

# INDEPENDENT REVIEW OF INLAND REVENUE'S APPROVAL OF A SURVEY QUESTION ABOUT POLITICAL LEANINGS

Final Report

29 April 2019







# CONTENTS

Executive Summary	6
Introduction	11
The control environment at Inland Revenue	14
What happened: The events	33
Findings	39
Recommendations	50

# APPENDICES

Appendix 1 : Inland Revenue Terms of Reference	52
Appendix 2 : Organisation Chart for Relevant Staff	54

# TABLES

Table 1: Comparison between COSO and IR's Internal Control Framework	20
Table 2: Staff roles and responsibilities in relation to enterprise risk, as set out in the Risk Management Policy in the ERMF	21
Table 3: Areas of focus for enterprise project sponsors, as depicted in the slide pack for the enterprise project sponsor workshop	28

# FIGURES

Figure 1: Governance interactions at IR, as depicted in the slide pack for the enterprise project sponsor workshop	27
--	----



Figure 2: Illustration of the timeline 33  
Figure 3: Integrity contributes to IR's objective 40



# PREFACE

This report has been prepared for Inland Revenue by Kevin Jenkins and Andrew Horwood from MartinJenkins (Martin, Jenkins & Associates Limited).

MartinJenkins advises clients in the public, private and not-for-profit sectors. Our work in the public sector spans a wide range of central and local government agencies. We provide advice and support to clients in the following areas:

- public policy
- evaluation and research
- strategy and investment
- performance improvement and monitoring
- business improvement
- organisational improvement
- employment relations
- economic development
- financial and economic analysis.

Our aim is to provide an integrated and comprehensive response to client needs – connecting our skill sets and applying fresh thinking to lift performance.

MartinJenkins is a privately owned New Zealand limited liability company. We have offices in Wellington and Auckland. The company was established in 1993 and is governed by a Board made up of executive directors Kevin Jenkins, Michael Mills, Nick Davis, Allana Coulon and Richard Tait, plus independent director Sophia Gunn and independent chair Hilary Poole.



# EXECUTIVE SUMMARY

## Background

- E1 Inland Revenue (IR) is required by the Tax Administration Act 1994 to protect the integrity of the tax system, including the perceptions of that integrity. To assist with this, in December 2018 IR commissioned Colmar Brunton to undertake research with the objectives of:
- *identifying the key factors that influence New Zealanders' trust in IR and the tax system*
  - *determining which of these factors can be influenced by IR's actions and which cannot*
  - *understanding how IR's actions build or erode that trust.*
- E2 Colmar Brunton held interviews and focus groups with New Zealanders to discuss their trust in IR and the tax system. The issues that emerged during these discussions were to then be further tested in an online survey. During the interviews, New Zealanders raised several issues that appeared to affect their trust in IR and the tax system. As one of these issues was a person's political leanings, a question on this was included in the online survey. The question was approved by IR and read:
- People often indicate their political affiliation along a spectrum of left and right. Using this divide, where on the spectrum would you place yourself? (from 0 to 10).*
- E3 The media reported on this question being used in a survey of New Zealanders by IR, and publicly queried whether IR's intention behind the question was politically motivated. IR initially defended the inclusion of the question on political leanings but reconsidered after the media publicly queried whether IR's motivation for the question was political, and IR's view is now that it should not have been included in the survey. As a result, IR directed Colmar Brunton to delete the data on political leaning and not report on it, and instigated this review.
- E4 IR engaged MartinJenkins to conduct this review, asking us to consider and form an opinion on:
- *whether there is any evidence that including the question on political leanings was in any way politically motivated.*
  - *the adequacy of the end-to-end process leading to the approval of the political leanings question. This will include looking at the commission and design of the relevant research, and the procurement, decision-making and review processes for approving the question.*
  - *whether the processes supporting the decision to include the political affiliation question in the survey were considered and balanced against the risks to the integrity of the tax system. This includes perceptions of political neutrality.*
- E5 We gathered and considered a wide range of documentation relating to the survey – from conceptualisation to implementation – and interviewed 12 IR employees, and a Group Account Director from Colmar Brunton. We shared a draft report with IR and the interviewees and asked for any corrections to our summary of the facts.



## Findings

### **Whether the decision to include the question was politically motivated**

- E6 We have found no evidence of political motivation in the use of the question on political leanings or the setting of the questions. We are confident that there was no political motivation at any point, from when the research was conceived to when the survey was implemented.

### **The adequacy of the end-to-end process leading to the approval of the political leanings question**

and

### **Whether the processes supporting the decision were considered and balanced against the risks to the integrity of the tax system**

- E7 We considered these questions through a range of lenses including IR's statutory requirements; its ethical framework including the State Services Code of Conduct and IR's own Code of Conduct; the globally-recognised COSO internal control approach and IR's adaptation of that, with a particular emphasis on IR's approach to risk management; the strategic intent of the research and the intended strategic purpose of the question on political leanings; procurement policies and procedures and how they applied in this case; the roles and responsibilities of project sponsors and project managers at IR; the IR delegation framework; and new policies and procedures developed and/or introduced from late 2018. It became obvious that the answers to these two questions are entwined.
- E8 IR has all the policies and procedures you would expect to find to satisfy the obligations of good practice required of the frameworks outlined above. Another important part of the context is the statements IR has made about the way it wants to work, that is that it aspires to be intelligence-led, customer-centric and agile, meaning decision making is delegated to the lowest possible level, closest to customers. Together, these factors form a coherent approach, that is an empowered environment balanced with appropriate checks and balances.
- E9 However, the application of the checks and balances to the end-to-end process in this instance was inadequate. Risks to the integrity of the tax system and political neutrality are at the heart of reputational risk for IR. This report uses "reputational risk" as shorthand for both.
- E10 Throughout the process leading to the approval of the question we have seen a fragmented risk management regime that allowed a risk to become a problem. For example, risks were considered in the paper to the Strategic Governance Board outlining the strategic intent of the research, but this did not include consideration of reputational risk. Risks to the effectiveness of the research were separately considered in designing the research but not reputational risk. Risks to successful procurement were separately considered in the procurement process but not reputational risk. Risk management specialists in IR had no visibility of the research at any point in the process. IR has a sophisticated risk management regime but its application in this case was fragmented and there were gaps. There was no overall coherent consideration of risk.



There was no effective leadership or management of risks across the process. At no point was the risk of a perception of lack of political neutrality raised.

- E11 There was no consideration of the Codes of Conduct through the process. This in itself is not surprising, but it is surprising that the risk to political neutrality – core to the Codes – was never explicitly considered.
- E12 There was a designated project sponsor for the research but their role was not clear. IR has guidance setting out the roles of project sponsor and project manager for enterprise projects. There appear to be no formal expectations for project sponsors and managers for projects below enterprise level. This research project is not an enterprise level project but had a designated project sponsor. If the guidance for project sponsors for enterprise projects was applied – and there must have been some expectations for the project sponsor designation to have any meaning – then this would include responsibility for quality. This would include all key risks, including to perceptions of a loss of political neutrality. The enterprise level guidance also requires project managers to discuss risks with the project sponsor.
- E13 The process of finalising the survey questions included a rigorous, question-by-question engagement between IR research experts and Colmar Brunton. The question on political leanings was explicitly checked and quickly confirmed with no risks identified. At no point was this or any other question escalated to managers above or outside the core research team. No manager above or outside the core research team asked whether the questions were consistent with the requirement for political neutrality, whether they negated or created risks to the integrity of the tax system, or to see the questions.
- E14 The risk management regime, and the Codes of Conduct, explicitly identify perception of a loss of political neutrality as a key risk. The inadequacy of the application of the risk management regime, and the other elements of the control environment, led to this very risk becoming an issue. This case has revealed that the “risk aware” or “risk intelligent” culture envisaged in the risk management framework does not apply universally in IR. Risk management specialists struggle to engage with some business areas, and focus on those business areas that do engage. There is no comprehensive ongoing training of staff in the risk management regime. New staff – including staff new to the Public Service – do not necessarily receive training in the regime, and how it relates to the Codes of Conduct.
- E15 Other factors may have contributed to the inadequacy of the process, including key staff on leave, new managers being asked to sign off contracts just after they have started, and staff new to the Public Service.

## Recommendations

- E16 We recommend that Inland Revenue:
- a. Remind all staff what it means to be politically neutral in line with State Services Commission guidance, including the need to avoid the perception that IR’s political neutrality has been compromised.





- b. Review the content relating to political neutrality and the Codes of Conduct used in its induction process.
- c. Set expectations relating to risk management in induction.
- d. Clarify what it expects of project sponsors and project managers in projects other than enterprise investment projects.
- e. Raise the profile of its risk and assurance functions to ensure they have consistently high visibility across IR, and that other parts of IR are consistently receptive to benefitting from these functions.
- f. Devise a strategy for monitoring and, if possible, measuring risk intelligence across IR so it can be tracked over time.
- g. Expect project leaders to consider risk in tandem with strategy when leading projects.
- h. Hold IR's executives to account for ensuring their areas of responsibility exhibit risk intelligence.
- i. Defragment risk management by:
  - i. ensuring risk is considered at project level in light of the Enterprise Risk Management Framework.
  - ii. considering an amendment to Commercial & Procurement's checklist to include confirmation that the business area seeking a procurement has assessed all relevant risks, including reputational risk.
- j. Hold IR's executives to account for implementing each component of the Internal Control Framework, with particular attention paid to monitoring and improvement.





# INTRODUCTION

## Background to this review

1. Inland Revenue (IR) is required by the Tax Administration Act 1994 to protect the integrity of the tax system, including the perceptions of that integrity. To assist with this, in December 2018, IR commissioned Colmar Brunton to undertake research with the objectives of:
  - *identifying the key factors that influence New Zealanders' trust in IR and the tax system*
  - *determining which of these factors can be influenced by IR's actions and which cannot*
  - *understanding how IR's actions build or erode that trust.*
2. Colmar Brunton held interviews and focus groups with New Zealanders to discuss their trust in IR and the tax system. The issues that emerged during these discussions were then further tested in an online survey.
3. During the interviews, New Zealanders raised several issues that appeared to affect their trust in Inland Revenue and the tax system. As one of these issues was a person's political leanings, a question on this was included in the online survey. The question, as approved by IR, read:

*People often indicate their political affiliation along a spectrum of left and right. Using this divide, where on the spectrum would you place yourself? (from 0 to 10).*
4. Throughout this report we refer to this as 'the question on political leanings'.
5. The media reported on IR's inclusion of the question on political leanings after a Fairfax Media business journalist interviewed IR's Group Manager, Marketing and Communications. The Group Manager initially defended the inclusion of this question, arguing that it was needed for research and was not included for political purposes. The media publicly queried whether IR's intention in including the question was politically motivated, and this led to IR reconsidering the question. IR's view is now that the question should not have been included in the survey. As a result, IR directed Colmar Brunton to delete the data on political leanings and to not report on it. IR also initiated this review.

