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Inland Revenue Department: Governance of the Business Transformation programme



Office of the Auditor-General
PO Box 3928, Wellington 6140

Telephone: (04) 917 1500
Facsimile: (04) 917 1549

Email: reports@oag.govt.nz
Website: www.oag.govt.nz

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Inland Revenue Department: Governance of the Business Transformation programme

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Auditor-General's overview

Effective tax collection is crucial to New Zealanders. The work of the Inland Revenue Department (Inland Revenue) is important to the Government being able to provide the wide range of support that New Zealanders receive and expect. This support includes providing services such as health, education, and law and order and infrastructure such as hospitals, prisons, and roads. If Inland Revenue did not collect taxes effectively, the Government would be unable to provide these services and infrastructure.

Inland Revenue works with individual and institutional taxpayers, who collectively pay more than \$50 billion tax a year.

The systems and processes that Inland Revenue uses to collect tax and to implement government initiatives, such as KiwiSaver, were introduced in the early 1990s and are complex and expensive to maintain. They need updating. To maintain and upgrade the current systems would be difficult and expensive.

In response to this, Inland Revenue has begun a significant Business Transformation programme (the programme) to build a “modern revenue system”. Inland Revenue hopes that a modern revenue system will make it easier for taxpayers to pay their tax.

Inland Revenue also wants the modern revenue system to cost less to look after, to use more reliable information technology, and to be able to accommodate government policy changes in a timely and cost-effective way.

The programme is important to all New Zealanders. I decided to look at how Inland Revenue is governing the programme to deliver a modern revenue system. Good governance is important in ensuring that we end up with an effective and efficient new revenue system. Governance is about the arrangements and practices that allow a public entity to set its direction and manage operations to achieve the outcomes expected and to fulfil accountability obligations.

The programme has been operating for about four years and has an anticipated further 8-10 years to go. It involves significant public spending (estimated to be between \$1.3 billion and \$1.9 billion, dependent on decisions to be made by Ministers and by Cabinet), with \$83 million spent as at the end of November 2014. The programme includes a large information technology component.

We have found that Inland Revenue's governance of the programme has provided clear direction, and supported clear and effective decisions. However, Inland Revenue needs to watch and carefully manage specific risks to effective governance. Inland Revenue is aware of these risks.

Inland Revenue will also need to continue to adapt the programme's governance arrangements to be fit for purpose at any point in the programme's life. Without this ongoing adaptation, the governance arrangements may stop being effective.

Strengths of Inland Revenue's governance of the programme include a comprehensive and clear governance structure, an established methodology, and an advanced approach to managing risks.

Having the right senior staff and appropriate external specialist staff involved in the programme's governance has also been a strength. Involving members of the executive team in governance is common in public entities without governing boards. The people involved must be disciplined in separating their governance and management roles.

Managing the risks also includes ensuring that reviews of governance structures are scheduled and take place, and that the right balance is achieved in balancing executive time between programme governance and managing the current tax system.

Inland Revenue needs to carefully manage several risks to good governance. This includes ensuring that independent quality assurance reviews of the programme coincide with times of high risk to the programme; that longer-term people capability, capacity, and succession management is in place; and that specialist skills are transferred appropriately between governance personnel within the programme.

We have made two recommendations to help ensure that governance arrangements remain fit for purpose over the life of the programme and that the main risks to good governance are managed well. Auditing of the programme will be an ongoing piece of work for us.

I thank Inland Revenue's staff for their help, co-operation, and openness when working with my staff. I also thank those people external to Inland Revenue who met my audit team.



Lyn Provost
Controller and Auditor-General

24 April 2015

Our recommendations

1. We recommend that the Inland Revenue Department continue to ensure that governance of the Business Transformation programme is fit for purpose by:
 - periodically reviewing the governance of the Business Transformation programme (including the roles, responsibilities, and membership of the various groups that are part of the governance structure); and
 - using the results of reviews when making changes to the programme's governance.
2. We recommend that, over the life of the Business Transformation programme, the Inland Revenue Department continue to effectively manage significant risks to good governance, including the risks of:
 - an imbalance in the allocation of executive management's time between programme governance and managing the integrity of the current tax system, with risks of the programme advancing slowly or not being driven enough by the needs of the business;
 - inconsistent training and induction for people involved in governance of the programme;
 - the programme not being able to provide the necessary certainty to the main stakeholders or enough clarity about when benefits will be realised;
 - independent quality assurance reviews of the programme not taking place at times when the programme faces high risks;
 - not having effective capacity and succession management and longer-term staff capability in place;
 - contracted staff not transferring skills appropriately to other staff; and
 - the programme not being as economic and/or as efficient as possible.

1

Introduction

- 1.1 In this Part, we:
- describe the role of the Inland Revenue Department (Inland Revenue);
 - outline the Business Transformation programme (the programme) and how it is governed; and
 - discuss what our audit looked at and did not look at.
- 1.2 The theme of our Office’s work programme for 2014/15 is *Governance and accountability*. We chose this theme in recognition of recent significant changes in legislation and financial reporting standards affecting public sector accountability arrangements and because of the importance of governance in managing major projects and delivering successful outcomes.
- 1.3 Governance is the arrangements and practices that allow a public entity to set its direction and manage its operations to achieve expected outcomes and fulfil its accountability obligations. Good governance is about getting the right work done in the best way possible and sustainably.
- 1.4 This report sets out the findings of our audit of Inland Revenue’s governance arrangements for the programme. We decided to look at the programme because significant public money is involved, and the programme is important to Inland Revenue being able to continue to fulfil its core work of collecting Crown revenue and implementing government initiatives. We intend to report further on aspects of the programme during the next few years.

The role of the Inland Revenue Department

- 1.5 Inland Revenue manages New Zealand’s tax system. It also administers several government programmes, including KiwiSaver, Student Loans, Working for Families tax credits, Child Support, and Paid Parental Leave. In 2013/14, Inland Revenue collected \$56.2 billion in tax revenue. This represents more than 80% of the Government’s revenue. In 2013/14, Inland Revenue had operating expenses of about \$700 million and about 5600 full-time equivalent employees. Inland Revenue also paid out \$3.7 billion to people for such things as Child Support payments, tax credits, and Paid Parental Leave payments.
- 1.6 The tax collected by Inland Revenue helps pay for the public health system, education, and law and order. A tax system that works well supports a more competitive and productive economy and helps the Government achieve its fiscal, economic, and social objectives. A dysfunctional tax system could make Inland Revenue less able to effectively and efficiently collect and distribute money and hinder achievement of the Government’s objectives.

