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Performance Audit

AUSTRAC's Administration of its Financial Intelligence Function

Australian Transaction Reports and Analysis Centre (AUSTRAC)

Australian National Audit Office

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Canberra ACT
18 June 2013

Dear Mr President
Dear Madam Speaker

The Australian National Audit Office has undertaken an independent performance audit in the Australian Transaction Reports and Analysis Centre with the authority contained in the *Auditor-General Act 1997*. I present the report of this audit to the Parliament. The report is titled *AUSTRAC's Administration of its Financial Intelligence Function*.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's Homepage—<http://www.anao.gov.au>.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ian McPhee'.

Ian McPhee
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office (ANAO). The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits, financial statement audits and assurance reviews of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Australian Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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Abbreviations

ACC	Australian Crime Commission
AFP	Australian Federal Police
AML/CTF	Anti-Money Laundering and Counter-Terrorism Financing
AML/CTF Act	<i>Anti-Money Laundering and Counter-Terrorism Financing Act 2006</i>
ASIO	Australian Security Intelligence Organisation
ASLO	AUSTRAC Senior Liaison Officer
ATO	Australian Taxation Office
AUSTRAC	Australian Transaction Reports and Analysis Centre
EAC	Enhanced Analytical Capability
EDRMS	Electronic Document Records Management System
ExCom	Executive Committee
FATF	Financial Action Task Force
FIU	Financial Intelligence Unit
FTR	Financial Transaction Report
FTR Act	<i>Financial Transaction Reports Act 1988</i>
IFTIs	International Funds Transfer Instructions
IOC	Intelligence Oversight Committee
KPI	Key Performance Indicator
MOU	Memorandum of Understanding

NTA	National Threat Assessment on Money Laundering
PBS	Portfolio Budget Statements
SMR/SUSTR	Suspicious Matter Report / Suspect Transaction Report
SOP	Standard Operating Procedures
TargIT	AUSTRAC's automated monitoring system
TES	TRAQ Enquiry System
TRAQ	Transaction Reports Analysis and Query database

Summary and Recommendations

Summary

Introduction

1. The Australian Transaction Reports and Analysis Centre (AUSTRAC) is Australia's anti-money laundering and counter-terrorism financing (AML/CTF) regulator and specialist financial intelligence unit (FIU). Through these two functions, the agency seeks to promote an environment that is hostile to money laundering, the financing of terrorism, major crime and tax evasion. In 2013–14, the budgeted expenses for each function are \$29.6 million and \$31.5 million respectively.¹

2. AUSTRAC was established in 1989 under the *Financial Transaction Reports Act 1988* (FTR Act)² as a statutory authority within the Attorney-General's portfolio and its role was significantly expanded by the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (AML/CTF Act).³

3. Through its regulatory role, AUSTRAC oversees compliance with the requirements of the FTR Act and the AML/CTF Act across four industry sectors: banks and other lenders; non-bank financial service providers; gambling and bullion service providers; and money service businesses. A key requirement is that regulated entities⁴ provide AUSTRAC with specified financial transaction reports (FTRs).⁵ FTRs are required for all cash transactions of \$10 000 or more, all international funds transfers, cross border movements of physical currency (\$10 000 or more, or foreign currency equivalent), and bearer negotiable instruments (of any value) as well as suspicious activity by clients. A cost recovery regime applies to AUSTRAC's regulatory functions⁶ and has been the subject of comment by the financial services industry.⁷

¹ Attorney-General's Portfolio Budget Statements 2013–14, p. 250.

² The agency was established as the Cash Transaction Reports Agency, and was changed to its present name in 1992.

³ Both Acts were extended and amended through the *Combating the Financing of People Smuggling and Other Measures Act 2011*.

⁴ 'Regulated entities' is a term used by AUSTRAC to refer to both 'reporting entities' (as defined in section 5 of the AML/CTF Act) and 'cash dealers' (as defined in section 3 of the FTR Act), as entities may have obligations under both Acts.

⁵ The report types are summarised in Appendix 2.

⁶ The AUSTRAC regulatory cost recovery model was announced as part of the 2010 Budget. Three separate pieces of legislation were introduced and passed by the Parliament enabling cost recovery from the 2011–12 financial year: *AUSTRAC's Supervisory Cost Recovery Levy Act 2011*; *AUSTRAC Supervisory Cost Recovery Levy (Collection) Act 2011*; and *AUSTRAC's Supervisory Cost Recovery Levy (Consequential Amendments) Act 2011*.

⁷ Australian Financial Markets Association Ltd. Annual Report 2011, p. 5.

AUSTRAC considers however that reporting entities also obtain a benefit through being regulated.⁸ Complying with the requirements of the AML/CTF Act reduces the risk that a reporting entity will be used for money laundering or terrorism financing purposes.

4. In its role as a specialist FIU, AUSTRAC collates and assesses the FTRs provided by regulated entities and disseminates the resulting financial intelligence to its 39 domestic partner agencies (outlined in Appendix 3) to assist them in their investigations. AUSTRAC's partner agencies include Australian Government law enforcement, national security, border security, revenue, regulatory and human service agencies, as well as state and territory law enforcement and revenue agencies.⁹ Arrangements with partner agencies are governed by Memoranda of Understanding (MOU). AUSTRAC's cost recovery regime does not apply to the costs associated with the administration of its functions as an FIU.¹⁰

5. AUSTRAC also has relationships with international FIU counterparts. As a member of the Egmont Group¹¹, AUSTRAC exchanges financial intelligence information with 65 international counterparts, with whom it has formal exchange agreements in place.

6. AUSTRAC's operating environment is dynamic, shaped by changes in domestic policies and international standards, industry expectations, the introduction of new products and technologies and the emergence of new criminal threats and methodologies. These changes have increased the number of international funds transfer instructions, which has subsequently driven the growth in the number of FTRs in AUSTRAC's data holdings. From 2007–08 to 2011–12, there has been an approximate 230 per cent increase in the total number of FTRs provided by regulated entities, from 18 million to over 59 million reports.¹² AUSTRAC retains FTRs for lengthy periods and as at the end of February 2013, the agency held approximately 254 million FTRs.

⁸ AUSTRAC, *Cost Recovery Impact Statement (January 2012)*, for the reporting period 1 July 2011 to 30 June 2012.

⁹ AUSTRAC Annual Report 2011–12, p. 12.

¹⁰ *ibid.*

¹¹ The Egmont Group was established in 1995 by a group of FIUs that met at the Egmont Arenberg Palace in Brussels, to set-up an informal group for international co-operation. Now known as the Egmont Group of FIUs, they meet regularly to find ways to cooperate in the areas of information exchange, training and the sharing of expertise. The Egmont Group has a current membership of 131 FIUs.

¹² Over this period, for example, the number of reported international funds transfer instructions grew from under 15 million to over 53 million.

7. In October 2012, AUSTRAC announced a reduction in staffing of 31 positions and the AUSTRAC CEO reviewed the Executive structure of the agency and reorganised the roles and responsibilities and reporting arrangements for some executives. AUSTRAC is now divided into two Divisions: Operations and Corporate. The Intelligence Branch, which is responsible for monitoring and analysing FTR data, producing intelligence products, and working with both domestic partner agencies and international counterpart FIUs, comes under the purview of the Operations Division.

Process for assessing FTRs and disseminating financial intelligence

8. Nearly all FTRs are transmitted electronically into AUSTRAC's Transaction Reports Analysis and Query (TRAQ) database by regulated entities. As of 30 June 2012, AUSTRAC reported that 3266 authorised personnel of AUSTRAC's domestic partner agencies had online access to the TRAQ database through the TRAQ Enquiry System (TES)¹³, with differing levels of access to this raw data, depending on their operational needs.

9. In addition to providing online access to FTR data, AUSTRAC's Intelligence Branch also analyses, evaluates and disseminates suspicious matter reports¹⁴ to partner agencies and produces more complex financial intelligence reports. These reports are based on its assessment of the data included in FTRs, and incorporate other information and analysis undertaken by AUSTRAC on specific targets and patterns of transactions.¹⁵ The preparation of a financial intelligence report can be triggered through a number of mechanisms. These include detections by AUSTRAC's automated monitoring system (TargIT)¹⁶ and specific requests from partner agencies that may relate to an ongoing investigation. AUSTRAC also proactively disseminates financial intelligence that it considers may be relevant to a partner agency's areas of interest, as well as information from other AUSTRAC business units and international FIUs.¹⁷

¹³ During 2011–12, authorised personnel logged on to TES on 183 741 occasions and conducted 1 996 116 searches. AUSTRAC Annual Report 2011–12, p. 60.

¹⁴ Suspicious matter reports were introduced in December 2008 and, for most entities, SMRs have replaced suspicious transaction reports (SUSTRs), which are submitted by entities regulated under the FTR Act.

¹⁵ *ibid.*, p. 66.

¹⁶ TargIT is a rules based system that uses 'clauses' (financial profiles) to identify particular types of suspicious financial activity. A TargIT clause can be triggered by names, bank account details or other identifying fields.

¹⁷ *ibid.*

10. On the basis of AUSTRAC statistics, the number of financial intelligence reports produced by AUSTRAC has remained stable in the past five years, while disseminations have modestly increased.¹⁸ Since 2008–09, AUSTRAC has, on average, received 43 191 Suspicious Matter Reports¹⁹, and disseminated 54 113 of these reports annually. In each of the past five years, AUSTRAC has also, on average, produced 945 more complex individual financial intelligence products and disseminated 1374 intelligence products to both domestic partner agencies and international counterparts.²⁰

Reported impact of disseminated intelligence

11. The impact of AUSTRAC’s financial intelligence on partner agency operations can be difficult to quantify, particularly for law enforcement agencies where investigations can take many years, and intelligence is gained from many sources. However, the Australian Taxation Office (ATO) and the Department of Human Services (DHS)-Centrelink report on the use and value of AUSTRAC’s financial intelligence to their agencies’ own operations and investigations. For example, in 2011–12 it has been reported that AUSTRAC’s financial intelligence had been used by the ATO in 3745 cases, resulting in an additional \$252 million in revenue from tax assessments. Similarly, DHS-Centrelink reported using AUSTRAC intelligence in 973 cases and achieving total annualised savings of \$3.1 million.²¹

IT database upgrade—Enhanced Analytical Capability

12. On 1 July 2010, AUSTRAC embarked on a change program to its intelligence systems. A total of \$24 million has been provided to AUSTRAC over four years, including capital funding of \$17.5 million for the Enhanced Analytical Capability project. This new capability is intended to provide more effective monitoring and detection of changes in financial activity, enabling more targeted and timely analysis to be produced.²²

¹⁸ Disseminations reported in any given year may include financial intelligence reports that were produced in previous years.

¹⁹ Suspicious Matter Reports are reports submitted by a reporting entity when it forms a reasonable suspicion that a financial transaction relates to an offence, tax evasion or the proceeds of crime.

²⁰ AUSTRAC usually disseminates more reports than it produces each year, as individual reports may be disseminated to more than one partner agency.

²¹ In 2011–12, AUSTRAC reported that another 305 significant investigations were reportedly undertaken by AUSTRAC’s other law enforcement, human services and revenue partner agencies.

²² Budget Paper 2 2010–11, p. 315.

Audit objective and criteria

13. The objective of the audit was to assess the effectiveness of AUSTRAC's arrangements for processing financial intelligence, to assist domestic partner agencies and international counterparts in their operations and investigations. The audit assessed whether AUSTRAC had:

- established effective administrative arrangements to support the financial intelligence function;
- established appropriate arrangements to analyse and disseminate financial intelligence, and obtain assurance as to the appropriate handling of financial intelligence by partner agencies and international counterparts; and
- developed and applied sound processes for monitoring and reviewing the feedback provided by partner agencies as to the use and value of the intelligence disseminated.

14. The audit focused on the arrangements around the assessment of FTRs and dissemination of financial intelligence reports by AUSTRAC's Intelligence Branch. Other activities relating to the financial intelligence function, such as AUSTRAC's International Technical Assistance and Training team, and a detailed examination of the FIU's current IT systems and databases were outside the scope of this audit.

Overall conclusion

15. AUSTRAC plays an important part in the fight against organised crime and in protecting the integrity of Australia's financial environment. Its financial intelligence is intended to contribute to the operations of its partner agencies in combating money laundering, the financing of terrorism and other forms of serious and organised crimes. These crimes can range from tax and welfare fraud, drug related crimes, to threats to national security, including people smuggling.

16. AUSTRAC's financial intelligence is highly valued by partner agencies for its contribution to their operations and management of risks.²³ Through its

²³ Feedback from seven of AUSTRAC's key domestic partner agencies regarding AUSTRAC's relationship management, financial intelligence products and support was overwhelmingly positive. The seven partner agencies consulted by the ANAO were: the Australian Crime Commission; Australian Federal Police; Australian Taxation Office; Australian Security Intelligence Organisation; Customs and Border Protection; Department of Human Services–Centrelink and the Victoria Police.

systems, AUSTRAC provides partner agencies with near real-time access to financial transactions data, and is uniquely positioned to prepare financial intelligence based on its analysis of this data.

17. While AUSTRAC's financial intelligence is highly valued both domestically and internationally, its effectiveness in terms of countering money laundering and the financing of terrorism and other forms of serious and organised crime is not readily quantifiable. Data on the impact of AUSTRAC's financial intelligence on the operations of law enforcement agencies is limited. However, the ATO and DHS–Centrelink have reported using AUSTRAC's financial intelligence in more than 2700 cases in 2011–12, resulting in savings of more than \$255 million.

18. AUSTRAC has well established and sound arrangements for processing and disseminating its financial intelligence. AUSTRAC regularly seeks the advice of its partner agencies as to their priorities for financial intelligence, and is continually refining its approach to analysing and disseminating its intelligence to meet their requirements. The agency has mature arrangements to process assessments, and disseminate financial intelligence reports to domestic partner agencies and international counterparts. A sound quality assurance mechanism is also in place for all financial intelligence reports. However, there is room to strengthen the administration of the financial intelligence function. In particular, improvements could be made to: the arrangements for monitoring access to, and further dissemination of, AUSTRAC's data by partner agency personnel; workload management; and performance reporting. In addition, attention needs to be given to the long-term contingency management of the agency's IT infrastructure (data centre). In this regard, the Government announced as part of the 2013–14 Budget that it will invest \$16.1 million over four years to establish a new off-site data centre.

19. AUSTRAC has in place MOUs with each of its partner agencies, and exchange agreements with international counterparts which clearly set out respective obligations for all parties in respect of the exchange of financial intelligence. Appropriately, the MOUs set out arrangements in respect to AUSTRAC and partner agencies' obligations in safeguarding AUSTRAC's financial intelligence. At present, assurance as to partner agency compliance in this regard is provided by way of a letter from the partner agency to AUSTRAC. These arrangements would be enhanced by AUSTRAC exercising its right to periodically review access to, and further dissemination of, AUSTRAC's data by partner agency personnel.

20. With over 59 million FTRs being provided annually, AUSTRAC is faced with the challenge of maintaining assessment throughput and prioritising key assessment types. A workload queue (backlog) developed for two key financial intelligence assessment types, and agreed processing times were not being met.²⁴ Management reporting did not provide adequate visibility as to the extent, and reasons for the development of the workload queues or for performance against agreed processing times. AUSTRAC has advised that its Enhanced Analytics Capability Project is intended to improve administrative arrangements including internal reporting.

21. AUSTRAC has arrangements to monitor and review feedback provided by partner agencies about the intelligence it disseminates. However, these arrangements are not yielding useful management information because of the low rates of feedback being returned by partner agencies. Reviewing its approach to gathering structured feedback from partner agencies would assist AUSTRAC to better report the use and value of its financial intelligence.

22. In addition, AUSTRAC's approach to measuring and reporting its performance provides only limited insight into whether it is meeting the objectives of the FIU and the impact of the program overall. Reviewing the performance indicators and setting appropriate targets would provide greater assurance and transparency to its public reporting.

23. The ANAO has made three recommendations that are directed towards improving AUSTRAC's arrangements for processing financial intelligence to assist domestic partner agencies and international counterparts in their operations and investigations. The recommendations relate to: strengthening administrative arrangements in relation to periodically reviewing access to, and dissemination of, AUSTRAC financial intelligence; improving management of the assessment of financial intelligence; and providing greater assurance and transparency to AUSTRAC's public reporting of performance against program deliverables and key performance indicators.

²⁴ For example, the TargIT workload queue (backlog) grew from 130 unassessed detections from the monitoring system in February 2011 and reached its peak in August 2011 when 16 461 detections were yet to be assessed. Similarly, in 2011–12, there were 9214 SMRs/SUSTRs unassessed.

Key findings by Chapter

Administrative Arrangements (Chapter 2)

24. The roles, responsibilities and accountability arrangements within AUSTRAC's Intelligence Branch are well defined. The ANAO's review of the Intelligence Branch business plans and risk reporting shows that, with one exception, risks indicated in the plans align with the agency's identified corporate risks. AUSTRAC's corporate risk plans appropriately identify a key agency-wide risk relating to the impact of a potential failure of the agency's IT infrastructure (data centre). However, this risk is not apparent in the Intelligence Branch's business and risk planning and reporting framework.

25. Given the dependency of the Branch on the IT systems infrastructure to deliver financial intelligence to its partner agencies, AUSTRAC's arrangements to manage this risk should be appropriately reflected in its operational planning framework. Other risks relating to changes in resourcing or the priorities of partner agencies that could affect the acceptance of AUSTRAC's financial intelligence disseminations were also not included in the Intelligence Branch risk planning.

26. The ANAO examined AUSTRAC's MOUs with seven of its key domestic partner agencies. The MOUs provide a broad and generally comprehensive framework for the exchange of financial intelligence between AUSTRAC and its partners. Breaches have, however, occurred in the past where partner agencies have detected inappropriate use of AUSTRAC data by their employees. To date, AUSTRAC has not exercised the right to view the required audit log of AUSTRAC information that has been disseminated to other agencies, or requested an audit of online access to AUSTRAC information by partner agency officials. AUSTRAC advised that the MOUs are in the process of being reviewed to maintain their currency. In light of the current review, there would be benefit in the accountability clause which addresses the arrangements to periodically review access to, and further dissemination of, AUSTRAC's data by partner agency personnel, being subject to closer scrutiny, given the sensitivity of the information.

27. Similarly, the accountability clauses in AUSTRAC's international exchange agreements are based on a standard format and seek to provide a framework to protect financial information disclosed to overseas counterparts. The 10 international exchange agreements that the ANAO examined did not contain a specific clause requiring the reporting of breaches to the agreement.

AUSTRAC advised that the exchange agreement template now includes specific clauses that relate to the reporting of known unauthorised disclosures and consequences.

Processing of assessments and disseminations (Chapter 3)

28. In 2011–12, AUSTRAC produced 847 financial intelligence reports on matters of interest to partner agencies and disseminated 1513 financial intelligence products to them for further investigation.²⁵ These reports incorporate AUSTRAC information and include analysis undertaken by the agency on specific targets and patterns of transactions, money laundering and terrorism financing typologies, and strategic assessments.²⁶ The ANAO examined the workload management and quality assurance mechanisms in place for the six types of financial intelligence assessments that include: TargIT (AUSTRAC’s automated monitoring system) assessments; suspicious matters and suspect transaction reports (SMRs/SUSTRs); international exchange of information; partner agency requests; strategic intelligence reports; and data mining. The ANAO observed that there are appropriate arrangements to process assessments, and disseminate these reports. In addition, a sound quality assurance mechanism is adopted for all financial intelligence reports. Various delegations are in place to review reports prior to dissemination for accuracy and consistency. However, workload management could be improved.

29. The increase in FTRs obtained from reporting entities, as well as the level of in-depth analysis and risk assessment that needs to be applied across these reports has affected workloads for both TargIT assessments and SMRs/SUSTRs. Although there is continuous risk assessment of FTRs, and precedence is given to reports that are of a higher priority, backlogs increased, particularly for SMRs/SUSTRs. AUSTRAC did not have the capacity to assess all reports that related to specified key risks (business rules).²⁷

30. Agreed processing times were not met for TargIT and SMR/SUSTRs assessments in 2011–12. Internal monitoring and reporting to management in relation to the financial intelligence workload have not been consistent. For

²⁵ AUSTRAC Annual Report 2011–12, p. 66.

²⁶ *ibid.*

²⁷ AUSTRAC advised that there are ongoing refinements and measures employed by the agency and partner agencies to mitigate the risk of not assessing high value SMRs and SUSTRs. Designated partner agencies also have access to SMRs/SUSTRs.

example, the TargIT workload is monitored by the TargIT team. However, there is no consistent, structured reporting to management of the actual workload, unassessed hits on hand (including the significance or priority), and its effect, if any, to operations. As with the workload queues, internal reporting to management on processing times could be improved.

31. There has been varied management reporting on the processing times for the assessment and dissemination of relevant financial intelligence. Processing times are defined for requested and proactive TargIT assessments, with requested disseminations to be processed within 10–15 working days, and proactive disseminations within 10–30 working days. However, there is no documented, consistent internal reporting as to how long the TargIT assessments are taking to process against these timeframes. Management reporting focuses on the number of actual disseminations, presented as a percentage of the planned disseminations. By contrast, performance against the processing target for SMRs/SUSTRs was reported to management but the reasons why the processing target are not being met were not documented.²⁸ To assist management in making informed decisions about resourcing or reconsidering the agreed timeframes—it would be beneficial to formally document the reasons why processing targets are not being met.

32. AUSTRAC advised that the Enhanced Analytics Capability Project is intended to enhance the database interface, refine business rules (for SMRs/SUSTRs) or clauses (for TargIT assessments) and improve other administrative arrangements including internal reporting.

Feedback, Performance Measurement and Reporting (Chapter 4)

33. Feedback from partner agencies is important in gauging the impact of AUSTRAC's financial intelligence, particularly with regards to the use and value of the intelligence AUSTRAC disseminates. AUSTRAC employs a number of methodologies for engaging with partner agencies to identify their needs and requirements. Arrangements are in place to obtain feedback from agencies about the specific contribution of AUSTRAC's financial intelligence to their operations and investigations. These arrangements included acknowledgement receipts and feedback forms on individual disseminations

²⁸ From June 2011 to January 2013, only 57.7 per cent of SMRs/SUSTRs, on average, were processed within five working days, against a target of 90 per cent. However, management reporting did not include the reasons for failure to meet this target.

and more general quarterly feedback reports on the usefulness of AUSTRAC information. For the period 2011–12, the return rate of acknowledgement receipts and feedback forms was 16 per cent, with only 242 acknowledgement receipts and feedback forms returned by domestic partner agencies for 1513 intelligence disseminations. Some AUSTRAC officers and partner agencies advised that they saw little value in the forms, and AUSTRAC’s analysis of those forms that were returned was poor.

34. For the period 2011–12, the ANAO analysis showed that a total of only eight quarterly feedback reports were provided to AUSTRAC by its 39 partner agencies. While all eight reports provided positive feedback, the majority (five) were of an operational nature, detailing the specific outcomes of individual assessments. Only three reports, all from the ATO²⁹, provided the more general statistical and qualitative feedback expected from the quarterly reporting process. AUSTRAC advised the ANAO that, from July 2012, other feedback mechanisms such as a new domestic request form, a single feedback form, and the ‘reason for access’ function replaced the quarterly feedback reports.³⁰

35. The ANAO consulted with seven of AUSTRAC’s key domestic partner agencies³¹ regarding AUSTRAC’s relationship management, financial intelligence products and support. The responses that the ANAO received were overwhelmingly positive. AUSTRAC is viewed as a key support to its partner agencies, and is able to give near real-time information or updates on national security issues, and provide intelligence products that are unique. Partner agencies advised that, internationally, AUSTRAC is a highly regarded FIU.

