent fix was planned to be deployed on 7 May.</p> <p>This problem attracted negative media attention.</p>	<p>Relevant ATO communications</p> <p>On 7 April, the ATO changed its recorded response on this telephone number to ask taxpayers to call 13 28 61.</p> <p>Impact on taxpayers and tax practitioners</p> <p>Taxpayers were required to make another telephone call to the ATO call centre.</p>

Number of problem on graphic	Description of problem	Relevant public ATO communication of the issue and the impact on taxpayers and tax practitioners
18	<p>Verify super income tax offset</p> <p>Under the tax laws, only those taxpayers aged 60 years or older were entitled to a 10 per cent offset on the untaxed element of certain amounts.</p> <p>On 28 April 2010, the ATO identified that the system was calculating a 10 per cent offset on the untaxed element for around 11,000 taxpayers who were between 55 and 60 years old and members of a defined benefits fund.</p> <p>The ATO used its safety net to stop these forms from processing. The ATO advises that some tax returns not caught by the safety net were issued resulting in an increased refund. These amounts were needed to be remitted to the ATO.</p>	<p>Relevant ATO communications</p> <p>No ATO communication in any general broadcast explained to taxpayers or tax practitioners why these errors were occurring.</p> <p>No ATO communications of the issue were made in ATO-initiated targeted communications (such as emails, letters or outbound telephone calls)</p> <p>There is no evidence that ATO call centre staff were able to explain the reasons for these errors if these taxpayers' representatives called to ask why these errors had occurred.</p> <p>Impact on taxpayers and tax practitioners</p> <p>Tax practitioners and taxpayers who made repeated calls were told that the matter had been escalated. Callers were not given a time period for completion which was kept.</p> <p>Taxpayers expecting a refund from an amendment were forced to wait longer than anticipated for their refund, sometimes many months.</p>
19	<p>Incorrect information on Notices of Amended Assessment (NOAAs) — previous taxable income shown as \$0.00, and impacts Interest for Overpayment (IOP) calculations</p> <p>This problem impacted company and super fund amendments. The ICP account was correct. However, the ATO held all NOAAs/SOAs since 27 April 2010 and worked to release non-impacted correspondence from 3 May.</p>	<p>Relevant ATO communications</p> <p>No ATO communication in any general broadcast explained to taxpayers or tax practitioners why these errors were occurring.</p> <p>No ATO communications of the issue were made in ATO-initiated targeted communications (such as emails, letters or outbound telephone calls).</p> <p>There is no evidence that ATO call centre staff were able to explain the reasons for these errors if these taxpayers' representatives called to ask why these errors had occurred.</p> <p>Impact on taxpayers and tax practitioners</p> <p>Tax practitioners and taxpayers who made repeated calls were told that the matter had been escalated. Callers were not given a time period for completion which was kept.</p> <p>Taxpayers expecting a refund from an amendment were forced to wait longer than anticipated for their refund, sometimes many months.</p>