What the Business Transformation programme is intended to achieve

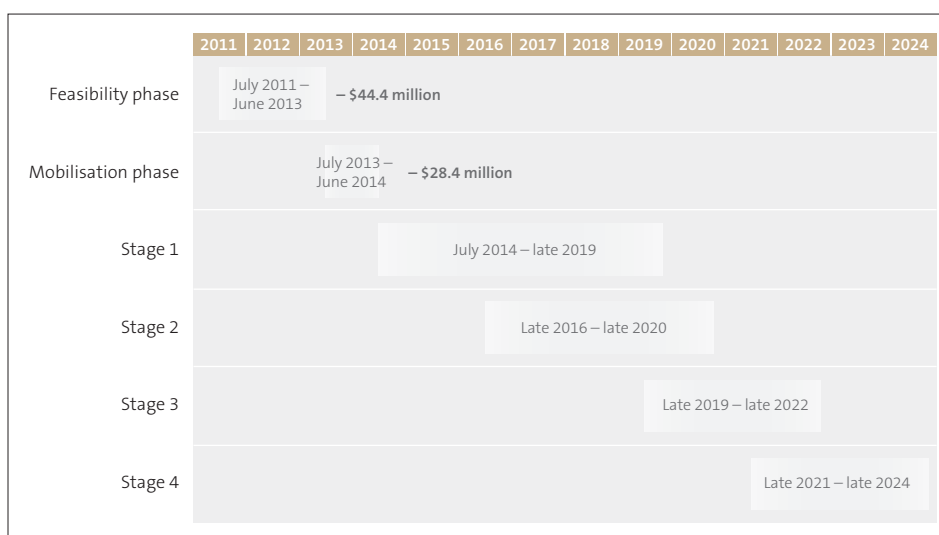
- 1.7 In the early 1990s, Inland Revenue installed a revenue collection platform¹ called FIRST (Future Inland Revenue Systems and Technology). The platform was set up to administer the tax system. In more recent years, various government initiatives (such as Child Support, Paid Parental Leave, Student Loans, Working for Families, and KiwiSaver) have been added to the platform. This has added layers of complexity and risk to Inland Revenue's business process and core technology infrastructure.
- 1.8 The platform is complex and expensive to maintain, and is difficult and expensive to amend. A recent modification to the platform to support changes in Child Support policy is an example of the expense and challenge involved in amending it.
- 1.9 In response to this situation, Inland Revenue began a significant transformation programme. The programme is a business-led, technology-enabled change initiative to set up the infrastructure and capability that will allow Inland Revenue to deliver a modern revenue system. The preferred option identified in Inland Revenue's programme business case is expected to cost between \$1.3 billion and \$1.9 billion in real terms² over 10 years. These estimates are subject to further analysis as part of the design workstream and are dependent on future investment decisions to be made by Ministers and by Cabinet.
- 1.10 The programme includes making changes to simplify and streamline Inland Revenue's business processes, policies, and customer services. It also involves upgrading Inland Revenue's technology system.
- 1.11 As described in Inland Revenue's programme business case, the main investment objectives of making these changes and upgrading the technology system are to deliver a modern revenue system by:
- improving agility so that policy changes can be made in a timely and cost-effective way;
 - delivering more effective services to help ensure that customers comply better with the tax rules and help support social policies;
 - improving productivity and reducing the cost of providing services;
 - making the system easier for people to use;
 - increasing the secure sharing of intelligence and information throughout government to improve delivery of services to New Zealanders and improve public sector performance; and
 - minimising the risk of protracted system outages and intermittent systems failures.

1 A platform is an underlying computer system on which application programs can run.

2 This means that the cost has not been adjusted for inflation.

1.12 In Figure 1, we provide an overview of the timing of the programme (and costs for the feasibility and mobilisation phases) from when Inland Revenue consider the programme started. This excludes any costs associated with developing the concept of the programme.

Figure 1
Overview of the programme’s timing



1.13 Inland Revenue has spent about three-and-a-half years getting the programme to the design workstream part of Stage 1. This included preparing the concept, assessing the feasibility, and getting the organisation ready to start the design workstream. This work cost about \$83 million between 2011/12 (when the programme officially started) and November 2014. It is too early in the programme to work out whether the spending to date represents value for money. This is because the programme has yet to deliver the benefits outlined in the business case. We note that other reviews consider that the work done has provided good foundations for the programme. We discuss costs and value for money further in paragraphs 4.24-4.29.

1.14 Figure 2 shows the different phases and stages of the programme. The programme is to be delivered in four stages over 8-10 years. The concept, feasibility and mobilisation phases involved work completed by Inland Revenue leading up to the start of Stage 1.

Figure 2
Phases and stages of the Business Transformation programme

<p>Concept phase: This phase was focused on defining the problem and exploring what a transformed Inland Revenue would look like. The work completed in this phase led to Inland Revenue developing the Business Transformation programme.</p>
<p>Feasibility phase: The Business Transformation programme officially started in 2011. Inland Revenue completed a baseline vision, a current state assessment, and a Target Operating Model.* A programme business case for change and strategic direction was agreed to by Cabinet in April 2013.</p>
<p>Mobilisation phase: Inland Revenue then prepared itself for starting the programme. In September 2013, Cabinet confirmed the programme roadmap and investment objectives and directed Inland Revenue to commence development of one or more business cases for Stage 1.</p>
<p>Stage 1: Secure digital services will allow most customers to self-manage and reduce businesses' compliance burden in fulfilling their PAYE[†] and GST[§] obligations. This stage also includes a pre-design workstream and a design workstream, which involve doing a high-level design of the future revenue system and detailed design for Stage 1.</p>
<p>Stage 2: Streamlining income and business tax processes will leverage the foundations delivered in the previous stage and further reduce businesses' compliance burden to fulfil their tax obligations.</p>
<p>Stage 3: Streamlining how social policies are delivered.</p>
<p>Stage 4: Complete delivery of the future revenue system will include transitioning any remaining taxes and social policies to a new platform and de-commissioning technology platforms that are no longer required.</p>

Source: Inland Revenue.

* The Target Operating Model translates strategic intent of the transformation into operational capabilities required in the future state. These operational capabilities are organised in several layers that collectively cover stakeholders, channels, services, organisation, policy, people, processes, platforms, and technology.

[†] PAYE – Pay as you earn. If an individual's income is from salary, wages, benefits, or taxable pensions, their tax will be deducted automatically under the PAYE system.

[§] GST – Goods and services tax is a tax on most goods and services in New Zealand, most imported goods, and certain imported services. GST is added to the price of taxable goods and services at a rate of 15%.

1.15 The programme is at Stage 1, focused on introducing secure digital services. Stage 1 objectives are to:

- advance channel strategy³ work, including redesigning Inland Revenue's website and continuing development of customer tools with customers;
- encourage customers to self-manage their tax obligations and use digital channels;
- improve collection of GST and PAYE information from business;
- introduce services required to streamline PAYE; and
- introduce integrated intelligence and interventions for PAYE.

³ A channel strategy is a plan for guiding decisions about how Inland Revenue will deliver services to taxpayers.

- 1.16 The programme is now at the design workstream part of Stage 1. This workstream began in January 2015 and is expected to be completed by March 2016. During this workstream, Inland Revenue intends to deliver a design of the future revenue system, a detailed design for Stage 1 to allow Inland Revenue to start putting that stage into effect, and a greater understanding of the effect of the programme. Cabinet has approved \$84 million for the design workstream.

Governance arrangements for the Business Transformation programme

- 1.17 Governance in the public sector is highly scrutinised because it involves public money, requires good quality record keeping, involves transparency of decision-making and information, and is subject to Government procurement policies.
- 1.18 The governance arrangements for the programme include a combination of governance groups that are focused only on the programme and governance groups that are responsible for governing Inland Revenue as a whole. We show the different governance groups and Inland Revenue's descriptions of them in Appendix 1 and the governance structure in Appendix 2.