36. Only three of the seven partner agencies that the ANAO consulted (ATO, DHS–Centrelink and Customs and Border Protection) have sought to quantify the use and value of AUSTRAC’s financial intelligence to their own

²⁹ In 2011–12, the ATO provided three of their own *Austracking* newsletters to AUSTRAC, in place of the quarterly feedback reports. These newsletters detail the use and value of AUSTRAC financial intelligence to the ATO.

³⁰ AUSTRAC advised that the main purpose of the new ‘domestic request form’ is to provide a structured template for partner agencies to make a formal request for AUSTRAC analysis, and to provide all the information that AUSTRAC requires to conduct such analysis (including a general overview of the case, such as the crime type) and the agency point of contact details. The ‘single feedback form’ is used to gather information on the quality of the written intelligence products produced by AUSTRAC analysts. It is also a mechanism by which AUSTRAC receives information on partner agency investigations that have been supported by AUSTRAC, including any charges or convictions obtained. The ‘reason for access’ function is intended to provide a better ability to monitor and audit searches conducted by users of the AUSTRAC database.

³¹ The seven partner agencies were: the Australian Crime Commission; Australian Federal Police; Australian Taxation Office; Australian Security Intelligence Organisation; Customs and Border Protection; Department of Human Services–Centrelink and the Victoria Police.

agency's operations or investigations. The ATO and DHS–Centrelink have reported using AUSTRAC's financial intelligence in more than 2700 cases in 2011–12, resulting in savings of more than \$255 million. In 2012, Customs and Border Protection started quantifying the number of cases (or agency investigations) that are linked to AUSTRAC financial intelligence. Other agencies, particularly the law enforcement partner agencies, such as the Australian Federal Police, Victoria Police and the Australian Crime Commission consider that they could not immediately ascertain if an AUSTRAC financial intelligence report or assessment contributed to, or was the catalyst for, an investigation resulting in a prosecution, as it could take months, if not years, for these matters to be resolved.³²

37. AUSTRAC's program deliverables and key performance indicators (KPIs), as set out in its Portfolio Budget Statements (PBS), have changed over time to reflect the priorities, and the challenges, of the FIU. The ANAO assessed AUSTRAC's reporting of its performance in the Annual Report against the FIU deliverables and KPIs.

38. AUSTRAC's program deliverables adequately capture the FIU's major activities. AUSTRAC has also developed three KPIs that are intended to enable the measurement and assessment of the achievement of FIU's program objective in support of its respective outcomes. Collectively, while the three KPIs were relevant to the FIU program objective, they only addressed two of the four specified activities.³³ Consequently, the activities relating to 'identifying emerging money laundering and terrorism financing trends' and 'providing partner agencies access to, and support in the use of, AUSTRAC databases' are not addressed in the KPI framework.

39. In addition, the performance targets for the FIU's KPIs were not included in AUSTRAC's PBS, and only disclosed when reporting performance in its Annual Reports. It is generally accepted better practice that targets be included in the PBS to provide transparency and accountability, particularly to assist in Parliamentary scrutiny. AUSTRAC advised that it is planning to review the FIU's KPIs. In conducting this review, it would also be appropriate

³² AUSTRAC advised that while law enforcement agencies find it difficult to quantify operational matters which involve AUSTRAC information, they have provided examples for publication, in the yearly *Typologies and Case Studies* on how AUSTRAC information 'fed into successful operations'.

³³ The activities that were covered by the KPIs were: 'identifying, monitoring and assessing financial transaction reporting to support partner agency and AUSTRAC regulatory priorities and interests' and contributing to international efforts directed at AML/CTF, including the international exchange of information with counterpart financial intelligence units and capacity building assistance for financial intelligence units in Africa, the Asia-Pacific region and elsewhere'.

for AUSTRAC to focus its KPIs on the impact of its FIU program by aligning the indicators with the program objective, and setting appropriate performance targets.

Summary of agency response

40. The full proposed report was provided to AUSTRAC for comment. The agency's full response to the audit is at Appendix 1. Its summary response is as follows:

AUSTRAC welcomes the ANAO audit report on the administration of the agency's financial intelligence function. The report notes the unique contribution which AUSTRAC's financial intelligence makes to our domestic and international partners in combating money laundering, terrorism financing and other serious crime. Further, the report notes that the agency has mature arrangements to process assessments and to disseminate financial intelligence reports to domestic partner agencies and international counterparts, and that there is a sound quality assurance mechanism in place for its financial intelligence reports.

Having said this, the report also finds that there is room for AUSTRAC to strengthen the administration of its financial intelligence function. The recommended actions contained in the report provide valuable guidance on further measures to enhance the agency's governance and operational procedures. AUSTRAC agrees with the report's recommendations and notes the following:

- In the 2013-14 budget, the Government announced funding of \$16.1 million over four years for AUSTRAC to establish a new off-site primary data centre. Commissioning of the new data centre will occur during the 2013-14 financial year and it is expected to be fully operational by 30 June 2014. The new data centre will greatly enhance the security and resilience of AUSTRAC's critical data assets.
- AUSTRAC's work program for 2013-14 includes the review and re-negotiation of MOUs with its domestic partner agencies. Updated MOUs, combined with the introduction of enhanced audit and security measures under the agency's new Enhanced Analytical Capability (EAC) system, will significantly improve the overall framework for protecting AUSTRAC information and monitoring the use of that intelligence by partner agency personnel.
- AUSTRAC is to conduct a review of selected partner agencies' records relating to the further dissemination of AUSTRAC information by those agencies.

- The new EAC system will provide more sophisticated tools for managing and analysing the large data volumes which AUSTRAC receives. Limitations in AUSTRAC's existing 'legacy' analytical systems have constrained its ability to process growing data volumes and meet increasing demands for more sophisticated intelligence products. EAC will also give AUSTRAC the capability to establish new performance targets for monitoring, and reporting on, the processing of data and generation of intelligence assessments.
- To reflect the recent bringing together in one business division of the agency's intelligence, compliance and supervision functions, AUSTRAC is to review its standard operating procedures (SOPs). This review will take into consideration observations regarding these SOPs made by the ANAO in its report.
- AUSTRAC will conduct a client survey to gather partner agency feedback on the use, value, quality and relevance of its financial intelligence.
- AUSTRAC is currently undertaking a review of the key performance indicators and targets for both its intelligence and regulatory functions. A particular focus of this review will be the development of performance indicators which reflect the intelligence contribution AUSTRAC provides to its domestic and international partners.

Recommendations

Recommendation No.1
Paragraph 2.55

To gain assurance that obligations to safeguard AUSTRAC's financial intelligence are being met, the ANAO recommends that AUSTRAC reviews the accountability clauses in its agreements with partner agencies, and takes steps to exercise its rights to periodically review access to, and further disseminations of, AUSTRAC data by partner agency personnel.

AUSTRAC response: *Agreed*

Recommendation No. 2

To improve the assessment of financial intelligence, the ANAO recommends that AUSTRAC:

Paragraph 3.60

- establishes, and monitors performance against, processing time targets for requested financial intelligence reports; and
- monitors and reports on processing backlogs for key financial intelligence assessment types, with a particular focus on drawing management attention to delays in assessing higher priority financial transaction reports.

AUSTRAC response: *Agreed*

Recommendation No.3

To provide greater assurance and transparency in public reporting, the ANAO recommends that AUSTRAC:

Paragraph 4.41

- reviews its approach to gathering structured feedback from partner agencies and considers alternatives for measuring the use, value, quality and relevance of AUSTRAC's financial intelligence; and
- develops appropriate key performance indicators and targets to measure whether the objectives of the FIU program are being met and regularly report against these.

AUSTRAC response: *Agreed*

Audit Findings

1. Background and Context

This chapter provides an overview of the Australian Transaction Reports and Analysis Centre and its role in processing financial intelligence. It also outlines the audit objective, criteria and scope.

Introduction

1.1 The Australian Transaction Reports and Analysis Centre (AUSTRAC) is Australia's anti-money laundering and counter-terrorism financing (AML/CTF) regulator and specialist financial intelligence unit (FIU). Through these two functions, the agency seeks to promote an environment that is hostile to money laundering, the financing of terrorism, major crime and tax evasion. In 2012–13, the budgeted expenses for each function are \$30.3 million and \$24.6 million respectively.³⁴

1.2 AUSTRAC was established in 1989 under the *Financial Transaction Reports Act 1988* (FTR Act) as a statutory authority within the Attorney-General's portfolio³⁵ and its role was significantly expanded by the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (AML/CTF Act).³⁶

1.3 Through its regulatory role, AUSTRAC oversees compliance with the requirements of the FTR Act and the AML/CTF Act across four industry sectors: banks and other lenders; non-bank financial service providers; gambling and bullion service providers; and money service businesses. A key requirement is that regulated entities³⁷ provide AUSTRAC with specified financial transaction reports (FTRs).³⁸ FTRs are required for all cash transactions of \$10 000 or more, all international funds transfers, cross border movements of physical currency (\$10 000 or more, or foreign currency equivalent) and bearer negotiable instruments (of any value), as well as suspicious activity by clients. A cost recovery regime applies to AUSTRAC's

³⁴ Attorney-General's Portfolio Budget Statements 2012–13, p. 252.

³⁵ The agency was established as the Cash Transaction Reports Agency, and was changed to its present name in 1992.

³⁶ Both Acts were extended and amended through the *Combating the Financing of People Smuggling and Other Measures Act 2011*.

³⁷ 'Regulated entities' is a term used by AUSTRAC refer to both 'reporting entities' (as defined in section 5 of the AML/CTF Act) and 'cash dealers' (as defined in section 3 of the FTR Act), as entities may have obligations under both Acts.

³⁸ The report types are summarised in Appendix 2.

regulatory functions³⁹ and has been the subject of comment by the financial services industry.⁴⁰ AUSTRAC considers however that reporting entities also obtain a benefit through being regulated.⁴¹ Complying with the requirements of the AML/CTF Act reduces the risk that a reporting entity will be used for money laundering or terrorism financing purposes.

1.4 In its role as a FIU, AUSTRAC collects and analyses financial information provided by regulated entities through FTRs. Financial intelligence is disseminated by AUSTRAC to Australian Government law enforcement, national security, border security, revenue, regulatory and human services agencies as well as state and territory law enforcement and revenue agencies (AUSTRAC's partner agencies⁴²) and international counterparts⁴³. Arrangements with partner agencies are governed by Memoranda of Understanding (MOU). AUSTRAC's cost recovery regime does not apply to the costs associated with the administration of its functions as an FIU.⁴⁴ Figure 1.1 illustrates the flow of information and intelligence through AUSTRAC.

³⁹ The AUSTRAC regulatory cost recovery model was announced as part of the 2010 Budget. Three separate pieces of legislation were introduced and passed by the Parliament enabling cost recovery from the 2011–12 financial year: *AUSTRAC's Supervisory Cost Recovery Levy Act 2011*; *AUSTRAC Supervisory Cost Recovery Levy (Collection) Act 2011*; and *AUSTRAC's Supervisory Cost Recovery Levy (Consequential Amendments) Act 2011*.

⁴⁰ Australian Financial Markets Association Ltd. Annual Report 2011, p. 5.

⁴¹ AUSTRAC, *Cost Recovery Impact Statement (January 2012)*, for the reporting period 1 July 2011 to 30 June 2012.

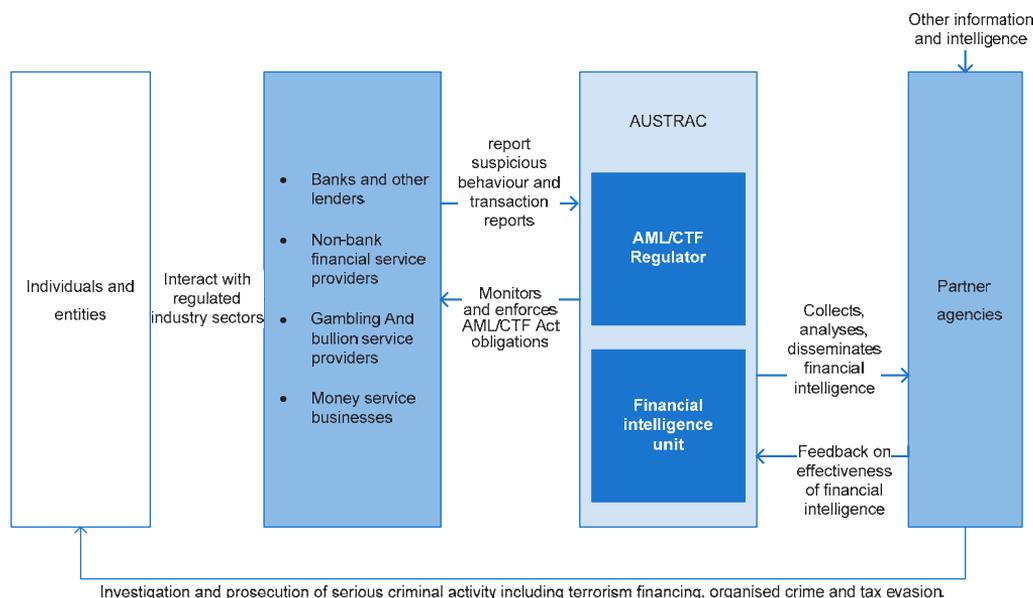
⁴² See Appendix 3 for a complete list of AUSTRAC's 39 domestic partner agencies.

⁴³ See Appendix 4 for a complete list of the 65 international FIUs with which AUSTRAC has 66 exchange agreements (the Canadian FIU FINTRAC has a second exchange agreement concerning the sharing of regulatory information).

⁴⁴ *ibid.*

Figure 1.1

Flow of information and intelligence through AUSTRAC



Source: ANAO analysis of AUSTRAC Intelligence Strategy 2012–14, p. 2.

Financial Transaction Reports

1.5 As of February 2013, there were 12 953 businesses enrolled with AUSTRAC as reporting entities, of which 4925 entries were remittance service providers. The increase in FTRs by reporting entities has substantially increased the size of AUSTRAC’s data holdings, which at the end of February 2013 held approximately 254 million transaction reports.⁴⁵ As can be seen in Figure 1.2, the growth in international funds transfer instructions (IFTIs)⁴⁶ has driven the subsequent growth in the annual total number of FTRs,

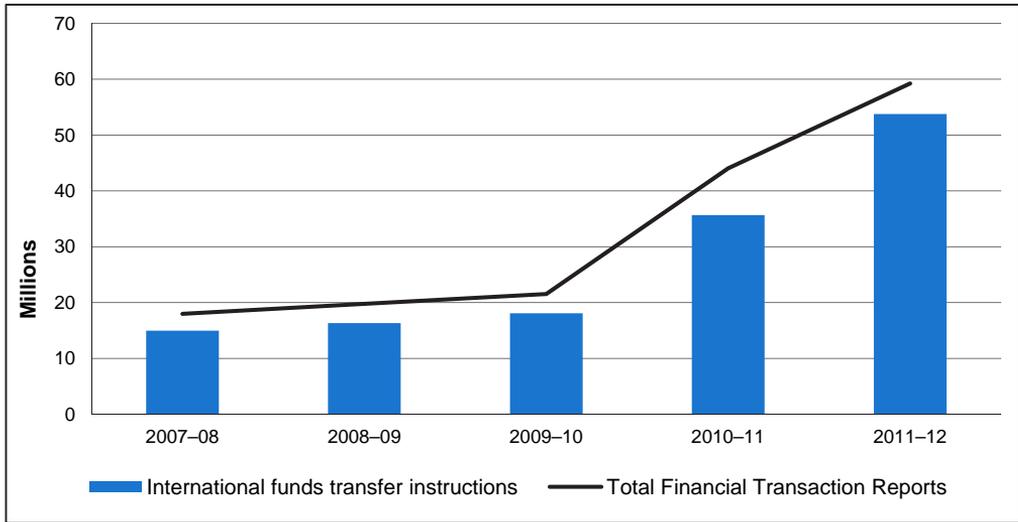
⁴⁵ In March 2013, AUSTRAC advised that the 254 million transaction reports held in the AUSTRAC database comprised: 220 million IFTI reports; 32 million threshold transaction reports; 388 000 SMR/SUSTRs; and the remaining transactions relate to cross-border movements of physical currency and bearer negotiable instruments, threshold transaction reports concerning gambling, and solicitor reports. AUSTRAC further advised that a new retention policy was being developed and when finalised would have SMR/SUSTRs retained for 17 years rather than the current eight years.

⁴⁶ Under the AML/CTF Act, if a reporting entity sends or receives an instruction to or from a foreign country, to transfer money or property, that entity must submit an IFTI report. IFTI reports were also previously required to be submitted under the FTR Act.

to over 59 million in 2011–12.⁴⁷ AUSTRAC reported that for 2011–12, an average of 226 980 reports were received each business day.⁴⁸

Figure 1.2

International funds transfer instructions, 2007–08 to 2011–12



Source: AUSTRAC Annual Report 2011–12, pp.32–33.

AUSTRAC and FIU’s expenses and staffing

1.6 Since 2006, changes in AUSTRAC’s expenses and staffing have primarily been driven by the implementation of the expanded powers and regulatory coverage under the new AML/CTF Act (see Figure 1.3).⁴⁹ AUSTRAC advised that a concurrent slight increase in staffing numbers in the FIU from 2009–10 reflected the increased emphasis on technical assistance and training efforts in the Asia, Pacific and Africa regions. Overall, AUSTRAC’s reported expenses for the FIU (\$36.33 million in 2011–12) have remained stable since 2009–10, comprising 55 per cent of the agency’s total expenses (\$65.88 million in 2011–12).

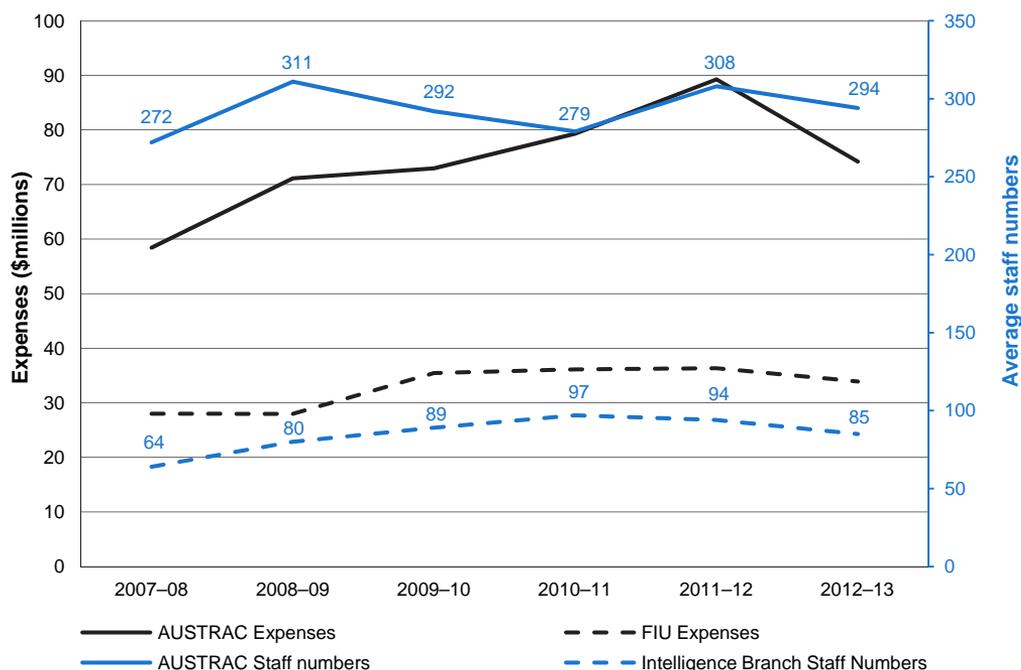
⁴⁷ The number of specific financial transaction reports received by AUSTRAC from 2007–08 to 2011–12 is set out in Appendix 5.

⁴⁸ AUSTRAC Annual Report 2011–12, p. 31.

⁴⁹ This included a largely new industry supervision function that resulted to recruiting new staff.

Figure 1.3

AUSTRAC and FIU expenses and average staffing, for the period 2007–08 to 2012–13



Sources: AUSTRAC Annual Reports and Attorney-General’s Portfolio Budget Statements 2007–08 to 2012–13.

Effect of the efficiency dividend increase

1.7 AUSTRAC, like most agencies in the Australian Public Service, has been required to absorb reductions in funding for its operations, known as the ‘efficiency dividend’.⁵⁰ To manage within its forward budget, in October 2012, AUSTRAC announced that 31 staffing positions across the agency would be made redundant, with 11 of these positions coming from AUSTRAC’s Intelligence Branch.⁵¹

⁵⁰ Commencing in the 1987–88 financial year, the efficiency dividend has been defined as an ‘annual reduction in funding for the overall running costs of an agency’. The efficiency dividend is applied before agencies’ appropriations are subjected to indexation (the mechanism by which agencies’ appropriations are adjusted each year by wage cost indices). The efficiency dividend was 1.50 per cent in 2011–12, and due to an additional single-year impost of 2.50 per cent, the dividend was 4.00 per cent in 2012–13, reducing to 1.25 per cent in 2013–14.

⁵¹ AUSTRAC advised the ANAO in March 2013 that a revised figure of 13 of the 31 redundant positions were from the Intelligence Branch, including one position from the Technical Assistance & Training Team (a team which was outside the scope of this audit).

The Intelligence Branch

1.8 AUSTRAC is Australia's FIU, which has been defined as:

a central, national agency responsible for receiving (and as permitted, requesting), analysing and disseminating to the competent authorities, disclosures of financial information:

- (i) concerning suspected proceeds of crime and potential financing of terrorism; or
- (ii) required by national legislation or regulation, in order to counter money laundering and terrorism financing.⁵²

1.9 The activities of the FIU are performed by several branches within AUSTRAC. The Intelligence Branch forms the core of the FIU. The branch is responsible for monitoring and analysing financial transaction reports data, producing intelligence products and working with both domestic partner agencies and international counterpart FIUs. The branch also manages the administration of access to AUSTRAC data holdings by partner agencies through its on-line enquiry system and provides training to them in its use. In addition, the branch produces strategic and operational intelligence reports independently or in concert with others, using a broader set of information beyond the transaction reports captured by AUSTRAC.⁵³ Other parts of AUSTRAC that support the Intelligence Branch's work include the Supervisory Operations and Compliance branches.⁵⁴

Assessment of financial intelligence

1.10 Nearly all FTRs are transmitted electronically into AUSTRAC's Transaction Reports Analysis and Query (TRAQ) database by reporting entities.⁵⁵ The financial intelligence assessments provided to partner agencies by AUSTRAC may be initiated from a number of sources, including:

- an irregular financial transaction detected in the TRAQ database by AUSTRAC's automated monitoring system (TargIT);

⁵² <<http://www.egmontgroup.org/>> [accessed on 19 March 2013].

⁵³ This information may include feedback that AUSTRAC partner agencies provide in relation to both operational outcomes from the use of AUSTRAC information or themes and trends related to the financial aspects of crime and terrorism financing.

⁵⁴ In addition, other branches support the Intelligence Branch's work through the provision of information technology and legal services.

⁵⁵ AUSTRAC advised the ANAO in March 2013 that 99 per cent of FTRs are submitted electronically.