Number of problem on graphic	Description of problem	Relevant public ATO communication of the issue and the impact on taxpayers and tax practitioners
20	<p>Suspense items contributing to delays in assessing returns and issuing Notices of Assessment (NOAs)</p> <p>A 'suspended' income tax return form means that the return cannot be assessed by the ATO's system without intervention. This means that no amounts will be posted to the taxpayer's account until the problem is resolved.</p> <p>Since deployment of the income tax release up to 16 June 2010, the ICP system suspended 669,571 times. Although, suspensions are expected as part of the normal operation of the systems, and similar functionality (such as exceptions and error codes) were a feature of the ATO's pre-existing systems, these contributed to the overall delays experienced in processing returns. Suspensions were also symptoms of other underlying problems — for example, the ATO-Centrelink MCR (referred to above).</p> <p>The ATO advises that it does not plan to determine how long the periods of suspensions contributed to the delays in issuing NOAs.</p> <p>There were different types of suspensions. Some were easily resolved — for example, taxpayers inserted two blank spaces between words/numbers in the address line rather than one (such '8 _ _ Sunny_Street' rather than '8_Sunny_Street'. However, there were also suspensions that needed to be resolved by e-fixes.</p> <p>The ATO used its substantial numbers of staff to assist in resolving suspensions and manually processing returns for those taxpayers claiming hardship (see Chapter 3 for more detail).</p>	<p>Relevant ATO communications</p> <p>On 15 March 2010, the Second Commissioner issued an update saying, 'At our last update on 2 March 2010, we were on track to issue the remaining stockpiled refunds and assessments for income tax returns lodged in February by the end of last week.</p> <p>Last week we experienced some minor problems which have delayed us issuing some of those remaining stockpiled refunds and assessments while we ensure the integrity of our data.</p> <p>There are approximately 200,000 stockpiled assessments yet to issue (of which we estimate 100,000 are refunds). These include assessments which involve a baby bonus, entrepreneur tax offset, primary production averaging, exempt foreign employment income, special professional averaging, eligible termination payments or superannuation lump sum payments and non-resident withholding tax.</p> <p>We have fixed these minor problems and can start releasing most of these refunds and assessments from today (with the exception of assessments involving non-resident withholding tax).</p> <p>We remain committed to ensure the reliability of our processes even if this slows us down.'</p> <p>On 22 March 2010, the ATO released its <i>Tax Agent Magazine</i> in which the Commissioner said,</p> <p>'Of course, the big move on the technology front for the ATO so far this year is the decision we made in January to proceed with our new income tax system. ...</p> <p>We are replacing the system we have been using to process income tax returns since the 1970s.</p> <p>Given the size and significance of the change, there has been a substantial level of testing for this change and, so far, the changeover has been going according to plan.</p> <p>Nevertheless, any major new system will raise its own challenges, so the continuing patience and support of the tax profession is appreciated.'</p>

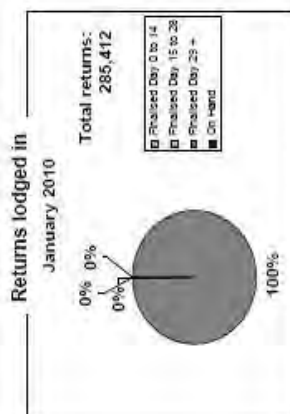
Number of problem on graphic	Description of problem	Relevant public ATO communication of the issue and the impact on taxpayers and tax practitioners
		<p>On 20 April 2010, the Second Commissioner issued an update which was published on the ATO website saying,</p> <p>'Overall are we happy with the implementation of the new income tax processing system?</p> <p>Yes.</p> <p>While we have had some problems, you would expect that with an implementation of an IT system as large as this one. There have been no critical systems problems. Overall, the new income tax processing system is working well and, as the figures demonstrate, the vast majority of processing has been completed.</p> <p>We know some people have experienced delays and frustration caused by our essential systems upgrade. Unfortunately, the size of the systems we deal with means they are incredibly complex. Also, given the importance of the tax and superannuation systems to Australia, we need to ensure the reliability of our processes.</p> <p>We appreciate the patience and support people have shown us and apologise for the inconvenience.'</p> <p>On 29 April 2010 the Commissioner published a message on the ATO website saying (amongst other things):</p> <p>'Unfortunately we did run into two unanticipated issues with the new system that caused delays outside what we had originally planned.</p> <p>One delayed matters for two weeks (which also had an impact on returns still coming in to us), and the other resulted in 140,000 refund cheques not printing. However, these cheques were sent last week.</p> <p>These sorts of things are not unusual when implementing a system of this size, however it added to the time in which we could not process returns. It meant a longer-lasting impact on taxpayers and tax practitioners than we had originally expected.</p> <p>Despite the delays, our new system has processed more than two million tax returns, including one million refunds. Since early April we have processed all newly lodged returns as per our service standards (94 per cent of electronic returns in 14 days and 80 per cent of paper returns within 42 days). We took a cautious approach during our ramp up of the processing of returns to ensure the accuracy of the calculations in assessments.</p>