What our audit looked at

- 1.19 In this report, we focus on whether the governance arrangements are helping to achieve the programme's intended outcomes. In particular, we looked at:
- the design of the governance arrangements (Part 2);
 - how the governance arrangements were put into practice (Part 3);
 - the effectiveness of the governance arrangements (Part 4); and
 - lessons for other public entities (Part 5).
- 1.20 In designing our audit, we have prepared principles of good governance to assess the programme governance arrangements (see Figure 3). To prepare these principles, we drew on our previous reports such as *Governance and Oversight of Large Information Technology Projects*⁴, the *Report of the Ministerial Inquiry into the Novopay Project*, and other relevant literature. These principles are not exhaustive.
- 1.21 Although some aspects of the programme's governance are unique, other public sector programmes are likely to have similar governance considerations (see Part 5).

⁴ Other reports that we drew on in drawing up the principles of good governance include *Inquiry into the Mangawhai community wastewater scheme* (2013) and *Maintaining a future focus in governing Crown-owned companies* (2014), available on our website, www.oag.govt.nz.

Figure 3
Principles of good governance

Principle	Description
Clarity of purpose	Governance sets a clear strategic purpose for the entity or project and provides direction that drives the entity towards achieving that purpose.
Leadership	Leadership should be demonstrated throughout all levels of governance.
Roles and responsibilities	Each part of the governance structure should have clear roles and responsibilities that are complementary and aligned with strategy.
Information and reporting	The governance arrangements are supported by information and reporting for monitoring performance, managing risks, making decisions, and providing direction.
Capability and participation	The right people should be involved in governance.
Accountability	The governance structure includes a clear accountability framework.

What we did not look at

- 1.22 Our audit did not look at the effectiveness of “the Corporate Centre” as a governance group. The Corporate Centre is a term used to describe public entities that have some oversight role of large government projects and programmes. The Corporate Centre includes the Treasury (investment assurance), the State Services Commission (capability assurance), the Government Chief Information Officer (information and communication technology assurance), and the Department of the Prime Minister and Cabinet (co-ordinating and supporting government priorities). The Corporate Centre also includes the public entities that have lead responsibilities throughout government for procurement (Ministry of Business, Innovation, and Employment), shared ICT capabilities (Department of Internal Affairs), and property (Ministry of Social Development).
- 1.23 Also, our audit did not look at:
- management of individual projects in the programme or the programme as a whole;
 - the wider effectiveness of the programme monitoring and assurance framework operated by the Corporate Centre for all major government programmes; and
 - policy decisions, including those about tax collection and the Corporate Centre’s assurance arrangements.

How we carried out our audit

- 1.24 To carry out our audit, we
- interviewed about 30 Inland Revenue staff based in Wellington, including members of the governance groups and staff working in the programme;
 - reviewed and analysed relevant documents;
 - reviewed the findings of several reports on the programme, to the extent that these reports covered aspects of governance of the programme – these reports include independent quality assurance reports, a governance and management review, and a review by the Treasury;
 - interviewed staff from professional services companies KPMG and Deloitte;
 - spoke to staff from the Treasury; the Ministry of Business, Innovation and Employment; and the Office of the Government Chief Information Officer at the Department of Internal Affairs; and
 - used all of this information to work out how governance of the programme has been designed and operated, and how effective governance arrangements have been so far.

Designing the governance arrangements

2

- 2.1 In this Part, we look at the extent to which design of the programme's governance arrangements are consistent with our principles of good governance.
- 2.2 We found that the programme's governance has largely met what we expect of good governance design.
- 2.3 We found that the programme's governance included:
- depth of information and reporting;
 - clearly defined roles and responsibilities; and
 - plans to regularly review the design.

Depth of information and reporting

- 2.4 The programme has a comprehensive, well-defined governance structure. In our view, some complexity is required because of the complexity of tax collection and the programme's size, length, and uniqueness. We described the governance structure in paragraph 1.18 and Appendices 1 and 2.
- 2.5 Although the governance structure is complicated, there are clear accountabilities for decision-making embedded in the structure, with clarity about which governance groups make which types of decision about which subject matter. Comprehensive documents support this. For example, the Programme Charter clearly describes the roles and responsibilities for main governance groups. Although we observed a small amount of confusion about roles and responsibilities, this was not systemic. Most of the staff we spoke to said that they knew who they were accountable to and what they were responsible for individually and collectively as part of a governance group.
- 2.6 Business Owner Forums (BOFs) provide discussion opportunities for different functions in Inland Revenue to directly inform governance groups of the programme feature in the design. We received generally positive feedback from interviewees about the BOF approach.
- 2.7 An established methodology is being used by Inland Revenue to manage the programme. The methodology is consistent with the Managing Successful Programmes methodology developed by the United Kingdom's Office of Government Commerce. As with any structured process, ongoing scrutiny is required to ensure that the process is appropriate to the given set of circumstances. Managing Successful Programmes is the programme equivalent of the PRINCE2⁵ project methodology.

5 PRINCE2 is an acronym for Projects in controlled environments, Version 2. It is a project management methodology. The methodology encompasses the high level management, control and organisation of a project.

- 2.8 Strengths of the programme include a strong risk identification and management focus. The risk management culture appears to be mature and there is a good risk management framework and associated reporting structure built into the design.
- 2.9 Decision-making has been deliberately centralised in the current governance arrangements in place with the Portfolio Governance Authority and the Investment Board making the main decisions. Members of Inland Revenue's executive, senior programme managers and some external representatives are members of these groups. The benefit of this approach is that there is direct senior oversight of governance decisions, and the people making those decisions are well informed about the potential effect of the decisions on Inland Revenue's wider business.
- 2.10 There is a challenge with a long-term programme of this nature to determine when the main benefits of the programme will be delivered. This is because the uncertainties and length of the programme mean that prescription of those benefits and when they will be delivered is necessarily difficult early in the programme and will become clearer as the programme progresses. In our view, management of the realisation of the benefits needs to be in place from the beginning of a programme. There is no doubt that there has been a commitment within the programme to doing this. At a high level, the benefits of the programme are based on six benefit areas. These are:
- easier for customers – this refers to simplifying customer requirements and improving their experience with Inland Revenue;
 - reduced risk of operational failure;
 - reduced time to implement policy initiatives;
 - economic benefits to New Zealand;
 - improving tax integrity; and
 - financial benefits to the Crown.
- 2.11 The benefits realisation framework and management are still in their infancy, as the programme is yet to deliver any of the key benefits. Positively, the intended profile of delivery of benefits from the programme has become clearer over the course of the programme to date, with delivery of benefits being staggered throughout the life of the programme. This gives programme sponsors and funders some flexibility by not committing them to the full programme funding before any benefits are delivered, and making it possible for them to stop the programme at a given stage. We described the programme stages and phases in paragraph 1.14 and Figure 2.

