Australian Taxation Office

INCOME MATCHING SYSTEM

Performance Audit

Background

This is a report of an audit by the ANAO of the Australian Taxation Office's Income Matching System (IMS). The IMS is a computer-based system which identifies discrepancies between information in tax returns and external data. The main income types covered are dividends, interest, wages and salaries, pensions and benefits and prescribed payments. It also generates unmatched data and cases where assessments have not yet been issued.

At the time of the ANAO audit, income matching audits were conducted as part of the Primary Audit function.

The ANAO reviewed a number of ATO completed income matching audit cases. The standard of case work of the sample examined was generally good and decisions were found to be well supported.

Report Summary

Since the late 1970s, the ATO has been developing systems capable of comparing income data received from external sources with income reported by taxpayers in their returns.

The establishment of the Tax File Number (TFN) system in 1989, by introducing a procedure for taxpayers to supply their TFNs to financial institutions and employers, has improved ATO's ability to identify (or match) external data with taxpayers' returns. A purpose of the TFN legislation is "to increase the effectiveness and efficiency of the matching of information contained in reports given to the Commissioner of Taxation".

The environment affecting income matching has changed rapidly during the last decade and there is a focus on protecting taxation revenue by encouraging taxpayers to comply voluntarily with the taxation law.

Taxpayer compliance

Improved taxpayer compliance is the ATO's principal goal. The ANAO considers that more extensive compliance research would add value to the focus of the income matching program, especially in coming years as the work mix moves away from emphasis on interest cases. New information technology will enable the ATO to conduct audits at a more economic cost on an increasing range of taxpayers.

Information technology

Data is received from external organisations on paper as well as by various electronic media. Not all financial institutions are able to provide data in a form which facilitates accurate matching of their records with the taxpayer's return. Bulk data received from financial institutions on paper is not economic for ATO to process.

A problem with physical management of disks, tapes and cartridges arriving at the ATO has been addressed but there is still need for improvement in checks aimed at ensuring completeness in data received and matched.

Management information systems

The proactive nature of the tax audit process and the capability to determine priorities and workload heighten the need for systems which facilitate a rational allocation of resources between activities.

The ANAO suggests that management information systems require enhancement to ensure branch accountability for performance, especially in terms of productivity. Although Primary Audit has implemented measures to improve productivity, it lacked a reliable system for recording resource usage and monitoring productivity by branch and task.

Internal controls

Specific risks identified by the ATO and the ANAO included opportunities for manipulating data criteria to influence the selection of taxpayers or agents for audit. In the ANAO's view, procedures in place did not provide an assurance that internal manipulation would be detected or prevented and some procedural improvements were suggested at minimal cost.

The ATO advised that it had evaluated the risks of fraudulent staff behaviour and, given factors such as supervisory review, relatively low values involved and a need for staff collusion, the control environment was appropriate for the circumstances.

Case selection and allocation

Income matching cases were being selected from a narrow range of the data available. The ANAO suggests that there is a need for research aimed at examining this issue more closely and developing strategies for dealing with obstacles to using additional IMS data categories.

The ANAO estimated that about $4m to $7m may remain uncollected from 1992 IMS spouse rebate and dividend and interest cases.

Quality assurance

In 1991 the Primary Audit Group introduced a Quality Assurance (QA) system, intended to provide management at branch and national level with information regarding the quality of work performed. The ANAO suggests that the work done has been useful but requires further development if it is to deliver the anticipated outcomes.

Staff training and development

The ATO has a competency-based training system. Although the ANAO found the training system to be sound in principle, there was a need for it to be better implemented; for example the effectiveness of the training has not been evaluated nor appropriate performance indicators established.

Conclusion

The report was prepared taking into account comments from the ATO. The ATO staff were very cooperative in offering positive and responsive comments and in taking early remedial action when identified. The report made fifteen recommendations, the majority of which the ATO accepted either in whole or in part.