Number of problem on graphic	Description of problem	Relevant public ATO communication of the issue and the impact on taxpayers and tax practitioners
		<p>We do not have a stockpile of returns waiting to be processed. However, as is normally the case, there will always be some returns in our system because:</p> <ul style="list-style-type: none"> we need to scrutinise high risk refunds that could indicate fraud there is a tax debt owing or an obligation due to the Child Support Agency and/or Centrelink there is information missing or incorrect in the return that we need to follow-up with the taxpayer or agent, and/or people have lodged several years' worth of outstanding returns with their 2008-09 return. <p>I assure you we have worked extremely hard to minimise the impact of the new system on tax agents and the community.'</p> <p>At the 1 June 2010 Senate Estimates hearing, the ATO gave the following evidence:</p> <p>'Mr D'Ascenzo — As I said, from 1 April we were back on normal processing times. There are always some returns that are outstanding. I have indicated that and some of the reasons why some of those returns are outstanding. It is not a question of the system not working. As of 1 April the system has been working to specification.'</p> <p>Impact on taxpayers and tax practitioners</p> <p>ATO public communications in relation to this problem do not reconcile with what had actually happened. ATO communications did not indicate the main reason for delays — problems with the system that prevented returns from being assessed and NOAs being issued. In fact, the ATO communications appear to give the impression that none of the delays were attributable to problems with the system.</p> <p>Tax practitioners incurred unproductive work in contacting the ATO repeatedly to check on the progress of returns. If the ATO had initiated clear communication of this problem if and when it first became aware of it, then much of this adverse impact could have been reduced if not avoided.</p> <p>Additionally, taxpayers and tax practitioners suffered the effects of reduced expected cash flows due to the contribution of this problem to delays.</p> <p>As a result taxpayers and tax practitioners have reduced confidence in the ATO's administration of the system.</p>

APPENDIX 12 — ATO'S SERVICE STANDARD PERFORMANCE JANUARY 2010 — JUNE 2010

A.12.1 The diagram on the following page reproduces the ATO's advice to the IGT on its service standard performance for individual income tax returns lodged electronically.

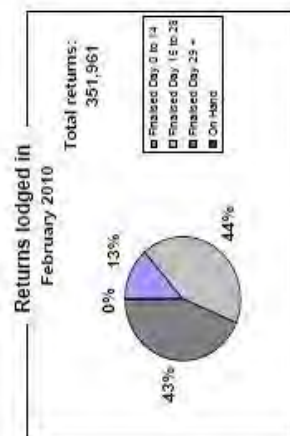
- This summarises the client experience from when they lodge a return.
- It will also form the approach from 1 July 2010 for future ATO service standards reporting.



January, 2010

As processing of returns was not possible in January 2010, no returns lodged in January were processed within the service standard of 14 days

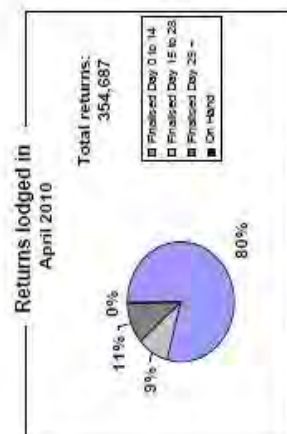
99.8% of all returns received have now been processed leaving 536 returns still on hand.



February, 2010

As processing of returns was not possible for the first two weeks of February, only 13% of electronic returns lodged in February were processed within the service standard of 14 days.

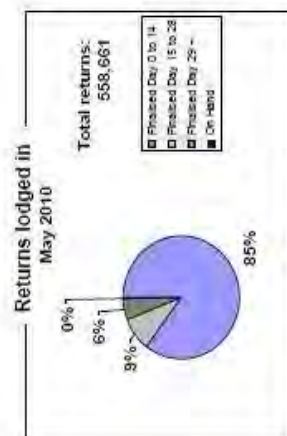
99.8% of all returns received have now been processed leaving 686 returns still on hand.



April, 2010

80% of electronic returns lodged in March were processed within the service standard of 14 days.