- 2.12 Over the life of the programme, Inland Revenue will provide the opportunity for Ministers to make stop/start decisions on the programme through regular revision of the programme business case, and business cases on specific deliverables of the programme. This approach allows Cabinet to make investment decisions based on the costs and benefits of each deliverable, and the overall programme.

Accountability arrangements

- 2.13 Although many separate groups have governance roles, each of these groups has clear terms of reference and clearly defined accountabilities. This is a strength.
- 2.14 Another strength in the design of the governance arrangements is that the results of assurance review work are shared with the main governance groups and with the Commissioner of Inland Revenue. This approach helps reduce the risk of filtering of the findings and ensures that a wide range of perspectives are brought to bear on those findings.

Capability and participation

- 2.15 Inland Revenue has deliberately recruited external specialist and resources to assist with the programme, including with the governance of the programme. Recognising that specialist skills are required and that these do not reside in Inland Revenue is a mature approach.
- 2.16 Inland Revenue has supplemented the specialist externally sourced resources with internal resources, including the involvement of most members of its executive team in the governance of the programme. The design of the governance arrangements has supported the right people being involved in programme governance.
- 2.17 As well as specialist external resources, Inland Revenue has recognised the need for completely independent membership on two of the main governance groups. There is an external member of the Portfolio Governance Authority and an external member of the Investment Board. A second external member has also been recently appointed to the Portfolio Governance Authority. In our view, this is good practice.
- 2.18 Because of the nature and size of the programme, ensuring that there is independent input at a governance level is an important check on programme and business perspectives. It is an important feature of the programme design.
- 2.19 The support available to service governance groups is a strength of the programme. This support includes a programme office within the programme team.

Clearly defining roles and responsibilities

- 2.20 As we have noted in paragraphs 2.5 and 2.13, the clear definition of the roles and responsibilities of the various groups involved in the governance of the programme is a strength of the programme. The programme documents also indicate an intention to update the roles and responsibilities for the design workstream of the programme, and to support board member training. These are positive design features.
- 2.21 Because of the need to protect the integrity of the tax system and progress the programme, one of the strengths of the governance design is that the Portfolio Governance Authority and the Investment Board are able to consider governance of the programme and the wider governance of Inland Revenue.
- 2.22 The roles and responsibilities, as defined at the time of our audit work, were consistent with the governance structure. We observed no inconsistencies where the roles and responsibilities appeared at odds with a governance group's position in the structure.

Reviewing the design regularly

- 2.23 The current governance structure is centralised and significantly different from the governance arrangements for the early stages of the programme. This shows that Inland Revenue has adapted the governance arrangements over time.
- 2.24 Evolution of the design of the programme's governance arrangements is inevitable, because of the nature of the programme and uncertainties that will be resolved only as the programme progresses. Senior Inland Revenue staff we spoke with, including the Commissioner of Inland Revenue, accept and expect dynamic governance and operation of the programme.
- 2.25 Unless the governance arrangements continue to adapt, the governance systems and processes might become inappropriate for the stage of the programme, the risks at that time, the available resources, and the public sector environment.
- 2.26 Inland Revenue needs to pay ongoing attention to reviewing the governance design, based on the programme stage, phase, and risks. The Programme Charter document commits to reviewing governance structures. We observed examples of reviews of aspects of governance taking place. For example, the Organisational Design Council reviewed its terms of reference. The Programme Director also carries out regular "health check assessments" of the programme. In addition, the methodology used in the programme involves reviewing governance at key points and a review of the governance arrangements for the design workstream has already been completed.

Matters to watch

- 2.27 We identified some matters that Inland Revenue needs to watch closely, concerning design of the governance of the programme. We discuss these matters in paragraphs 2.28-2.37. Inland Revenue is aware of these matters.

Timing and design of quality assurance reviews

- 2.28 The timing of independent quality assurance reviews of the programme has been mainly based on phase or stage changes as is the standard approach to programme methodology Inland Revenue is using. In our view, Inland Revenue needs to be open to having additional independent quality assurance reviews at other times where the level of risk warrants this.
- 2.29 Although the sharing of assurance review work with the main governance groups is a strength of the programme design, those same groups are not involved in approving the terms of reference for the individual assurance reviews. In our view, there is an ongoing independence risk if the governance groups are not actively approving the terms of reference for independent quality assurance reviews.

Important skills risks

- 2.30 Because of the programme's long life and heavy reliance on contracted personnel, many staff are likely to leave Inland Revenue before the programme is complete. This presents longer-term capability, capacity, and succession risks that are not as apparent in a shorter project and need to be watched and managed. In our view, the transfer of specialist governance skills between governance personnel within the programme has been limited to date.
- 2.31 Getting the balance right between programme governance and managing business as usual is difficult, requiring careful judgement about how best to use limited senior resources.
- 2.32 Heavily involving senior staff in governance of the programme is an important and deliberate positive design feature.
- 2.33 However, overuse of those staff risks those members not being able to give enough attention to their "day" jobs – operating and protecting the integrity of the tax system. We discuss this capacity constraint further in Part 3.

Review of governance

- 2.34 We found that programme design documents show that Inland Revenue is committed to reviewing governance structures. Inland Revenue has told us that it is "a given" that the governance arrangements will be reviewed as part of updating the programme documentation at the end of each stage of the programme.

Recommendation 1

We recommend that the Inland Revenue Department continue to ensure that governance of the Business Transformation programme is fit for purpose by:

- periodically reviewing the governance of the Business Transformation programme (including the roles, responsibilities, and membership of the various groups that are part of the governance structure); and
 - using the results of reviews when making changes to the programme's governance.
-

- 2.35 As a general rule, governance groups understood their decision-making roles and responsibilities, but we did see some examples where groups needed additional clarity on those roles and responsibilities. For example:
- clarification was needed on the Technical Architecture Design Council's role in non-programme projects;
 - a Portfolio Governance Authority meeting needed clarification about how to return unspent funds from a project; and
 - the Analytics, Insights, and Metrics Business Owner Forum needed clarification about the process for signing off strategy documents.
- 2.36 Because of the complexity of the governance arrangements, we expected that there would be examples of roles and responsibilities having to be clarified.
- 2.37 There is some variation in the training and induction that members of the governance groups receive. The Information Management, and the Analytics, Insights, and Metrics Business Owner Forums had some early set-up problems because of a lack of context being provided. This might indicate that governance group members need training and induction. However, we also saw an induction pack that members of the Enterprise Support Services Business Owner Forum received. Training and inducting governance group members helps to ensure that roles and responsibilities are clear.
- 2.38 We have noted some of the aspects of paragraphs 2.28-2.37 in our recommendation (Recommendation 2) about key risks that Inland Revenue needs to continue to manage over the life of the programme.

Putting the governance arrangements into practice

- 3.1 In this Part, we look at whether the way the programme’s governance has been operating is in line with our principles of good governance.
- 3.2 We found that the way the programme’s governance was operating largely met our expectations, but that some aspects needed to be managed carefully. We describe these aspects in paragraphs 3.23-3.33.
- 3.3 The most important aspect to note is that the executive management team has to work at or near capacity to govern the programme, as well as govern and manage ongoing tax collection and other social policy functions.
- 3.4 We found that:
- for the most part, the governance structure has operated consistently with its design;
 - extensive information is being provided to the governance groups – the quantity and comprehensiveness of this information is a strength but could become a weakness, particularly if the quantity and comprehensiveness detracts from the governors’ capacity to digest the information and make timely decisions; and
 - centralised decision-making is challenging the executive team and requires careful balancing with governance and management of ongoing tax collection.