## The terms of reference for this review

6. MartinJenkins was asked to consider and form an opinion on:
  - *whether there is any evidence that including the question on political leanings was in any way politically motivated.*
  - *the adequacy of the end-to-end process leading to the approval of the political leanings question. This will include looking at the commission and design of the relevant research, and the procurement, decision-making and review processes for approving the question.*



- *whether the processes supporting the decision to include the political affiliation question in the survey were considered and balanced against the risks to the integrity of the tax system. This includes perceptions of political neutrality.*
7. Throughout this report we use “reputational risk” to refer to both the risk of political neutrality being compromised and the risk to the integrity of the tax system.

## The structure of this report

8. This report is structured as follows:
- **The control environment at Inland Revenue** – an outline of the legal and ethical frameworks, internal policies and other components of IR’s control environment
  - **What happened: The events** – an outline of the relevant events, from the commissioning of the research, through to the decision to delete the data relating to the question on political leanings, and related events that occurred in response
  - **Findings** – our analysis of what happened, including what went wrong
  - **Recommendations** – our suggestions for how IR can improve its systems and minimise the risk of similar events occurring in the future.

## Methodology

9. This review was conducted in phases. First, to help us understand the timeline of events, IR provided MartinJenkins with a range of documents relating to:
- preliminary strategic material
  - the procurement process
  - the process for finalising the topic guide that shaped the qualitative research and the questions used in the survey.
10. Second, MartinJenkins interviewed 12 IR staff and a Group Account Director from Colmar Brunton. The questions were derived from the material provided to us in the document review.
11. Throughout the interviews we discovered more documents we needed to consider which were subsequently provided to us. These documents helped us understand the control environment at IR.
12. We provided a draft of our report to IR to allow for a check of factual accuracy. We considered comments but retained our right as independent reviewers to address comments (or not) as we saw fit.



## Context

13. IR is undergoing an extensive, multi-stage business transformation programme which will streamline its processes, policies and online services to make it easier for New Zealanders to pay tax and receive entitlements.
14. IR has also signalled cultural traits which it aspires to demonstrate in its work which complement the business transformation process. IR aims to demonstrate an approach which is customer-centric, intelligence-led and agile.



# THE CONTROL ENVIRONMENT AT INLAND REVENUE

15. Inland Revenue has checks and balances in place, including to ensure political neutrality. This section describes the frameworks, policies and other components that together make up the control environment – the checks and balances – at Inland Revenue. These include:

- IR's legal framework – the statutory obligations that impact IR's strategic direction
- IR's ethical framework – the obligations that IR staff have as public servants and that IR has as a State sector organisation
- IR's Internal Control Framework, and the globally recognised COSO framework on which IR's framework is based
- The culture and value statements IR has made about how it wants to work
- IR's risk management approach, both at an enterprise level and throughout a project, and including IR's procurement policies and how they are applied
- The roles and responsibilities of project sponsors and project managers at IR
- IR's delegations framework
- New policies and procedures IR has implemented since the media interest in the question on political leanings.

## IR's legal framework

16. Trust in the tax system is directly linked to the integrity of the system. Inland Revenue has a legal obligation to protect this integrity: every 'officer' of IR must use their best endeavours to protect the integrity of the tax system at all times.<sup>1</sup>

17. The 'tax system' is defined in the legislation as including the following:

- taxpayer perceptions of that integrity
- the rights of taxpayers to have their liability determined fairly, impartially, and according to law
- the rights of taxpayers to have their individual affairs kept confidential and treated the same as the tax affairs of other taxpayers
- the responsibilities of taxpayers to comply with the law
- the responsibilities of those administering the law to maintain the confidentiality of the affairs of taxpayers

<sup>1</sup> Tax Administration Act 1994, section 6(1). <http://www.legislation.govt.nz/act/public/1994/0166/383.0/DLM348343.html>



- the responsibilities of those administering the law to do so fairly, impartially, and according to law.<sup>2</sup>
18. Further, the Commissioner of Inland Revenue is also required over time ‘to collect ... the highest net revenue that is practicable within the law’ (given resource constraints and so on).<sup>3</sup> Tax morale – derived from trust in IR – is believed to influence the voluntary payment of tax obligations and therefore the revenue provided to IR.<sup>4</sup>
19. The impact of the Tax Administration Act on the strategy behind the research and the setting of the questions is discussed in the ‘Findings’ section of this report.

## IR’s ethical framework

20. In addition to their legal obligations, IR staff also have ethical obligations as State servants, as set out in the State Services Code of Conduct, the IR Code of Conduct, and the Cabinet Manual.<sup>5</sup>

### The State Services Code of Conduct

21. The State Services Code of Conduct (formally entitled ‘Standards of Integrity & Conduct’) sets standards of behaviour expected of State servants.<sup>6</sup> The Code itself states four general principles that State servants should adhere to with judgement:
- **Fair** – treat people fairly and with respect
  - **Impartial** – maintain political neutrality
  - **Responsible** – act lawfully and objectively and using organisational resources carefully and only for intended purposes
  - **Trustworthy** – be honest and avoid activities that may harm the reputation of the organisation or the State services.<sup>7</sup>

<sup>2</sup> Section 6(2).

<sup>3</sup> Section 6A.

<sup>4</sup> ‘Tax morale’ measures taxpayer perceptions and attitudes towards paying and evading taxes. Research suggests that higher tax morale equates to more willingness to pay tax, and therefore more voluntary compliance with tax obligations. Across the economy, the impact of tax morale could be significant, for example in reducing the size of undeclared transactions that comprise the sharing economy.

<sup>5</sup> The ‘public service’ is a subset of the ‘State services’ as defined in the State Sector Act 1988. IR is both part of the public services and the State services.

<sup>6</sup> <http://www.ssc.govt.nz/code>

<sup>7</sup> Compliance with the Code obliges state servants to have regard for:

- The spirit of service to the community
- The obligation that organisations have as part of executive government
- The role of the State Services in supporting parliamentary democracy
- The value of State servants having a lively interest in political matters.



22. Guidance issued by the State Services Commission explains the obligations on State servants under each of the four principles.<sup>8</sup> These are the main obligations relevant to this report:
- State servants should have personal integrity, be committed to organisational responsibilities, and be aware of the extent to which other interests could impact those responsibilities (particularly senior staff).
  - Avoid any public perception that a department is not politically disinterested, public spirited and politically neutral, so that actions under one government do not affect the department's ability to work under another government.
  - Work must not be influenced by personal beliefs, interests, or ethical viewpoints.
  - State servants should respect the authority of the government of the day.
  - State servants must act within the scope of the power or discretion conferred on them, and within their delegated authority. They must take an objective, balanced approach to their legislative responsibilities and respect the traditions of liberal democratic government and the rule of law.
  - An organisation's resources must only be used for their intended purpose.
  - Information must be treated with care and used only for proper purposes.
  - Activities that may harm the reputation of the State services, whether at work or outside work, should be avoided.
23. Notably, organisations have obligations under the Code of Conduct too. For example, agencies should act decisively when a breach occurs.

## The Inland Revenue Code of Conduct

24. State sector organisations must maintain policies and procedures that enable them to give effect to the standards in the State Sector Code of Conduct. In meeting this requirement, each organisation may develop additional or more detailed provisions for its particular circumstances. This is the process, anticipated in the State Sector Act, by which an organisation will issue its own code of conduct, incorporating the standards in the State Sector Code of Conduct and building on them with detail that is directly relevant to its own work and context.
25. IR has a Code of Conduct dating from 2008 (updated in 2016). It covers both the standards expected of all State servants and expectations specific to IR and the legislation it administers – for example, the Tax Administration Act. It applies to all Inland Revenue employees, whether permanent, temporary, casual and fixed-term (including workers sourced from employment agencies). It also applies to external contractors or consultants working for Inland Revenue.

<sup>8</sup> The Code is supported by two sets of guidance:

- Implementing the Code of Conduct – Resources for Organisations: [http://www.ssc.govt.nz/upload/downloadable\\_files/Implementing-the-code-of-conduct-updated-7-Dec-09.pdf](http://www.ssc.govt.nz/upload/downloadable_files/Implementing-the-code-of-conduct-updated-7-Dec-09.pdf)
- Understanding the code of conduct – Guidance for State servants: <http://www.ssc.govt.nz/sites/all/files/UnderstandingtheCode-April2010.pdf>





---

“[F]or the code of conduct, and a whole bunch of reasons, it is not our job to try and influence political persuasion.”

– Deputy Commissioner, Information & Intelligence Services

---

26. Notably, the IR Code of Conduct includes a ‘decision making checklist’. When making decisions, IR staff are encouraged to ask themselves:

- *Is it legal? – does it conform to laws and policies?*
- *Is it equitable? – will the decision be the same for everyone else in the same circumstances?*
- *Is it naturally just? – are you being impartial and open-minded?*
- *Is it likely to be misconstrued? – consider the public’s perception of your proposed actions.*
- *Is it open to scrutiny? – are your stated reasons for taking the proposed action your real reasons?*
- *Is it sensible? – in the context of other related decisions.*

27. IR staff are advised to discuss difficult decisions with their managers. Similarly, if they believe others are behaving badly they are encouraged to raise this with management.

28. Employee obligations are spelled out in the IR Code of Conduct:

- *protect the integrity of the tax system at all times, including taxpayer perceptions of that integrity (section 6 of the Tax Administration Act 1994)*
- *maintain the secrecy of all matters relating to the legislation that Inland Revenue administers (section 81 of the Tax Administration Act 1994)*
- *work within the law with honesty, integrity, openness to scrutiny, and concern for the public interest*
- *comply with Inland Revenue’s policies and not do anything which might bring Inland Revenue and the public service into disrepute*
- *respect the rights of colleagues and customers*
- *provide a professional service at all times to the Minister, the public and your colleagues*
- *take all practicable steps to prevent personal injury and illness in the workplace.*

29. The IR Code of Conduct also addresses the need to protect the integrity of the tax system, saying:

*We are ... all required to manage the real and perceived risks to the integrity of the tax system and must ensure that nothing we do creates, or has the potential to create, a threat to the integrity of the tax system or a perception among taxpayers that certain groups in the community somehow receive preferential treatment.*

30. Again, where IR staff are in any doubt how to deal with an issue relating to the integrity of the tax system, they must discuss the issue with their manager before taking any action.