- high-level trends of financial flows detected by the agency’s data mining teams;
- analysis of suspicious matter reports by the Suspicious Reports Analysis team; or
- a request from a partner agency for analysis on a specified entity of interest.

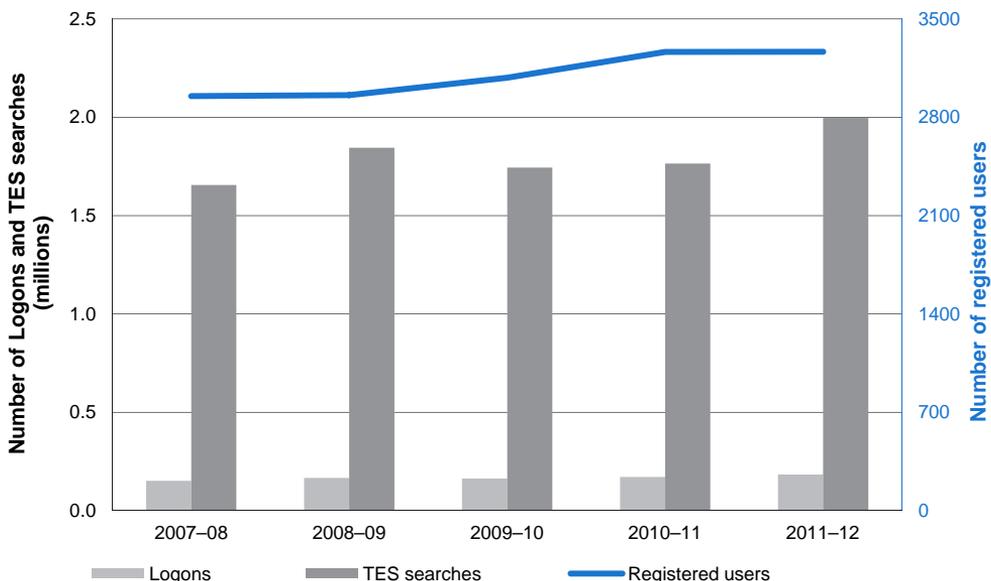
Partner agencies’ access to AUSTRAC data

1.11 A key element of the financial intelligence model in Australia is the direct access to AUSTRAC data by authorised staff in partner agencies. Authorised partner agency personnel may have online access to AUSTRAC’s financial intelligence within the TRAQ database through the TRAQ Enquiry System (TES). This allows operational analysts, investigators and other authorised officers in partner agencies to tailor searches of AUSTRAC data relevant to their intelligence priorities and operational needs. It also frees AUSTRAC intelligence analysts.

1.12 The number of partner agency registered TES users, and the logons and searches conducted each year, from 2007 to 2012 is shown in Figure 1.4 below.

Figure 1.4

Number of partner agency registered TES users, and the logons and searches conducted each year, for the period 2007–12



Source: ANAO analysis of AUSTRAC Annual Reports 2007–08 to 2011–12.

Dissemination of financial intelligence

1.13 AUSTRAC disseminates the information it collects and analyses to various national, state and territory law enforcement agencies and, national security, social justice, revenue and regulatory partner agencies when requested. AUSTRAC also pro-actively disseminates financial intelligence that it considers may be of interest to partner agencies.

1.14 In addition, AUSTRAC Senior Liaison Officers (ASLOs) are outposted to partner agency offices.⁵⁶ ASLOs work with partner agency intelligence and investigative personnel on a wide range of criminal, national security and natural justice matters.⁵⁷ ASLOs are responsible for providing training, liaison and analytical support to partner agencies. This includes placing alerts on the TES database and undertaking complex data searching and analysis on behalf of partner agency personnel.

1.15 AUSTRAC is also a member of the Egmont Group⁵⁸, and disseminates financial intelligence to international partners, with formal exchange agreements in place with 65 international counterpart FIUs.

Reported impact of disseminated intelligence

1.16 The impact of AUSTRAC's financial intelligence on partner agency investigations and operations can be difficult to assess, particularly for law enforcement agencies where investigations can take many years, and intelligence is gained from many sources. However, the Australian Taxation Office reported in 2011–12 that AUSTRAC's financial intelligence had been used in 3745 cases resulting in an additional \$252 million in revenue from tax assessments. For the same period, the Department of Human Services (DHS)–Centrelink reported using AUSTRAC intelligence in 973 cases and achieving total annualised savings of \$3.1 million; and another 305 significant investigations were reportedly undertaken by AUSTRAC's other law enforcement, human services and revenue partner agencies.⁵⁹

⁵⁶ At the time of audit fieldwork there were 22 ASLO positions. In March 2013 AUSTRAC advised that the number of ASLOs had been reduced to 19 positions.

⁵⁷ The ASLO network is in addition to AUSTRAC personnel seconded to other Government agencies (such as the data mining analyst seconded to the Australian Taxation Office (ATO) to assist the Project Wickenby taskforce).

⁵⁸ The Egmont Group is an FIU network established in 1995 by a group of FIUs that met at the Egmont Arenberg Palace in Brussels, and decided to set-up an informal group for the stimulation of international co-operation. Now known as the Egmont Group of Financial Intelligence Units, these FIUs meet regularly to find ways to cooperate, especially in the areas of information exchange, training and the sharing of expertise. The Group has a current membership of 131 FIUs.

⁵⁹ AUSTRAC Annual Report 2011–12, p. 58.

IT database upgrade—Enhanced Analytical Capability

1.17 On 1 July 2010, AUSTRAC embarked on the largest change program to its intelligence systems since the late 1990s. A total of \$24 million has been provided to AUSTRAC over four years, including capital funding of \$17.5 million, to provide more effective monitoring and detection of changes in financial activity, enabling more targeted and timely analysis to be produced.⁶⁰

1.18 The better integration of AUSTRAC data and information from domestic partner agencies and international counterparts is expected to facilitate the earlier identification of sophisticated criminal networks and terrorism financiers and their methodologies, and provide more timely intelligence to support partner agencies' operational needs. The ability to follow the money trail in a timely way is critical to detection, investigation and disruption of planned criminal and terrorist activity.⁶¹ AUSTRAC intends to roll out functionality both internally and externally in 2013–14.

Audit Objective, Criteria and Scope

1.19 The objective of the audit was to assess the effectiveness of AUSTRAC's arrangements for processing financial intelligence, to assist domestic partner agencies and international counterparts in their operations and investigations. The audit assessed whether AUSTRAC had:

- established effective administrative arrangements to support the financial intelligence function;
- established appropriate arrangements to analyse and disseminate financial intelligence, and obtain assurance as to the appropriate handling of financial intelligence by partner agencies and international counterparts; and
- developed and applied sound processes for monitoring and reviewing the feedback provided by partner agencies as to the use and value of the intelligence disseminated.

1.20 The audit focused on the arrangements for assessing FTRs and the dissemination of financial intelligence reports by AUSTRAC's Intelligence Branch. Other activities relating to the financial intelligence function, such as

⁶⁰ Budget Paper 2 2010–11, p. 315.

⁶¹ Attorney-General Portfolio Budget Statement 2012–13, p. 250.

AUSTRAC's International Technical Assistance and Training team, and a detailed examination of the FIU's current IT systems and databases were outside the scope of this audit.

1.21 The domestic partner agencies that were included in the audit and consulted as part of the audit process were the: Australian Crime Commission (ACC); Australian Federal Police (AFP); Australian Taxation Office (ATO); Australian Security Intelligence Organisation (ASIO); Australian Customs and Border Protection Service (Customs and Border Protection); Department of Human Services – Centrelink (DHS-Centrelink) and the Victoria Police.⁶²

Audit methodology

1.22 In undertaking the audit, the ANAO reviewed documentation and interviewed relevant staff from AUSTRAC (including all available ASLOs in Sydney, Melbourne, Canberra and Adelaide).⁶³ The MOUs with specific domestic partner agencies and its exchange agreements with selected international counterparts were also examined.

1.23 The audit undertook quantitative and qualitative analysis of: the requested, proactive and strategic assessments disseminated in 2011–12 to domestic agencies and selected international counterparts; feedback received from key stakeholders for 2011–12; and financial intelligence disseminations that led to actual investigations and prosecution of serious criminal activity, including money laundering, terrorism financing, organised crime and tax evasion.

1.24 The audit was conducted in accordance with ANAO auditing standards at a cost to the ANAO of \$393 000.

1.25 The structure of the report is outlined in Table 1.1.

⁶² These agencies were chosen to provide a cross-section of law enforcement, intelligence, revenue, human services and state-level agencies.

⁶³ ASLOs outposted in Perth and Brisbane were interviewed by telephone.

Table 1.1

Structure of the report

Chapter	Chapter Overview
2. Administrative Arrangements	This chapter examines the administrative arrangements underpinning AUSTRAC's financial intelligence function.
3. Workload Management of Financial Intelligence Assessments	This chapter examines AUSTRAC's workload management of financial intelligence assessments, including processing times and quality assurance processes.
4. Feedback, Performance Measurement and Reporting	This chapter examines AUSTRAC's arrangements for collaborating with partner agencies to set priorities, collecting and reviewing feedback, and its approach to measuring and reporting on the performance of the FIU.

2. Administrative Arrangements

This chapter examines the administrative arrangements underpinning AUSTRAC's financial intelligence function.

Introduction

2.1 AUSTRAC operates in a dynamic environment, shaped by changes in domestic policies and international standards, industry expectations, the introduction of new products and technologies and the emergence of new criminal threats and methodologies.⁶⁴ Having sound administrative arrangements to manage the financial intelligence function, and the way it deals with its various stakeholders is fundamental to the success of its operations. In this context, the ANAO examined AUSTRAC's:

- management structure for financial intelligence;
- planning and risk management;
- guidance and procedures;
- management of AUSTRAC Senior Liaison Officers; and
- arrangements with domestic partners and international counterparts.

Management structure for financial intelligence

2.2 Since its inception, AUSTRAC's powers and functions have broadened with successive legislative amendments, such as the *AML/CTF Act 2006* and the *Combating the Financing of People Smuggling and Other Measures Act 2011*. The increasing demand for financial intelligence from partner agencies, and the Government's tightening fiscal outlook, has required AUSTRAC to restructure its Intelligence Branch to be more responsive and adaptive to change.

The Intelligence Branch restructure in February 2012

2.3 In February 2012, AUSTRAC's Intelligence Branch was restructured. A new Money Laundering Criminal Targeting function was created, to develop a new monitoring and detection capability as part of the Enhanced Analytical

⁶⁴ AUSTRAC Annual Report 2011–12, p. 6.

Capability (EAC) project. Concurrently, an increase in the demand from, and number of, partner agencies and strain on the geographic alignment of the ASLOs prompted a shift to grouping ASLOs into partner agency types (for example, law enforcement, intelligence, revenue and regulatory agencies). In late 2011, just prior to this restructure, responsibility for the MOU framework governing the relationship with partner agencies was moved to AUSTRAC’s policy branch to allow for greater consistency across the agency. The Intelligence Branch structure now comprises six sections, as shown in Table 2.1.

Table 2.1

Intelligence Branch sections after the February 2012 restructure

Section	Responsibilities
Law Enforcement Operations	Stakeholder relationship management by a network of AUSTRAC Senior Liaison Officers (ASLOs) for Federal and State Police Services, Federal and State integrity and anticorruption agencies, and Customs and Border Protection.
Intelligence, Revenue and Regulatory Operations	<p>Stakeholder relationship management by a network of ASLOs for the Australian Intelligence Community and other intelligence agencies (e.g. ACC and the New South Wales Crime Commission); the ATO and State/Territory Revenue Offices; and the regulatory agencies, Australian Prudential Regulation Authority, Australian Competition and Consumer Commission and Australian Securities and Investments Commission.</p> <p>Providing online and telephone support to the users of the TRAQ Enquiry System (TES), the team also provides training and education.</p> <p>Providing data mining and strategic support to inter-agency projects such as Project Wickenby.</p> <p>International exchange work and non-designated agency request work.</p>
Analytics and Monitoring	AUSTRAC’s monitoring and analytical systems, including suspicious reports analysis, data mining and the monitoring team.
Strategic Assessments and Typologies	Production of typologies and strategic intelligence reports, including follow on of National Threat Assessment issues.
Money Laundering Criminal Targeting	Developing new monitoring and detection capabilities in line with the Enhanced Analytics Capabilities project.
International Technical Assistance and Training ⁽¹⁾	Conducting technical assistance and training to assist Australia’s whole-of-government efforts to establish regional security and assist developing countries to achieve sustainable development through provision of AML/CTF capacity building to international Financial Intelligence Units, regulators and industry stakeholders.

Source: AUSTRAC.

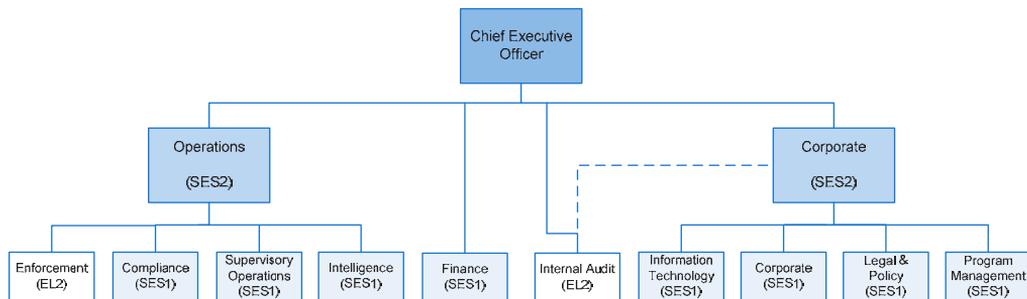
Note: ⁽¹⁾ Outside the scope of this audit.

Staff and Executive structure changes from October 2012

2.4 In 2012, the CEO and the Executive re-assessed the agency's current and future capability requirements. In October 2012, the CEO announced that 31 positions across the agency had been deemed *excess*.⁶⁵ Eleven of these positions were from the Intelligence Branch.⁶⁶ The new AUSTRAC Executive Structure as at October 2012 is shown in Figure 2.1.

Figure 2.1

AUSTRAC Executive Structure, effective October 2012



Source: ANAO representation of AUSTRAC executive structure provided on 12 March 2013.

Oversight of the financial intelligence function

2.5 In March 2008, AUSTRAC completed a review of its intelligence function that identified opportunities to enhance AUSTRAC's partner agency arrangements and analytical capabilities.⁶⁷ The 20 recommendations from the review covered a range of topics including: optimising stakeholder relationships and alignment of intelligence priorities; streamlining operational workflow; implementing the AML/CTF Act; and analysing and handling classified and national security information.⁶⁸ Consequently, AUSTRAC established an Intelligence Oversight Committee (IOC) to oversee the future implementation of the review's recommendations.⁶⁹

⁶⁵ AUSTRAC's process for identifying employees who are likely to become *excess* falls into one of three categories, namely: a role that is substantively filled by an employee who has expressed an interest in a voluntary redundancy; a role that is substantively filled by an employee and does not form part of a group of roles that perform similar or identical duties; and a role(s) that is substantively filled by an employee(s) that forms part of a group of roles that perform similar or identical duties.

⁶⁶ As a result of the realignment, the total number of SES officers will be reduced by one and will take effect in February 2013.

⁶⁷ AUSTRAC Annual Report 2007–08, pp. 52–53.

⁶⁸ AUSTRAC, *Intelligence Function Review Strategy Report*, March 2008.

⁶⁹ *ibid.*

2.6 The IOC is responsible for reviewing and advising on (and approving where necessary) items relating to AUSTRAC intelligence functions including:

- Standard Operating Procedures (SOPs);
- new and revised policies and strategies; and
- papers relating to the delivery of strategic and operational intelligence functions or specific intelligence activity.⁷⁰

The IOC's membership comprises: the Executive General Manager of Operations, Executive General Manager of Corporate and the General Manager of Intelligence. Table 2.2 outlines the IOC's full mandate.

Table 2.2

AUSTRAC's Intelligence Oversight Committee

Mandate of the Intelligence Oversight Committee
<ul style="list-style-type: none">• Maintain effective executive oversight of AUSTRAC's financial intelligence functions;• Safeguard whole-of-agency interests and ensure a cohesive, responsive and accountable discharge of AUSTRAC's financial intelligence functions;• Review and monitor AUSTRAC's intelligence functions, and where necessary consider specific matters that have significant or operational or policy implications;• Develop highest level policy and strategy in relation to AUSTRAC's interaction with the external environment including but not limited to the disclosure of AUSTRAC information to domestic and international partner agencies and non-designated agencies;• Develop highest level policy and strategy in relation to the delivery of strategic and operational intelligence functions; and• Oversee implementation of recommendations arising from AUSTRAC's Intelligence Function review as agreed by the AUSTRAC CEO.

Source: AUSTRAC.

2.7 The ANAO's review of the IOC records confirmed that the committee met regularly, every two months in 2012, and monthly or every two months in 2010 and 2011. Agendas and minutes of meetings that related to financial intelligence policies and strategies were documented. There was also specific oversight of the agency's implementation of the recommendations made in the 2008 review of the intelligence function.

2.8 At a higher level, and in addition to the IOC, there is the Executive Committee (ExCom) that oversees the delivery of AUSTRAC's program and

⁷⁰ AUSTRAC, *Standard Operating Procedures—Intelligence Oversight Committee 2012*, August 2012, pp. 4–5.

sets the entire agency's strategic direction.⁷¹ ExCom holds monthly meetings, monitors the agency's performance against key performance indicators and advises the AUSTRAC CEO on key policy and strategic management issues.⁷²

2.9 Overall, the ANAO considers that roles, responsibilities and accountability arrangements within AUSTRAC's Intelligence Branch are well defined. Arrangements to manage and report on key risks are discussed below.

Planning and risk management

2.10 AUSTRAC's *Statement of Strategic Intent (SOSI)* underpins the agency's planning instruments that include statutory plans, published strategies and internal plans.⁷³ AUSTRAC's most recent *SOSI 2013–16* emphasises the continuous and integrated nature of planning within the agency. The statement details the operational activities and performance measures required to meet the following five strategic goals for 2013–16, namely that AUSTRAC:

- (a) is considered relevant and effective with key stakeholders;
- (b) influences its operating environment by contributing to a whole-of-government agenda;
- (c) assures its financial health both currently and into the future;
- (d) has a workforce appropriate to its strategic priorities and operational activities; and
- (e) has the necessary business capacity to meet stakeholder expectations.

2.11 The relevant strategic sub-criteria for AUSTRAC's five strategic goals are reflected in the annual business plans for each branch.⁷⁴ The Intelligence Branch business plan for 2012–13 includes the appropriate sub-criteria relevant to the Branch and identifies operational projects which address each sub-criterion, the staff member responsible and the timeline for project delivery. In addition, the plan lists the functions of the Branch, as well as the objective, activities and timeframe of each function.⁷⁵ An annual assessment of

⁷¹ AUSTRAC Annual Report 2011–12, p. 14.

⁷² *ibid.*

⁷³ AUSTRAC internal plans comprise branch, finance and program plans; business unit plans and individual performance plans.

⁷⁴ The branch business plans are finalised between relevant general managers and directors, before discussion between general managers and relevant executive general managers.

⁷⁵ For example, one of the functions listed is for the Branch to be the 'Intelligence Oversight Committee Secretariat'.

the risks that were associated with the line areas' business objectives is included in the business plans. The ANAO considers that AUSTRAC's strategic and branch planning processes provides a sound foundation for the agency's operational activities.

AUSTRAC's overarching risk management framework

2.12 The effective management of risk requires a robust, agency-wide risk management framework where decisions are based on the accurate, well informed evaluation of associated risks.⁷⁶ The ANAO examined AUSTRAC's approach to managing risk to assess the extent to which agency risks, including the Intelligence Branch risks, have been identified, and are incorporated into the ongoing operations and decision-making processes of the Intelligence Branch.

2.13 Prior to 2011, a section within AUSTRAC's Corporate Branch had overall responsibility for the agency's risk management framework. The agency had a risk policy plan and an agency-wide risk register that reflected the risks identified by the individual branch business plans. Using this information senior management would assess the strategic risks.

2.14 AUSTRAC's risk management approach from 2008 to 2011 was informal and incomplete.⁷⁷ There is also no documented evidence to demonstrate that AUSTRAC's risks were actively and regularly reviewed. Deficiencies in the risk register included, but were not limited to:

- **A lack of dates registered:** The entire risk register was undated. It was a multi-year register, but there was no demarcation of the years when risks were identified, or dates when individual business unit risks were established. In addition, the completion date of risk mitigation strategies taken for each of the risks were not stated.
- **No reflection of the agency's risk appetite:** There was a field in the register that should reflect the agency's risk appetite called '*Required risk level field, as determined by the Executive Committee*', but it was blank.

2.15 Furthermore, the management arrangements surrounding the risk register did not identify the priority of individual risks, or who was

⁷⁶ ANAO and the Department of the Prime Minister and Cabinet, *Implementation of Programme and Policy Initiatives—Making implementation matter*, October 2006, p. 17.

⁷⁷ Completeness is particularly relevant given the register is a live, monitoring tool.

responsible for managing the risks, and there was no mechanism for bringing the risks to the attention of senior management as part of its strategic reporting process.

A way forward—improving AUSTRAC’s overarching risk management process

2.16 In early 2011, in order to embed its risk management practices within its business and decision-making activities, AUSTRAC established a new full-time Agency Risk Advisor whose role was to coordinate risk management initiatives, and assist executive management in bringing the agency to a higher level of risk management maturity.⁷⁸ Under the guidance of the Agency Risk Advisor, AUSTRAC updated its risk management policy and risk management plan in September 2012.⁷⁹

2.17 At the time of the audit, AUSTRAC was in the process of implementing new risk management software (RMS) to manage the agency-wide risk register. In March 2013, AUSTRAC advised that the RMS is fully functional, and is available to manage and report all types of agency risk, project issues, including work health and safety, security and general incidents. Risk identification workshops are also being conducted within each branch across the agency, and the Intelligence Branch had its operational risk workshop in February 2013.

Managing risks relating to financial intelligence

2.18 Once identified in the risk register, significant risks relating to financial intelligence (and their treatments) should be reported to AUSTRAC Executive and, where necessary, to government with the acceptable level of residual risk documented and approved. The Intelligence Branch business plans from 2007–08 to the most recent 2012–13, show that risks indicated in the plans align with the agency’s business objectives. However, there are gaps in the accurate identification, linkages and reporting of risks, including:

- **An agency-wide risk that is critical to the Intelligence Branch was not directly addressed in the Branch’s business plan.** AUSTRAC’s Intelligence Branch is heavily dependent on its data centre, and the risk that the entire data centre holding all AUSTRAC IT systems could fail

⁷⁸ AUSTRAC Annual Report 2010–11, p. 105.

⁷⁹ In conjunction with the policy and plan, guidance and information was provided on the agency’s intranet that included how to report risks; risk management learning and the risk management plan.

was almost realised during January 2012. In such an incident, internal and external IT systems would be unavailable to AUSTRAC, reporting agencies and AUSTRAC's partner agencies would not have access to AUSTRAC financial intelligence for an extended period. At the time of audit fieldwork, AUSTRAC had no disaster recovery capability and no back-up facility. The ANAO was advised by AUSTRAC that there is a long lead time (six months or more) to rebuild and restore the data centre.