Governance operating consistently with design

- 3.5 Committees such as Inland Revenue’s Risk and Assurance Committee, which receives information about the programme, can make a valuable contribution to improving public entities’ governance, and, therefore, performance and accountability. It can play an important role overseeing an organisation’s policies, processes, systems, and controls. An effective risk and audit committee shows that an organisation is committed to a culture of openness and continuous improvement. Over time, the information that Inland Revenue’s Risk and Assurance Committee receives about the programme has improved.⁶
- 3.6 Risks to the programme and decisions about the programme are thoroughly reported and recorded. Every week, the programme’s governors receive reports about extreme risks; every month, they receive reports about high-level risks. We consider that this is good practice.
- 3.7 The information and reporting is consistent with the programme’s high-risk nature. Programme documents, including the Programme Charter, acknowledge and reflect the programme’s high-risk nature.

⁶ Our 2008 report *Audit committees in the public sector*, available on our website, contains more information about the role of audit and risk committees in the public sector.

Holding managers to account

- 3.8 Within the programme, a high standard of performance is expected, including of the governors. Individual performance agreements have clear targets and measures of progress.
- 3.9 The Portfolio Governance Authority (see Appendix 1) receives clear dashboard reporting of programme progress, which allows managers to be held to account.
- 3.10 During our audit, we observed examples of managers being held to account for specific aspects of performance. An example was a manager reporting that a project would not be delivered on time and was over budget. The relevant governance group questioned whether the revised date and budget was achievable. The governance group also suggested that the manager take a few days to ensure that the project would be delivered by the revised date before the change in budget and timeline was approved. The governance group closely monitored the project, getting weekly updates on its progress.

Experienced capacity and capability

- 3.11 Inland Revenue accepts that the capacity and capability needed to govern the programme will vary.
- 3.12 At the time of our audit, this capacity and capability was sourced mainly from the executive team and external specialists. This brought together a mixture of public and private sector experience and skills. This is a strength, as long as the programme is integrated with business as usual in a complementary way. Decisions made about the programme have been timely and effective. However, Inland Revenue needs to ensure that the programme's staff have enough appreciation of aspects of the "machinery of government".⁷ Having this appreciation is central to getting things done effectively in government.
- 3.13 Committing executive resources shows that Inland Revenue is dedicated to ensuring that the programme works effectively. The organisation recognises the demands this puts on members of the executive team.
- 3.14 A deliberate decision was made to limit some executives' involvement in governance to being part of the Investment Board. This provides internal independence.
- 3.15 During our audit, we saw examples of self-review to help make good decisions about governance capacity and capability. For example, the Technical Architecture Design Council has considered the cross-membership of the governance groups, and the Organisational Design Council reviewed its composition. This self-review is good practice.

Understanding roles and responsibilities in practice

- 3.16 In Part 2, we highlighted the clarity of roles and responsibilities within the governance structure. We observed that the governance of investment decisions was clearly separate from governance of delivery and operations.
- 3.17 We found clear processes for approving recommendations consistent with those roles and responsibilities.
- 3.18 During our audit, we found some confusion about roles and responsibilities and governance processes. We did not find this confusion to be systemic. In our view, the confusion is to be expected, because of the size and complexity of the governance arrangements.

Governing consistently with clear purpose

- 3.19 The programme's participants have discussed its purpose extensively. This is positive.
- 3.20 The Programme Charter defines clear success measures for the programme, which are consistent with the programme's purpose.
- 3.21 Inland Revenue's staff communicate regularly about the programme using many channels.
- 3.22 In the second half of 2014, Inland Revenue paid significant attention to organisational development and understanding the effect of the transformation on timing, focus, and concentration in different parts of Inland Revenue. This is consistent with the programme's transformation purpose.

Matters to watch

- 3.23 We have identified some matters relating to how governance of the programme operates, which Inland Revenue needs to watch closely. We comment on these matters in paragraphs 3.24-3.33. They are not yet fundamental and Inland Revenue is aware of them.

A lot of information to digest

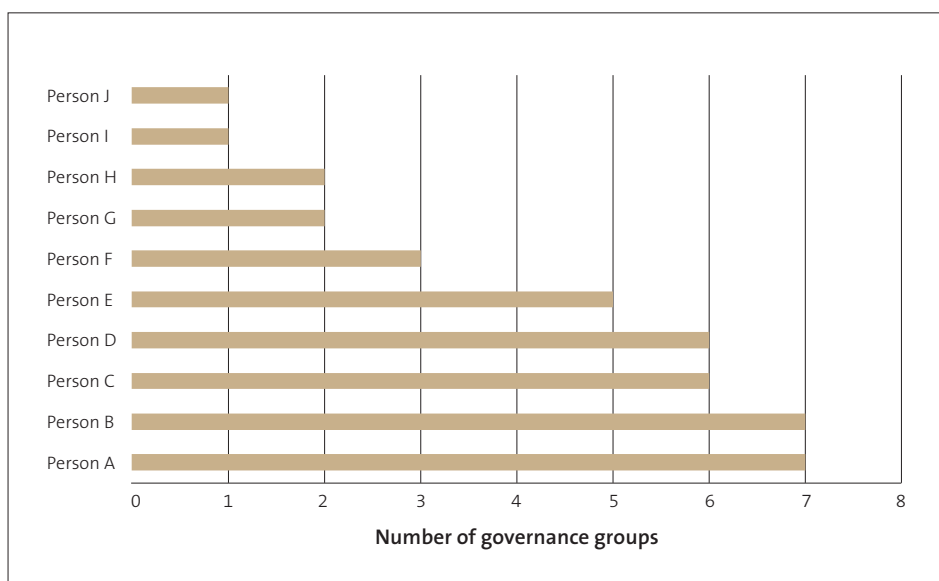
- 3.24 The governors of the programme receive information in a structured, comprehensive, and systematic way. This means that governors have the potential to be well informed. The risk is that important aspects are buried, and that governors do not give the full information enough attention. Inland Revenue is aware of this issue and has told us it is taking steps to reduce this risk.

- 3.25 Some senior Inland Revenue staff told us that the duplication and amount of information, and the time available to read it, meant that they give the information less scrutiny than they would like.
- 3.26 Having no shared system to manage documents adds to the difficulties of sharing information.

Stretching executive capacity

- 3.27 Involving members of executive teams in governance is common in public entities without governing boards. The people concerned must separate their governance and management roles in a disciplined way.
- 3.28 Because some of Inland Revenue’s executive team members are in many governance groups (see Figure 4) and have significant work responsibilities outside the programme, there is a risk that they cannot give decisions about the programme’s governance the necessary critical consideration. The capacity of executive team members to govern the programme will be further stretched if governors have to make more frequent decisions as the programme progresses.