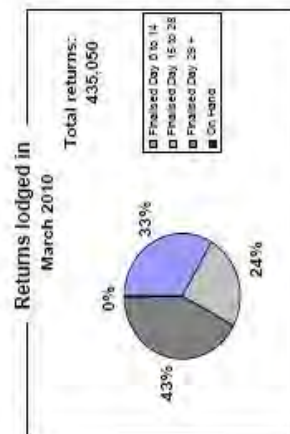
99.8% of all returns received have now been processed leaving 833 still on hand.



May, 2010

85% of electronic returns lodged in May were processed within the service standard of 14 days.

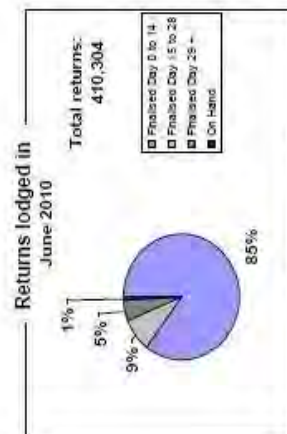
99.8% of all returns received have now been processed leaving 1,262 still on hand.



March, 2010

As processing of returns was not possible for 10 days in March, only 33% of electronic returns lodged in March were processed within the service standard of 14 days.

99.8% of all returns received have now been processed leaving 902 returns still on hand.



June, 2010

85% of electronic returns lodged in June were processed within the service standard of 14 days.

99.3% of all returns received have now been processed leaving 3,074 still on hand.

APPENDIX 13 — KEY RECOMMENDATIONS FROM CPT GLOBAL'S REPORT, *RELEASE 3 — INCOME TAX IMPLEMENTATION REVIEW*

Tax Office ICT Capability

The Tax Office vision for ICP was that it would provide a generic capability that could be configured to include new tax products and processing changes. In essence, ICP has the complexity of a package but is unique to the Tax Office and is supported by Tax Office IT. This is very different from using Commercial Off The Shelf (COTS) product where code changes and ongoing improvements are made, tested, released and supported by a specialist software organisation such as Seibel or SAP

The Tax Office has developed a good foundation of knowledge and experience during the period of the Change Program. This must be consolidated now that the primary role of Accenture has been completed.

Recommendations:

1. The reliance on Accenture to some degree going forward should be advisory so that the Tax Office takes the lead and Accenture supports.
2. Knowledge transfer from Tax Office staff involved in the Change Program needs to be harvested as does the Accenture ICP enterprise architectural knowledge.
3. While the Tax Office has developed good solution architecture knowledge of ICP, it needs to develop mature ICP Enterprise skill so that it is capable of assessing the strategic architecture issues that the Henry and Cooper Review will demand.
4. The Tax Office should develop a process for consulting with Government on implementing new requirements using ICP as a COTS product. This “methodology” and consultation process will be essential to ensure that the generic and configuration capabilities of the Change Program investment are realised.
5. The Tax Office considers the ICP framework as a strategic asset for implementing changes using a configuration approach. The Tax Office must consider different approaches to release management, testing, operational management and support with ICP and ensure they don't fall back to a NTS process which was based on a custom code approach. This approach should recognise ICP as having the characteristics of a COTS product.

Operational Management of ICP

The Tax Office has been supporting the implementation of ICP releases since 2008. Over that time it has developed a mature ATO Integrated Support Model. While this model is appropriate for new releases and major situation management, it is not something that can be sustained going forward.

Recommendations:

6. There is a need to consider an operational function that replaces the activities of the Nerve Centre. This “problem avoidance” capability for operational control of the system (not operations management) provides daily monitoring technical and business queues, monitoring and use of the Safety Net, load balancing performance and capacity using trickle batch and other controls.
7. Performance tuning and monitoring. While the capacity plan indicates that there is sufficient capacity to support Tax Time releases for the next 12 to 18 months, the Tax Office should continue to monitor performance — particularly DB2 which can degrade performance if not optimised.
8. The Tax Office should minimise the number of eFixes that implemented into production so that risks to business operations are reduced. Ideally the majority of eFixes should be consolidated into planned releases that justify the comprehensive testing that a COTS product would normally involve.
9. The Tax Office should consider differentiating between ICP configuration changes and ICP code changes. ICP configuration (cFixes) changes should require less testing as they are generally product specific. ICP code changes, especially eFixes should be subject to more rigorous testing.