Despite the critical impact of a failure of the data centre, the Intelligence Branch risk reporting (as included in its business plans) did not directly address this risk which was included in the agency's risk management plan, nor provide linkages or references of this threat to an agency-wide risk management plan. From 2008–09 and 2009–10, the 'loss of IT systems' was included, but it was generic and did not specifically refer to the data centre. The 'suggested strategy or control' to mitigate the risk was to 'rely on back-up systems' which, in practical terms, did not exist—the only recovery solution available was to rebuild the data centre. Neither the 2011–12 nor 2012–13 Intelligence Branch business plans provide linkages or referenced the data centre risk or the more general 'loss of IT system' risk to an agency-wide risk management plan.

In March 2013, AUSTRAC advised that the data centre risk is now being managed as an agency-wide risk, and that two treatments were identified and have been progressed by the agency. These treatments include: improving AUSTRAC's Business Continuity Management, and improving the agency's IT resilience and disaster recovery capability.⁸⁰

In the 2013–14 Budget, the Government announced that it will invest \$16.1 million over four years to establish a new off-site data primary centre for AUSTRAC and to develop a disaster recovery capability within its existing computer room.⁸¹

⁸⁰ AUSTRAC has also sought additional funding for a back-up data centre from government since 2009–10. However, all proposals to date have been unsuccessful.

⁸¹ The new data centre and enhanced disaster recovery capability are expected to be fully operational by the conclusion of the 2013–14 financial year. AUSTRAC advised that this investment will provide enhanced security for AUSTRAC's data holdings, and will assist in ensuring that the agency has robust and reliable technology infrastructure to continue providing financial intelligence and analysis to its partner agencies.

- **Specific risks relating to partner agencies' resourcing or priorities that could affect the assessment and dissemination of AUSTRAC financial intelligence are not considered or reported.** The risk of 'partner agencies not co-ordinating or engaging with AUSTRAC strategic planning and operational initiatives' was identified as a risk for the Intelligence Branch from 2010–11 to 2012–13 (but not prior). However, specific risks relating to changes in resourcing or priorities of partner agencies that could affect the acceptance of AUSTRAC's financial intelligence disseminations are not included in the Intelligence Branch risk reporting. These risks are particularly pertinent to agencies such as AUSTRAC, which must not only manage their own risks but also the risks that come with inter-agency partnerships.⁸²

2.19 The ANAO considers that AUSTRAC's approach to managing risks relating to the Intelligence Branch would benefit from better identification, assessment, linkages and reporting of agency-wide and partner agency risks that could adversely impact the Intelligence Branch operations.

Guidance and procedures

2.20 AUSTRAC has various SOPs across its financial intelligence function that provides technical information and direction to the Intelligence Branch staff on various topics. SOPs cover issues such as: uploading Microsoft Word and Excel files into TES; responding to requests from domestic partner agencies; administrative processes to be followed when requests are submitted from international counterparts; and internal and external reporting on performance targets. While the SOPs are generally comprehensive, the ANAO found that many of the 'current' SOPs were incomplete, outdated and undated.

2.21 There were SOPs that were not complete which led to inconsistent implementation practices. For example, one SOP stipulates the method for determining the total number of disseminations occurring in a financial year which is to be included in the AUSTRAC Annual Report. The SOP requires extracting disseminations which were completed by the ASLOs, the Data Mining team and Monitoring teams. The ANAO observed that three other intelligence analysis teams (Wickenby; Strategic Assessments; and Typologies)

⁸² Auditor-General of Australia Ian McPhee, speech to the Heads of Cultural Organisations Meeting, *Risk Management*, 15 December 2005, p. 6.

also disseminate financial intelligence assessments but were not listed in the SOP. Their disseminations, however, were included in the total number of disseminations in the Annual Report.

2.22 There were also SOPs that were no longer current, but still in use. For example, a SOP titled 'Request to foreign FIU for exchange of financial intelligence' had a date of effect of 11 May 2001 and was last reviewed on 27 June 2007. The date of next review was blank. The SOP referred to SILOs (Senior Intelligence Liaison Officers), whose functions were superseded by AUSTRAC Senior Liaison Officers (ASLOs).⁸³ Further, there were a number of SOPs that appeared current, but had no dates to indicate when they were created, finalised, reviewed or approved by management. For example, the following SOPs were all undated: Monthly TargIT Output Statistics; Using the TRAQ output processor; and the Suspicious Reports Operating Manual-Partner Agencies.

2.23 There would be benefit in AUSTRAC reviewing that all instructional SOPs are complete, and correctly record when they were last reviewed and updated so staff are aware of the most current SOP. AUSTRAC advised that the SOPs are being reviewed and updated.

Management of the AUSTRAC Senior Liaison Officers

2.24 AUSTRAC operates a network of AUSTRAC Senior Liaison Officers (ASLOs) to promote the effective and efficient use of AUSTRAC information and intelligence by its partner agencies.⁸⁴ ASLOs are outposted to partner agencies⁸⁵, where they are expected to build and maintain effective relationships and provide in-house support to partner agency personnel.⁸⁶

⁸³ The term SILO was last publicly mentioned in the *AUSTRAC Annual Report 2007–08*.

⁸⁴ AUSTRAC Annual Report 2011–12, p. 62.

⁸⁵ Currently, ASLOs are outposted to selected partner agencies in Sydney, Melbourne, Canberra, Brisbane, Adelaide and Perth.

⁸⁶ AUSTRAC Annual Report 2011–12, p. 62.

Roles and responsibilities

2.25 The roles and responsibilities for ASLOs are defined in their annual Individual Performance Management Agreements. In promoting AUSTRAC information to partner agencies, ASLOs are expected to:

- provide support and liaison services as a partner agency's first point of contact for AML/CTF queries;
- train partner agencies in accessing and analysing reports from the AUSTRAC database; and
- work collaboratively with partner agency officers on a wide range of serious and organised crime, terrorism financing and tax evasion matters.⁸⁷

2.26 Having a clear understanding of these responsibilities is pivotal to the success of an ASLO. The ANAO interviewed 21 ASLOs⁸⁸ outposted to partner agencies.⁸⁹ The profile of the ASLOs, including years of experience in their current role, work backgrounds, and their understanding of their responsibilities, is shown in Table 2.3.

⁸⁷ *ibid.*

⁸⁸ At the time of audit, AUSTRAC had a total of 22 ASLOs, with one on leave. In March 2013, AUSTRAC advised that the number of ASLOs had been reduced 19 positions.

⁸⁹ Some ASLOs provide on-site support to more than one agency (for example, two days at one agency, three days at another) while other agencies may host more than one ASLO.

Table 2.3

Profile of the AUSTRAC Senior Liaison Officers

Categories	ASLOs' response
Number of years as an ASLO	At the time of audit, the ASLOs' years of experience in their role ranged from three months to five years (60 months), with an average of 2.9 years (34.3 months) experience.
Background or work experience prior to becoming an ASLO	Previous work experiences are complementary to their current role, having worked in law enforcement, intelligence or with some of AUSTRAC's partner agencies.
Knowledge of his/her responsibilities as an ASLO	<p>All the ASLOs advised that their responsibilities comprise the following:</p> <ul style="list-style-type: none"> • an analytical role: writing financial intelligence assessments; analysing financial transaction reports; assisting in interpreting financial results; creating alerts on behalf of the partner agency; and providing onsite analytical support. • training and support: training and/or assisting partner agencies on the use of AUSTRAC's database; assisting partner agencies in their AML/CTF queries; and working on partner agency's taskforces. • liaison: providing the first point of contact, or the conduit, between AUSTRAC and partner agencies; facilitating requests to other parts of AUSTRAC; disseminating AUSTRAC's products; and discussing obligations in the MOU between AUSTRAC and the partner agency, particularly in relation to feedback.

Source: ANAO analysis of ASLO interviews.

2.27 The ASLOs had a clear understanding of their responsibilities, particularly the support they are expected to provide to their partner agencies. Although the current ASLOs have relevant skills gained from previous work experiences in law enforcement, intelligence or with some of AUSTRAC's partner agencies, the average work experience as an ASLO was quite short—less than three years. To balance this lack of experience, sufficient and appropriate training and guidance are required.

Training and guidance for ASLOs

Buddy system

2.28 The ASLOs predominantly get on the job training at their place of work. For a new ASLO, a *buddy system* is also in place where he or she is 'partnered' with an experienced ASLO. A buddy's responsibilities would include showing a new ASLO how the AUSTRAC's systems work, how to set alerts and what the role entails. Although a buddy's responsibilities are not

documented or formalised, the feedback received from all ASLOs interviewed of the effectiveness of the *buddy system* was uniformly positive.

Documented guidance on the job

2.29 There are specific SOPs that cover some of the tasks that ASLOs undertake, such as the SOP for dissemination of intelligence reports, but there is no formal, documented guidance on other important day to day functions. AUSTRAC advised that the Managers provide work related guidance on a day to day basis, and that Directors provide advice to the ASLOs on strategies and outputs required by the team. However, the absence of more generalised operational guidance on 'how to do things' was reflected in advice from some ASLOs that 'everything is in people's heads'. For example, ASLOs advised that there was a lack of guidance on how, when and who to contact in specialist areas of AUSTRAC. There would be merit in AUSTRAC preparing more complete operational guidance and procedures for the ASLOs.

AML/CTF training

2.30 As indicated in paragraph 2.25, one of the ASLO's responsibilities includes providing support to partner agencies' AML/CTF queries. At the time of audit, only half (11 of the 21) of the ASLOs interviewed by the ANAO stated that they received AML/CTF training⁹⁰, either from AUSTRAC directly or from partner agencies, such as the AFP.

2.31 In March 2013, AUSTRAC advised that ASLOs have access to a range of AML/CTF training tools that include newsletters, emails from directors and an AUSTRAC online training platform. In the same month, AUSTRAC's Intelligence Branch also conducted an internal survey where the current ASLOs were asked about specific AML/CTF training they had undertaken since joining AUSTRAC.⁹¹ Sixty-three per cent (12 of the 19) of the ASLOs responded, listing the various AML/CTF training they had received. The ANAO considers the specific AML/CTF training provided to ASLOs to be comprehensive and extensive.

⁹⁰ Some ASLOs did not specifically state the AML/CTF training, but they indicated that they had the AUSTRAC induction and other intelligence related training, which would include the AML/CTF obligations under the AML/CTF Act.

⁹¹ The ASLOs were to include all types of training including through study assistance programs.

Agreements with domestic partners and international counterparts

Domestic memoranda of understanding (MOUs)

2.32 AUSTRAC has MOUs in place with its domestic partner agencies (designated agencies) which provide a framework to support the exchange of financial intelligence consistent with the requirements of the AML/CTF Act and other relevant legislation.⁹²

2.33 The ANAO examined AUSTRAC's MOUs with seven key domestic partner agencies: ACC, AFP, ATO, ASIO, Customs and Border Protection, DHS-Centrelink and the Victoria Police. All seven MOUs are current, with the oldest MOU dated November 2008. AUSTRAC has advised that the MOUs are in the process of being reviewed to maintain their currency. The seven MOUs include clauses relating to:

- access to AUSTRAC information (including online access);
- provisions and restrictions concerning suspicious matter reports⁹³;
- use of AUSTRAC information collected by an international counterpart;
- release of AUSTRAC information to a foreign intelligence agency⁹⁴;
- privacy and security;
- accountability;
- feedback; and
- training and support for employees of both agencies.

2.34 All seven of the MOUs examined provide a broad and generally comprehensive framework for the exchange of financial intelligence between AUSTRAC and its partners. However, as discussed below, the current review by AUSTRAC of the domestic MOUs should more closely examine the effectiveness of two clauses relating to accountability and feedback.

⁹² AUSTRAC Annual Report 2011–12, p. 60.

⁹³ Suspicious matter reports are a type of financial transaction report required to be submitted by reporting entities, see Appendix 2 for further details.

⁹⁴ Three of the examined partner agencies (AFP, ACC and ASIO) are able to disseminate AUSTRAC intelligence to foreign intelligence agencies under sections 132 and 133 of the AML/CTF Act.

Accountability clauses

2.35 The accountability clauses in the MOUs are intended to provide AUSTRAC with assurance that its financial intelligence or assessments are appropriately handled by its partner agencies. Under the MOUs the onus for accountability resides with the partner agency:

The [partner agency] is responsible for any mishandling or inappropriate use by its authorised officials of AUSTRAC information.⁹⁵

2.36 In addition, partner agencies are required to maintain an audit log of AUSTRAC information which those agencies have disseminated to other agencies. AUSTRAC may view this log ‘upon written request’. Similarly, the MOUs with six of the seven MOUs examined⁹⁶ also include the requirement for the partner agencies to ‘conduct regular audits of its authorised officials with online access to AUSTRAC information to ensure they are complying with [their] MOU, the FTR Act and the AML/CTF Act’. AUSTRAC may also request an audit to be completed of the partner agency’s authorised officials who have online access to AUSTRAC information.

2.37 AUSTRAC has not exercised the right to view the required audit log of AUSTRAC information that has been disseminated to other agencies, or requested an audit of online access to AUSTRAC information by partner agency officials. AUSTRAC has sought assurance from its partner agencies of its compliance with accountability obligations as stipulated in their MOU.⁹⁷ For example, AUSTRAC has required that the AFP and Victoria Police provide a written outline of measures in place to meet their data security and reporting obligations. While such correspondence would provide some comfort about compliance with accountability obligations, it is at a lower level than the approaches set out in the MOUs. As such, AUSTRAC has limited assurance as to partner agency compliance with the accountability clauses.

2.38 Breaches have occurred in the past where partner agencies have detected inappropriate use of AUSTRAC data by their employees. For example, in April 2012 it was reported in the media that AUSTRAC

⁹⁵ The MOU with the ATO has a variation to that wording, in that both parties will ‘take all reasonable measures to maintain the confidentiality of that data, and ensure that data is only used for the purposes for which that data was provided and is only accessed by persons who have a legitimate “need-to-know” to perform their duties’.

⁹⁶ The AUSTRAC MOU with the ATO instead includes the clause that ‘each party may review the systems, procedures and security safeguards that the other party has in place for maintaining the confidentiality and integrity of its data’.

⁹⁷ The only exception was the Inspector General of Intelligence and Security as their access is limited to checking authorised access of the Australian Intelligence Community personnel, to ensure it is consistent with the AML/CTF Act.

information had been misused by an AFP employee.⁹⁸ AUSTRAC became aware of this breach through the media.⁹⁹ Conducting periodic reviews of partner agencies' audit logs and online access would provide assurance that partner agencies are using AUSTRAC information appropriately.

2.39 In addition, staff of some partner agencies were unaware of responsibilities with regards to the management of AUSTRAC information (including monitoring of possible breaches). For example, the MOUs state that it is the responsibility of partner agencies to advise AUSTRAC of any detected misuse of AUSTRAC data within five working days. However, staff of one agency were not aware of this requirement, and incorrectly advised the ANAO that AUSTRAC is responsible for advising of any breaches that occur within that agency.

New functionality introduced

2.40 In May 2012, AUSTRAC advised its key partner agencies that it would introduce, on 4 June 2012, new functionality in the AUSTRAC database, where the user would have to state their 'reason for access'. The 'reason for access' function aims to provide governance and feedback benefits to both AUSTRAC and its partner agencies, by providing a better ability to monitor and audit the searches conducted by users of the AUSTRAC database.

2.41 The 'reason for access' function is a free-text field which if used appropriately, should be mutually beneficial to both AUSTRAC and its partner agencies. However, to be effective, the function requires the cooperation of staff in partner agencies.¹⁰⁰ Including the requirement to use this function appropriately in the MOUs may assist in this regard.

Feedback clauses

2.42 The feedback clauses in AUSTRAC's domestic MOUs require that partner agencies regularly compare their quarterly feedback report on the use

⁹⁸ Rudra, K, 'Women in divorce row loses job fight', *Sydney Morning Herald*, 26 April 2012 <<http://www.smh.com.au/technology/technology-news/woman-in-divorce-row-loses-job-fight-20120425-1xk7.html>> [accessed 20 June 2012].

⁹⁹ The AUSTRAC CEO wrote to the AFP Commissioner on 11 May 2012 to remind the AFP of the requirements of their MOU, as clause 59 states that 'The AFP agrees to advise AUSTRAC in writing of any incident involving a breach of the MOU or the FTR Act or AML/CTF Act within five working days of becoming aware of the incident'.

¹⁰⁰ Such cooperation may include, for example, the partner agency staff cross-referencing the investigation case number listed in the 'reason for access' field, to the entities searched upon. AUSTRAC alone does not have the ability to guarantee that there was an appropriate justification to conduct the search.

of AUSTRAC information with AUSTRAC's Users Statistics Report¹⁰¹ so that 'effective feedback is provided'. However, compliance with this responsibility has not been consistent. Most of the seven partner agencies did not provide quarterly feedback reports to AUSTRAC in 2011–12. The ATO submitted three periodic feedback reports (titled the 'Austracking' newsletter) to AUSTRAC in 2011–12, none of which made comparison to the number of registered and active users listed in AUSTRAC's Users Statistics Report.¹⁰² In early 2012, Customs and Border Protection altered their capture of the utility of AUSTRAC information in their investigations, but provided no feedback to AUSTRAC on the number of users and searches conducted.

2.43 In March 2013, AUSTRAC advised that other feedback mechanisms such as the new domestic request forms, a single feedback form, 'reason for access' function and others have replaced the quarterly feedback reporting.¹⁰³ Although these changes are not reflected in the MOUs that ANAO examined, AUSTRAC advised that the MOUs will be updated in the near future to reflect them.

International exchange arrangements

2.44 AUSTRAC shares AML/CTF compliance-related information, financial transaction information and intelligence with its international counterparts. This information strengthens the global effort to combat money laundering and terrorism financing, and benefits the operational work of FIUs and law enforcement agencies tracking the movement of the proceeds of crime.¹⁰⁴ In return, AUSTRAC receives valuable financial intelligence from its international partners to assist in its own detection and analysis of illicit transactions.¹⁰⁵

¹⁰¹ The Users Statistic Report includes for each individual partner agency: the number of registered and active users accessing the AUSTRAC database, and the number of logons and the types of searches conducted, separated by each geographical office, organisational unit, and employee level.

¹⁰² The July 2011 report, reported the number of searches performed by each of the ATO's Business Service Lines during 2010–11. However, the report made no mention of reconciliation to AUSTRAC's User Statistic Report.

¹⁰³ The quarterly feedback reports have ceased since the implementation of the 'reason for access' function. AUSTRAC advised that the main purpose of the new 'domestic request form' is to provide a structured template for partner agencies to make a formal request for AUSTRAC analysis, and to provide all the information that AUSTRAC acquires to conduct such analysis (including a general overview of the case, such as the crime type) and the agency point of contact details. The 'single feedback form' is used to gather information on the quality of the written intelligence products produced by AUSTRAC analysts. It is also a mechanism by which AUSTRAC receives information on partner agency investigations that have been supported by AUSTRAC, including any charges or convictions obtained. The 'reason for access' function is intended to provide a better ability to monitor and audit searches conducted by users of the AUSTRAC database.

¹⁰⁴ AUSTRAC Annual Report 2011–12, p. 80.

¹⁰⁵ *ibid.*

2.45 Before exchanging information with a foreign FIU, AUSTRAC negotiates an exchange agreement with that FIU, typically in the form of an MOU¹⁰⁶, with standard clauses common to Egmont Group members. These incorporate Egmont's Principles of Information Exchange, but have been expanded to meet Australian requirements and practices. As of March 2013, AUSTRAC had exchange agreements with 65 international counterparts. Each exchange agreement outlines specific guidelines for information exchange with that international jurisdiction.

2.46 The ANAO examined AUSTRAC's MOUs with nine existing counterparts and one draft MOU with another jurisdiction, based on the highest number of international exchanges in 2011–12. The nine existing counterparts are: the United States of America; Singapore; Hong Kong; New Zealand; the United Kingdom; Canada; Guernsey Channel Islands; Malaysia; and Isle of Man.¹⁰⁷

2.47 The 10 international exchange agreements examined (which include the draft MOU) contain clauses relating to:

- information exchange;
- making a request;
- use and release of information;
- confidentiality of information;
- communication; and
- audit trails.

2.48 The appropriate handling of information (financial intelligence) by international counterparts is referred to in the Egmont's Principles of Information Exchange, where the need for all information exchanges by FIU's is subject to strict controls and safeguards to ensure that the information is used only in an authorised manner, consistent with national provisions on privacy and data protection. AUSTRAC advised that it also undertakes thorough due diligence when assessing a request to enter an exchange agreement from a foreign FIU. In addition, the standardisation of key clauses

¹⁰⁶ *ibid.*

¹⁰⁷ The draft MOU that the ANAO examined was with another jurisdiction that had ongoing negotiations with AUSTRAC at the time of audit.

in the international exchange agreements provides some assurance as to the consistency with which financial intelligence should be handled.

2.49 However, the 10 international exchange agreements that the ANAO examined did not contain a specific clause relating to the reporting of known breaches to the agreement. AUSTRAC was made aware of one recent breach by an international media article. A foreign FIU released information it had received from AUSTRAC to one of the foreign country's law enforcement agencies without requesting permission from AUSTRAC, contrary to the MOU.¹⁰⁸ The foreign FIU advised AUSTRAC that since this incident they have sought approval from AUSTRAC before disclosing AUSTRAC information to their local law enforcement agencies. AUSTRAC is not aware of any additional breaches to international exchange agreements since this incident. In May 2013, AUSTRAC advised that, as part of the ongoing evolution of its international exchange instruments, the current exchange agreement template now includes specific clauses that relate to the reporting of known unauthorised disclosures and its consequences.

Conclusion

2.50 The roles, responsibilities and accountability arrangements within AUSTRAC's Intelligence Branch are well defined. The ANAO's review of the Intelligence Branch business plans and risk reporting shows that, with one exception, risks indicated in the plans align with the agency's identified corporate risks. AUSTRAC's corporate risk plans appropriately identify a key agency-wide risk relating to the impact of a potential failure of the agency's IT infrastructure (data centre). However, this risk is not apparent in the Intelligence Branch's business and risk planning and reporting framework. AUSTRAC advised that the data centre risk is being managed as an agency-wide risk.

2.51 Other risks relating to changes in resourcing or priorities of partner agencies that could affect the acceptance of AUSTRAC's financial intelligence disseminations were also not included in the Intelligence Branch risk planning. The Intelligence Branch would benefit from better identification, assessment, linkages and reporting of agency-wide and partner agency risks that could adversely impact the Intelligence Branch operations.

¹⁰⁸ The information was subsequently used in court proceedings without AUSTRAC being advised, contravening the confidentiality clauses.

2.52 Staff are supported by generally comprehensive operational guidance. However, many of the current SOPs were incomplete, outdated or undated. There would be benefit in AUSTRAC ensuring that all instructional SOPs are complete, and correctly recording when SOPs were last reviewed and updated so staff are aware of the most current SOPs. ASLOs have a clear understanding of their roles and responsibilities. There are specific SOPs that cover some of the tasks that ASLOs undertake, but there is no formal, documented guidance on other important day to day functions. There would be merit in AUSTRAC preparing a more complete operational guidance and procedures for the ASLOs.

2.53 AUSTRAC's MOUs with seven of its key domestic partner agencies provide a broad and generally comprehensive framework for the exchange of financial intelligence between AUSTRAC and its partners. However, breaches have occurred in the past where partner agencies have detected inappropriate use of AUSTRAC data by their employees. To date, AUSTRAC has not exercised the right to view the required audit log of AUSTRAC information that has been disseminated to other agencies, or requested an audit of online access to AUSTRAC information by partner agency officials.