Figure 4
Executive team cross-membership of Business Transformation programme governance groups



- 3.29 If some governors lack the necessary capacity to govern the programme effectively, there is a risk that:
- the programme advances more slowly or is driven too much by the programme team rather than by other needs of Inland Revenue; and/or
 - decisions are made without the necessary scrutiny.

3.30 There is a statutory requirement under the Tax Administration Act 1994 for all officials, including those working on business transformation in Inland Revenue, to protect the tax system's integrity. Therefore, governance of the programme must be considered together with ongoing governance and management of the tax system.

3.31 There is also a risk to independence (making decisions on own advice), with some executive members being members of several governance groups, and a risk because of familiarity (not scrutinising information already seen in another governance group or missing changes to information already seen).

Communicating what transformation means in practice

3.32 As the programme is still only early in Stage 1, it has yet to deliver certainty for Inland Revenue's customers and staff about what transformation means for them in practice.

3.33 In our view, it is important that Inland Revenue continue to give all stakeholders as much certainty as possible about what the programme means for them at a given time. This includes certainty for the Corporate Centre stakeholders about the programme's relationship with all-of-government initiatives involving shared capability in public entities.

Recommendation to manage important risks

3.34 We have noted some of the aspects of paragraphs 3.23-3.33 in our recommendation about important risks that Inland Revenue needs to continue to manage over the life of the programme (Recommendation 2).

4

Effectiveness of the governance arrangements

- 4.1 In this Part, we look at how effective the programme's governance is in line with what we expect of good governance.
- 4.2 Inland Revenue's governance has provided clear direction to the programme and effectively advanced the programme in that direction.
- 4.3 Progress has included successfully completing the programme's concept and feasibility phases, successfully completing the mobilisation phase and the pre-design workstream, and starting the design workstream. One of Inland Revenue's main achievements in the pre-design workstream was to appoint an external provider as the design partner for the high-level design work in Stage 1.
- 4.4 The governance of the programme has largely met our expectations. We found that:
- decisions about governance were clear and recorded;
 - the programme has advanced to the design workstream and has developed a Target Operating Model;
 - external assurance reviews of the programme have been mostly positive and lessons have been learned from other major projects and programmes; and
 - a memorandum of understanding and an assurance plan have been agreed with the Corporate Centre.
- 4.5 We identified some aspects of governing the programme that Inland Revenue needs to consider. We describe these at the end of this Part.
- 4.6 We also comment on the challenges of working out whether investment in programme governance and assurance has been value for money.

Making decisions and providing direction with good information

- 4.7 Effective governance of the programme has resulted in clear decisions and direction. We found appropriate debate within governance groups to support the decisions and direction.
- 4.8 We also found that governance groups recorded and communicated decisions and the actions required to give effect to those decisions well. Responsibility for actions and the progress made were recorded clearly.
- 4.9 One challenge the programme faces is getting timely necessary approvals from the governance groups. The decision-making pathway to get approval from governance groups (how a decision can be made) and the sequencing of meetings of governance groups (when a decision can be made) are both important. Another consideration is the number of decisions the governance groups have to make.

- 4.10 We observed some practical approaches in the form of a few work-arounds⁸ of defined governance processes to get timely decisions. Examples include a decision after a meeting to approve deliverables, and approving terms of reference by email. In our view, deciding to take a practical approach was appropriate. Work-arounds appear to be uncommon. The programme has a process for out-of-cycle approvals.

Working to achieve desired outcomes

- 4.11 We found that the way the governance groups work helps to achieve the programme's objectives. We found:
- many examples of learning from other organisations and projects (such as from Novopay⁹);
 - that managers were held accountable when a project was over budget or not delivered on time;
 - problems being referred to more senior staff when necessary; and
 - action being taken in response to delayed reporting.
- 4.12 The main governance decisions made in the programme have allowed the programme to progress to the design workstream and to develop the Target Operating Model. This model translates the strategic intent (defined by vision, objectives, and design principles) of the transformation into operational capabilities required in the future. These operational capabilities are grouped into several layers that collectively cover stakeholders, channels, services, organisation, policy, people, processes, platforms, and technology.

Co-ordinating projects

- 4.13 Inland Revenue recognises the need to co-ordinate decisions throughout the programme and business. Identifying an organisation-wide release model has been proposed as a way to achieve better co-ordination.
- 4.14 Projects in the programme are co-ordinated well. The Portfolio Governance Authority plays an important role in this. The programme's governance groups communicate with each other and share decisions and information well. BOFs are important in integrating the programme and business and are responsible for:
- representing a wide range of business roles, acting as advocates for Inland Revenue's culture, and being the main communication channel within Inland Revenue;
 - working closely with programme managers to ensure that changes to the programme (such as to process, organisation, and technology) are accepted;

8 A work-around is a method, sometimes used temporarily, for achieving a task or goal instead of the usual or planned method.

9 For more information about Novopay, see the report of the Ministerial inquiry into the Novopay Project available from the SSC website.

- ensuring that future business process design is in line with the Benefits Management Framework, as defined in the programme business case and the detailed business cases submitted to the Treasury and Cabinet; and
- reviewing all main deliverables within their responsibility and ensuring that all business process content is appropriate and relevant to deliver the Target Operating Model and *IR for the Future*.¹⁰

4.15 Additional BOFs (such as the Enterprise Support Services BOF and the Information Systems BOF) have been added to the governance structure over time.

Managing external relationships effectively

- 4.16 The Corporate Centre has an assurance role in major government projects and programmes, including information and communications technology (ICT) projects. The programme, although not an ICT project as such, must follow the Corporate Centre's assurance processes. Inland Revenue has followed those processes, including the Treasury's Better Business Case and Gateway Review processes, and the Office of the Government Chief Information Officer's ICT assurance planning.
- 4.17 Inland Revenue has signed a Memorandum of Understanding with the Corporate Centre and agreed an assurance plan for the programme. These took time to work through and agree, with Inland Revenue scrutinising the value being added to the programme.
- 4.18 Inland Revenue has also involved the Corporate Centre in planning the terms of reference for independent quality assurance reviews of the programme.
- 4.19 As well as the Corporate Centre, Inland Revenue has regular meetings with other government organisations that have major projects or programmes in train. These include the Accident Compensation Corporation and the Ministry of Social Development.
- 4.20 To get other stakeholders input into its work, including the programme, Inland Revenue works with three advisory groups (the Commissioner's Transformation Reference Group, the Tax Simplification Panel, and Information and Communications Technology Reference Group). Inland Revenue has discussed the possibility of having a bigger customer input in governance decisions.

¹⁰ *IR for the future* is Inland Revenue's guiding strategy. It describes Inland Revenue's purpose, vision for the future, organisational values, improvements coming for customers, and main challenges. See Inland Revenue's website, www.ird.govt.nz.

Responding to external reviews and recommendations

- 4.21 The Programme Charter recognises the need for internal, external, and central agency assurance. Inland Revenue has sought reviews of and acted on a range of assurance aspects over the life of the programme (see Figure 5).