Enhancements to R3/ ICP

Now that the Tax Office has implemented the full scope of ICP and converted the majority of Income Tax products to ICP, a number of additional investments should be made in the following areas.

Recommendations:

10. Business rules for ICP are managed through a MS Access database and represent a future area of risk due to the lack of processing controls and versioning capabilities. A COTS Business Rules Management System (BRMS) should be considered as a strategic replacement for the MS Access Database. An industry leading product in this area is ILOG which has been purchased by IBM and will become the rules engine for WebSphere Process Server.
11. The Tax Office needs to review the relevance of the backlog of Severity 3 and 4 defects that have been stockpiled over a number of releases of ICP. The definition of Severity 3 is that it is a business requirement that has not been met. A review of these defects should be made so that they can be removed from consideration or scheduled into a release.
12. The Tax Office should increase the controls and instrumentation relating to the operational management of ICP. This include further enhancement of the business transaction reconciliation, MQ monitoring leveraging Omegamon, instrumentation of Trickle Batch. Further enhancement of the Safety Net with consideration of its application for Outbound.

APPENDIX 14 — CAPGEMINI'S AUGUST 2008 RECOMMENDATIONS TO THE ATO

A.14.1 The following recommendations are reproduced from Capgemini's report to the ATO, *Australian Taxation Office Easier, Cheaper and More Personalised Change Program, Independent Assurer Report Version 1.2, Period covering 1st August 2008 – 31st August 2008*.

1. Enforce Stage Containments across Build & Test which include meeting all entry & exit criteria and ensuring that end to end testing of all components occurs during PT and IPT
2. Improve test reporting to focus on testing effectiveness, test progress and test coverage
3. When delivery milestones change or change requests occur, investigate and document the impact on schedule, scope, and people to define that quality will be maintained
4. Empower BESS to clarify and manage severity definitions to ensure that Business and Change Program share a common understanding and method for managing issues
5. Change Program re-communicates and re-educates the Build & Test teams on their roles and responsibilities
6. Go live support must use the same tools and processes, utilised by BESS
7. Use Test Director as the single source of truth for test planning, execution & reporting
8. Change Program keeps the traceability matrix up-to-date to enable targeted regression testing and assisting change management
9. Ensure that key designers, builders & testers are involved all stages of delivery
10. Reinforce that key leadership roles for test have the mandate to stop progress and an understood escalation path if they feel that quality will be compromised
11. Key leaders in testing have appropriate experience and consideration is also given to certifications in industry test standards, such as: CSTE, ISTQB or CSQA
12. Divide business and technical components into separate documents for design and code table management
13. Use tools to automate regression testing, eg Winrunner

14. Plan frequent drops for Severity 1 defects; plan longer cycles for major build activities and other defects during test.
15. Ensure there is an alignment of top down and bottom up estimates that drive the end schedule.
16. Conduct testing on converted data starting in Product test phase

APPENDIX 15 — ATO'S RESPONSE



Australian Government
Australian Taxation Office

SECOND COMMISSIONER OF TAXATION

1 December 2010

Mr Ali Noroozi
Inspector-General of Taxation
GPO Box 551,
Sydney NSW 2001

Dear Ali,

Thank you for the opportunity to comment on the Inspector General of Taxation's (IGOT) report "Review of the Australian Taxation Office's Change Program", dated December 2010.

Background

The Australian Taxation Office's Change Program has been a very significant undertaking which commenced in 2004 and the contract was closed on 30 June 2010. During the last six years substantial additional scope was added and some of the original deliverables were removed from the scope of the contract.