31. Provisions in the IR Code of Conduct relating to political neutrality are similar to those in the State Sector Code of Conduct.
32. The IR Code of Conduct notes that breaches may result in disciplinary action against the employee concerned. This can range from warnings, to dismissal in cases of serious misconduct. In some situations the employee could be prosecuted.
33. Examples of breaches that, if proved, may lead to dismissal include:
  - dishonest, illegal or corrupt behaviour in the workplace
  - misuse of Inland Revenue property, business tools or funds
  - knowingly, negligently or carelessly subjecting Inland Revenue assets and resources to undue risks
  - behaviour that is likely to bring Inland Revenue into disrepute.

## The Cabinet Manual

34. The Cabinet Manual is the authoritative guide to New Zealand's system of central government decision making and a primary source of information on constitutional matters.<sup>9</sup> This includes important information on the role of State servants, particularly around the relationship they have with the Executive.
35. The Cabinet Manual provides that members of the public service:
  - *are to act in accordance with the law*
  - *are to be imbued with the spirit of service to the community*
  - *are (as appropriate) to give free and frank advice to Ministers and others in authority, and, when decisions have been taken, to give effect to those decisions in accordance with their responsibility to the Ministers or others*
  - *when legislation so provides, are to act independently in accordance with the terms of that legislation.*
36. Further, public servants must meet these obligations in accordance with important principles and values such as political neutrality, fairness, and integrity. In relation to political neutrality, the Cabinet Manual specifies that:

*[O]fficials must be politically neutral in their work, serving the current Minister in such a way that they will equally be able to serve any future holder of the office. This principle of political neutrality is central to the public service's ability to support the government of the day and any future government.*
37. For their part, Ministers must respect the political neutrality of the public service and not ask officials to act in a way that would conflict with the Code of Conduct.

<sup>9</sup> <https://dpmc.govt.nz/sites/default/files/2017-06/cabinet-manual-2017.pdf>



38. The State Services Code of Conduct is referred to in the Cabinet Manual. The Cabinet Manual notes that the State Services Commissioner sets the Code of Conduct and that agencies within the State services must maintain policies and procedures that are consistent with the Code.

## IR's formal control framework

39. This section outlines the recognised COSO framework and IR's formal Internal Control Framework (ICF) which is based on the COSO framework.

### The COSO framework

40. The COSO framework is a widely adopted, globally recognised internal control framework, developed and maintained by the Committee of Sponsoring Organizations of the Treadway Commission. It was designed to help organisations establish, assess and enhance their internal control. The framework has five components:

- **Control environment** – the standards, processes and structures that provide the basis for carrying out internal control across an organisation, including its integrity and ethical values, as reinforced by management
- **Risk assessment** – a dynamic and iterative process for identifying and assessing risks to the achievement of objectives, consideration of risks against risk tolerance, and the basis for determining risk management
- **Control activities** – the actions (preventative or detective) established through policies and procedures that help ensure risk mitigation is carried out
- **Information and communication** – communication is the continual, iterative process of providing, sharing, and obtaining necessary information
- **Monitoring activities** – evaluations used to ascertain whether each component of internal control is present and functioning, with the findings shared as appropriate.

41. We have considered the institutional elements that make up the control framework at IR in reference to COSO.

### IR's Internal Control Framework

42. Inland Revenue has an Internal Control Framework (ICF), developed in 2008. Former Commissioner, Bob Russell wrote in the Foreword:

*The Internal Control Framework sets out the principles and identifies the drivers of our control environment. The Internal Control Framework feeds and enhances many of the other frameworks we have and is a key component in providing assurance to Government and the public that we are doing our job well.*

43. The ICF is based on COSO. It has five components, each of which has an equivalent in COSO, as shown in the table below.



**Table 1: Comparison between COSO and IR’s Internal Control Framework**

COSO	ICF
Control environment	Leadership and culture
Risk assessment	Goals and objectives
Control activities	Control activities
Information and communication	Information and communication
Monitoring activities	Monitoring and improvement

44. COSO and the ICF essentially cover the same areas of focus but with different labels. The comparison between the frameworks highlights an important point. What COSO terms ‘risk assessment’ (covering the risk to achieving objectives) the ICF terms ‘goals and objectives’ (including the strategy for achieving objectives and the risk management framework). This neatly demonstrates the inseparability of risk and strategy. To achieve objectives, an organisation should have a strategy and a corresponding risk management framework. An organisation’s handling of the interplay between these components of the control framework is vital for its success.

## IR’s culture and values

45. In COSO terms, the control environment is the standards, processes and structures that provide the basis for carrying out internal control across an organisation, including its integrity and ethical values, as reinforced by management. Inland Revenue’s Internal Control Framework simplifies this, stating that leadership sets the tone by ‘influencing our [IR’s] attitude towards control’. The tone from management is reflected in all the documents discussed in this report. However, this section considers the culture and values as stated by IR.

46. IR defines its culture as ‘what’s important to us in how we work’. This is defined as the following three traits:

- **Customer-centric:** *together we understand the many influences on each customer, and decide how we will work with them to get the best outcomes for New Zealand.*
- **Intelligence-led:** *we’re confident we make good decisions based on quality information and analysis. We continually test and learn to know what the best approaches will be.*
- **Agile:** *we work at pace, pulling together the right people to make good decisions quickly, focusing on the things that matter most.*

47. Four values underpin the culture that will enable IR to be customer-centric, intelligence-led and agile:

- **Trust and integrity:** *we act with integrity, honesty and professionalism.*



- **Innovating to make a difference:** we keep finding new ways to lift our performance and make compliance easier.
- **Valuing people:** we treat each other and our customers with respect.
- **Working together:** we work together and with other organisations to deliver better services and value.

## Risk management at Inland Revenue

48. As noted above, strategy and risk management are inherently interrelated. This report now turns to the risk management frameworks that Inland Revenue applies:

- the Enterprise Risk Management Framework (and the Risk Management Policy included in it)
- assurance mapping
- the Commercial and Procurement branch risk register and refreshed approach
- the risk register in the Procurement Plan
- the risk register in the Recommendation to Appoint.

## Enterprise Risk Management Framework

49. The Enterprise Risk Management Framework (ERMF) sets out the risk management policy and practice at IR. The ERMF is clear from its opening paragraph that: ‘Everyone is responsible for identifying, understanding and actively managing risks that can affect the achievement of IR’s objectives and outcomes’.

50. The ERMF contains the Risk Management Policy. It opens with a Policy Statement noting that: ‘Risk management will inform our decision making to ensure that we deliver our objectives safely’. The table below presents the roles and responsibilities of IR staff in relation to enterprise risk, as set out in the policy.

**Table 2: Staff roles and responsibilities in relation to enterprise risk, as set out in the Risk Management Policy in the ERMF**

Role	Responsibilities
Commissioner	<ul style="list-style-type: none"> <li>• Ultimately accountable and responsible for managing risks to IR</li> </ul>
Deputy Commissioner, Corporate Integrity and Assurance	<ul style="list-style-type: none"> <li>• Owns the Risk Management Policy</li> </ul>



Role	Responsibilities
Executive Leadership Team	<ul style="list-style-type: none"> <li>• Owns the enterprise risks</li> <li>• Provides risk management leadership</li> <li>• Promotes a risk-smart culture</li> </ul>
Corporate Integrity and Assurance	<ul style="list-style-type: none"> <li>• Provides independent advice and assurance to the Commissioner on the governance and integrity of the tax and social policy systems</li> <li>• Provides the resources to support IR staff to comply with the Policy</li> </ul>
Manager, Risk Services	<ul style="list-style-type: none"> <li>• Administers the Policy and owns the ERMF</li> </ul>
Line Management and staff	<ul style="list-style-type: none"> <li>• Comply with and actively support the Policy and ERMF</li> <li>• Accountable and responsible for risks relevant to their role</li> </ul>

51. The ERMF commits Inland Revenue to adopting best practice in risk management in order to ensure that:

- *IR has a current, accurate and comprehensive understanding of its risks*
- *Risk management is embedded within IR's overall strategic and operational policies and practices.*

52. The ERMF also sets out IR's goals for risk management, namely:

- *Lead and promote a risk intelligent culture to identify, assess and manage risks*
- *Continuously improve our risk management practices to fit our changing environment*
- *Encourage our people to apply their judgement, insight and experience, supported by evidence.*

53. The ERMF includes an operational guideline that steps through the risk management process to ensure that risks are managed in a clear and consistent way across IR. As part of 'risk identification', IR staff are encouraged to consider concerns that may impact on:

- *strategy and governance*
- *people, policy, process and platform*
- *time, cost and quality*
- *data, information and metrics.*

54. Appendix A of the ERMF contains an Enterprise Risk Rating Tool that includes a Consequence Assessment Matrix. The Matrix lists 'negative national media coverage' as a moderate consequence of a reputational risk. Appendix B includes a Project Risk Rating Tool, which



includes a Consequence Assessment Matrix for projects that notes 'sustained negative national ... traditional media coverage' as a severe consequence of reputational risk in a project.

## Assurance mapping: Risk management works in conjunction with assurance

55. Assurance is the process through which risk management controls are reviewed to ensure they are applied effectively. IR has an assurance mapping system to provide a visual representation of the risks and controls in place and how effective they are. The assurance process will identify risks with inadequate assurance coverage, or areas with duplicated assurance coverage.
56. Assurance is considered in three 'lines':
- **First line:** controls that have been established by management to mitigate risks
  - **Second line:** management's monitoring that provides assurance the controls are working
  - **Third line:** independent reviews that provide assurance the controls are working – for example, internal or external audits.
57. An assurance map for the integrity of the tax system was drafted around 2013. The Manager Internal Audit told us it is now out-of-date and that it has not been seen by most current Deputy Commissioners.