Figure 5
Assurance reviews of the Business Transformation programme

Description	Provider	Date
Inland Revenue Business Transformation IQA – Programme Baseline Review (IQA1)	KPMG	March 2014
Independent Quality Assurance Business Transformation Programme (Addendum to IQA1)	KPMG	June 2014
Business Transformation Programme Governance and Management Review	Deloitte	September 2014
Gateway Review Report for Inland Revenue Business Transformation (Review '0' Strategic Assessment)	The Treasury	September 2014
Independent Quality Assurance Business Transformation Programme (IQA2) and Technical Quality Assurance (TQA1)	KPMG	January 2015

- 4.22 The findings of these reviews have generally been positive. Inland Revenue has tracked responses to these assurance reviews well and made improvements to the programme. The programme's governors review responses to the assurance reviews.
- 4.23 Inland Revenue has addressed programme governance matters raised in a 2011 Performance Improvement Framework review.

Value for money

- 4.24 About \$83 million has been spent on the programme as at the end of November 2014. This includes spending on governance and assurance of the programme.
- 4.25 It is difficult to work out whether the expenditure on governance of the programme and assurance is value for money because of:
- the unique nature of the programme;
 - the programme needing to use specialist resources available only from a competitive international market; and
 - investment in governance and assurance being like an insurance policy, with the value of that policy being tested only when something goes wrong.

- 4.26 It is too early to work out whether the investment has been value for money, because the programme has yet to deliver the benefits outlined in the business case. We note that other reviews consider that the work done to date has provided good foundations for the programme.
- 4.27 We sought external advice on benchmarks for assurance reviews and administrative costs for supporting governance for a programme such as this. We were told that, on average, 1%-5% of the total cost for large programmes is spent on assurance reviews and 5%-15% is spent on programme management and governance. Those benchmark percentages, however, should be considered as indicative only, given that they do not specifically relate to transformation of tax systems.
- 4.28 To date, Inland Revenue's spending on assurance reviews and administrative costs for supporting governance have been relatively low compared with these indicative benchmarks. Whether the cost of the assurance reviews and governance is appropriate and value for money depends on how successfully the programme achieves its desired outcomes.
- 4.29 In our view, Inland Revenue needs to be confident that the money being spent on the governance arrangements and assurance work for the programme to provide value for money. We will scrutinise this value-for-money aspect as the programme develops.

Matters to watch

Work-arounds

- 4.30 The programme has used some work-arounds to ensure that decisions are timely. Some work-arounds, (as discussed in paragraph 4.10) are inevitable, because of the complexity of the governance arrangements, and a practical approach will be required from time to time. However, care needs to be taken to ensure that work-arounds are not used so much that they risk the integrity of the governance arrangements and approved decision-making processes.

Assurance processes

- 4.31 The Senior Responsible Officer and Programme Director – not the governance groups – approve management responses to independent quality assurance reviews. In our view, there would be more independence if governance groups, rather than those individuals, approved the responses.
- 4.32 Gateway Review is part of the Corporate Centre's assurance process. Gateway Review findings have limited circulation and are mainly meant as advice for the programme's Senior Responsible Officer. We support Inland Revenue sharing those

results as widely as possible among senior governors within the bounds of the process agreed to with the Treasury. In our view, the wider the circulation of this information among the programme's governors, the more assurance value the information could add to the programme.

Recommendation to manage important risks

- 4.33 We have noted some of the aspects of paragraphs 4.30-4.32 in our recommendation about important risks that Inland Revenue needs to manage over the life of the programme.
-

Recommendation 2

We recommend that, over the life of the Business Transformation programme, the Inland Revenue Department continue to effectively manage significant risks to good governance, including the risks of:

- an imbalance in the allocation of executive management's time between programme governance and managing the integrity of the current tax system, with risks of the programme advancing slowly or not being driven enough by the needs of the business;
 - inconsistent training and induction for people involved in governance of the programme;
 - the programme not being able to provide the necessary certainty to the main stakeholders or enough clarity about when benefits will be realised;
 - independent quality assurance reviews of the programme not taking place at times when the programme faces high risks;
 - not having effective capacity and succession management and longer-term staff capability in place;
 - contracted staff not transferring skills appropriately to other staff; and
 - the programme not being as economic and/or as efficient as possible.
-

5

Lessons for other public entities

- 5.1 In this Part, we identify some questions that could be helpful for public entities to consider when designing the governance of major programmes, particularly those with a transformation component.
- 5.2 We have identified the questions from performing our audit of Inland Revenue’s governance of the programme. Inland Revenue has had to consider these questions as part of governing the programme.
- 5.3 We intend the questions to be useful reminders for public entities about the complexities of programme governance and management. The questions are not intended to be exhaustive.
- 5.4 In Figure 6, we list some challenges and questions to consider in programme governance.

Figure 6
Some challenges and questions to consider when governing programmes

Challenges	Questions
Balancing business as usual with programme demands.	<ul style="list-style-type: none"> • Has enough attention been paid to avoid the risks of governing and managing a programme in isolation from business as usual, particularly when important resources are shared between a programme and business as usual?
Keeping governance arrangements current.	<ul style="list-style-type: none"> • Have the main points where the programme environment and governance demands may change been identified? • Is there a schedule for reviewing the governance arrangements at those points?
Assessing performance without direct comparisons.	<ul style="list-style-type: none"> • Is there enough and effective critical challenge within the governance arrangements, including enough independent participation?
Maintaining a strategic perspective of risks and how they are managed.	<ul style="list-style-type: none"> • Have the main strategic risks to the programme been identified? • Is the risk appetite of stakeholders and the organisation understood well? • Is there a degree of independence in identifying and managing the risks?
Managing the realisation of benefits over the programme’s life cycle.	<ul style="list-style-type: none"> • Is there continuous planning, reviewing, reporting, and updating of the benefits being and to be realised over the full life of the programme?
Providing certainty to stakeholders in an uncertain environment.	<ul style="list-style-type: none"> • Have the points in the programme’s life where main information will be available to communicate with each main stakeholder been identified?

<p>Integrating different organisational cultures when relying on external experts.</p>	<ul style="list-style-type: none"> • Has deliberate thought been given to leveraging the strengths of multiple organisational cultures where a programme involves existing and external staff working together?
<p>Developing capability and skills when relying on external experts.</p>	<ul style="list-style-type: none"> • Has there been enough attention to mitigating skills risks at a governance level, given the risks of relying heavily on a few experts, particularly when relying on that expertise for both programme governance and management?
<p>Balancing keeping people informed against information overload.</p>	<ul style="list-style-type: none"> • Is governance information tailored enough to the needs of governors, and is the information practicable for governors to assimilate within the timeframes they have available?