As noted by the Australian National Audit Office (ANAO) in a report titled "The Australian Taxation Office's Implementation of the Change Program: a strategic overview" dated October 2009, "...Largely because of legislation changes, the Tax Office expanded the scope of the Change Program several times..." The most notable of these changes was the Superannuation Simplification legislative reforms which added almost \$200 million to the original business case of \$445 million.

In addition to increasing the overall cost of the Change Program, the various legislation changes meant that it would take the ATO considerably longer, than originally planned, to complete the program of work. It is acknowledged, however, that there were other factors which caused delays.

The Change Program has already provided significant savings for the ATO. Independent analysis of internal efficiencies already identified, that are directly related to the Change Program, suggest a four year payback for the ATO for the self funded parts of the program. This is clearly a very short period of time to recover the self funded part of the cost of the Change Program and demonstrates achievement of planned benefits by the ATO.

The largest and most complex part of the Change Program was the Income Tax system which was deployed into our integrated system in late January 2010. This system replaced a thirty year old mainframe system and is being used to process all individual, company, partnership and trust return forms. The new Income Tax system, which has over 1.5 million lines of new code and extensive configuration tables, is the largest information technology implementation ever undertaken by the ATO. It took over two years to build at a cost of about \$400 million. Our independent assurers have noted that this system is perhaps the largest IT system ever deployed in Australia – including both the public and private sectors.

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Earlier this year this deployment attracted a lot of media interest and other comments because of delays experienced in the processing of income tax returns. With the deployment of a system as large and complex as the Income Tax system, there was always going to be significant delays and the ATO had warned of this for a number of years. In particular, the ATO took active steps to directly inform tax agents and their professional associations that the ATO would have to stop processing returns for several weeks leading up to the deployment.

The new Income Tax system provides the ATO with a modern platform and processing system which will serve Australia's taxpayers well for many years into the future. Despite some problems in the early phases of bedding down the new system, it is now performing well overall and any identified issues are being managed. During our very busy Tax Time 2010 period, as at 14 November 2010, we have finalised the processing of 10.23 million returns and issued 8.4 million refunds with a value of \$21.69 billion. In relation to individual returns lodged electronically the ATO:

- Finalised the processing of 54% of returns received in July within 14 days (94% were finalised in 29 days);
- Finalised the processing of 90% of returns received in August within 14 days;
- Finalised the processing of 93.2% of returns received in September within 14 days; and
- Finalised the processing of 95.2% of returns received in October within 14 days.

Deployment of the new Income Tax System

In the lead up of the deployment of the new Income Tax system, the ATO undertook very broad ranging consultation, communication and engagement activity to inform taxpayers, tax agents and professional and industry associations which represent tax agents, that there would be delays for many weeks in the processing of tax returns. The various professional associations were a key part of these communication activities because the ATO has longstanding protocols that the professional associations should be the main conduit between the ATO and tax agents.

Overall, these communications were largely directed at the tax profession because taxpayers who lodge their own return should have done so by 31 October 2009.

It was made clear in ATO communications that all returns lodged after the end of December 2009 and up to mid February 2010, could not be processed until the new system was implemented and these returns would have to be stockpiled. This approach enabled the ATO to complete the processing of returns in the old system, before the end of January 2010, when we had to convert a very large amount of data from the old to the new system. This required the conversion of 27 million taxpayer records, 32 million accounts and 282 million forms.

One of the unique complexities of this deployment was that the new system had to have the tax changes for each of the years 2001 to 2009 incorporated to enable the ATO to process current and prior year returns as well as amendments. This meant that the ATO had to build and test the functionality for the 2009 tax year as well as the code for each of the previous eight years.

Stockpiling of Returns

The end of January 2010 was chosen for the deployment of the new Income Tax system because while the ATO processes over 14 million returns a year, during the January/February period we typically would only receive about 5% of these returns. Despite January and February being a quieter period, by mid February 2010 there were approximately 700,000 income tax returns stockpiled in the ATO.

In the various ATO website updates issued during the February to June 2010 period, it was noted that the ATO estimated that approximately half of the returns expected to be lodged between January and June would result in a refund. Of the 3.8 million returns processed in that period 55% resulted in a refund.