2.54 Similarly, the accountability clauses in AUSTRAC's international exchange agreements are based on a standard format and seek to provide a framework to protect financial information disclosed to overseas counterparts. The 10 international exchange agreements that the ANAO examined did not contain a specific clause requiring the reporting of breaches to the agreement. AUSTRAC advised that the exchange agreement template now includes specific clauses that relate to the reporting of known unauthorised disclosures and consequences.

Recommendation No.1

2.55 To gain assurance that obligations to safeguard AUSTRAC's financial intelligence are being met, the ANAO recommends that AUSTRAC reviews the accountability clauses in its agreements with partner agencies, and takes steps to exercise its rights to periodically review access to, and further disseminations of, AUSTRAC data by partner agency personnel.

AUSTRAC's response:

2.56 *Agreed. As part of its 2013-14 program for introducing the new Enhanced Analytical Capability (EAC) system, AUSTRAC will review and re-negotiate its MOUs with domestic partner agencies. EAC will provide strengthened audit and security capabilities to bolster the protection of AUSTRAC data holdings and the safeguards governing the use of that data by partner agency personnel. These MOUs will also be updated to reflect the recently introduced 'reason for access' controls with which partner agency personnel must comply when accessing AUSTRAC data. In addition, AUSTRAC will conduct a review of selected partner agencies' records relating to the further dissemination of AUSTRAC information by those agencies.*

3. Workload Management of Financial Intelligence Assessments

This chapter examines AUSTRAC's workload management of financial intelligence assessments, including processing times and quality assurance processes.

Introduction

3.1 As discussed in Chapter 1 (paragraph 1.11), authorised domestic partner agency personnel may have online access to AUSTRAC's financial intelligence within the TRAQ database through the TRAQ Enquiry System (TES). In addition to providing this online access to FTR data, AUSTRAC analyses, evaluates and disseminates suspicious matter reports to partner agencies, and produces a range of more complex financial intelligence reports on matters of interest to partner agencies, and disseminates them for further investigation.¹⁰⁹ The intelligence reports are based on specialist assessments of AUSTRAC's data, and incorporate other information and analysis undertaken by AUSTRAC on specific targets and patterns of transactions.

3.2 In 2011–12, AUSTRAC received a total of 48 155 reports of suspicious matters reports or suspect transaction reports (SMRs/SUSTRs)¹¹⁰, and disseminated a total of 59 180 SMRs/SUSTRs to partner agencies.¹¹¹ In the same year, AUSTRAC also produced 847 financial intelligence reports and made 1513 disseminations to domestic partner agencies.¹¹² The analysis and dissemination of these reports was generated by various sources, including: detections by AUSTRAC's monitoring systems; requests from partner agencies; proactive disseminations relevant to partner agency areas of interest; information referred to AUSTRAC's Intelligence Branch by other internal business units; and information from international FIUs.¹¹³

3.3 The key steps of the Intelligence Branch processing of financial intelligence are shown in Figure 3.1 below.

¹⁰⁹ AUSTRAC Annual Report 2011–12, p. 66.

¹¹⁰ These reports are a vital source of intelligence for AUSTRAC and its partner agencies as they often detail activity not recorded in other financial transaction report types AUSTRAC collects.

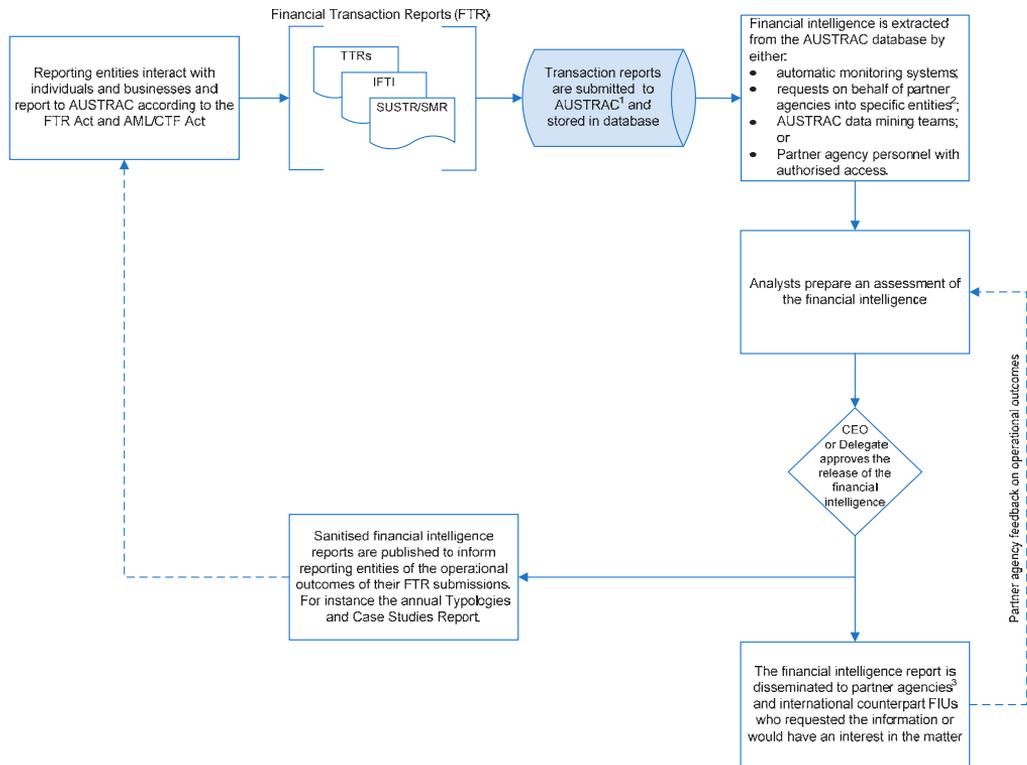
¹¹¹ AUSTRAC Annual Report 2011–12, p. 68.

¹¹² *ibid.*

¹¹³ AUSTRAC Annual Report 2011–12, p. 66.

Figure 3.1

Key steps of the Intelligence Branch processing of financial intelligence



Source: ANAO analysis of AUSTRAC advice and data.

- Notes:
- 1 Cross-border movement of physical currency or bearer negotiable instrument (CBM-PC/BM-BNI) transaction reports are submitted by the Australian Federal Police and Customs and Border Protection.
 - 2 Requests can be made on behalf of partner agencies, Commonwealth taskforces and on-designated Commonwealth agencies.
 - 3 Financial intelligence may be provided to non-designated Commonwealth agencies under Section 129 of the AML/CTF Act.

3.4 The ANAO examined AUSTRAC’s assessed and unassessed workload and the processing times for the following key financial intelligence assessment types: TargIT (AUSTRAC’s automated monitoring system) assessments; suspicious matters and suspect transaction reports (SMRs/SUSTRs); partner agency requests (through the ASLO network); and international exchange of information. The strategic intelligence reports, data mining, and the quality assurance mechanisms in place for all financial intelligence types were also examined.

Assessed and unassessed workload

3.5 The increase in financial transaction reports obtained from reporting entities, as well as the level of in-depth analysis and risk assessment that is applied to these reports has affected workloads across the various financial intelligence assessments, particularly for TargIT assessments and SMRs/SUSTRs.

TargIT assessments

3.6 Financial transaction data is primarily obtained from reporting entities under the FTR Act and the AML/CTF Act and is stored in AUSTRAC's TRAQ database. AUSTRAC developed TargIT to monitor the large volume of financial transaction data held within TRAQ.

TargIT is a rules based system that uses 'clauses' (financial profiles) to identify particular types of suspicious financial activity. A TargIT clause can be triggered by names, bank account details or other identifying fields, and each 'hit' is assessed as either being of high, medium or low priority

3.7 The monitoring team within the Analytics and Monitoring section of AUSTRAC's Intelligence Branch is responsible for reviewing TargIT's daily output of hits. Prior to writing up an assessment, the team flags the hit to a partner agency through an ASLO, to minimise the risk of assessing a network or entity which is of no interest to partner agencies. Where there is interest, the team conducts in-depth analysis and disseminates the assessments to partner agencies, in what is referred to as a *proactive assessment*. In addition, they also produce *requested assessments*, which are financial intelligence assessments requested by partner agencies. The team disseminated 637 reports in 2011–12, more than two-thirds (441 of the 637) of which were of a proactive nature.

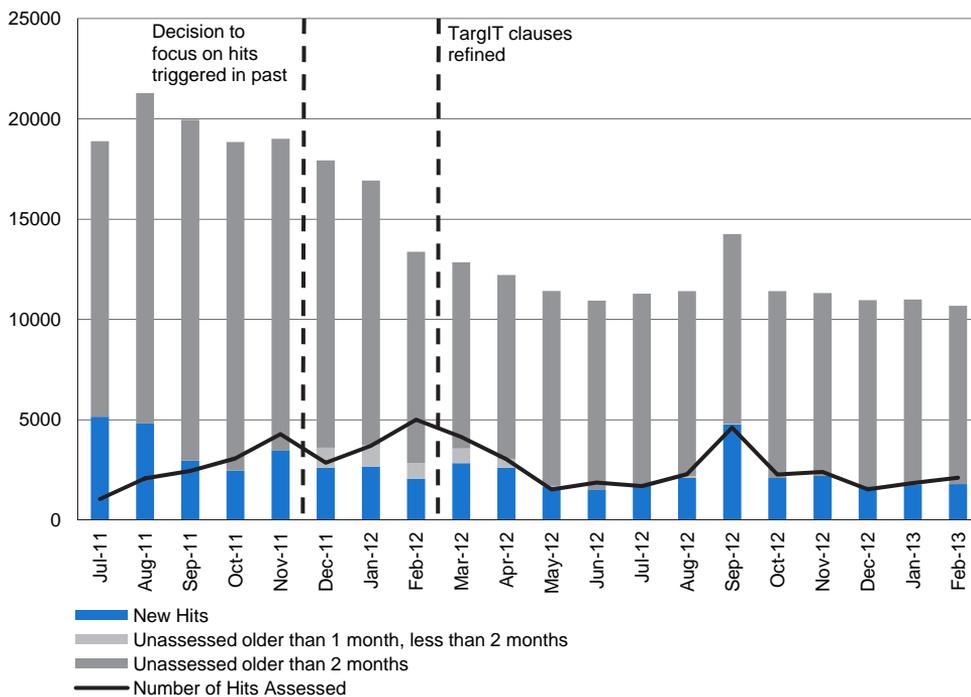
3.8 The TargIT clauses generated an average of 136 hits each day in 2011–12, giving a yearly total of 35 655 hits. AUSTRAC advised that there is no requirement or expectation that all hits will be assessed. A large volume of hits, have historically and continue to be, false/positives, generated by data quality issues. Better matching, as TargIT clauses have been refined¹¹⁴, has improved the reliability of the top performing clauses, but reliability issues still occur. Consequently, it is not practical to expect that every hit will be assessed.

¹¹⁴ TargIT clauses were refined in February 2012.

3.9 A senior analyst within the monitoring team is responsible for tabulating each month how many hits have been triggered, assessed and are still waiting to be assessed. The monthly TargIT team reporting shows that there was a total of 8885 unassessed hits as at February 2013. The ANAO has analysed the new hits, residual unassessed hits and the number of hits assessed each month from July 2011 to February 2013, as shown in Figure 3.2 below.

Figure 3.2

The number of TargIT hits: new, unassessed and assessed each month, July 2011 to February 2013



Source: ANAO analysis of monthly reporting spreadsheets.

Note: In December 2011 the decision was made to focus on hits which had triggered in the preceding two months. Older hits were considered to be of low priority to partner agencies.

3.10 The number of hits per month was substantially reduced as a result of the clause refinement in February 2012. The ANAO’s analysis shows that, for the period from July 2011 to February 2013:

- before the clauses were refined (before February 2012), the average number of new hits per month was 3277 (range of 2059 to 5159);

- after the clauses were refined, the average number of new hits per month was 2244 (range of 1677 to 4780);
- all of the unassessed hits were initially triggered at least two months prior¹¹⁵; and
- ninety-five per cent of the unassessed hits (8480 of 8885) had been triggered more than one year earlier.

3.11 Although the TargIT workload, including the reasons for backlog, was tabulated and routinely reported to line management, there was no consistent, structured reporting to agency management of the actual workload, unassessed hits on hand (including the significance or priority), and its effect, if any, to operations. For example, the minutes of meetings of the Intelligence Oversight Committee (IOC) in 2011 and 2012, or the ExCom meetings in 2011–12, do not reflect any discussion of the TargIT workload or backlogs. While backlogs can be expected to occur in an operations area, it is important for management to be aware of any assessment backlogs so they can make informed decisions on resourcing priorities when, and if, required.

Suspicious matters and suspect transaction reports

3.12 Under the AML/CTF Act, a reporting entity must submit Suspicious Matter Reports (SMRs) if, at any time when providing a designated service, the entity forms a reasonable suspicion that the matter may be related to an offence, tax evasion, or the proceeds of crime.¹¹⁶ Suspicious matter reports were introduced in December 2008 and, for most entities, SMRs have replaced suspect transaction reports (SUSTRs), which are submitted by entities regulated under the FTR Act.¹¹⁷

3.13 Suspicious matters or suspect transaction reports are a critical source of information to AUSTRAC as they offer detailed descriptions of potentially suspicious activity, and enable the reporting of transactions or activity not otherwise captured under the FTR Act or the AML/CTF Act. For example, a bank teller may find a customer's behaviour to be suspicious if they make

¹¹⁵ In December 2011, the Intelligence Branch decided to prioritise unassessed hits that were less than two months old, as older hits were unlikely to be of interest to partner agencies.

¹¹⁶ AUSTRAC Annual Report 2011–12, p. 30.

¹¹⁷ AUSTRAC Annual Report 2011–12, p. 30. Businesses that are classified as 'cash dealers' are regulated by the FTR Act but not all are covered by the AML/CTF Act. However, SMRs and SUSTRs are very similar and both are to be submitted when activities are suspected to be an offence under Australian laws.

transactions in multiple amounts less than AUD\$10 000 to the same recipient. This behaviour may suggest that the customer may be trying to avoid the submission of a Threshold Transaction Report to AUSTRAC, which is mandatory under the AML/CTF Act for all transactions of \$10 000 or more.¹¹⁸

3.14 AUSTRAC provides feedback to reporting entities about the types of criminal activity detected by the submission of FTRs (including SMRs), in the annual Typologies and Case Studies Report (discussed from paragraph 3.47). The following case study illustrates how a criminal operation was investigated by AUSTRAC’s law enforcement partners as a result of the submission of multiple SMR/SUSTRs by reporting entities.

Case Study
Tax fraud identified by the reporting of two SMRs

Two SMRs submitted by reporting entities triggered AUSTRAC’s monitoring system. Coupled with additional analysis of related financial activity, AUSTRAC identified 10 clothing manufacturing businesses in one geographic location which had been conducting large cash withdrawals over an extended period of time.

The SMRs identified unusual financial activity involving members of the syndicate who were frequently depositing cheques into company accounts, followed by cash withdrawals equivalent in value to the cheque deposits, on the same day. This information prompted AUSTRAC to produce a financial intelligence assessment report for law enforcement agencies concerning these businesses.

The fraud allowed the companies to evade income tax and other taxation obligations, and move their profits into the cash economy. When law enforcement officers moved to stop the syndicate, they recovered more than AUD\$1 million in cash, as well as a number of properties.

Source: AUSTRAC Typologies and Case Studies Report 2012, pp. 50–53.

¹¹⁸ Details about all report types required to be submitted to AUSTRAC are included in Appendix 2.

3.15 Since the introduction of SMRs in 2008, AUSTRAC has reported annually on both SMRs and SUSTRs that were received and disseminated by the agency. Since 2008–09, AUSTRAC has, on average, received 43 191 SMRs/SUSTRs, and disseminated 54 113 reports annually.¹¹⁹ A single report may be disseminated to multiple agencies based on joint priorities and areas of interest.¹²⁰ Reports received in previous years may also be disseminated in response to partner agency requests or in association with other AUSTRAC financial intelligence products.¹²¹ AUSTRAC automatically disseminates SMRs/SUSTRs to the ATO, as the agency is entitled under the AML/CTF Act to access AUSTRAC information for any purpose relating to the facilitation of the administration or enforcement of a taxation law.¹²²

3.16 All SMR/SUSTRs are entered into AUSTRAC’s TRAQ database, which applies a series of ‘business rules’, to categorise reports of suspicious matters.¹²³ These rules are defined and continually rewritten by AUSTRAC in collaboration with its partner agencies. The rules enable AUSTRAC’s system to identify those reports that relate to specific key risks. The significance attached to a business rule is based on AUSTRAC’s internal guidelines, and informed by partner agencies’ operations and priorities.¹²⁴

3.17 AUSTRAC advised that SMRs which meet business rules are triaged as they are received and may be allocated to analysts for evaluation. Reports which have triggered rules will sit in the work queue pending further assessment. Business rules are designed to highlight reports with particular risk indicators.¹²⁵ The pre-assigned significance (risk) rating attached to a suspicious report as a result of a business rule may change following evaluation by an analyst. Factors such as false positives, data quality issues, timeliness and contextualising the reported SMR activity will influence the ultimate risk rating assigned to a suspicious report.

¹¹⁹ AUSTRAC usually disseminates more reports than it produces each year, as individual reports may be disseminated to more than one partner agency.

¹²⁰ AUSTRAC Annual Report 2011–12, p. 69.

¹²¹ *ibid.*

¹²² Stated in subsection 125(1) of the AML/CTF Act. In 2011–12, AUSTRAC disseminated 48 010 suspect reports to the ATO, up by 8 per cent from the previous year.

¹²³ *ibid.*, p. 71.

¹²⁴ The precise nature of the business rules is , for operational reasons. However, one example of a high priority business rule is the ‘unusual condition of cash’ provision, which searches the text provided in the SMR/SUSTR for descriptions of the cash. The SMR/SUSTRs which would be flagged by this business rule may mention substances on the notes, such as drugs or blood, which would be of interest to law enforcement partners.

¹²⁵ Business rules may be triggered by a single attribute or multiple attributes in a given report, such as a dollar amount, keyword or country.

3.18 As AUSTRAC receives, on average, approximately 3600 SMRs/SUSTRs monthly, it is not possible for the agency to assess and evaluate each and every report on a daily basis. At any point in time, there are thousands of SMRs/SUSTRs in AUSTRAC's work queue. The ANAO was advised that AUSTRAC analysts focus on assessing SMRs/SUSTRs that meet the business rules. Precedence is given to reports that are of a higher priority, as the agency does not have the capacity to look at, and assess, all reports that meet the business rules. The ANAO examined the backlogs for SMRs/SUSTRs from July 2011 to February 2013 (as at March 2013).¹²⁶ The ANAO analysis shows that there are,

- 6384 unassessed records that had a significance rating of 'very high/high'; and
- 7247 unassessed records that had a significance rating of 'moderate'.

3.19 AUSTRAC advised that there are ongoing refinements and measures employed by AUSTRAC and partner agencies to mitigate the risk of not assessing high value SMRs/SUSTRs. Designated partner agencies have access to SMRs/SUSTRs, with the ATO having full unrestricted access, as discussed in paragraph 3.15. Therefore, it does not preclude the partner agencies from looking at, or assessing, the reports that may relate to their own operations, priorities or deemed of high significance to them.

3.20 The priority of SMRs/SUSTRs (whether 'very high/high', 'moderate' or 'low/very low') and the business rules that trigger them requires ongoing assessment and review. Suspect reports are very dynamic as they detect changes in behaviour, and their significance varies constantly, as discussed in paragraph 3.17. For example, the ANAO was advised that although a SMR/SUSTR may be rated as 'very high/high' when it is first lodged into the AUSTRAC systems—when it is examined by an AUSTRAC analyst, the latter may assess it as a suspect report of a lower significance rating (that is, 'moderate' or lower) due to new information that the analyst may know of, at that particular point in time. AUSTRAC advised that the agency's new capability, the Enhanced Analytical Capability program, is expected to be flexible and reflect real-time changes in SMRs/SUSTRs business rules.

¹²⁶ The Suspicious Reports Work Queue has varying processing status, which could either be: complete; in progress; pending; system assessed; system processing and unassessed.

3.21 Similar to TargIT assessments, there is no consistent, structured reporting to management of the actual workload, unassessed hits on hand (including the significance or priority rating), and its effect, if any, to operations.

ASLO assessments and disseminations

3.22 As previously discussed in paragraph 2.25, one of the three main responsibilities for an ASLO is to provide analytical support to their partner agencies (along with relationship management and training).¹²⁷ While the ASLO may be outposted to the partner agency, they still have access to the TRAQ Enquiry System (TES) through an online portal. The role of the ASLO is to search this database to locate entities of interest to partner agencies along with their associated networks and any financial transactions that can be attributed to the entities. Depending on the complexity and timeframe of the request, the intelligence disseminated can be provided in a number of formats, ranging from formal financial intelligence assessments, to the essential information simply being provided informally in a spreadsheet with a brief explanation of the findings.

3.23 The ASLO role has a different focus to the intelligence analysts who are located within the monitoring team. While more than two-thirds of the disseminations produced by the monitoring team are proactive in nature, the ANAO's analysis of ASLO disseminations for 2011–12 shows that 64 per cent of intelligence reports were requested by partner agencies. This difference reflects the client support focus of the ASLO role. The ASLOs disseminated a total of 506 financial intelligence reports for 2011–12. At the time of audit, there was no unassessed workload queue for the ASLOs' assessments and disseminations.

International exchange of information

3.24 AUSTRAC plays an important role in contributing to international efforts directed at preventing money laundering, terrorism financing, major crime and tax evasion. AUSTRAC disseminates intelligence internationally,

¹²⁷ The analytical support provided includes: preparation and dissemination of detailed information reports for relevant operations and investigations; proactive identification, promotion and referral of matters that may be of interest to partner agencies; creation of AUSTRAC alerts for ongoing matters; and responding to requests for assistance and/or interpretation of AUSTRAC information with respect to any intelligence matters.

providing financial intelligence reports to any of the 65 international counterpart FIUs that have exchange agreements in place with AUSTRAC.

3.25 An international exchange can be one of five types:

- a request from AUSTRAC, on behalf of one of their partner agencies, to an international FIU seeking intelligence in regards to an investigation;
- a request from an international FIU with an exchange agreement, seeking intelligence from AUSTRAC and/or a domestic partner agency;
- a request from an international FIU without any exchange mechanisms in place, to which AUSTRAC will in most circumstances issue a response that they do not provide intelligence to FIUs with which they do not have an exchange agreement¹²⁸;
- AUSTRAC, or a partner agency, analyse a financial entity and considers that one of their international counterpart FIUs or foreign law enforcement partners would be interested in the intelligence, termed an 'outgoing spontaneous exchange'; or
- an international FIU or law enforcement agency considers that intelligence which they have analysed would be beneficial to AUSTRAC or one of their domestic partner agencies, termed an 'incoming spontaneous exchange'.¹²⁹

3.26 The number of these five exchange types for 2011–12 are shown in Table 3.1 below.¹³⁰

¹²⁸ Where warranted by the significance of a matter, AUSTRAC will seek to obtain written assurance from an FIU in this category that it will comply with handling requirements, and provide information on a case by case basis.

¹²⁹ ANAO inference from the AUSTRAC database.