Appendix 1

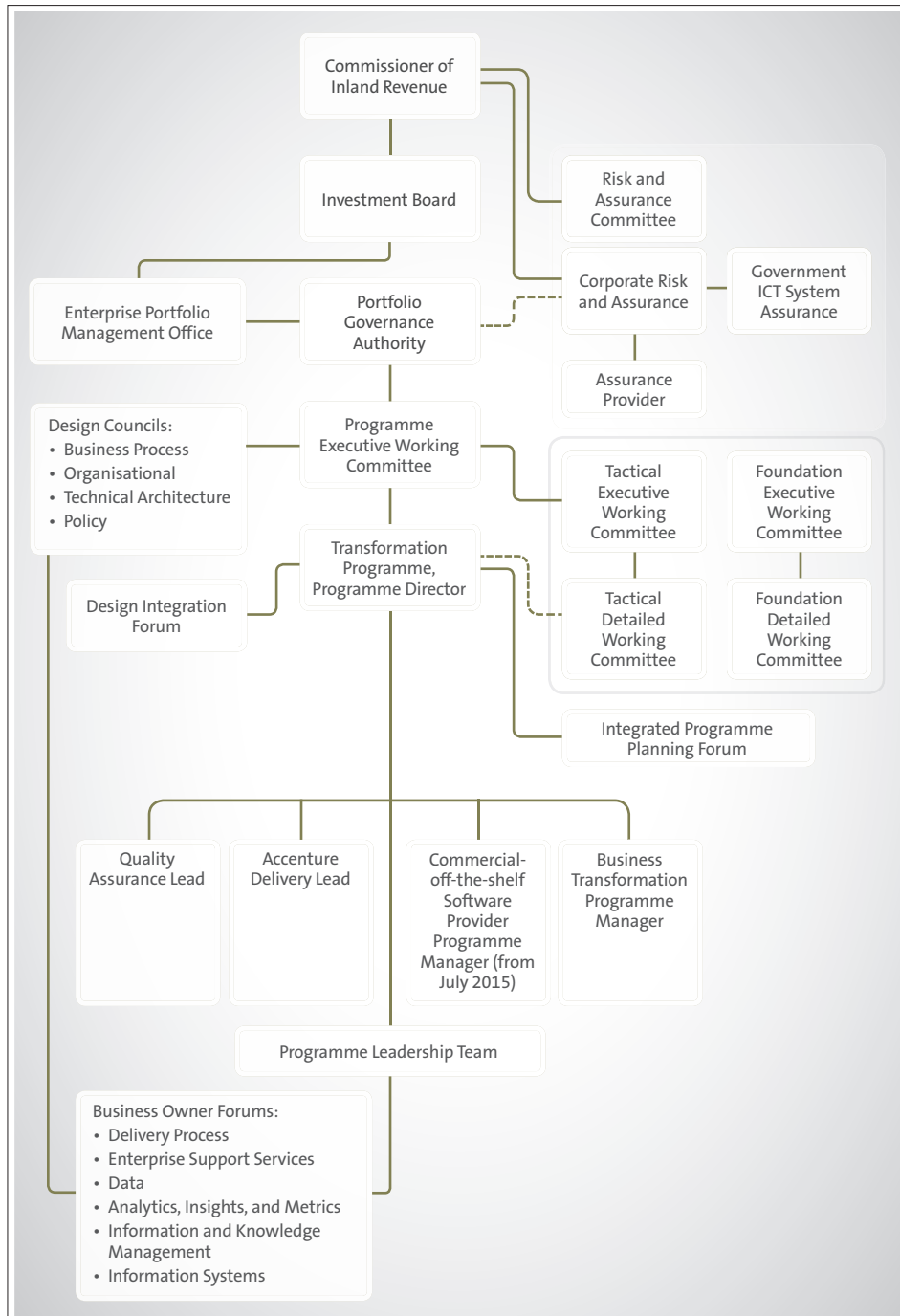
Roles of governance groups in the Business Transformation programme

Governance group	Role in the Business Transformation programme
Investment Board	The role of the Investment Board is to have oversight of the single investment portfolio (including the Business Transformation programme), including new investments and adjustments to the existing portfolio composition.
Portfolio Governance Authority	The Portfolio Governance Authority provides a governance role for the management of all established projects/programmes in the single investment portfolio (including the Business Transformation programme).
Programme Executive Working Committee	The Programme Executive Working Committee provides day-to-day management direction and support for the Business Transformation programme.
Business Process Design Council	The Business Process Design Council provides executive authority for managing and controlling all business process design components associated with the Business Transformation programme.
Organisational Design Council	The Organisational Design Council provides executive authority for managing and controlling all organisational design components associated with the Business Transformation programme.
Technical Architecture Design Council	The Technical Architecture Design Council provides executive authority for managing and controlling all technical design components associated with the Business Transformation programme.
Policy Design Council	The Policy Design Council provides guidance in shaping the design of the policy proposals being considered to support the Business Transformation programme.
Business Owner Forums: <ul style="list-style-type: none"> • Delivery Process Business Owner Forum • Enterprise Support Services Business Owner Forum • Data Business Owner Forum • Analytics, Insights, and Metrics Business Owner Forum • Information and Knowledge Management Business Owner Forum • Information Systems Business Owner Forum 	The role of the Business Owner Forums is to own the business processes throughout Inland Revenue that will be incorporated into the Business Transformation programme solutions, and will ratify, refine, and recommend changes to the existing business processes.

Foundation Executive Working Committee	The role of the Foundation Executive Working Committee is to provide management and sponsorship for the Foundation Sub-Programme and making implementation decisions related to executing the initiatives included in the Sub-Programme.
Tactical Executive Working Committee	The Tactical Executive Working Committee provides management and sponsorship oversight for the Tactical Sub-Programme and making implementation decisions related to executing the initiatives included in the Sub-Programme.
Foundation Detailed Working Committee	The Foundation Detailed Working Committee provides day-to-day management direction for the Foundation Sub-Programme, including guidance, support, issue resolution, allocation of business resources, and recommendations for main decisions that are to be referred to the Foundation Executive Working Committee.
Tactical Detailed Working Committee	The Tactical Detailed Working Committee provides day to day management direction for the Tactical Sub-Programme, including guidance, support, issue resolution, allocation of business resources, and recommendations for main decisions that are to be referred to the Tactical Executive Working Committee.
Design Integration Forum	The Design Integration Forum for the Business Transformation programme provides a forum at which all aspects of the Business Transformation programme will be presented, discussed, and reviewed.
Integrated Programme Planning Forum	The Integrated Programme Planning Forum provides a forum at which all issues associated with the Integrated Programme Plan and planning process will be presented and reviewed, and at which main recommendations will be finalised and communicated.

Appendix 2

Governance structure for the Business Transformation programme



Publications by the Auditor-General

Other publications issued by the Auditor-General recently have been:

- Auckland Council: How it deals with building consents
- Draft annual plan 2015/16
- Auditor-General's findings about AgResearch's Future Footprint project
- Local government: Results of the 2013/14 audits
- Education for Māori: Relationships between schools and whānau
- Response of the New Zealand Police to the Commission of Inquiry into Police Conduct: Fourth monitoring report
- Ministry for Primary Industries: Managing the Primary Growth Partnership
- Central government: Results of the 2013/14 audits
- Government planning and support for housing on Māori land
- Ministry of Social Development: Using a case management approach to service delivery
- Water and roads: Funding and management challenges
- Making the most of audit committees in the public sector
- Accident Compensation Corporation: Using a case management approach to rehabilitation
- Challenges facing licensing trusts
- Annual Report 2013/14
- Ashburton District Council: Allegations of conflicts of interest affecting decisions on a second bridge
- New Zealand Transport Agency: Maintaining and renewing the state highway network – follow-up report
- From auditor to soldier – stories of the men who served

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