## How is enterprise risk management applied at IR?

58. A risk management framework is only as good as the extent to which it is implemented, incorporated into day-to-day workflows, considered as part of project oversight, and reinforced by a risk-aware culture. In COSO terms, the control environment needs to be reinforced by control activities; by information and communication about expectations from management; and by monitoring to ensure expectations are being met. This part of our review report considers what we have heard about efforts to embed risk management into the processes and psyche of Inland Revenue.

### Internal control activities relating to risk

59. The Internal Assurance & Advice unit operates an 18-month rolling plan, targeting risk areas in a dynamic risk environment. The unit works like an internal consultancy.
60. IR has told us that risk management guidance is not included in the induction material provided to new staff. IR recommends that managers discuss risk with new staff. Generally, new staff find out about the ERMF when Corporate Risk & Assurance goes into their business area, they hear about it, or it is a requirement in a template for a particular process.
61. There is a risk management module on LearnIR designed for managers and team leaders.<sup>10</sup> We were told that it needs refreshing and is not mandatory. The module took the place of a wider

<sup>10</sup> LearnIR is IR's online Learning Management System and hosts learning resources, allows IR staff to enrol and attend internal face-to-face or video conference sessions, and keeps a record of courses IR staff have completed or attended.



session in the two-day, face-to-face induction IR once had. The Risk Services Manager has had an initial discussion with the team behind LearnIR about having the risk management capability incorporated into other modules (rather than it being isolated in its own module) to reinforce the concept that consideration of risk should be part of a business process.

62. A *Quick Guide to Risk Management* was distributed to IR staff in 2016 via a desk drop.
63. There is a Risk & Assurance Committee with five independent members.
64. Risk Services – part of Corporate Risk & Assurance – is in the process of revising and refining its quarterly reporting format to IR's Strategic Governance Board (SGB). They are trialling a 'risk radar' approach that identifies the extent of the gap between current risk and target risk. The intention is for this information to prompt the remediation of risk (and therefore investment decisions) or risk acceptance discussions.

## The Commercial & Procurement branch risk register

65. The Commercial & Procurement branch maintains a risk register. We were told that each risk on the register is assessed in relation to a specific procurement at the outset and managed throughout the procurement process. There are six high-level risks on the register:
  - Complete or partial failure of supply of critical goods and services including information technology and communications-supported infrastructure, e.g. hardware or operating software
  - Procurement processes are not undertaken or performed with due regard for policy and probity considerations
  - Loss of value for money risk
  - Fraud, bribery and corruption
  - Insufficient capacity and capability of Commercial & Procurement teams
  - Risk related to Enterprise Support Services (a new software package).
66. Commercial & Procurement is moving to a new risk assessment approach, represented in a series of bowtie diagrams provided to us.<sup>11</sup> The six high-level risks that underpin the approach are the same as those listed above. Some of the triggers listed for each risk could be indirectly relevant to the review. Breaches of political neutrality (or the perception of a lack of neutrality) are not specifically listed in the new approach but would presumably fall under the risk of insufficient policy and probity considerations.

## The IR Code of Conduct and Master Services Agreement

67. IR has a Master Services Agreement with Colmar Brunton which specifically states:

***Maintain reputation:*** *The Service Provider must not engage in any activity of conduct that might, in Inland Revenue's opinion, damage the reputation or image of Inland Revenue or the Crown.*

<sup>11</sup> A bowtie diagram (sometimes known as a 'butterfly' diagram), shows causal relationships between risk triggers and risks, and risks and consequences. They are named after their shape, and show preventative and corrective controls to manage risk.





68. There is also a generic clause in all of IR's Master Services Agreements (including that with Colmar Brunton) setting out that suppliers must "comply with all Inland Revenue policies and procedures".
69. We were told that IR's Code of Conduct is currently shared directly with some suppliers. Further, IR is developing a new Supplier Code of Conduct which addresses, amongst other things, ethical responsibilities.

## The research risk register in the Procurement Plan

70. The Procurement Plan included a risk register that listed the following risks to the effectiveness of the research:
- **Agreeability bias:** if customers express more positive sentiment toward IR than they really feel (presumably because they would be on an IR platform)
  - **Timeliness:** the risk of delay
  - **Methodology – customer understanding:** the risk of customers struggling to understand the difference between 'IR' and 'the tax system'
  - **Methodology – self-selection risk:** the risk that customers who are less trusting will be less likely to engage in the research
  - **Sampling:** the risk of having skewed data due to only some types of customers participating in the research
  - **Personnel:** the risk that stems from the project lead being on leave for six weeks during the project.
71. Reputational risk to IR was only considered as a subset of the first risk area above: agreeability bias. The Procurement Plan noted that this risk was lessened by the independence of the procured researchers.

## The risk register in the Recommendation to Appoint

72. The Recommendation to Appoint also contained a risk register. Four of the risks in the Procurement Plan are carried through to the Recommendation to Appoint: timeliness; methodology – customer understanding; methodology – self-selection risk; and sampling. There are also two new risks:
- Embedding and activating the insights: the risk of not establishing key relationships with stakeholders in a position to act on the information
  - Identifying the drivers of trust: the risk of not identifying the drivers of trust in the first phase of the research, creating great difficulty to run additional phases.
73. Reputational risk is not mentioned in the Recommendation to Appoint.



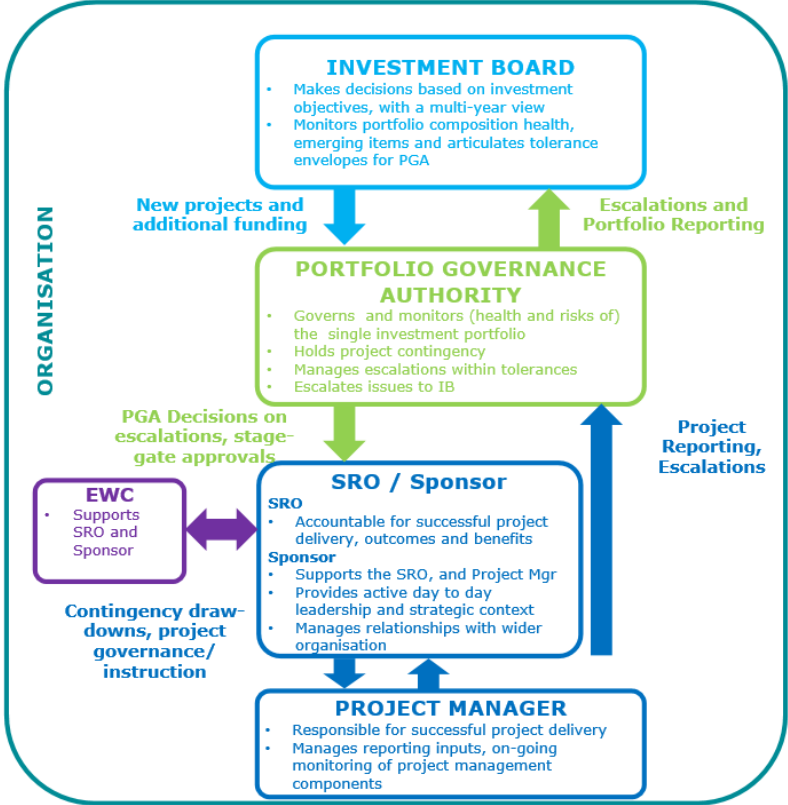
## Responsibilities of project sponsors and project managers

74. Inland Revenue provided us with its guidance for those sponsoring and managing enterprise projects, in the form of a PowerPoint slide pack used in a workshop for enterprise project sponsors. The survey project that is the subject of this review would not qualify as an 'enterprise project'. However, given the research had an executive designated as a 'project sponsor', it is useful to draw parallels between 1) the defined expectations of a project sponsor and project manager for enterprise projects; and 2) what we could have expected from those performing these roles for the research into trust.
75. According to the guidance, the roles and responsibilities of a project sponsor include:
- working with the project manager to ensure risks are proactively managed
  - providing 'active leadership' for the project until completion
  - providing constructive feedback
  - fostering 'close alignment' between the senior responsible owner (SRO), sponsor, and project manager<sup>12</sup>
  - supporting the SRO in their accountabilities.
76. As part of proactively managing risk, project sponsors are expected to be able to 'call out' risks and propose a change in course, or to stop a project if necessary. They must understand the factors that are likely to drive risk and monitor them. The sponsor is the 'escalation point' for difficult issues. Ultimately, they must be able to allocate adequate time to the project.
77. Project managers are tasked with discussing risks and issues with the SRO or sponsor so that they understand the potential impacts. The project management role includes actively managing risks and issues that arise. The project manager must formally review risks and issues regularly. When risks meet a specified level of severity they must be escalated.
78. 'Management' must ensure that the SRO, project manager and working committees are very clear about their roles and responsibilities and those of the wider team.
79. The relationships between key actors for enterprise projects at IR as set out in the project sponsor guidance are presented in the diagram and table below.

<sup>12</sup> The Senior Responsible Owner (SRO) is the individual responsible for ensuring that a project or change programme meets its objectives and delivers the projected benefits. They should be the owner of the overall business change that the project is supporting.



