



Inland Revenue

Independent Quality and Technical Assurance

Business Transformation Programme

IQA 11 / TQA 10

Final v1.0

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kpmg.com/nz

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1 Executive Summary

This report presents the findings from the KPMG Independent Quality Assurance Review 11 (IOA11) and Technical Quality Assurance Review 10 (TQA10) of the Inland Revenue Business Transformation Programme (BT Programme).

The objective of this review is to provide independent assurance to the Programme Sponsor, considering the perspectives of relevant stakeholders, and external monitoring agencies.

1.1 Background to our review

Inland Revenue (IR) has been working to meet the Government's expectations of a Public Sector that delivers smarter, modern services for less, and where applicable, is aligned to the Government's Strategy and Action Plan and to meet IR's own strategic ambition of being a Government organisation that delivers world class services to its customers and stakeholders. During 2011, IR began a journey to reduce the risk of its aging revenue system, by making the case for substantial re-investment in the organisation and its ICT systems; this became the Business Transformation Programme ('BT').

Following the presentation of the Programme Business Case to Treasury, the Minister and Cabinet, the Transformation Programme entered the Mobilisation Phase in December 2013. The Programme Business Case was approved by Ministers in the first quarter of 2014, and a Cabinet paper that sought drawdown of funding was approved in April 2014 for the Programme through to the beginning of January 2015, the Pre-Design phase. During the Mobilisation and Pre-Design Preparation phases of the Programme, Accenture were selected as the Programme partner for the High Level and Detailed Design phases, and a procurement process selected a Commercial off the Shelf ('COTS') solution to provide core tax processing capability. FAST Enterprises ('FAST') were selected as the vendor and have been working with IR since August 2015 to develop the requisite systems' functionality.

Prior releases of BT went live in accordance with the planned deployment approach, and START Release 4.0 is scheduled to go live in April 2020. The key changes implemented through Release 4.0 include:

- Moving administration of KiwiSaver and student loans to the START systems platform.
- Enhancements to Working for Families Tax Credits.
- Further changes for employers including moving the end-to-end processing of employer obligations into START, bringing PAYE, student loans, Child Support, KiwiSaver (KSE and KSR) and tax withheld on KiwiSaver contributions (ESCT) into a single consolidated employer online account.
- More frequent reporting of investment income information becomes mandatory.
- Implementing the Government's new R&D tax incentives and write-off rules.
- Changes to payment options, to allow cheque payments by exception only.



- Providing new gateway services to software providers and intermediaries for filing tax on income and associated data exchange.
- Completing the migration of www.ird.govt.nz to the new web content management system, and further improvements to myIR for customers.

Although START Release 4.0 has a smaller user community than Release 3.0, it has other, technical challenges (including a scale and complexity in the data-migration) that will put increased pressure on the cutover window, with a consequent elevated level of risk through the transition period.

1.2 Summary terms of reference

To support the delivery of the Programme, IR has engaged KPMG to provide Independent Quality Assurance (IQA) and Technical Quality Assurance (TQA) across the Programme. This review follows prior KPMG reviews through the earlier Programme stages, and the detailed approach and scope are set out at Appendices 5.1 and 5.2. The terms of reference for this review were confirmed in the Consultancy Services Order agreed between IR and KPMG, dated 23rd December 2019.

Our terms of reference address both IQA and TQA, in order to provide stakeholders with a broad assessment of the status of the Programme, and our review was performed in January and February 2020, when we reviewed documents and artefacts that were current at that time. Consequently, a number of these artefacts were in draft and work-in-progress (our agreement with the Programme is that we review draft artefacts for context, and not critique them in detail), and may have been amended since.

Our approach has been to perform a risk-based assessment considering the stage of the Programme lifecycle, and in this report:

- The IQA 11 review has focussed on readiness for START Release 4.0 'go live' primarily from a solution, change-management and stakeholder engagement perspective. We have also considered the Programme's governance, and decision-making frameworks, to verify that they remain robust.
- The TQA 10 review has considered data migration and custom software as well as production readiness, preparation for the FAST V12 upgrade and TLO. We have also reviewed business continuity and disaster-recovery planning.