¹³⁰ Sections 132 and 133 of the AML/CTF Act specify that the AFP, ACC, ASIO, Australian Secret Intelligence Service, Office of National Assessments or any Defence intelligence agency may communicate AUSTRAC information to an international intelligence agency provided they are satisfied with the security arrangements for, and the use of, the intelligence. As such, the number of international exchanges listed in Table 3.1 is not the complete picture of AUSTRAC intelligence exchanged with international counterparts.

Table 3.1

International intelligence exchanges, 2011–12

	Annual Report figure
Requests from overseas FIUs with an exchange agreement	97
Requests to overseas FIUs	49
Incoming spontaneous exchanges	47
Outgoing spontaneous exchanges	39
Total	232
Requests from overseas FIUs without an exchange agreement	22

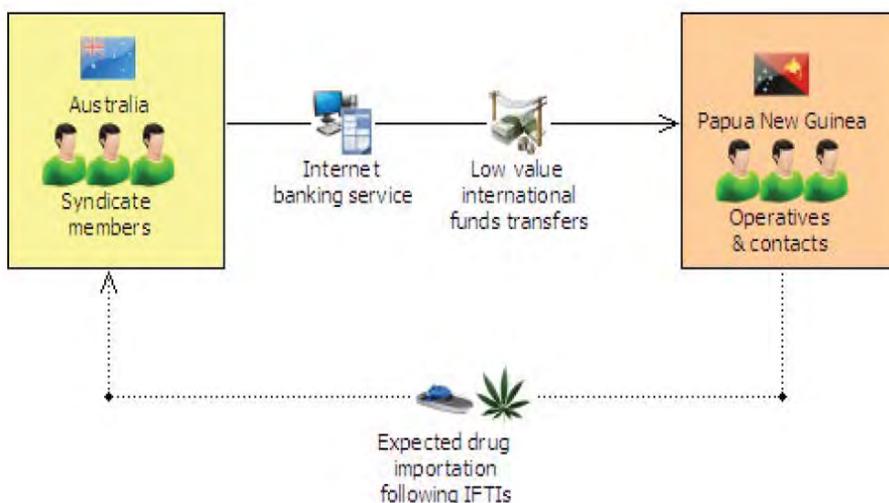
Source: AUSTRAC Annual Report 2011–12, p. 82.

3.27 The following case study outlines an international drug importation which was intercepted with the assistance of AUSTRAC and its international counterpart FIUs.

Case Study
International cooperation to disrupt a drug importation

Two suspects in Australia inadvertently informed an undercover law enforcement officer of their plan to import more than 500kg of cannabis from Papua New Guinea. AUSTRAC information was used as a primary source of intelligence by domestic law enforcement agencies to link targets that had not previously been known to associates in Australia and operatives overseas.

The street value of the cannabis could have exceeded \$10 million had the importation reached Australia and not been disrupted by law enforcement. All four syndicate members pleaded guilty on charges of conspiring to import drugs, and were sentenced to imprisonment for between three and a half years and four years.



Source: AUSTRAC Typologies and Case Studies Report 2012, pp. 54–55.

3.28 Overall, the topic of the international requests can range from specific entity names or businesses, to subjects being investigated in relation to tax evasion, stock market fraud, drug trafficking or the bribing of public officials. At the time of the audit, there was no unassessed workload queue for the international exchange of information.

Processing times

3.29 The following section outlines the processing times and internal reporting for TargIT assessments, SMRs/SUSTRs, ASLO disseminations and the international exchange of information.

TargIT assessments

3.30 In an internal SOP¹³¹, references are made to processing times of TargIT assessments, namely that requested disseminations should be processed within 10 and 15 working days, and proactive disseminations assessed within 10 and 30 working days of being detected by TargIT. The ANAO examined processing times for TargIT assessments for 2011–12. The ANAO's analysis shows that for:

- **requested disseminations (processing target 10 and 15 working days):** the monitoring team disseminated 68 per cent within 10 working days and 78 per cent within 15 working days, in 2011–12.
- **proactive dissemination (target to assess within 10 and 30 working days of detection):** the monitoring team assessed 18 per cent within 10 working days of detection and 43 per cent within 30 working days, in 2011–12.

3.31 The ANAO observed that there is no documented, consistent internal reporting as to how long the TargIT assessments are taking to process against the targets. Management reporting focuses on the number of actual disseminations, presented as a percentage of the planned disseminations.

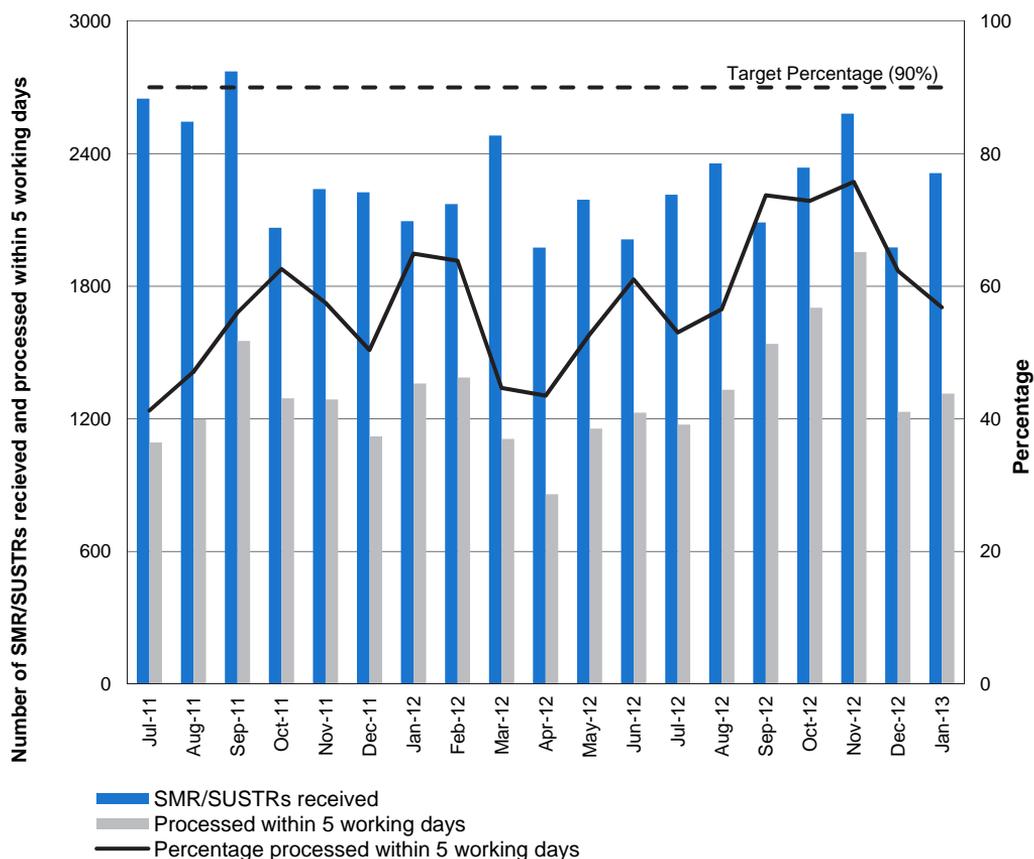
Suspicious matters and suspect transaction reports

3.32 The Suspicious Reports Analysis team have an agreed performance indicator whereby 90 per cent of reports that trigger a business rule are expected to be processed within five working days, as shown in Figure 3.3.

¹³¹ AUSTRAC Op. Intel Reporting SOP, 12 January 2011.

Figure 3.3

SMR/SUSTRs received and the percentage processed within five working days, for each month, July 2011 to January 2013



Source: ANAO reconstruction of graph based on AUSTRAC internal reporting.

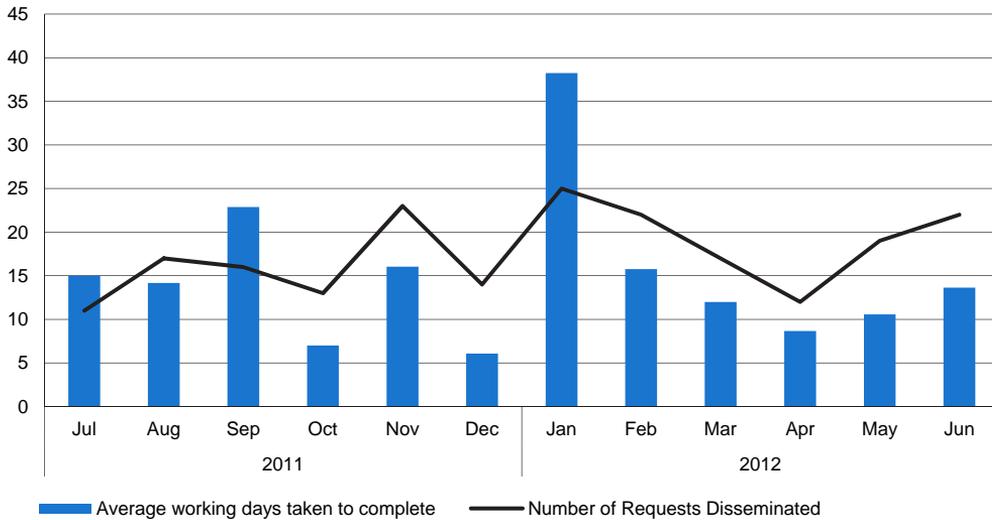
3.33 From July 2011 to January 2013, the Suspicious Reports Analysis team has not met the target of processing 90 per cent of received SMRs/SUSTRs within five working days. For the period cited, the team was only able to process, on average, 57.7 per cent of received reports within the agreed timeframes. Although the processing times were reported to management, the reasons for not meeting the agreed turnaround times were not documented. AUSTRAC advised that briefings to management may be verbal or written. To assist management in making a decision as to whether the agreed timeframes need to be reconsidered, formally documenting the reasons why processing targets are not being met would be beneficial.

ASLO assessments and disseminations

3.34 There is no documented guidance on the acceptable processing time for requests made to ASLOs from partner agencies. The ANAO analysed the time taken by ASLOs to complete a request for intelligence on an entity which had not been requested before, as shown in Figure 3.4 below.

Figure 3.4

Average time taken by an ASLO to complete new requests, 2011–12 (working days)



Source: ANAO analysis of AUSTRAC database.

Note: This analysis only includes requests that are the first dissemination of a particular assessment, so it is an indication of how long an intelligence request can take if it has not been previously assessed.

3.35 For 2011–12, the ANAO calculated that the average processing time taken by ASLOs for new requests was 16.25 working days (based on the 211 requests for new intelligence).¹³²

International exchange of information

3.36 AUSTRAC has two internal performance indicators which relate to the processing times for international intelligence exchanges. The first is that

¹³² As part of the AUSTRAC enterprise agreement, for the Christmas Closedown period over December 2011 to January 2012 normal operations were suspended for six working days. Those employees required to work were paid overtime. For this analysis, the ANAO excluded the six working days for those disseminations active over the Christmas/New Year period.

requests of international FIUs from domestic partner agencies should be created within 10 working days of receipt¹³³, and the second is that a request for intelligence from an international FIU should be completed within 35 working days. The ANAO analysis of AUSTRAC's database found that:

- requests to international FIUs from domestic partner agencies were created within 10 working days for 95 per cent of cases (for 47 of the 49 requests) in 2011–12; and
- requests for intelligence from international FIUs were completed within 35 working days for 85 per cent of cases (70 of 82 disseminations) in 2011–12.¹³⁴

3.37 Overall, the processing times for the TargIT assessments; SMRs/SUSTRs; and international exchange of information are clearly defined and documented. However, the agreed processing times for requests made of ASLOs from partner agencies are not specified. In addition, there is no documented, consistent internal reporting as to how long the TargIT assessments are taking to process against these timeframes. Management reporting focuses on the number of actual disseminations, presented as a percentage of the planned disseminations.

3.38 There is also internal reporting to AUSTRAC management or Executive of the processing times of SMRs/SUSTRs and for the International exchange of information. Performance against the processing target for SMRs/SUSTRs was also reported to management, where the agreed processing time for received reports has not been met from July 2011 to January 2013. However, the reasons why processing targets were not being met were not formally documented.

3.39 To make informed decisions relating to processing times, it would be useful to consistently identify, document and provide regular reporting on the processing times of all relevant intelligence assessments—and the reasons why processing targets are not being met.

3.40 AUSTRAC advised that the Enhanced Analytics Capability project is intended to enhance the database interface, refine business rules (for

¹³³ Whereby a member of the Operations Support team creates a record of the exchange in the database and assigns a case number to the assessment.

¹³⁴ Does not include requests from international FIUs without an exchange agreement with AUSTRAC. The Annual Report stated that 97 exchanges of this type had occurred. The ANAO analysis found that there were 97 requests of this type, but only 82 of which were disseminated within 2011–12.

SMRs/SUSTRs) or clauses (for TargIT assessments) and improve other administrative arrangements including internal reporting.

Strategic intelligence and data mining

Strategic intelligence

3.41 The Strategic Assessments and Typologies section within the Intelligence Branch conducts strategic analysis on a range of money laundering and terrorism financing matters, including assessments of the environment which influences these two threats. The section comprises two teams: the Strategic Assessments and Intelligence Oversight team and the Typologies team.

Strategic Assessments and Intelligence Oversight Committee (IOC) team

3.42 The Strategic Assessments and IOC team primarily produces strategic analysis and assessments including strategic intelligence briefs flowing from a National Threat Assessment on Money Laundering (NTA) 2011; acts as a secretariat support for the IOC; and drafts and coordinates the delivery of AUSTRAC's intelligence strategy.

3.43 The NTA 2011 was AUSTRAC's first national threat assessment on money laundering, and formed part of the Commonwealth's Organised Crime Response Plan of November 2010.¹³⁵ It was developed in consultation with key partner agencies¹³⁶, and provides a consolidated and comprehensive intelligence picture of the Australian money laundering environment. The NTA 2011 was also developed to complement the 2010 Financial Action Task Force's (FATF)¹³⁷ 'Global Money Laundering and Terrorist Financing Threat Assessment'. Australia was the first country in the world to have completed such an assessment applying elements of the FATF framework and tools.

¹³⁵ The Commonwealth Organised Crime Response Plan, launched on 26 November 2010, is part of the Commonwealth's comprehensive approach to combating organised crime in Australia. The Response Plan targets the three priority organised crime risks, identified by the ACC in their Organised Crime Threat Assessment: amphetamine-type stimulants; money laundering; and identity crime.

¹³⁶ The partner agencies consulted include the Attorney-General's Department, ACC, AFP, Customs and Border Protection, ATO and the NSW Crime Commission. Other federal, state and territory agencies were consulted and provided information. In addition, information from international law enforcement partners informed the NTA.

¹³⁷ Australia was a founding member country of the Financial Action task Force (FATF), which was established in July 1989 by a Group of Seven (G-7) Summit in Paris, initially to examine and develop measures to combat money laundering. In October 2001, the FATF expanded its mandate to incorporate efforts to combat terrorist financing. The FATF's objectives are to set standards and promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system.

3.44 The Strategic Assessments team produced six strategic intelligence briefs during 2011–12.¹³⁸ The papers aim to inform AUSTRAC and partner agencies, on current and emerging trends and vulnerabilities in money laundering, terrorism financing and other financial crimes. The briefs include a summary, key findings, methodologies, case studies and indicators for law enforcement agencies.

3.45 Also in November 2011, AUSTRAC released a public report based on the NTA 2011, titled ‘Money Laundering in Australia 2011’. Its aim was to contribute to greater public and industry knowledge about money laundering, and to better position government, industry and the community to work together to develop and strengthen preventative strategies against money laundering. The report draws together law enforcement, intelligence and regulatory aspects of the money laundering threat into a single public resource.

3.46 With the publication of the NTA 2011, a three-year cycle for future NTAs focusing on money laundering risks was planned. In the meantime, AUSTRAC has begun preparation on a National Threat Assessment on Terrorism Financing, which will be smaller in scope than the 2011 NTA and is expected to be released in 2013.

Typologies team

3.47 The Typologies team reviews the financial methodology reports¹³⁹ completed by the ASLOs and other intelligence analysts, and sanitises the case studies to look for emerging trends and indicators. These sanitised case studies are publicly released to reporting entities by the annual Typologies and Case Studies Report. This report is a key aspect for AUSTRAC complying with one of FATF’s 40 Recommendations.¹⁴⁰

¹³⁸ Reported to Operational Support for inclusion in the Annual Report dissemination figures, email dated 6 July 2012 (the six products apparently include the National Threat Assessment). The Strategic Assessment Team reported 58 domestic disseminations and eight international disseminations (of the National Threat Assessment).

¹³⁹ The financial methodology reports detail the regulated industry sector targeted and the money laundering or terrorism financing technique used in each financial assessment.

¹⁴⁰ Recommendation 34 states that authorities: should establish guidelines, and provide feedback, which will assist financial institutions and designated non-financial businesses and professions in applying national measures to combat money laundering and terrorist financing, and, in particular, in detecting and reporting suspicious transactions. Other recommendations covered the national coordination and content of AML/CTF policies; definitions of, and measures for, preventing money laundering and terrorism financing; and forms of international cooperation.

3.48 In 2012, AUSTRAC released the sixth Typologies and Case Studies Report that included condensed versions of five research papers¹⁴¹, as well as 21 case studies.¹⁴² By September 2012, preparation had already begun for the July 2013 release of the annual Typologies and Case Studies Report, with the draft report required by April 2013. This timeframe allows for review and clearance processes both from within AUSTRAC and from the partner agencies that are mentioned in the sanitised cases. The ANAO observed that there were no backlogs or defined processing times for preparing strategic intelligence reports in 2011–12.

Data Mining

3.49 Data mining supports AUSTRAC in achieving its strategic and operational objectives by assisting whole of government initiatives, providing macro analytical products and providing a knowledge discovery capability.¹⁴³ At the time of this audit, there were three data mining teams within the Intelligence Branch, each with a different focus:

- Wickenby team – responsible for providing macro analysis¹⁴⁴ to the Project Wickenby taskforce, headed by the ATO.¹⁴⁵
- Money Laundering Criminal Targeting – responsible for researching, testing and developing a suite of automated monitoring profiles to detect suspicious entities, networks and activities in the new Enhanced Analytical Capability environment.¹⁴⁶
- Data Mining – responsible for completing requests from partner agencies or AUSTRAC internally, and producing proactive analysis to demonstrate AUSTRAC’s capability (which also contributed to the 2011 NTA).

¹⁴¹ The topics of which were: cheques; third-party cash couriers; digital currencies and virtual worlds; voucher system products; and offshore online money remitters.

¹⁴² The case studies are categorised as being related to account and deposit-taking services (14 cases), gambling services (three cases) or remittance services (four cases).

¹⁴³ Knowledge discovery refers to identifying financial intelligence within the AUSTRAC database that has not been discovered by conventional analysis.

¹⁴⁴ The macro analysis may include searching for entities transacting with a tax haven or country of interest, or country snapshots.

¹⁴⁵ The Wickenby team are funded externally (Budget Paper No.2 2012–13, p.43), with the funding due to expire in 2015; it is anticipated that the activity will then become business as usual.

¹⁴⁶ The Money Laundering Criminal Targeting team was established in February 2012 to assist in the preparation for the Enhanced Analytical Capability implementation.

3.50 In 2011–12, there were 265 data mining products disseminated by the Data Mining and Wickenby teams to domestic partner agencies, with the ATO as the largest recipient of data mining intelligence products.¹⁴⁷ The Data Mining team responded to 59 requests for products from their total of 102 disseminations for 2011–12.

3.51 There is no defined processing time for data mining requests and proactive assessments. AUSTRAC advised that data mining often involves highly complex and challenging extraction of large data sets. A big part of their work is ‘knowledge discovery’, and significant time and effort can be expended on data cleansing, before analysis and interpretation are conducted. Processing times for proactive assessments are also difficult to determine. Proactive detections may range from a basic assessment involving a single report or entity, to a complex, in-depth assessment involving a large network of entities, or interlinked networks with large numbers of linked reports.

3.52 The following case study illustrates the type of investigative law enforcement work which can be uncovered by data mining analysis.

Case Study

Data mining intelligence and Project Wickenby

AUSTRAC is a member of Project Wickenby, an Australian Government multi-agency taskforce established in February 2006 to protect the integrity of Australian financial and regulatory systems. The taskforce’s purpose is to prevent people from promoting and participating in the abusive use of overseas secrecy jurisdictions for tax avoidance and evasion.

AUSTRAC’s data mining intelligence capability has produced valuable analysis for measuring the effect of the taskforce’s actions. AUSTRAC trend analysis of the international funds flows identified changes in the values of inward and outward transfers between Australia and 13 secrecy jurisdictions, including Vanuatu, Liechtenstein and Switzerland – three jurisdictions which have been subject to particular scrutiny under Project Wickenby. Overall, AUSTRAC’s analysis shows a declining trend in the total value of funds sent from Australia to 13 secrecy jurisdictions from 2007–08 to 2010–11.

AUSTRAC analysis revealed an aggregate 22 per cent decrease in the total value of outbound funds for the 2010–11 financial year compared to the total value of outbound funds for 2007–08 to the 13 overseas secrecy jurisdictions. As shown below, this decrease represents a \$12 billion reduction over three years in the annual value of funds transferred out of Australia to these secrecy jurisdictions.

¹⁴⁷ In 2011-12, the ATO received 84 reports from the Wickenby team, and a further 20 from the Data Mining team.

Case Study

Data mining intelligence and Project Wickenby

Figure 1: Money flows from Australia to 13 secrecy jurisdictions – 2007–08 to 2010–11

Financial year	Total value of transactions (\$billions)	Change in value (compared to 2007–08)
2007–08	55	n/a
2008–09	46	-16%
2009–10	48	-12%
2010–11	43	-22%

* All values rounded to nearest billion

In 2010–11 AUSTRAC analysis (Figure 2) shows a reduction in fund flows since 2007–08 of 50% to Vanuatu, 79% to Liechtenstein, and 30% to Switzerland.

Figure 2: Money flows from Australia to Vanuatu, Liechtenstein and Switzerland 2008–09 to 2010–11

	2008–09	2009–10	2010–11
Vanuatu	-37%	-34%	-50%
Liechtenstein	-45%	-40%	-79%
Switzerland	-18%	-12%	-30%

Over the same period (2007–08 to 2010–11), AUSTRAC analysis shows the total annual value of funds transferred into Australia from the 13 secrecy jurisdictions increased by approximately 7 per cent (or \$5 billion). This is the first year since Project Wickenby commenced that AUSTRAC has recorded an annual increase in funds flowing back to Australia from secrecy jurisdictions.

Figure 3: Money flows from 13 tax secrecy jurisdictions into Australia: 2007–08 to 2010–11

Financial year	Total value of transactions (\$billions)*	Change in value (compared to 2007–08)
2007–08	63	n/a
2008–09	53	-16%
2009–10	52	-17%
2010–11	68	7%

*All values rounded to nearest billion

Source: AUSTRAC.

Quality Assurance

3.53 Quality assurance is an integral part of any business process. It is a confirmation that a task, or parts of it, were accomplished in accordance with the standards set by the organisation. The ANAO observed that a sound quality assurance mechanism has been adopted for all AUSTRAC's financial intelligence assessments. AUSTRAC managers have been appropriately delegated to review reports prior to dissemination for accuracy and consistency. For example, each TargIT intelligence assessment is reviewed for completeness and quality control purposes by the delegate (manager), to ensure a level of consistency in the standard of assessments, prior to any dissemination.