The ATO communications leading up to the deployment of the new Income Tax system encouraged taxpayers and their agents to file as many returns as possible before the end of December 2009, particularly those returns where a refund was expected. Amongst other things, this included the ATO telephoning over 3800 tax agents, who would normally lodge more than 100 returns during December and January, to remind them of the delays which would be experienced and again, they were encouraged to lodge as many returns as possible before the end of December 2009.

It is clear that some taxpayers and tax agents took note of the ATO's communications and lodged more tax returns before the end of December 2009, particularly returns where refunds were expected. A number of tax agents have advised the ATO that they were able to plan their work to take account of the period of time the ATO needed to stockpile returns and thereby minimise the impacts of the deployment of the Income Tax system. The ATO has provided you with the contact details for a number of these agents.

However, putting aside the change in the number of returns lodged in the year ended 30 June 2009 because of the Tax Bonus, there was very little overall change in the flow of returns received during December 2009 to March 2010 compared to the same period in the previous two years. It is now clear that the very extensive communications the ATO undertook were not successful in bringing about any significant change in the lodgement pattern of taxpayers and their agents. Clearly it would have been very beneficial if more returns were lodged before the end of December 2009 but it is appreciated that it may have been difficult for some agents to do this.

Processing of Returns

During December 2009 and January 2010 the ATO worked hard to finalise the processing of as many returns as possible. By the end of December there were 120,498 unprocessed returns on hand and this compares favourably to the number of unprocessed returns on hand at 31 December 2007 — 156,497 and 31 December 2008 — 228,634.

During January 2010 the ATO finalised the processing of 84,853 of the returns on hand at the end of December 2009 and issued 56,697 refunds. Most of the remaining unprocessed returns (35,645) were included with the returns to be processed in the new system. However, some of these returns were held due to the need to investigate possible overstated or fraudulent claims.

Full processing of returns in the new Income Tax System commenced in mid February 2010 and by the end of February 2010, all stockpiled returns (over 700,000) were entered into the new system. A further 300,000 returns were lodged by the end of February. After two weeks of processing by the end of February, we had finalised the processing of over 560,132 returns and issued 250,540 refunds.

While large numbers of returns were able to be successfully processed during the period from February to June 2010 (see *Attachment 1*); the delays experienced by some taxpayers and agents caused great concern.

There was a large increase in the number of complaints received and the number of requests for urgent refund processing was also much higher. As noted in your report, our people in the ATO worked very hard to finalise the processing of all returns and deal with client enquiries and complaints.

Communications

From early February to late April 2010 there was significant media interest in the delays experienced with the processing of tax returns. The ATO sought to keep the community informed by issuing a number of website updates detailing the number of returns being processed as well as the number of assessments and refunds which had issued or would shortly issue. At the same time and in order to keep tax agents abreast of developments, more detailed information was provided to their professional associations and to tax agents directly.

Where a taxpayer or an agent was waiting for an assessment or refund, understandably the broader information provided in the website updates did not help them find out what was happening with the processing of their particular assessment and refund. It was necessary for these taxpayers and agents to contact the ATO directly and although many additional staff were available to answer calls, at times due to the volume of calls received, it was difficult to speak with an ATO officer. Furthermore, our people were becoming familiar with a new system and initially they were not always able to assist taxpayers and their agents as much as they would have liked.

Given the reaction of taxpayers and tax agents in the early part of this year, clearly some of the ATO's communications were not fully understood and with the benefit of hindsight, we could have structured some of our communications differently.

For example, it is now apparent that some tax agents believed that once we had started to use our new system all stockpiled returns would be processed and assessments finalised within a very short period of time, if not immediately. The reality always was that it would take the ATO many weeks after mid February, to complete the processing of the stockpiled returns. Although we had frequently mentioned in our communications there would be extended delays, more contextual information would have been helpful to enable taxpayers and their agents to gain a greater appreciation of the time it would take the ATO to process the stockpiled returns.