The review includes findings and recommendations relevant to the current stage of the Programme lifecycle, and the detailed terms of reference are included in this document as Appendix 1. We have also considered the Programme's progress on recommendations made under prior reviews.



1.3 Overview of our assessment

Since our prior review (IOA 10/TQA 9), the Programme has continued with the development and testing of the START Release 4.0 solution, generally in line with the schedule and expectations defined last year.

The Programme has also maintained its focus on quality of delivery and continuous improvement, and in particular we were pleased in this review to note:

- The continuing effectiveness of the Programme governance and management processes, which ensures that the Programme remains well-controlled.
- The effectiveness of the Programme readiness and business-readiness processes, that afford a transparent and granular view of status, and allow executive and governance stakeholders to understand how readiness for Release 4.0 has matured over time, and where remediation is necessary.
- Ongoing focus on communications and stakeholder engagement, which is reflected in the positive feedback we received from third-party interviewees.

It is apparent, also, that the state of readiness for the START Release 4.0 solution (primarily as reflected in the progress of the test activity, and related metrics) is generally in-line with expectations, and broadly comparable with Release 3.0 at a comparable point in the schedule. However, Release 4.0 is significantly different from prior releases, in that the non-tax products (student loans and KiwiSaver) present different challenges to those faced before, and at the time of our review there are substantive issues apparent in readiness of some specific areas, which relate to:

- The data migration, which is experiencing issues related to the volume and complexity of the data-set being migrated in support of student loans and KiwiSaver products, resulting in some critical-path pressure and some 'ringfenced' crown reconciliation issues which we understand will be carried forward for resolution after the release 4.0 go-live. Consequently, the status of the 'Mock Go-Live' ('MGL') process is significantly behind expectations; both the MGL 1 and MGL 2 checkpoints have revealed some issues which indicate 'knock-on' risks to the cutover activity.
- The overall business readiness for Release 4.0 which is less apparent than of prior releases, with the evident pressure of the cumulative impact of change from prior BT releases, and the imminent reorganisation competing for attention and resourcing across the organisation.

Our assessment at this point is that BT Programme management and IR's leadership are generally doing all that they reasonably can to mitigate the known risks and secure the Release 4.0 go-live, as planned. There is also a contingency plan, in the event that the risks to the planned go-live data prove to be unsustainable.

While management attention is understandably focussed on the Release 4.0 go-live, our review has also considered a 'look ahead' into Release 5.0, where we have noted:

- With respect to the cutover of child-support into START in Release 5.0, our experience is that implementations of child-support systems with a vulnerable and high-profile client-base are generally highly-complex. It is apparent that IR understands this complexity, and FAST are also building capability in this area, and have committed to this in their core product. At this early stage the associated design activity is on schedule.
- Release 5.0 will end FAST's co-existence with legacy systems, de-commission those legacy systems and optimise the target systems landscape. This will be a complex undertaking, and progress in the associated Technology Landscape Optimisation ('TLO') initiative is broadly in line with expectations.
- As de-commissioning of the BT Programme will run in parallel with delivery of START Release 5.0, the end-state organisational design for IR will require that any necessary residual capability is established concurrently (through the Future Change Capability, 'FCC'). In this review, we noted that the He Kotuitui initiative is



understood as the mechanism to effect that transition, but that it's immediate priority appears to be the target organisation design. We have recommended that this focus needs to broaden, to ensure that the wider He Kotuitui / FCC objectives can be met, and to secure realisation of the intended benefits from BT.

Going forward, IRD must continue to sustain the Programme delivery focus, while being responsive to these broader business requirements. This is an ongoing theme in our reviews and, in our view, the Programme has managed this tension effectively to-date. The inherent resource-constraints mean, however, that IR must constantly balance demands for a limited pool of human resources and expertise (including IRD's leadership team), with the need to both stabilise and optimise prior releases, as well as deliver the next release at pace. The PGC should continue to monitor this tension carefully, particularly now with respect to START Release 5.0, establishment of the 'Future Change Capability' and the de-commissioning of the BT Programme.