**Figure 1: Governance interactions at IR, as depicted in the slide pack for the enterprise project sponsor workshop**



**Table 3: Areas of focus for enterprise project sponsors, as depicted in the slide pack for the enterprise project sponsor workshop**

<b>SRO</b>	<b>Sponsor</b>	<b>Project Manager</b>
The individual accountable for ensuring that a Project meets its objectives and delivers the projected benefits	The sponsor is responsible for ensuring that the work is governed effectively and delivers the objectives that meet identified needs	The person in charge of the planning and execution of a particular project.
<ul style="list-style-type: none"> <li>• Successful delivery of the project or programme</li> </ul>	<ul style="list-style-type: none"> <li>• Provide active leadership for the project throughout the entire lifecycle until the benefits are realised</li> </ul>	<ul style="list-style-type: none"> <li>• Define project scope and change control</li> </ul>
<ul style="list-style-type: none"> <li>• Delivering the enablers that facilitate benefits realisation</li> </ul>	<ul style="list-style-type: none"> <li>• Commit the time required to the role</li> </ul>	<ul style="list-style-type: none"> <li>• Design a project plan with milestones and deliverables</li> </ul>
<ul style="list-style-type: none"> <li>• Representing the Idea Brief and Feasibility Report they are sponsoring at the Investment Board</li> </ul>	<ul style="list-style-type: none"> <li>• Provide strategic direction to the project with a focus on outcomes and benefits</li> </ul>	<ul style="list-style-type: none"> <li>• Conduct project resource planning</li> </ul>
<ul style="list-style-type: none"> <li>• Ensuring that their programme / project is well prepared for each stage gate and any other internal /external reviews</li> </ul>	<ul style="list-style-type: none"> <li>• Help remove road blocks by working actively with the project and wider organisation</li> </ul>	<ul style="list-style-type: none"> <li>• Manage risks and issues</li> </ul>
<ul style="list-style-type: none"> <li>• Representing their programme / project escalations to the PGA /IB</li> </ul>	<ul style="list-style-type: none"> <li>• Work with the Project Manager to ensure that risks and issues are being proactively managed</li> </ul>	<ul style="list-style-type: none"> <li>• Manage project financials</li> </ul>
<ul style="list-style-type: none"> <li>• Ensuring that a programme or project manager is appointed upon approval of the project or programme by the Investment Board</li> </ul>	<ul style="list-style-type: none"> <li>• Provide constructive feedback, and recognise / reward team performance</li> </ul>	<ul style="list-style-type: none"> <li>• Manage project interdependencies</li> </ul>
<ul style="list-style-type: none"> <li>• Establishing a Working Committee as an advisory function, if required</li> </ul>	<ul style="list-style-type: none"> <li>• Be an advocate for the project and proactively communicate to the wider organisation</li> </ul>	<ul style="list-style-type: none"> <li>• Preserve and/or highlight risks on project benefits</li> </ul>
	<ul style="list-style-type: none"> <li>• Foster close alignment between the SRO, Sponsor and Project Manager</li> </ul>	
	<ul style="list-style-type: none"> <li>• Support the SRO in their accountabilities</li> </ul>	

80. The guidance also notes that lessons should be learnt from other projects so that previous pitfalls are avoided and IR can capitalise on ‘good lessons’.

## The IR Delegations framework

81. Inland Revenue is transforming to become more agile, intelligence-led and customer-centric. This will mean that over time delegations will be exercised through devolved decision making at the lowest possible level. The first step was a new approach to Revenue Delegations and the devolving of selected decisions for the new roles in Customer & Compliance Services – Individuals; Customer & Compliance Services – Business; and Information & Intelligence Services in February 2018.

82. This enables:

- faster (more agile) decision making by avoiding the need to seek decisions from more senior staff
- decisions to be made at a point closest to customers (customer-centric), drawing on the knowledge of those who work most closely with customers (intelligence-led).



83. However, this new approach also comes with a risk, in that some decisions are made further from senior management. This risk needs to be mitigated by an effective control environment, for example having decisions with significant implications reserved to selected roles.
84. At IR, positions are also assigned a delegation level by human resources. Delegation levels are set out in the Position Matrix. Staff are told to use the Position Matrix to identify the delegation level (and thereby the staff member with that delegation level) that needs to make a particular decision. Delegations generally only apply to particular areas of control. Financial delegations may be made separately. They may also be restrictions on some powers to make decisions.
85. Delegation levels relevant to this review include the following:
- Level 4 (and therefore also levels 1, 2 and 3) can approve contracts for service with independent contractors. However, this has a caveat: level 2, 3, and 4 delegation holders should not approve appointments to jobs reporting directly to them. These appointments and salaries should be approved by a delegation holder at the next level up.
  - Level C financial delegation (or above) would be needed for the expenditure for the value of the Colmar Brunton contract.

## What IR has changed since the survey?

86. This section considers new policies, procedures and analysis that Inland Revenue has implemented since the survey was released. Some of this work was already in train when media interest in the question on political leanings began and was then adjusted in response.

## Interim guidance for surveys, interviews and focus groups

87. In direct response to the issues that led to this review, the Deputy Commissioner Intelligence & Insight Services issued *Interim guidance for conducting surveys, research interviews or focus groups*, effective from 27 February 2019. This guidance has interim status until IR can consider the recommendations from this review and establish new processes if necessary.
88. The guidance includes new steps 'required' when conducting surveys and other research. It applies across Inland Revenue – that is, not only to research conducted by the Customer Insight and Evaluation Group.
89. These are the key components of the guidance:
- All 'surveys, etc' require a business owner or sponsor at Tier 3 or above.
  - That sponsor is required to approve the questions being asked, ensure that any contract with a provider is clear that IR will own the data created, and ensure there is documentation setting out appropriate data storage, distribution and management.



- The full guidance on the content of questions is as follows:
  - *Any question referring in any way to the recipient's political views is inappropriate.*
  - *Questions that meet any of the below criteria are discouraged during this interim period.*
    - *Questions referring to the Government e.g. 'Do you think the Government makes good use of taxpayer money?'*
    - *Questions seeking feedback on current policy e.g. 'Do you think the Student Loan scheme is fair?', unless the research is being undertaken on behalf of the Government.*
    - *Questions that on face value don't seem relevant to the purpose of the survey 'e.g. 'How would you describe your overall life satisfaction?'*
    - *Questions that on face value seem frivolous, e.g. 'Would you feel happier receiving a tax refund or extra fries with your pizza?'*
  - *If the business owner / sponsor believes that a question meeting any of the above criteria should still be included, they must escalate that decision to Mike Cunningham, Deputy Commissioner Intelligence & Insight Services.*

90. The guidance tells IR staff:

*If you have any questions or would like advice on how to conduct research during this period, speak with...Group Lead Customer Insight & Evaluation.*

## Enterprise Risk: failure to preserve political neutrality

91. We were provided with the bowtie diagram for the enterprise risk of failure to preserve Inland Revenue's political neutrality that was produced after the events leading to this review. IR currently considers the risk of this event to be high (possible likelihood, moderate consequence) but aims to move it to low (possible likelihood, minimal consequence). A number of the triggers for this risk indirectly relate to the research that we are reviewing, but one is directly relevant: 'IR internal or external communications inadvertently imply and/or are perceived to be politically biased'.

92. The diagram lists two preventative controls for the risk of failure to preserve political neutrality:

- *Management oversight of third party commissioning, milestone development and delivery and preapproval of output*
- *Quality review mechanisms.*

## Insights and Evaluation Policy

93. IR's Insights and Evaluation Policy sets out guiding principles and responsibilities intended to ensure that individuals who conduct research for, or on behalf of, IR maintain the highest standards of professional conduct. The policy takes effect from 1 April 2019 and covers all staff, contractors, and other individuals carrying out research activities and research. Work on this new policy started in spring 2018, well before there was media interest in this research, although material on political neutrality was added as a result of the media interest.



94. Much of the policy is not directly relevant to this report – for example, the provisions relating to data storage, record keeping, peer review, and conflicts of interest. However, the policy does have provisions relating to political neutrality that are derived from the guidance described above:

*All research undertaken by, or on behalf of, Inland Revenue must remain politically neutral.*

*Research should not ask participants about their political affiliations or interests, their views on political parties, or anything that could create a perception of political partiality.*

95. The IR Code of Conduct is noted in the Insights and Evaluation Policy as a 'related' IR document.

96. The *Methodology* section of the policy states: 'Researchers should ensure they use research methods appropriate for each project, and base conclusions on critical analysis of the evidence'.

97. Suspected breaches of the policy should be reported to the Group Lead – Customer Insight and Evaluation so they can be investigated. If a breach involves any employee of IR, they may also have breached the Code of Conduct. In addition to managing suspected breaches, the Group Lead will work with employees to ensure standards are met and will share the policy with individuals wanting to work with (or on behalf of) IR.

98. The owner of the Insights and Evaluation Policy is the Customer Insight and Evaluation Advisory Committee (CIEAC) of IR executives. CIEAC will:

- be kept regularly informed by the Group Lead about any breaches of the Insights and Evaluation Policy and actions taken to address these
- advise the Commissioner of any significant concerns regarding research or evaluation conducted in contradiction of the policy.

## Customer Insight & Evaluation Workflow Process

99. The Customer Insight & Evaluation Team unveiled a new workflow process in October 2018, as the process for procuring Colmar Brunton was underway. The process has been refined since then and we were told it is now more embedded.

100. The Workflow Process clarifies responsibility for sign-off at key points. For example:

- As part of the project design phase, the scoping document is to be signed off by a level 3 staff member and the Group Lead (and the stakeholder)
- As part of the kick-off phase:
  - the procurement plan and request for proposals, if required, are to be signed off by the Group Lead
  - 'research tools' are to be signed off by a level 3 staff member
  - 'instruments' (questionnaires, topic guides, and so on) are to be signed off by a level 3 staff member or team leader and the internal client
  - the analysis plan is to be signed off by a level 3 or Group Lead.