Another example is the steps the ATO took to inform tax agents and their professional associations about the new notices of assessment and statements of account which were issued by the new Income Tax system. Although these new notices and statements were designed with significant input from tax agents, some agents were dissatisfied with a number of aspects of the notices and statements.

Our communications highlighted the changes that tax agents would see and copies of the new notices and statements as well as supporting material, were made available to agents and professional associations in December 2009 and again in January 2010. However, we underestimated the time it would take for some agents to become familiar with these new forms and then consider the implications for their practice given the number of extra pages of information agents would receive for each of their clients. It is now clear that on occasion the detailed information provided to professional associations was not always understood and

sometimes not passed onto tax agents. Overall, the ATO should have communicated more directly with agents during this period.

A number of changes have already been made to both the notices and statements which have been based on the feedback we have received.

Risks with the deployment of the Income Tax system

The deployment of a system of the size and complexity of the new Income Tax system always comes with considerable risks. As already noted, in addition to being the largest information technology system ever deployed by the ATO, the ATO's independent assurers have noted that this system is perhaps the largest IT system ever deployed in Australia — including both the public and private sectors.

Your report notes that at the time of deploying the new Income Tax system, there were a number of known defects in the system and it was likely that new defects would be found once the system was in use. Given this the ATO had comprehensive mitigation strategies in place and these are also referred to in your report.

A separate independent review undertaken by CPT Global, after the deployment of the Income Tax system, concluded that the ATO had "...successfully implemented a complex program of work". In that report it also noted that "...No deployment is totally without risk and while there have been some impacts on the Tax Community; the Tax Office has significantly mitigated the impacts through its risk management and governance processes."¹

One of the steps to mitigate the risks of the deployment of such a large and complex system was the use of a Safety Net to stop the processing of certain returns if we were not confident that an assessment would be correct. This often, but not always, required a change to the system before the processing of the returns could be finalised.

Problems

Your report notes there were a number of different issues and problems the ATO had to resolve during the early stages of the implementation of our new system. However, two larger problems arose and the first of these stopped the processing of returns for ten days in early March. Understandably this had a direct impact on those taxpayers and agents who were awaiting an assessment and perhaps a refund.

In early March a change was being introduced to the system which had the unintended consequence of altering the notices of assessment for about 145,000 returns. Although all the calculations in these assessments were correct, the change made to the system resulted in the taxable income being shown as nil, irrespective of the actual taxable income. In order to correct these notices of assessment we had to "back out" each return from the system and then recommence processing. With the new system only being in use for a few weeks this proved to be difficult and it took us longer than we expected to rectify this problem.

The second problem occurred in the second week of April when about 140,000 cheques were not printed. Again, another change to the system had unintended consequences. Once we became aware of this problem cheques were printed and issued within one week.

¹ CPT Global, *Release – Income Tax Implementation Review*, report to the Australian Taxation Office, August 2010.

Conclusion

The Change Program was an ambitious and far reaching program for the ATO. Our people and the various contractors involved worked very hard for a number of years and we appreciate the supporting comments you have made in this regard.

We want to thank you and your staff for a comprehensive and thorough report of the Income Tax release and the ATO is committed to learning from this experience to further improve our ability to deliver major information technology reforms.

The ATO response on each recommendation is at *Attachment 2*.

A handwritten signature in black ink, appearing to read 'David Butler', with a stylized flourish at the end.

David Butler
Second Commissioner
Australian Taxation Office

ATTACHMENT 1:**INDIVIDUAL AND NON INDIVIDUAL TAX RETURNS — FLOW OF RETURNS WHERE PROCESSING AND REFUND ISSUED WAS COMPLETED**

	Processing Completed	Refunds Issued
January 2010	84,853 *	56,697
February 2010	560,132	250,540
March 2010	573,135	413,322
April 2010	634,891	509,500
May 2010	1,150,043	594,836
June 2010	842,980	289,060

* Processed in old system (120,498 unprocessed returns were on hand at 31 December 2009)

ATTACHMENT 2:**RESPONSE TO RECOMMENDATIONS**

[The IGT has placed the ATO's reponse to recommendations in Chapter 4 to reduce duplication.]