3.54 Similarly, for SMRs/SUSTRs, ASLO disseminations and data mining, assessments are reviewed for appropriateness and checked for completeness by the delegate (manager or director) prior to dissemination to partner agencies. For the international exchange of information, the AUSTRAC CEO has delegated the authority to release AUSTRAC intelligence to international counterparts, or to sign the letter of non-response to FIUs without an exchange agreement, to the General Manager Intelligence. The AUSTRAC CEO has also delegated the authority to release strategic intelligence products and typology research papers, often after review and input from other intelligence managers to the Director Strategic Assessments and Typologies. The nature of the NTA publication and the annual Typologies and Case Studies Report means it is closely scrutinised and reviewed by senior management, which provides a high level of quality assurance.

Conclusion

3.55 There are appropriate arrangements to process assessments, and disseminate financial intelligence reports. A sound quality assurance mechanism is adopted for all financial intelligence reports. Various delegations are in place to review reports prior to dissemination for accuracy and consistency. However, workload management could be improved.

3.56 The increase in FTRs obtained from reporting entities, as well as the level of in-depth analysis and risk assessment that needs to be applied across these reports has affected workloads for both TargIT assessments and SMRs/SUSTRs. Although there is continuous risk assessment of FTRs, and precedence is given to reports that are of a higher priority, backlogs increased,

particularly for SMRs/SUSTRs. AUSTRAC did not have the capacity to assess all reports that related to specified key risks (business rules).

3.57 Agreed processing times were not met for TargIT and SMR/SUSTRs assessments in 2011–12. Internal monitoring and reporting to management in relation to the financial intelligence workload has not been consistent. For example, the TargIT workload is monitored by the TargIT team. However, there is no consistent, structured reporting to management of the actual workload, unassessed hits on hand (including the significance or priority), and its effect, if any, to operations. As with the workload queues, internal reporting to management on processing times could be improved.

3.58 There has been varied management reporting on the processing times for the assessment and dissemination of relevant financial intelligence. Processing times are defined for requested and proactive TargIT assessments, with requested disseminations to be processed within 10–15 working days, and proactive disseminations within 10–30 working days. However, there is no documented, consistent internal reporting as to how long the TargIT assessments are taking to process against these timeframes. Management reporting focuses on the number of actual disseminations, presented as a percentage of the planned disseminations. By contrast, performance against the processing target for SMRs/SUSTRs was reported to management, but reasons why processing targets are not being met were not documented. To assist management in making informed decisions about resourcing or reconsidering the agreed timeframes—it would be beneficial to formally document the reasons why processing targets are not being met.

3.59 AUSTRAC advised that the Enhanced Analytical Capability Project is intended to enhance the database interface, refine business rules (for SMRs/SUSTRs) or clauses (for TargIT assessments) and improve other administrative arrangements including internal reporting.

Recommendation No.2

3.60 To improve the assessment of financial intelligence, the ANAO recommends that AUSTRAC:

- establishes, and monitors performance against, processing time targets for requested financial intelligence reports; and
- monitors and reports on processing backlogs for key financial intelligence assessment types, with a particular focus on drawing management attention to delays in assessing higher priority financial transaction reports.

AUSTRAC's response:

3.61 *Agreed. The new EAC system will provide more sophisticated tools for managing and analysing the large data volumes which AUSTRAC receives. This will also give AUSTRAC the capability to establish new performance targets for monitoring, and reporting on, the processing of data and generation of intelligence assessments.*

4. Feedback, Performance Measurement and Reporting

This chapter examines AUSTRAC's arrangements for collaborating with partner agencies to set priorities, collecting and reviewing feedback, and its approach to measuring and reporting on the performance of the FIU.

Introduction

4.1 An effective feedback mechanism is an important element in the administration of programs, particularly where the services provided contribute to a partner agency's outcomes. Quality feedback also provides important information that enables agencies to assess and report on its performance and achievements. AUSTRAC's *2011–14 Statement of Strategic Intent* identified being considered relevant and effective by key stakeholders as one of its five high-level strategic goals for the period.

4.2 The ANAO reviewed AUSTRAC's:

- engagement with partner agencies;
- mechanisms for collecting and reviewing feedback; and
- measuring and reporting on its performance—deliverables and key performance indicators.

Engagement with partner agencies

4.3 AUSTRAC employs a number of methodologies for engaging with partner agencies to identify their needs and requirements, and to gather insight on the use and value of its financial intelligence. These arrangements are described in Table 4.1.

Table 4.1

Arrangements employed by AUSTRAC to identify partner agency needs

Arrangement	Description
Strategic Priority Meetings	<p>Opportunity to discuss current and future cooperation between AUSTRAC and a partner agency, which would include for example: liaison issues; AUSTRAC’s involvement in taskforces; and other AUSTRAC initiatives (such as new IT infrastructures) that could impact on a partner agency.</p> <p>Collaboration with partner agencies to combat money laundering and terrorism financing.</p> <p>Opportunity to discuss future collaborations and future strategic intelligence priorities.</p>
Regional Intelligence Meetings	<p>Forums in various states and territories where discussions are held between AUSTRAC and partner agencies around: news and updates that could have an impact on partner agencies, that include for example:</p> <ul style="list-style-type: none"> • methodologies adopted by domestic or foreign entities in money laundering and terrorism financing; • new MOUs signed with domestic partner agencies; • overview of new AUSTRAC financial intelligence products such as the National Threat Assessment; • updates of AML/CTF legislation and system changes; and • any other related topics that could be of interest to partner agencies.
Joint Agency Intelligence Workshops	<p>Discuss and recommend priority areas for operational efforts and intelligence targeting, including: intelligence collection and feedback to support legislative agenda; and operational and strategic intelligence requirements for AUSTRAC in its support of partner agencies.</p> <p>Present AUSTRAC’s understanding of the money laundering and terrorism financing environment and agree about practical efforts to address critical intelligence gaps.</p>
Ad hoc meetings	<p>When required, AUSTRAC engages with partner agencies and discusses topics that may be of interest to one or both parties.</p>

Source: ANAO analysis.

4.4 As the Strategic Priority Meetings are annual high-level discussions of priorities and future direction between AUSTRAC and selected partner agencies, they are attended by the Intelligence Oversight Committee, comprising both Executive General Managers and the General Manager, Intelligence. The Regional Intelligence Meetings are organised by the local ASLOs and are held throughout the year in Sydney, Melbourne, Canberra, Brisbane and Darwin, with representatives from each local partner agency

invited to attend.¹⁴⁸ The ANAO attended the Melbourne Regional Intelligence Meeting in September 2012, and observed a high level of audience participation in the question and answer session after the presentations.

4.5 The annual Joint Agency Intelligence Workshops are held by the General Manager Intelligence and intelligence directors and have been attended by representatives of: the ACC, AFP, ATO, ASIO, Customs and Border Protection, DHS-Centrelink, the Department of Immigration and Citizenship, the NSW Crime Commission and the Office of National Assessments.¹⁴⁹

4.6 The ANAO consulted with seven of AUSTRAC's key domestic partner agencies: the ACC; AFP; ATO; ASIO; Customs and Border Protection; DHS-Centrelink and the Victoria Police. The feedback that the ANAO received was overwhelmingly positive. AUSTRAC is highly valued by its partner agencies for its contribution to their operations and management of risks. Through its systems, AUSTRAC provides partner agencies with near real-time access to financial transactions data, and is uniquely positioned to prepare financial intelligence based on its analysis of this data.

4.7 Overall, the ANAO considers that AUSTRAC has effective arrangements to engage with its partner agencies on an ongoing basis. Through a range of meetings, workshops and more informed interactions, AUSTRAC is well positioned to understand the intelligence priorities of its partner agencies in setting its intelligence work programs. Feedback from partner agencies confirmed this positive view of the effectiveness of AUSTRAC's engagement strategies.

Collecting and reviewing feedback

4.8 In addition to the arrangement to engage with partner agencies on intelligence priorities and products, AUSTRAC also has arrangements to obtain feedback from agencies about the specific contribution of its financial intelligence and analysis to their investigations and operations. These

¹⁴⁸ The content of the ASLO presentations vary, but they often cover topics related to emerging money laundering methodologies, new analytical capabilities being developed by AUSTRAC, and specific questions related to financial intelligence assessments.

¹⁴⁹ The workshops focus on operational priorities, such as the countries, crimes and methodologies of interest to each partner agency.

arrangements include feedback forms and quarterly feedback reports.¹⁵⁰ Table 4.2 outlines these arrangements.

Table 4.2

Arrangements employed by AUSTRAC to gain feedback

Arrangement	Description
Feedback forms	These forms are attached to AUSTRAC’s financial intelligence reports or assessments that are disseminated to partner agencies. They seek comments as to the use and value of AUSTRAC financial intelligence to the partner agencies.
Quarterly Feedback Reports provided to AUSTRAC	On a quarterly basis, as stipulated in their MOUs with AUSTRAC, partner agencies provide AUSTRAC a report of the usefulness of AUSTRAC information. This enables the capture of statistical and qualitative feedback compiled by the partner agency and the ASLOs.

Source: ANAO analysis.

4.9 The feedback forms and the quarterly feedback reports are structured methods of gauging a partner agency’s feedback on the usefulness and significance of AUSTRAC’s financial intelligence. The ANAO reviewed these two methods. AUSTRAC’s feedback forms, prior to 2012, were termed ‘acknowledgement receipts’ rather than feedback forms. A partner agency would acknowledge its receipt of an AUSTRAC financial intelligence product, and tick a box as to whether the financial intelligence or information received: may assist the partner agency; relates to an ongoing operation; is related to a current investigation; is relevant as it relates to a suspected crime; is of no interest to a partner agency; or may be disseminated to another agency.

4.10 To obtain feedback that is more meaningful to AUSTRAC, the acknowledgment receipts were revised and renamed ‘partner agency feedback forms’ to better reflect partner agencies’ comments on: the quality of AUSTRAC’s financial intelligence; its relevance to partner agency investigations; additional feedback comments and outcomes.

4.11 The quarterly feedback reports provided to AUSTRAC by partner agencies are more detailed as they are intended to include statistical and qualitative feedback on the partner agency’s use of AUSTRAC information. For example, partner agencies are asked to report on: the number of operations involving AUSTRAC financial intelligence; the amount of savings or

¹⁵⁰ AUSTRAC also has an online function that provides feedback on SMRs that have been accepted or declined by partner agencies. This functionality is only for SMRs and does not include feedback for the other financial intelligence assessments disseminated to partner agencies.

additional revenue raised as a result of AUSTRAC financial intelligence; the results of data matching exercises; and any significant cases or emerging methodologies.

4.12 The feedback forms and the quarterly feedback reports are intended for management information purposes. However, the usefulness of the feedback mechanisms for these purposes in particular, was limited for the following reasons:

- The return rate of domestic acknowledgement receipts and feedback forms was very low: for the period 2011–12, the return rate was 16 per cent, with only 242 acknowledgement receipts and feedback forms returned to AUSTRAC by domestic partner agencies from 1513 intelligence disseminations.¹⁵¹ Both ASLOs and partner agencies advised that they do not see the value in the forms, and generally view them as an administrative burden.
- No regular monitoring of feedback forms: The return rate is not reported internally or externally, and there is no regular monitoring or review of the feedback forms or their contents, once they are filed by the ASLOs in AUSTRAC's Electronic Document and Records Management System.

The ANAO's analysis of the feedback forms show them to be overwhelmingly positive. Of the 173 forms returned, only one respondent disagreed that the assessment had a clear purpose and one disagreed that the assessment had increased their understanding of the topic. There were 128 feedback forms returned by international counterparts (from the 185 international exchanges where AUSTRAC provided intelligence), and only five disagreed that the assessment had increased their understanding of the topic.

- Declining return of the quarterly feedback reports: the return rate for these reports has been better than for the feedback forms. AUSTRAC's monitoring of the reports show it had the highest return rate in 2009–10 (47.9 per cent), with declining returns in following years (28.2 per cent were returned in 2010–11 and only eight reports were

¹⁵¹ The total of 242 comprise: 69 acknowledgement receipts and 173 feedback forms.

submitted to AUSTRAC in 2011–12, representing a return of 6.4 per cent).

The ANAO's analysis of the eight 2011–12 reports show them to be very positive. Five reports were operational in nature, detailing the specific outcomes of individual cases.¹⁵² Only the three *Austracking* newsletters submitted by the ATO included the more general, statistical and qualitative feedback expected from the quarterly review process. The newsletter included information on the revenue raised as a result of AUSTRAC financial intelligence, outcomes from data matching exercises and significant cases for the time period. The ANAO observed that both DHS–Centrelink and Customs and Border Protection also provided qualitative feedback separate from the quarterly reports.

4.13 AUSTRAC advised that, from July 2012, other feedback mechanisms such as a new domestic request form, a single feedback form, and the 'reason for access' function replaced the quarterly reports.¹⁵³ The MOUs that AUSTRAC have with its partner agencies will need to be updated to reflect these new mechanisms, and to be aligned with the roll-out of the Enhanced Analytics Capability project.

Measurement of impact of AUSTRAC financial intelligence by partner agencies

4.14 Three of the domestic partner agencies (ATO, DHS–Centrelink and Customs and Border Protection) consulted by the ANAO advised that they are able to quantify the use and value of AUSTRAC's financial intelligence to their own agency's operations or investigations. However, four agencies (AFP, ASIO, Victoria Police and ACC) were not in a position to do so. In particular, AUSTRAC's law enforcement partner agencies, such as the AFP, Victoria Police and the ACC, indicated that they could not immediately ascertain if an AUSTRAC financial intelligence report or assessment contributed to, or was

¹⁵² One quarterly report (from the Child Support Agency, CSA, for July–September 2011) detailed the number of active CSA users of the AUSTRAC database and audits conducted to detect instances of non-compliance (no instances of non-compliance were detected by CSA).

¹⁵³ AUSTRAC advised that the main purpose of the new 'domestic request form' is to provide a structured template for partner agencies to make a formal request for AUSTRAC analysis, and to provide all the information that AUSTRAC requires to conduct such analysis (including a general overview of the case, such as the crime type) and the agency point of contact details. The 'single feedback form' is used to gather information on the quality of the written intelligence products produced by AUSTRAC analysts. It is also a mechanism by which AUSTRAC receives information on partner agency investigations that have been supported by AUSTRAC, including any charges or convictions obtained. The 'reason for access' function is intended to provide a better ability to monitor and audit searches conducted by users of the AUSTRAC database.

the catalyst for, an investigation resulting in a prosecution, as it could take months, if not years, for these matters to be resolved.¹⁵⁴

4.15 In contrast, the ATO, DHS–Centrelink and most recently, Customs and Border Protection, have built capabilities to link monies recovered, revenue collected and cases that are under investigation or will be investigated by their agencies, to the financial intelligence received from AUSTRAC.

4.16 For example, the ATO provides a quarterly feedback report to AUSTRAC through its *Austracking Newsletter*, which includes: total results for the year to the end of quarter period; comparison of direct results for the last four years; results from AUSTRAC data matching; reported AUSTRAC results to various ATO operations, and more. The newsletter also summarises AUSTRAC’s direct monetary results to the ATO and the completed number of cases. In 2011–12, the ATO reported that AUSTRAC financial intelligence had been used in 3745 cases resulting in the raising of \$252 million of additional revenue from tax assessments.

4.17 Similarly, DHS–Centrelink through its Business Integrity Fraud and Intelligence Branch, provides feedback to AUSTRAC that includes the number of DHS–Centrelink completed investigations directly linked to AUSTRAC data, and the combined value of customer debts being raised and savings to its future outlay. In 2011–12, DHS–Centrelink was able to report to AUSTRAC that their financial intelligence had been used in 973 cases with total annualised savings of \$3.1 million.

4.18 Customs and Border Protection also provide feedback to AUSTRAC, particularly on proactive SMRs and financial intelligence assessments. In early 2012, Customs and Border Protection created its National Assessments and Prioritisation Team, and has since provided to AUSTRAC regular feedback on: the number of cases the agency has created based on the SMRs or assessments received; and direct linkages of AUSTRAC information to its current cases, investigations and operations. For example, for the month of June 2012, Customs and Border Protection were able to report to AUSTRAC that it had assessed 102 SMRs and intelligence assessments and created 11 cases as a result, and that it had 16 current cases with SMRs attached.

¹⁵⁴ AUSTRAC advised that while law enforcement agencies find it difficult to quantify operational matters which involve AUSTRAC information, they have provided examples for publication, in the yearly *Typologies and Case Studies* on how AUSTRAC information ‘fed into successful operations’.

Partner agencies' acceptance rates

4.19 There are also benefits in AUSTRAC measuring partner agencies' acceptance of proactive disseminations.¹⁵⁵ The acceptance rate is one possible measure of determining the usefulness of AUSTRAC financial intelligence to a partner agency. However, AUSTRAC is not able to accurately gauge or measure partner agencies' acceptance rate of proactive disseminations. Partner agencies have also advised the ANAO that they are not always able to accept referrals or proactive assessments disseminated by AUSTRAC because of resource constraints or other priorities.

Strengthening feedback methodologies

4.20 While sound in concept, the present low rates of return for both feedback forms and quarterly feedback reports limits their usefulness to AUSTRAC as a source of management and performance information, and AUSTRAC presently does not actively analyse the feedback received. There would be merit in AUSTRAC reviewing its approach to gathering structured feedback from partner agencies and considering alternatives for measuring the use, value, quality and relevance to partner agencies of its financial intelligence. One possible alternative approach to strengthen feedback methodologies would be for AUSTRAC to conduct an annual high-level survey, similar to those conducted by law enforcement agencies, to assist in gathering information on the useability and quality of its financial intelligence as a whole.¹⁵⁶ An annual FIU survey could include:

- the use, value, quality and relevance of AUSTRAC FIU's financial intelligence; and
- the effectiveness of AUSTRAC's support (for example, the ASLOs) of, and relationship with, domestic partner agencies.

While there is a balance to be struck between the costs and benefits of obtaining performance information, such information would assist AUSTRAC

¹⁵⁵ In this context, the 'acceptance' of a proactive dissemination refers to partner agency investigations or operations which are initiated as a consequence of the financial intelligence provided by AUSTRAC, as well as when the financial intelligence is retained by the partner agency for intelligence purposes.

¹⁵⁶ AUSTRAC does not conduct regular surveys of its partner agencies to gauge the efficiency and effectiveness of the intelligence products and services it provides. In 2007, as part of AUSTRAC's three-year Internal Audit Plan, a private consulting firm conducted, on behalf of the agency, an AUSTRAC Partner Agency Feedback Survey that measured the effectiveness of AUSTRAC's partner relationships. The key findings were the partner agencies understood what analysis AUSTRAC could perform, and rated the quality and usability of the assessments favourably. A follow-up survey of partner agency views of AUSTRAC and their financial intelligence has never been conducted.

to better direct the efforts and resources of its FIU, and assist in the measurement and reporting of deliverables and key performance indicators.

Measuring and reporting performance against program deliverables and key performance indicators

4.21 Since 2009–10, all agencies have been required to report in accordance with the Outcomes and Programs framework. A central element of the framework is that entities are required to identify and report against programs that contribute to government outcomes over the Budget and forward years, rather than against output groups that contributed to government outcomes.¹⁵⁷

4.22 Program deliverables are expected to bring about the results outlined in the program objective, which can be identified and measured through the program performance indicators.¹⁵⁸ Reporting on the performance of programs, through the key performance indicators (KPIs), provides an indication of the relative success of particular programs in achieving its objectives.¹⁵⁹

4.23 AUSTRAC's program deliverables and KPIs, as set out in its Portfolio Budget Statements (PBS), have changed over time to reflect the priorities, and the challenges, of the FIU. The ANAO assessed the FIU program deliverables, and AUSTRAC's performance against its FIU KPIs.

FIU program deliverables

4.24 The Department of Finance and Deregulation guidance for entities on the preparation of the information to be contained in the PBS identifies a number of required elements including that:

- agencies are to outline the deliverables that will be produced over the budget and forward years to achieve the program objectives;
- deliverables should be measurable and quantifiable units or activities to allow for consistent estimation over the budget and forward years;

¹⁵⁷ ANAO Report No.5 2011–12, *Development and Implementation of Key Performance Indicators to Support the Outcomes and Programs framework*, p. 15.

¹⁵⁸ Department of Finance and Deregulation's *Guidance for the Preparation of the 2011–12 Portfolio Budget Statements*, March 2011, p. 35.

¹⁵⁹ *ibid.*, p. 37.

- agencies are to detail their deliverables in quantifiable, measurable and consistent units or activities. Estimated results for current year are to be included, along with budget and forward year estimates; and
- deliverables should capture the entirety of the program’s major activities.¹⁶⁰

4.25 The ANAO analysed each of the FIU deliverables against these criteria, as shown in Table 4.3.

Table 4.3

ANAO analysis of AUSTRAC FIU Program Deliverables, 2009–10 to 2011–12

AUSTRAC’s Financial Intelligence Unit objective:				
Countering money laundering and the financing of terrorism and other forms of serious and organised crime through:				
<ul style="list-style-type: none"> • identifying, monitoring and assessing financial transaction reporting to support partner agency and AUSTRAC regulatory priorities and interests; • identifying emerging money laundering and terrorism financing trends; • providing partner agencies access to, and support in the use of, AUSTRAC databases; and • contributing to international efforts directed at AML/CTF, including the international exchange of information with counterpart financial intelligence units and capacity–building assistance for financial intelligence units in Africa, the Asia–Pacific region and elsewhere. 				
Deliverables	Criteria ¹			
	Measureable	Quantifiable	Consistent	Comprehensive ²
1. High level of database availability.	✓	✓	✓	
2. Promote and support partner agency use of AUSTRAC databases and information.	o	o	x	✓
3. Analysis and dissemination of matters of intelligence interest.	o	o	x	

¹⁶⁰ *ibid*, pp. 35–36.

AUSTRAC’s Financial Intelligence Unit objective:				
Countering money laundering and the financing of terrorism and other forms of serious and organised crime through:				
<ul style="list-style-type: none"> • identifying, monitoring and assessing financial transaction reporting to support partner agency and AUSTRAC regulatory priorities and interests; • identifying emerging money laundering and terrorism financing trends; • providing partner agencies access to, and support in the use of, AUSTRAC databases; and • contributing to international efforts directed at AML/CTF, including the international exchange of information with counterpart financial intelligence units and capacity–building assistance for financial intelligence units in Africa, the Asia–Pacific region and elsewhere. 				
Deliverables	Criteria ¹			
	Measureable	Quantifiable	Consistent	Comprehensive ²
4. Feedback on money laundering and terrorism financing methods and risk to reporting entities.	✓	✓	✓	
5. International relationships established and strengthened.	✓	✓	✓	

Source: AUSTRAC’s performance deliverables are listed in the Attorney-General Department’s Portfolio Budget Statement 2011–12, p. 259.

Notes: The criteria was: ✓ = fully met; O = partially met; ✗ = not met.

¹The Criteria are based on the Department of Finance and Deregulation’s *Guidance for the Preparation of the 2011–12 Portfolio Budget Statements*, March 2011, pp. 35–36.

² The ‘comprehensive’ criteria refers to the entire suite of Program Deliverables.

Assessment of FIU Program Deliverables

4.26 As shown in Table 4.3, program deliverables one, four and five met the criteria for being measurable, quantifiable and consistent from 2009–10 to 2011–12. The FIU was able to determine the units (that is, the percentages and number) and used these to assess the program’s efficiency. Program deliverables two and three partially met the criteria for being measurable and quantifiable. AUSTRAC quantified these for some years, but not for others. For example, training and awareness sessions for program deliverable two were measured and quantified for 2009–10 and 2010–11, but not for 2011–12. There

has also been varied reporting of these deliverables over the reported years.¹⁶¹ All deliverables met the criterion of comprehensiveness as they capture the entirety of the FIU's major activities, as defined in the FIU objective.