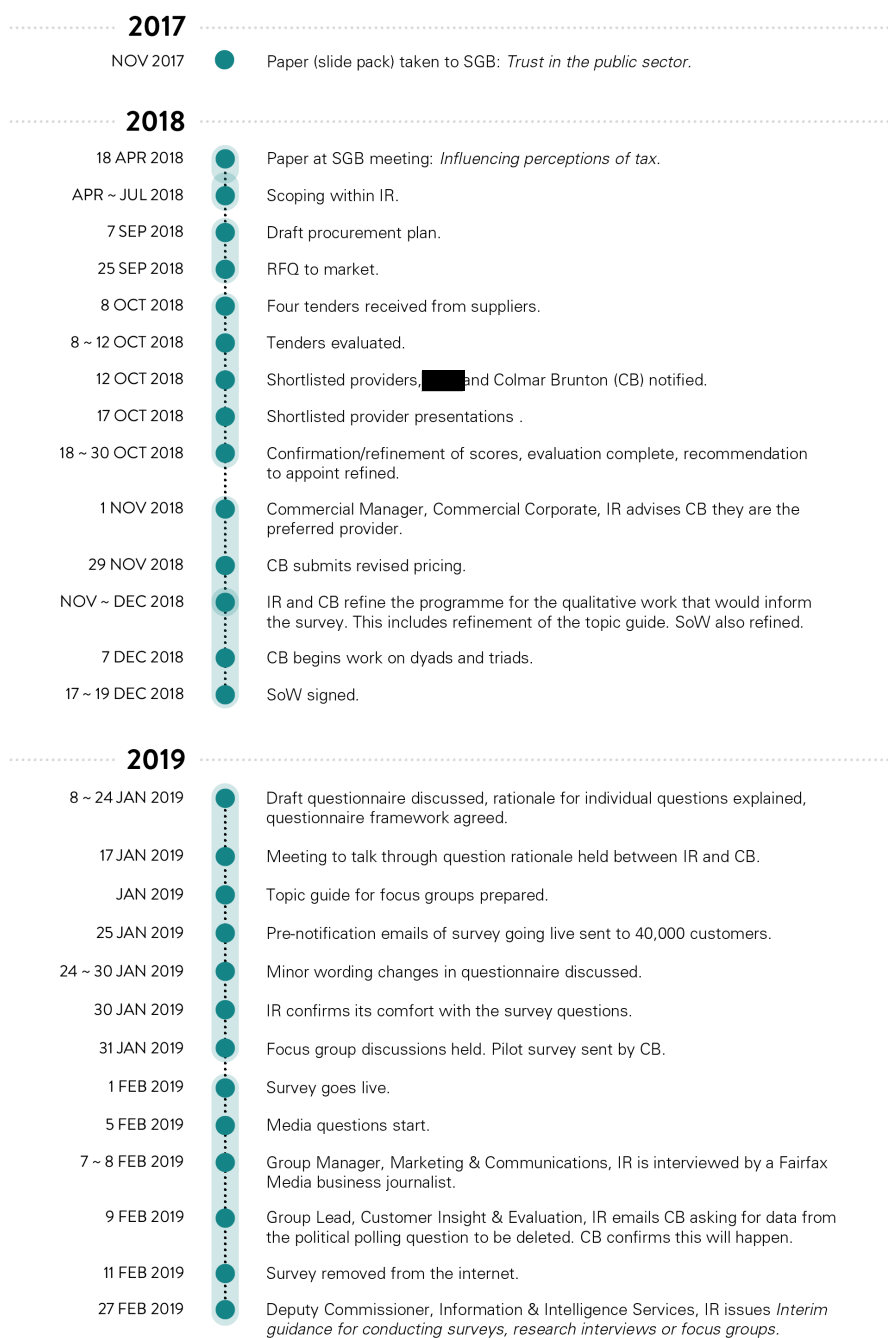
101. The Workflow Process includes a list of key times to get senior staff involved, namely: project qualification, project design brainstorm, questionnaire and/or topic guide design, analysis session, story-telling session, and before design of the final output.
102. The new Workflow Process has the benefit of clarifying responsibilities for sign-off at key points. However, it is not clear from the documents we have been provided how and when risk would be considered throughout the process.





# WHAT HAPPENED: THE EVENTS

Figure 2: Illustration of the timeline



## Overview of the timeline

103. This section sets out the events that comprise the end-to-end process that led to this review being commissioned.

104. The events can be considered in six phases:

- Strategic thinking at senior level
- Scoping work for a contractor
- Procuring Colmar Brunton as the contractor
- Refining the work sought from Colmar Brunton
- Survey going live and attracting media interest
- Actions taken since the survey.

105. An organisation chart showing the relationships between the relevant IR staff is in Appendix 2 of this report.

## Strategic thinking at senior level

106. IR's Strategic Governance Board (SGB) considered tax morale and the impact it can have on voluntary compliance in November 2017. At that point the SGB considered a paper titled *Trust in the public sector*. It was sponsored by the Deputy Commissioner, Policy & Strategy and presented by a manager in the Strategy branch and a Senior Strategist. The paper was intended to consider:

- how trust impacts IR's strategic direction
- what would help maintain trust in IR and the revenue system
- what IR could do better to influence trust.

107. The Minutes show that SGB agreed that:

- SGB would schedule a discussion on a potential 'Communications Strategy' for IR and how IR can influence New Zealanders' perceptions about the tax/revenue system and why it is good to participate in it. This would be led by the then-Deputy Commissioner, Information, Intelligence & Communications with the help of the strategy team. The paper would also address investment requirements and potential outcomes IR would get from this.
- As part of the customer segment strategies, new segment leads would consider and incorporate trust data, including demographic differentiation, into the development of customer segment strategies.

108. SGB next considered a paper titled *Influencing perceptions of tax* on 18 April. The paper was sponsored by the Deputy Commissioner, Information, Intelligence & Communications. Its purpose was to discuss a strategy for influencing New Zealanders' perceptions of tax and why it is good to participate in the tax system.



109. The Board agreed that:

- influencing tax morale is a strategically important part of IR's activity. Relevant areas of IR should build it into their plans, funding it through their business group budgets
- a formal part of the process of considering, costing and implementing new projects and policies is to consider the possible impacts on tax morale
- influencing tax morale should be considered as part of the continuing work on the customer segment strategies.

## Scoping work for a contractor

110. Between April and July, IR staff, including the Group Lead, Customer Insight & Evaluation, a Senior Strategist and an Intelligence & Insight Specialist, scoped work for a contractor to increase IR's understanding of trust in IR and the tax system, and the flow-on impact on tax morale. This eventually manifested as a draft procurement plan in September. The Request for Quotes (RFQ) was released to a closed panel of suppliers selected from the All of Government Consultancy Panel on 25 September.

111. The RFQ listed the following research objectives for the project:

- identify the key factors that influence customers' overall trust in IR and New Zealand's tax system
- determine which of these can be influenced by IR's actions and which cannot
- understand how IR's communications and behaviours build or erode customers' trust and collaborate with us to identify tangible next steps and actions
- develop questions for the ongoing monitoring of customers' trust in IR and the tax system, to provide internal stakeholders with actionable insights and timely indicators of any noteworthy changes.

112. The RFQ indicated IR was open as to the approach to the research but offered initial thoughts on the methodology, seeing it as including the following:

- a discovery phase, involving a literature review and stakeholder engagement to capture what is already known
- an 'uncover' phase involving qualitative and quantitative research methods to find out what the key drivers of trust are for IR customers
- a phase determining solutions and next steps, to be led by the provider in close collaboration with IR.

## Procuring Colmar Brunton as the contractor

113. After the RFQ went to market, Inland Revenue received four tenders from suppliers by the deadline of 8 October. Between 8 and 12 October the tenders were evaluated by a core team of



two Intelligence & Insight Specialists and the Group Lead, Customer Insight & Evaluation. Moderation was conducted by the Commercial Manager, Commercial Corporate.

114. On 12 October, Colmar Brunton and one other provider were notified they had been shortlisted. Each presented to IR on 17 October. Between 18 and 30 October, the evaluation panel confirmed and refined its scores of the shortlisted candidates, completed its evaluation, and refined its recommendation to appoint.

115. On 30 October, the Manager, Commercial Corporate endorsed the recommendation to appoint. The Commercial Manager, Commercial Corporate emailed the recommendation to appoint to the Intelligence Leader, Intelligence & Insight for sign off. On 1 November, the Commercial Manager, Commercial Corporate wrote to Colmar Brunton to inform them they were the preferred provider.

116. The RFQ anticipated the following timeline when it went to market:

- 22 October – the provider was to be confirmed
- 29 October – ‘set up’ meeting with selected provider was to be held and Statement of Work was to commence
- 30 October to 27 November – fieldwork was to be undertaken
- 29 November – the provider was to meet with the Research Evaluation & Insight Team to discuss findings
- 3 December – the provider was to present to key IR stakeholders
- 4–7 December – an ongoing monitoring solution was to be developed in collaboration with key IR stakeholders, notably the Research Evaluation & Insight Team.

## Refining the work sought from Colmar Brunton

117. Through November and December, IR and Colmar Brunton liaised to refine the work programme for the qualitative work that would inform the survey. Colmar Brunton submitted revised pricing on 29 November.

118. Through this process it was agreed that Colmar Brunton would be involved in three pieces of work:

- running a series of ethnographic dyads and/or triads<sup>13</sup> to gain an understanding of drivers of trust for particular populations
- running a series of focus groups to gain a more general sense of drivers of trust
- running an online survey.

<sup>13</sup> ‘Dyads’ and ‘triads’ are interviews with groups of two and three interviewees respectively. Interviews of this nature are common in qualitative research.



119. Colmar Brunton began work with the dyads and triads on 7 December. Focus group discussions were held on 31 January 2019.

120. The Statement of Work was signed by Colmar Brunton on 17 December and by IR on 19 December.<sup>14</sup> The timeline in the signed Statement of Work contained the following deliverables in section 3.2:

- 5 December – project planning and qualitative topic guide
- 20 December – development of draft questionnaire for survey
- 24 January 2019 – final questionnaire agreed
- 10 February – fieldwork (survey in field) complete
- week of 25 February – analysis and story-telling sessions with IR
- 8 March – draft report.

121. Between 8 and 24 January, IR and Colmar Brunton discussed the rationale for each of the draft survey questions, agreeing on the specific rationale behind each individual question and the framework for the survey. This was mostly done by email but included a meeting on 17 January. The questions were considered one-by-one and several attracted considerable attention, including some with political themes. However, despite the relatively thorough process, no issues were raised with the question on political leanings. Minor wording changes to the questions continued to be discussed up until 30 January, when IR confirmed it was comfortable with the wording by an email from an Intelligence & Insight Specialist to a Colmar Brunton Group Account Director.

## The survey goes live and attracts media interest

122. Pre-notification of the survey going live was sent to 40,000 customers on 25 January. A pilot survey was sent by Colmar Brunton on 31 January. The survey went live on 1 February.

123. Media queries began on 5 February. The Group Manager, Marketing & Communications was interviewed by a Fairfax Media business journalist on 7 and 8 February.

124. After a lengthy meeting of relevant IR staff on Saturday 9 February as a result of media queries, the Group Lead, Customer Insight & Evaluation emailed Colmar Brunton asking for the data from the question on political leanings to be deleted. A Colmar Brunton Group Account Director confirmed this would happen when the working week began. On 6 March he confirmed that the data had been deleted from the data download. Colmar Brunton further confirmed on 20 March that the data had been deleted from the original servers so there is no way it could be unarchived’.

125. At 9 am on 11 February the survey was removed from the internet.

<sup>14</sup> The Statement of Work was signed after Colmar Brunton began working. This is not unusual, particularly as there is a Master Services Agreement between these parties and there is a need for balance between compliance with processes and getting on with the job.



## Actions taken since the survey

126. The Deputy Commissioner, Information & Intelligence Services issued Interim guidance for conducting surveys, research interviews or focus groups on 27 February.



# FINDINGS

---

“[W]e said...the question was inappropriate, so something has clearly gone wrong.”  
– Deputy Commissioner, Information & Intelligence Services

---

## The terms of reference

127. MartinJenkins was asked to consider and form an opinion on these three issues:

- *Whether there is any evidence that including the question on political leanings was in any way politically motivated.*
- *The adequacy of the end-to-end process leading to the approval of the political leanings question. This will include looking at the commission and design of the relevant research, and the procurement, decision-making and review processes for approving the question.*
- *Whether the processes supporting the decision to include the political affiliation question in the survey were considered and balanced against the risks to the integrity of the tax system. This includes perceptions of political neutrality.*

128. Our finding on political motivation is presented first. The second and third issues are closely related and we therefore present our findings on them together.

## Was there political motivation?

### From the terms of reference:

- ***Whether there is any evidence that including the question on political leanings was in any way politically motivated.***

### Key finding

129. We have found no evidence of political motivation in the use of the question on political leanings or the setting of the questions. We are confident that there was no political motivation at any point, from when the research was conceived to when the survey was implemented.

130. In the following sections we expand on that finding, including on Inland Revenue’s strategic intent in commissioning the survey and the specific purpose of including the question on political leanings.



## The strategic intent behind the research

131. This section first considers the strategic intent of the research, and the relationship between that intent, Inland Revenue’s objectives and the rationale for the question on political leanings.

### IR’s broad strategic intent

132. As noted, the Commissioner of Inland Revenue has a legal duty to collect over time the highest net revenue that is practicable within the law.<sup>15</sup> Further, every IR staff member has an obligation to protect the integrity of the tax system.

133. The integrity of the tax system is directly linked to the trust New Zealanders have in IR, which domestic and international research suggests correlates to ‘tax morale’ – that is, the willingness to pay tax and voluntarily comply with tax obligations. In turn, tax morale directly relates to the net revenue collected by IR and therefore to the fulfilment of the Commissioner’s duty. These relationships are shown below.

**Figure 3: Integrity contributes to IR’s objective**



134. Inland Revenue’s strategic objectives are set out in an A3 titled *IR for the future*, which is displayed around IR’s offices. It includes the organisation’s purpose, strategic objectives and cultural values. The strategic objectives include:

*Grow voluntary compliance by making it easier for people to get it right.*

135. The document describes IR’s mission as being achieved when it delivers three specific outcomes, one of which is:

*Revenue is available to fund government programmes through people meeting payment obligations of their own accord.*

<sup>15</sup> Tax Administration Act 1994, section 6A(3).





## The strategy behind the research

---

“We measure tax morale, trust in the tax system every quarter. Some quarters I see it go up, some quarters I see it go down and I have never over five years been able to attribute a reason as to why that is. It is therefore impossible for me to achieve my goal of influencing that trust, the perceptions of the integrity of the tax system because I don’t know what’s causing changes in movement at a public level.”

– Group Manager, Marketing & Communications

---

136. IR’s Request for Quotes set out the objectives for the broader project. The successful provider was to:

- *identify the key factors that influence customers’ overall trust in Inland Revenue and New Zealand’s tax system*
- *determine which of these can be influenced by Inland Revenue’s actions and which cannot*
- *understand how Inland Revenue’s communications and behaviours build or erode customers’ trust and collaborate with us to identify tangible next steps and actions*
- *develop questions for the ongoing monitoring of customers’ trust in Inland Revenue and the tax system, to provide internal stakeholders with actionable insights and timely indicators of any noteworthy changes.*

137. In particular, IR believed it had some understanding of the functional elements of trust but less knowledge of the emotional associations that can underpin customer behaviour and decision-making around tax compliance. This was particularly true for some groups, including Māori and Pacific peoples.

138. As noted above, IR wants to be customer-centric and intelligence-led in the way it operates. The research was intended to directly contribute to this as it aimed to gather intelligence to help IR understand the influences on its customers’ perceptions of trust.



## The purpose of the question on political leanings

---

“We felt like ... we hadn’t asked about people’s specific political party affiliation, and so we thought it was broad enough and there was a discussion, well actually it is anonymous, it is only being used internally. These were the things that were going through our heads.”

– *Intelligence & Insight Specialist*

---

139. The set of survey questions was intended to improve Inland Revenue’s understanding of the degree of influence it had over trust. IR and Colmar Brunton worked through the rationale for each question in the survey in January 2019 until IR was comfortable the reason for asking each question was clear. Each question was inspired by what Colmar Brunton had heard about what drove trust in IR and the tax system through the interviews and focus groups it conducted in 2018.
140. Those we interviewed explained how regression analysis could show which factors drove trust the most. Theoretically, the research could have shown that trust in IR and the tax system was almost entirely controlled by factors IR could never influence. Those we interviewed argued that good research practice required IR to identify factors it knew it could not control – and would never try to control – in order to find out how much influence it may be able to have over the remaining factors, and therefore its ability to influence taxpayer perceptions of IR and the tax system.
141. IR knew it could not, and would not seek to, influence political leanings but the question that led to this review was included nonetheless to ascertain the influence this variable had on respondents’ trust in the tax system so IR could consider what influence it had through other variables it could influence.

## Findings on the strategy behind the research and the question

142. We find that the strategic intent behind the research was consistent with:
- Inland Revenue’s broader strategy and legal obligation to protect the integrity of the tax system and to maximise trust in the system, increase voluntary compliance, and collect the greatest amount of revenue within the law
  - the traits IR seeks to display through its work, such as customer-centricity and intelligence-led actions.
143. However, the inclusion of the question had the perverse effect of undermining the integrity of the tax system by calling into question IR’s political neutrality. This is because risk was not adequately considered in conjunction with strategy.
144. The desire to understand the effect of political leanings on trust is understandable given the objectives of the research and IR’s broader objectives. IR believed it did not have a good understanding of the drivers of trust in IR and the tax system, and the range of factors that influence the drivers of trust over time. This was particularly true for the emotional associations



that can underpin customer behaviour and decision-making around tax compliance, especially in regard to Māori and Pacific peoples. IR wanted to understand how much control it had over the drivers of trust, and thereby what it could do to influence trust and gain the benefits of a taxpayer base with greater trust in the tax system and IR.

---

“Personally, I have come from a private sector background...it felt like another time, another place, this was a natural question to include. And I still think... from an integrity of the research point of view we needed to have it in there....”

– *Intelligence & Insight Specialist*

---

145. The inclusion of the question was consistent with principles that could underpin research in a non-governmental context such as academia, where the political considerations of the Codes of Conduct and so on do not apply. The researchers wanted to use regression analysis to understand which drivers of trust were the strongest and how much control IR had over trust in the system. This meant asking respondents about things IR knew it could not control, to understand how important the things it could control were in affecting trust.

---

“[I]t was actually not us trying to understand that particular point, it was actually to remove it from the series of drivers that we might look at.”

– *Intelligence Leader, Intelligence & Insight on why the question was included*

---

146. We argue throughout this report that strategy and risk management should be intertwined. We understand what IR was trying to achieve through the research and the question, and why it would want to improve its understanding of trust in IR and the tax system. However, this is a case where reputational risk should have been given greater consideration within the strategic context. Had risk been properly considered, IR could potentially have found another way to achieve its strategic objective.

### **Could the research have used an alternative approach?**

147. We note that researchers we interviewed told us that there are usually a variety of options to achieve the objectives of research like this. Applying a reputational risk lens would ensure the option selected would not risk ambiguity in the perception of political neutrality.



## The adequacy of the process and consideration of risk

### From the terms of reference:

- ***The adequacy of the end-to-end process leading to the approval of the political leanings question. This will include looking at the commission and design of the relevant research, and the procurement, decision-making and review processes for approving the question.***
- ***Whether the processes supporting the decision to include the political affiliation question in the survey were considered and balanced against the risks to the integrity of the tax system. This includes perceptions of political neutrality.***

### Key finding

148. While the use of the question on political leanings was not politically motivated, it was clearly unacceptable and its inclusion reflected an inadequate application of internal controls.

### Our approach

149. In carrying out this review we considered the various frameworks, policies and other components of Inland Revenue's control environment: these are discussed in detail earlier in this report, under 'The control environment at Inland Revenue'.

150. In the course of this review it became obvious that the 'adequacy of the end-to-end process' was inseparable from consideration of 'the risks to the integrity of the tax system'. We have therefore set out our findings on those two issues together in this section.

### Inland Revenue has a sufficient range of policies and procedures

151. IR has all the policies and procedures we would expect of a modern organisation. It has signalled it wants to work in a way that is agile, intelligence-led and customer-centric – all traits of a modern organisation. Delegating decisions to the lowest possible level is consistent with this. It allows decisions to be made quickly (without reverting up to senior leaders), by those who are closest to customers and who therefore know the most about customers through interacting with them. Together these factors form a coherent approach – that is, an empowered environment with what looks like appropriate checks and balances.



## However, the application of checks and balances was inadequate

---

“You can always improve your controls.”

– Deputy Commissioner, Information & Intelligence Services

---

### Risk management at IR

152. IR has a sophisticated risk management regime but its application in this case was fragmented. There were gaps, and there was no overall, coherent consideration of risk. There was also a lack of leadership and oversight of risks across the process. At no point was the risk of a perception of a lack of political neutrality raised.

### Risk management was fragmented

153. Risk was considered at a number of points in the project, including:

- the paper to SGB setting out the strategic intent of the review
- the design of the research, which considered risks to the integrity of the research (that is, the validity of the findings)
- the procurement of the provider, which considered risks to the procurement and successful completion of the work.

154. The reputational risk from compromising the perception of political neutrality was not considered at any of these points.

155. Risk management appears fragmented across the business areas within IR involved in this project. Risk to the perception of political neutrality was only explicitly considered at the enterprise level after the events leading to this review had occurred. Other risks were considered throughout the procurement process but only those risks that would affect the integrity or delivery of the research, not the integrity and reputation of the organisation. A more ‘risk intelligent’ culture and a better control environment could have prevented this.

### Control activities relating to risk

156. There was a disconnection between the stated expectations of management in various policies (part of the control environment) and the control activities implemented in this case. The ERMF commits IR to adopting best practice to ensure that ‘risk management is embedded within IR’s overall strategic and operational policies and practices’. It sets out IR’s goals for risk management, including promoting a ‘risk intelligent culture’, aiming to ‘continuously improve risk management’. The risk team even predicted the ‘negative national media coverage’ that would follow an incident related to reputational risk.

157. In the terminology of the assurance framework, a number of controls have been established by management to mitigate risks to form the ‘first line’ of assurance. However, the ‘second line’ –



management's monitoring that provides assurance the controls are working – appeared to be missing in this case. In COSO terms (reflected in IR's Internal Control Framework):

- there were difficulties with **information and communication**
- **monitoring** of risk practice was limited.