FIU Key Performance Indicators (KPIs)

4.27 A required element of the Outcomes and Programs Framework introduced in 2009–10 is the use of KPIs that enable the measurement and assessment of the achievement of the program objectives in support of respective outcomes.¹⁶² Under the framework, KPIs are not measures of the inputs to a program, or their outputs. Rather, they are:

... the basis on which to assess the effectiveness of the program in achieving its objectives and involve measuring the impacts of these activities on the target group.¹⁶³

4.28 The ANAO developed criteria used to evaluate the appropriateness of Australian Government entities' KPIs, and the completeness and accuracy of their reporting as part of its KPI audit pilot project.¹⁶⁴ Appropriate KPIs will demonstrate relevance, reliability and completeness. Table 4.4 outlines the ANAO's analysis of the AUSTRAC FIU's KPIs for 2011–12 against these criteria.

¹⁶¹ For example, for Program Deliverable 3, 'analysis and dissemination of matters of intelligence interest', the reporting in 2009–10 related to a target number of intelligence products, whereas the subsequent years, 2010–11 and 2011–12, related to a target number of intelligence disseminations.

¹⁶² ANAO Report No.5 2011–12, *Development and Implementation of Key Performance Indicators to Support the Outcomes and Programs framework*, p. 47.

¹⁶³ Department of Finance and Deregulation, *Guidance for the Preparation of the 2011–12 Portfolio Budget Statements*, March 2011, p. 29.

¹⁶⁴ *ibid*, p. 62. The requirements of the Australian Standard on Assurance Engagements (ASAE) 3000 *Assurance Engagements other than Audits or Reviews of Historical Financial Information* and other relevant standards and guidance were considered in the development of the audit criteria.

Table 4.4

ANAO analysis of AUSTRAC FIU key performance indicators, 2009–10 to 2011–12

Financial Intelligence Unit’s key performance indicators:						
The provision of financial intelligence to AUSTRAC’s partner agencies and counterpart financial intelligence units, coupled with technical assistance and training, leads to success in countering money laundering and terrorism financing as demonstrated through:						
<ul style="list-style-type: none"> ongoing value to partner agency and taskforce operations of financial intelligence products produced by AUSTRAC; increased targeted financial intelligence exchange which indicates the effectiveness of AUSTRAC’s international exchange instruments and the value of financial intelligence; and the effectiveness of AUSTRAC’s international technical assistance and training, as measured by the internationally accepted indicator of delivered outcomes against agreed program objectives and budget. 						
Key performance indicators	Criteria ¹					
	Relevant		Reliable		Complete ²	
	Focused	Understandable	Measureable	Free from bias	Balanced	Collective
1. Value of AUSTRAC information and financial intelligence to partner agency and taskforce operations.	✓	✓	o	o	o	
2. Increased financial intelligence exchange with foreign financial intelligence units.	o	o	o	o		
3. International technical assistance and training builds capacity of recipient financial intelligence units and other stakeholders to meet international standards.	✓	✓	✓	✓		

Source: AUSTRAC’s key performance indicators are listed in the Attorney-General Department’s Portfolio Budget Statement 2011–12, p. 260.

Notes: The criteria was: ✓ = fully met; o = partially met; ✗ = not met.

¹The Criteria are based on the ANAO draft Criteria for the assessment of the appropriateness of the KPIs.

² The ‘complete’ criteria refers to the entire suite of key performance indicators.

Assessment of the FIU key performance indicators and its reported performance

4.29 As shown in Table 4.4, the AUSTRAC FIU KPI relating to the ‘value of AUSTRAC information and financial intelligence to partner agency and taskforce operations’ meets the criterion for being relevant, and partially meets the criterion for reliability. The KPI assists in informing whether the FIU objective is being achieved. However, it does not capture the full extent of the value of the AUSTRAC information to partner agencies, as some partner agencies are not able to quantify the importance of AUSTRAC’s financial intelligence.

4.30 The KPI relating to ‘increased financial intelligence exchange with foreign financial intelligence units’ partially meets the criteria for being relevant and reliable. However, it is not apparent whether a consistent ‘increase’ in the exchange of financial intelligence is, on its own, an appropriate indicator of AUSTRAC’s performance. In addition, it is not clear whether meeting the unpublished target number of intelligence exchanges with foreign FIUs, which is 200 for each year in the period examined, is indicative of good performance. For example, a decrease in the number of intelligence exchanges with foreign FIUs does not necessarily equate to a poor performance by the AUSTRAC FIU, as an exchange of financial intelligence internationally is reliant on the number of financial assessments made, in any given year, that may be requested or deemed relevant (or not) to an international FIU.

4.31 The KPI relating to ‘international technical assistance and training builds capacity of recipient financial intelligence units and other stakeholders to meet international standards’, meets the criteria for relevance and reliability. It provides sufficient information and allows for results to show trends when measured over time.

4.32 Collectively, while the three KPIs were relevant to the FIU program objective, they were not complete, in that they only addressed two of the four specified activities. Consequently, the activities relating to ‘identifying emerging money laundering and terrorism financing trends’ and ‘providing partner agencies access to, and support in the use of, AUSTRAC databases’ are not addressed in the KPI framework.

4.33 In addition, Australian Government agencies are required to publish, as part of their annual report, results for all performance indicators included in agencies' budget statements, and a review of their performance in relation to the performance indicators.¹⁶⁵ In practice, AUSTRAC has only specified the target for its FIU KPIs when reporting the outcome (in the annual reports) and not before (in the PBS). It is generally accepted better practice that targets be included in the PBS to provide transparency and accountability, particularly for targets that are quantifiable. For example, the target of '200 intelligence exchanges' for KPI three was only stated in the annual reports and not in AUSTRAC's PBS for the three years examined.

4.34 AUSTRAC advised that it is planning to review the FIU's KPIs, however, at the time of the audit, the terms of reference for this review were yet to be determined.

Conclusion

4.35 AUSTRAC employs a number of methodologies for engaging with partner agencies to identify their needs and requirements. Arrangements are in place to obtain feedback from agencies about the specific contribution of AUSTRAC's financial intelligence to their operations and investigations. These arrangements included acknowledgement receipts and feedback forms on individual disseminations and more general quarterly feedback reports on the usefulness of AUSTRAC information. For the period 2011–12, the return rate of acknowledgement receipts and feedback forms was 16 per cent, with only 242 acknowledgement receipts and feedback forms returned by domestic partner agencies from 1513 intelligence disseminations. Some AUSTRAC officers and partner agencies advised that they saw little value in the forms, and AUSTRAC's analysis of those forms that were returned was poor.

4.36 For the period 2011–12, the ANAO analysis showed that a total of only eight quarterly feedback reports were provided to AUSTRAC by its 39 partner agencies. While all eight reports provided positive feedback, the majority (five) were of an operational nature, detailing the specific outcomes of individual assessments. Only three reports, all from the ATO, provided the more general statistical and qualitative feedback expected from the quarterly reporting process. In March 2013, AUSTRAC advised that other feedback mechanisms

¹⁶⁵ Department of Prime Minister and Cabinet, *Requirements for Annual Reports for Departments, Executive Agencies, and FMA Act Bodies*, 28 June 2012, p.6, available from <http://www.dpmc.gov.au/guidelines/> [accessed 15 February 2012].

such as a new domestic request form, a single feedback form, and the 'reason for access' function have replaced the quarterly feedback reports.

4.37 The ANAO consulted with seven of AUSTRAC's key domestic partner agencies (ATO, DHS–Centrelink, Customs and Border Protection, AFP, ACC, ASIO and Victoria Police) regarding AUSTRAC's relationship management, financial intelligence products and support. The responses that the ANAO received were overwhelmingly positive.

4.38 The ATO and DHS–Centrelink have reported using AUSTRAC's financial intelligence in more than 2700 cases in 2011–12, resulting in savings of more than \$255 million. In 2012, Customs and Border Protection started quantifying the number of cases (or agency investigations) that are linked to AUSTRAC financial intelligence. Other agencies, particularly the law enforcement partner agencies, such as the AFP, Victoria Police and the Australian Crime Commission consider that they could not immediately ascertain if an AUSTRAC financial intelligence report or assessment contributed to, or was the catalyst for, an investigation resulting in a prosecution, as it could take months, if not years, for these matters to be resolved.

4.39 AUSTRAC's Program Deliverables and key performance indicators (KPIs), as set out in its Portfolio Budget Statements (PBS), have changed over time to reflect the priorities, and the challenges, of the FIU. AUSTRAC's program deliverables adequately captures the FIU's major activities. AUSTRAC has also developed three KPIs that are intended to enable the measurement and assessment of the achievement of the activities underpinning the FIU's program objective in support of its respective outcomes. Collectively, while the three KPIs were relevant to the FIU program objective, they were not complete, in that they only addressed two of the four specified activities. Consequently, the activities relating to 'identifying emerging money laundering and terrorism financing trends' and 'providing partner agencies access to, and support in the use of, AUSTRAC databases' are not addressed in the KPI framework.

4.40 In addition, the performance targets for the FIU's KPIs were not included in AUSTRAC's PBS, and only disclosed when reporting performance in its Annual Reports. It is generally accepted better practice that targets be included in the PBS so as to provide transparency and accountability, particularly to assist in Parliamentary scrutiny. AUSTRAC advised that it is planning to review the FIU's KPIs. In conducting this review, it would also be

appropriate for AUSTRAC to focus its KPIs on the impact of its FIU program by aligning the indicators with the program objective, and setting appropriate performance targets.

Recommendation No.3

4.41 To provide greater assurance and transparency to its public reporting, the ANAO recommends that AUSTRAC:

- reviews its approach to gathering structured feedback from partner agencies and considers alternatives for measuring the use, value, quality and relevance of AUSTRAC's financial intelligence; and
- develops appropriate key performance indicators and targets to measure whether the objectives of the FIU program are being met and regularly report against these.

AUSTRAC's response:

4.42 *Agreed. AUSTRAC will take a number of steps to improve feedback from its partner agencies. The review of its MOUs with partner agencies will include an examination of mechanisms for strengthening the feedback provisions in those instruments. AUSTRAC will also conduct a client survey to gather partner agency feedback on the use, value, quality and relevance of its financial intelligence.*

4.43 *AUSTRAC is currently undertaking a review of the key performance indicators and targets for both its intelligence and regulatory functions. A particular focus of this review will be the development of performance indicators which reflect the intelligence contribution AUSTRAC provides to its domestic and international partners.*



Ian McPhee
Auditor-General

Canberra ACT
18 June 2013

Appendices

Appendix 1: Agency Response

**Australian Transaction Reports
and Analysis Centre**
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OFFICE OF THE CHIEF EXECUTIVE OFFICER

30 May 2013

Mr Ian McPhee PSM
Auditor-General
Australian National Audit Office
GPO Box 707
Canberra ACT 2601

Dear Mr McPhee

Re: ANAO Performance Audit – Australian Transaction Reports and Analysis Centre's (AUSTRAC) administration of its financial intelligence function

Thank you for the opportunity to comment on the ANAO's draft performance audit report.

I welcome the report's overall conclusions that AUSTRAC's financial intelligence is highly valued both domestically and internationally and that the agency has well established and sound arrangements for processing and disseminating that intelligence.

These conclusions recognise the considerable effort and resources which AUSTRAC has invested in establishing a strong governance framework to manage and protect its data holdings and intelligence products. They also reflect the unique contribution which AUSTRAC's financial intelligence makes to its domestic and international partners in combating money laundering, terrorism financing and other serious crime.

The draft report and its recommendations provide valuable guidance on measures which will further strengthen the agency's governance and operational procedures. AUSTRAC's formal response to the report is attached.

On behalf of AUSTRAC, I would like to take this opportunity to thank the ANAO for its constructive engagement during the audit process. In particular, I would like to acknowledge the work of Dr Tom Clarke and the audit team, Ms Celine Roach and Ms Megan Reinhard.

Yours sincerely



John L Schmidt
CHIEF EXECUTIVE OFFICER

Response to ANAO Performance Audit – Australian Transaction Reports and Analysis Centre’s (AUSTRAC) administration of its financial intelligence function

AUSTRAC welcomes the ANAO audit report on the administration of the agency’s financial intelligence function. The report notes the unique contribution which AUSTRAC’s financial intelligence makes to our domestic and international partners in combating money laundering, terrorism financing and other serious crime. Further, the report notes that the agency has mature arrangements to process assessments and to disseminate financial intelligence reports to domestic partner agencies and international counterparts, and that there is a sound quality assurance mechanism in place for its financial intelligence reports.

Having said this, the report also finds that there is room for AUSTRAC to strengthen the administration of its financial intelligence function. The recommended actions contained in the report provide valuable guidance on further measures to enhance the agency’s governance and operational procedures. AUSTRAC agrees with the report’s recommendations and notes the following:

- In the 2013-14 budget, the Government announced funding of \$16.1 million over four years for AUSTRAC to establish a new off-site primary data centre. Commissioning of the new data centre will occur during the 2013-14 financial year and it is expected to be fully operational by 30 June 2014. The new data centre will greatly enhance the security and resilience of AUSTRAC’s critical data assets.
- AUSTRAC’s work program for 2013-14 includes the review and re-negotiation of MOUs with its domestic partner agencies. Updated MOUs, combined with the introduction of enhanced audit and security measures under the agency’s new Enhanced Analytical Capability (EAC) system, will significantly improve the overall framework for protecting AUSTRAC information and monitoring the use of that intelligence by partner agency personnel.
- AUSTRAC is to conduct a review of selected partner agencies’ records relating to the further dissemination of AUSTRAC information by those agencies.
- The new EAC system will provide more sophisticated tools for managing and analysing the large data volumes which AUSTRAC receives. Limitations in AUSTRAC’s existing ‘legacy’ analytical systems have constrained its ability to process growing data volumes and meet increasing demands for more sophisticated intelligence products. EAC will also give AUSTRAC the capability to establish new performance targets for monitoring, and reporting on, the processing of data and generation of intelligence assessments.
- To reflect the recent bringing together in one business division of the agency’s intelligence, compliance and supervision functions, AUSTRAC is to review its standard operating procedures (SOPs). This review will take into consideration observations regarding these SOPs made by the ANAO in its report.
- AUSTRAC will conduct a client survey to gather partner agency feedback on the use, value, quality and relevance of its financial intelligence.
- AUSTRAC is currently undertaking a review of the key performance indicators and targets for both its intelligence and regulatory functions. A particular focus of this review will be the development of performance indicators which reflect the intelligence contribution AUSTRAC provides to its domestic and international partners.

Responses to the recommendations in the ANAO Performance Audit – Australian Transaction Reports and Analysis Centre’s (AUSTRAC) administration of its financial intelligence function.

Recommendation No. 1 – that AUSTRAC reviews the accountability clauses in its agreements with partner agencies, and takes steps to exercise its rights to periodically review access to, and further disseminations of, AUSTRAC data by partner agency personnel

Agreed. As part of its 2013-14 program for introducing the new Enhanced Analytical Capability (EAC) system, AUSTRAC will review and re-negotiate its MOUs with domestic partner agencies. EAC will provide strengthened audit and security capabilities to bolster the protection of AUSTRAC data holdings and the safeguards governing the use of that data by partner agency personnel. These MOUs will also be updated to reflect the recently introduced ‘reason for access’ controls with which partner agency personnel must comply when accessing AUSTRAC data. In addition, AUSTRAC will conduct a review of selected partner agencies’ records relating to the further dissemination of AUSTRAC information by those agencies.

Recommendation 2 – that AUSTRAC establishes and monitors performance against processing time targets for financial intelligence reports, and monitors and reports on processing backlogs for key intelligence assessments, drawing management attention to delays for high priority reports

Agreed. The new EAC system will provide more sophisticated tools for managing and analysing the large data volumes which AUSTRAC receives. This will also give AUSTRAC the capability to establish new performance targets for monitoring, and reporting on, the processing of data and generation of intelligence assessments.

Recommendation 3 – that AUSTRAC review its approach to gathering structured feedback from partner agencies and considers alternatives for measuring the use, value, quality and relevance of AUSTRAC’s financial intelligence, and develops appropriate key performance indicators and targets

Agreed. AUSTRAC will take a number of steps to improve feedback from its partner agencies. The review of its MOUs with partner agencies will include an examination of mechanisms for strengthening the feedback provisions in those instruments. AUSTRAC will also conduct a client survey to gather partner agency feedback on the use, value, quality and relevance of its financial intelligence.

AUSTRAC is currently undertaking a review of the key performance indicators and targets for both its intelligence and regulatory functions. A particular focus of this review will be the development of performance indicators which reflect the intelligence contribution AUSTRAC provides to its domestic and international partners.

Appendix 2: Transaction Report Types

Table A.1

Summaries of the report types AUSTRAC receives and analyses.

Report Type	Description
International funds transfer instruction (IFTI) reports	<p>Under the AML/CTF Act, if a reporting entity sends or receives an instruction to or from a foreign country, to transfer money or property, that entity must submit an IFTI report.</p> <p>IFTI reports were also previously required to be submitted under the FTR Act.</p>
Suspicious matter reports (SMRs)	<p>Under the AML/CTF Act, a reporting entity must submit an SMR if, at any time while dealing with a customer, the entity forms a reasonable suspicion that the matter may be related to an offence, tax evasion, or the proceeds of crime. Entities must submit SMRs to AUSTRAC within three days of forming the suspicion (or within 24 hours for matters related to the suspected financing of terrorism).</p> <p>SMRs were introduced in December 2008 and for most entities, SMRs have replaced suspect transaction reports (SUSTRs), which are submitted by entities regulated under the FTR Act.</p>
Threshold transaction reports (TTRs)	<p>Under the AML/CTF Act, if a reporting entity provides a designated service to a customer involving the transfer of physical currency (or e-currency) of AUD10 000 or more (or the foreign currency equivalent), then the reporting entity must submit a TTR.</p> <p>For most entities, TTRs (introduced in December 2008) have replaced significant cash transaction reports (SCTRs), which are submitted by entities regulated under the FTR Act.</p>
Cross-border movement of physical currency (CBM-PC) reports	<p>Under the AML/CTF Act, CBM-PC reports are submitted when currency (coin or paper money) of AUD10 000 or more (or the foreign currency equivalent) is carried, mailed or shipped into or out of Australia.</p> <p>When a person carries the currency, a CBM-PC report must be completed at the first Customs and Border Protection examination area upon entry into Australia or before leaving Australia. When a person mails or ships the currency into or out of Australia, a CBM-PC report must be submitted within five business days of the currency being received in Australia, or at any time before the currency is sent out of Australia.</p> <p>In December 2006, CBM-PC reports replaced international currency transfer reports (ICTRs), which were submitted by entities regulated under the FTR Act.</p>
Cross-border movement of bearer negotiable instrument (CBM-BNI) reports	<p>Under the AML/CTF Act, CBM-BNI reports must be completed by persons entering or leaving Australia who are carrying bearer negotiable instruments (such as travellers cheques, cheques or money orders) of any amount, if asked by a Customs and Border Protection or police officer to complete such a report.</p>

Source: AUSTRAC Annual Report 2011–12, pp.30–31.

Appendix 3: Domestic partner agencies

Table A.2

AUSTRAC domestic partner agencies

Australian Government agencies		
Australian Commission for Law Enforcement Integrity	Australian Competition and Consumer Commission	Australian Crime Commission
Australian Customs and Border Protection Service	Australian Federal Police	Australian Prudential Regulation Authority
Australian Secret Intelligence Service	Australian Securities and Investments Commission	Australian Security Intelligence Organisation
Australian Taxation Office	Defence Imagery and Geospatial Organisation	Defence Intelligence Organisation
Defence Signals Directorate	Department of Foreign Affairs and Trade	Department of Human Services
Department of Immigration and Citizenship	Foreign Investment and Trade Policy Division, Department of Treasury	Inspector-General of Intelligence and Security [^]
Office of National Assessments		
State and Territory agencies		
ACT Revenue Office	Corruption and Crime Commission (WA)	Crime and Misconduct Commission (QLD)
Independent Commission Against Corruption (NSW)	New South Wales Crime Commission	Northern Territory Police
NSW Office of State Revenue	NSW Police Force	Office of State Revenue (QLD)
Office of State Revenue (WA)	Police Integrity Commission (NSW)	Queensland Police Service
Revenue SA	South Australia Police	State Revenue Office (TAS)
State Revenue Office (VIC)	Tasmanian Police	Territory Revenue Office (NT)
Victoria Police	Western Australia Police	

Source: AUSTRAC Annual Report 2011–12, p.173

Note: ^ Special partner agency only able to access AUSTRAC information for auditing purposes.

Appendix 4: International partner counterparts

Table A.3

AUSTRAC international exchange agreements, as of 18 March 2013

Countries with an agreement to exchange financial intelligence					
Albania	Argentina	Armenia	Bahamas	Belgium	Bermuda
Brazil	British Virgin Islands	Bulgaria	Canada	Cayman Islands	Chile
Colombia	Cook Islands	Croatia	Cyprus	Czech Republic	Denmark
Egypt*	Estonia	Fiji	France	Germany	Guatemala
Guernsey	Hong Kong	India	Indonesia	Ireland	Isle of Man
Israel	Italy	Japan	Korea (Republic of)	Latvia	Lebanon
Macedonia	Malaysia	Marshall Islands	Mauritius	Mexico	Netherlands
New Zealand	Norway	Panama	Philippines	Poland	Portugal
Romania	Saint Kitts and Nevis	Serbia*	Singapore	Slovakia	Slovenia
South Africa	Spain	Sri Lanka	Sweden	Thailand	Turkey
Ukraine	United Kingdom	United States of America	Vanuatu	Venezuela	
Countries with an agreement to exchange regulatory information					
Canada					

Source: AUSTRAC Annual Report 2011–12, p.81 and AUSTRAC website <http://www.austrac.gov.au/exchange_instruments.html> [accessed on 8 January 2013].

Note: * MOU with Egypt was signed on 29 August 2012, and the MOU with Serbia was signed on 31 July 2012.

Appendix 5: Financial transaction reports, 2007–08 to 2011–12 (number)

	2007–08	2008–09	2009–10	2010–11	2011–12
Financial transaction reports					
International funds transfer instruction	14 963 719	16 325 870	18 095 756	35 666 743	53 770 266
Suspicious matters reports / suspect transaction reports	29 089	32 449	47 386	44 775	48 155
Threshold transaction reports / significant cash transaction reports	2 934 955	3 373 280	3 375 447	8 325 621	5 395 630
SUB-TOTAL	17 927 763	19 731 599	21 518 589	44 037 139	59 214 051
Cross-border movements					
Cross-border movement of physical currency	36 131	38 669	35 527	30 342	29 525
Cross-border movement of bearer negotiable instrument*	1 479	1 635	918	850	659
SUB-TOTAL	37 610	40 304	36 445	31 192	30 184
TOTAL	17 965 373	19 771 903	21 555 034	44 068 331	59 244 235

Source: AUSTRAC Annual Report 2011–12, pp.32–33.

Notes: The 2010–11 figures include reporting by PayPal and Western Union who previously had not reported to AUSTRAC, and they also submitted reports from previous years. AUSTRAC attributes the spike in threshold transaction reports in 2010–11 to this back capture.

* CBM-NBI reports need to be submitted on request only.

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Developing and Managing Internal Budgets	Jun 2008
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