## **Risk culture is inconsistent across IR**

158. We heard that attitudes to risk management vary across Inland Revenue, with some parts being more risk-aware than others. Some parts do not engage with those attempting to manage enterprise risk. This means the risk specialists effectively have no visibility over what is happening in some of IR's business areas. With so many risks competing for the attention of the Corporate Risk & Assurance Group, this can become reinforcing. If a business area does not want to engage there are plenty of other things for the Corporate Risk & Assurance Group to focus on. We heard that Deputy Commissioners can help 'set the tone' for risk management and set expectations for engagement with Corporate Risk & Assurance for their units. Interviewees implied that some Deputy Commissioners are more engaged in conversations about risk than others.

159. We have met with staff in parts of IR relevant to this review, including Commercial & Procurement. This unit has a unique role to play in two ways:

- in overseeing the contract process where IR enters formal relationships with providers
- in managing risk, in that some risks (financial risks for example) can be transferred to a provider through a procurement process. However, reputational risk will always remain with the organisation whose reputation is at stake – in this case, Inland Revenue.

160. Commercial & Procurement's checklist could be amended to include confirmation that the business area concerned (e.g. research) has assessed all relevant risks, including reputational risk.

---

“[O]ur plan is based on risk and when I don't have engagement to discuss such things with managers...I would rather spend my time where it is appreciated.”

– *Manager Internal Audit*

---

## **Risk is not covered in induction**

161. As documented above, risk is not specifically covered in induction. The module on LearnIR targets managers and team leaders only. IR's Risk Services unit would prefer risk was incorporated into a number of modules to reflect how risk management should be incorporated into day-to-day practice.



---

“I just use any means, honestly, I use any means to get in and push the word out that this [risk management] is actually a useful discipline.”

– Group Manager, Corporate Risk & Assurance

---

### **The Codes of Conduct should have provided a check**

162. The Codes of Conduct should provide a check against reputational risk in that they unambiguously promote political neutrality in the conduct of the State services. There was no consideration of the Codes of Conduct through the process. This in itself is not surprising, but it is surprising that the risk to political neutrality – which is core to the Codes – was never explicitly considered. In other words, we would have expected a robust risk management framework to have picked this up.

163. The State Services Code of Conduct requires State servants to act impartially, in a politically neutral way. This includes avoiding the public perception that a department is not politically disinterested. It is important State servants have a full understanding of political neutrality. It is not enough to simply avoid influencing State sector work with the political leanings of those doing the work. State servants must avoid even the perception that their work is political in nature.

164. Notably, the IR Code of Conduct includes a decision-making checklist. Staff who are unsure about taking an action should ask, among other things, ‘is it likely to be misconstrued?’ and to ‘consider the public’s perception of ... proposed actions’. Clearly that did not happen in this case.

---

“I felt like I was at all times actually operating within the Code of Conduct.”

– Intelligence & Insight Specialist

“[O]ur thinking around political neutrality was ... framed at not letting our political views influence what we do at work ... I think with hindsight, we should have been thinking about political neutrality in a broader sense ... what might the perception of asking this question be? Would that compromise the view that IR is politically neutral?”

– Group Lead, Customer Insight & Evaluation

---

### **The process for considering the questions should have identified risks**

165. The IR researchers on the project engaged with Colmar Brunton to explicitly and rigorously clarify the research rationale for each individual question in the survey. The question on political leanings was explicitly checked and quickly confirmed with no risks identified. No senior managers outside the project team were consulted on this question, or any other. No senior manager asked about



reputational risk – or risks to the integrity of the tax system – or to see the questions. The risk of the perception of compromised political neutrality should have been identified in this process.

## Roles of key project leaders

---

“I wasn’t given guidance on that [being a project sponsor] and if there is some formal guidance on that I am still not aware of it.”

– *Group Manager, Marketing & Communications*

---

166. The expectations of a project sponsor and project manager are not clear for a project of this kind. The guidance we were provided with for this review relates only to enterprise projects. No-one we interviewed could direct us to similar guidance for ‘lower’ level projects (such as research projects) which, as this report demonstrates, can still involve sufficient risk to require oversight.

167. Regardless, this project was not run in accordance with the expectations for enterprise project sponsors and managers. For example, the project manager did not discuss risks with the project sponsor. These titles are meaningless without a set of expectations attached to them. It is reasonable to expect project leaders to be responsible for quality and project risk management. Had the expectations been clear they may have taken a more hands-on approach.

## Other issues relating to personnel

---

“...we have had a great influx of private sector people and I don’t think that they really understand what working in the public sector means from a risk point of view, from a machinery of government point of view ... they are totally different things.”

– *Manager Internal Audit*

---

168. The terms of reference have asked us to consider the adequacy of the ‘end-to-end process leading to the approval of the political leanings question’. The process primarily failed because of a break down in the control environment. However, there were also a range of factors relating to the personnel on the project that may have contributed distraction or pressure to the environment, and thereby contributed in some way to the internal controls being inadequately applied. These factors are noted here for completeness.

169. An Intelligence & Insight Specialist was a key staff member from the Customer Insight and Evaluation Team working with procurement on producing the RFQ. That staff member was away for six weeks when the RFQ was planned to be released. This may have contributed to a hold up in releasing the RFQ and IR reviewing the quotes it received, with a flow-on effect of a delay in Colmar Brunton starting its work.





170. The Group Manager, Corporate Risk & Assurance told us IR had five risk managers in six years. Regular turnover of risk managers could affect the degree to which expectations around risk management are embedded within an organisation like IR.
171. The Manager, Commercial Corporate started working at IR the day before receiving the Recommendation to Appoint. They relied on the advice of the Commercial Manager, Commercial Corporate on the process that had been undertaken. The Manager, Commercial Corporate endorsed the Recommendation to Appoint on this basis, and it was forwarded to the Intelligence Leader, Intelligence & Insight for sign-off.
172. At least two key staff had little public sector experience: an Intelligence & Insight Specialist and the Manager, Commercial Corporate. Both have spent much of their careers in the private sector. Other staff we spoke to had spent considerable periods in the private sector, although with some public-sector experience also. The public and private sectors have different operating environments, particularly around the need for political neutrality as detailed in the Codes of Conduct that IR employees are subject to.
173. When key staff are new to a State sector organisation, particularly if they have a private sector background, a robust induction programme is needed to convey the expectations of public servants. As noted above, induction at IR does not include any specific training on risk management, although there is a module on LearnIR for managers and team leaders that, we have been told, is not mandatory and needs refreshing.



# RECOMMENDATIONS

## Improve staff understanding of political neutrality

174. We recommend that IR

- Remind all staff of what it means to be politically neutral in line with State Services Commission guidance, including the need to avoid the perception that political neutrality has been compromised.

## Refresh the induction process

175. We recommend that IR:

- Review the content relating to political neutrality and the Codes of Conduct used in its induction process
- Set expectations relating to risk management in induction.

## Clarify key project roles

176. We recommend that IR:

- Clarify what it expects of project sponsors and project managers in projects other than enterprise investment projects, particularly its expectations around risk management.

## Improve the control environment

177. We recommend that IR:

- Raise the profile of its risk and assurance functions to ensure they have consistently high visibility across IR, and that other parts of IR are consistently receptive to benefitting from these functions.
- Devise a means for monitoring and, where possible, measuring risk intelligence across IR so it can be tracked over time.
- Expect project leaders to consider risk and strategy together when leading projects.
- Hold IR's executives to account for ensuring their areas of responsibility exhibit risk intelligence.
- Defragment risk management by:
  - i. ensuring risk is considered at project level in light of the Enterprise Risk Management Framework.
  - ii. considering an amendment to Commercial & Procurement's checklist to include confirmation that the business area seeking a procurement has assessed all relevant risks, including reputational risk.



- Hold IR's executives to account for implementing each component of the Internal Control Framework, with particular attention paid to monitoring and improvement so IR can see if the framework is working and ensure the framework remains up-to-date in a continuously changing environment.



# APPENDIX 1: INLAND REVENUE TERMS OF REFERENCE

## Independent review into Inland Revenue's approval of a question about respondents' political leanings in an online survey

18 February 2019

### Background

Inland Revenue is required by the Tax Administration Act 1994 to protect the integrity of the tax system, including the perceptions of that integrity. To assist with this, in December 2018, Inland Revenue commissioned Colmar Brunton to undertake research with the objectives of:

- identifying the key factors that influence New Zealanders' trust in Inland Revenue and the tax system
- determining which of these factors can be influenced by Inland Revenue's actions and which cannot, and
- understanding how Inland Revenue's actions build or erode that trust.

Following standard research practice, Colmar Brunton held interviews and focus groups with New Zealanders to discuss their trust in Inland Revenue and the tax system. The topics that came up during these discussions would then be further tested in an online survey.

During the interviews, New Zealanders raised several issues that appeared to affect their trust in Inland Revenue and the tax system. As one of these issues was a person's political leanings, a question on this was included in the online survey. The question was approved by Inland Revenue and read:

*People often indicate their political affiliation along a spectrum of left and right. Using this divide, where on the spectrum would you place yourself? (from 0 to 10).*

Inland Revenue became concerned at the public perception that the research had been carried out for political purposes. As a result, Inland Revenue directed Colmar Brunton to delete the data on political leaning and not report on it.

On reflection, Inland Revenue's view is that the question on political leanings should not have been included in the survey.



## Scope of Review

The review will:

1. Consider and form an opinion on:

- Whether there is any evidence that including the question on political leanings was in any way politically motivated.
- The adequacy of the end-to-end process leading to the approval of the political leanings question. This will include looking at the commission and design of the relevant research, and the procurement, decision-making and review processes for approving the question.
- Whether the processes supporting the decision to include the political affiliation question in the survey were considered and balanced against the risks to the integrity of the tax system. This includes perceptions of political neutrality.

2. The review will also consider lessons learnt from this issue and make recommendations accordingly.

## Timeline

An interim progress report will be made to the Deputy Commissioner, Policy & Strategy, by Friday 8 March 2019.

The review report will be made to the Commissioner of Inland Revenue, who will provide it to the State Services Commissioner to support his examination of the circumstances that led to Inland Revenue commissioning a poll of taxpayers, which included a question about their political affiliation along a spectrum of left and right.



# APPENDIX 2: ORGANISATION CHART FOR RELEVANT STAFF

