

The Auditor-General
Audit Report No.47 2004–05
Performance Audit

Australian Taxation Office Tax File Number Integrity

Australian National Audit Office

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Canberra ACT
31 May 2005

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in the Australian Taxation Office in accordance with the authority contained in the *Auditor-General Act 1997*. I present the report of this audit and the accompanying brochure to the Parliament. The report is titled *Australian Taxation Office Tax File Number Integrity*.

Following its tabling in Parliament, 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', is positioned above the printed name.

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

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Abbreviations

AAO	Administrative Arrangements Order
ABA	Australian Bankers' Association
ABN	Australian Business Number
ABR	Australian Business Register
ACC	Australian Crime Commission
ACN	Australian Company Number
AFP	Australian Federal Police
AGD	Attorney-General's Department
AGP	Assessable Government Payment
AIIR	Annual Income and Investment Report
AIS	ATO Integrated System
ANAO	Australian National Audit Office
APMC	Australasian Police Ministers Council
ATOMS	ATO Matching System
ASIC	Australian Securities and Investment Commission
ATO	Australian Taxation Office
ATSI	Aboriginal and Torres Strait Islander
ATSIC	Aboriginal and Torres Strait Islander Commission
AUSTRAC	Australian Transaction Reports and Analysis Centre
BAS	Business Activity Statement
BDM	Birth, Deaths and Marriages
CGT	Capital Gains Tax
CKO	Chief Knowledge Officer
CRGoIF	Commonwealth Reference Group on Identity Fraud
CSN	Client Service Number
CVS	Births, Deaths and Marriages Certificate Validation Service
DHS	Department of Human Services
DIMIA	Department of Immigration and Multicultural and Indigenous Affairs
DMSC	Data Matching Steering Committee
DSD	Defence Signals Directorate
DVS	Document Verification Service

DVA	Department of Veterans' Affairs
ECMP	Easier, Cheaper and More Personalised Program
FACS	Department of Family and Community Services
FTR Act	<i>Financial Transaction Reports Act 1988</i>
FTR	Financial Transaction Reports
GST	Goods and Services Tax
HIA	<i>Health Insurance Act 1973</i>
HIC	Health Insurance Commission
HOCOLEA	Heads of Commonwealth Operational Law Enforcement Agencies Forum
HoRSCEFPA	House of Representatives Steering Committee on Economics, Finance and Public Administration
IAR	Integrated Auto Registration
ICRU	Identity Crime Research Unit
ID	Identification
IT	Information Technology
ITAA	<i>Income Tax Assessment Act 1936</i>
IMSC	Information Management Strategy Committee
IRW	Investment and Royalties Withholding Taxes Branch
NSW	New South Wales
NTS	National Taxpayers' System
OPA	Output Pricing Agreement
PoI	Proof of Identity
POISC	AUSTRAC Proof of Identity Steering Committee
Ptax	Personal Taxation business line
SCAG	Standing Committee of Attorneys-General
SEP	Schools Education Program
SIRCA	Securities Industry Research Centre of Asia-Pacific
SNC	Serious Non Compliance
SPR	Superannuation business line
TFN	Tax File Number
TFNII	Tax File Number Integrity Improvement
USA	United States of America

Summary and Recommendations

Summary

Background

1. A Tax File Number (TFN) is an eight or nine digit number that is issued to an individual or a business by the Commissioner of Taxation. The TFN was originally intended to be a high integrity, unique identifier, enabling improved controls over the Australian Taxation Office's (ATO) income matching system.
2. The TFN system¹ was designed to improve compliance in taxation and government payments systems, and improve service and administrative efficiency, whilst maintaining privacy. The TFN system has been significantly and progressively extended since its inception, both for taxation and broader whole-of-government purposes. For example, Centrelink is authorised to use TFNs to verify client identity and establish income levels, and a TFN is required for the Higher Education Contribution Scheme.
3. On 29 April 1999 the Auditor-General's Report No.37 of 1998–99, *The Management of Tax File Numbers* (Report No.37), was tabled in the Parliament. The House of Representatives Standing Committee on Economics, Finance and Public Administration (the Committee) subsequently reviewed this report. The Committee's report, *Numbers on the Run*, was tabled on 28 August 2000 (*Numbers on the Run*). One of the Committee's recommendations was that the Auditor-General conduct a follow-up performance audit of the ATO's management of the TFN system.

The Previous Audit: Report No.37

4. Report No.37 reviewed how effectively and efficiently the ATO administered the TFN system. ANAO concluded that the ATO's TFN system improved tax effectiveness by enabling the collection of additional revenue. ANAO found that the TFN system also improved administrative efficiency, through the provision of better services at a lower cost.
5. ANAO considered that further gains in the effectiveness and efficiency of the TFN system were achievable, and made seven recommendations aimed at improving the ATO's administration of the TFN system. These recommendations related to TFN system integrity and governance, client service, identity verification and TFN quotation arrangements.

¹ The TFN system is described in detail in Australian National Audit Office Report No.37 of 1998-99 *Management of Tax File Numbers Australian Taxation Office*.

6. The ATO agreed to all recommendations, with some qualification in two instances. The recommendations and the ATO's response at the time are included in Table 1.1 of Appendix 2.

House of Representatives Standing Committee on Economics, Finance and Public Administration Report: *Numbers on the Run*

7. Following the tabling of Report No.37, the Committee undertook a review of the report. As part of its inquiry, the Committee investigated the administrative, policy, and client service issues of TFN management. The Committee also considered a number of broader policy issues and, in particular, looked at the growing problems of identity fraud and illegal work by non-residents. The Committee found that the ATO:

was an organisation that was reactive rather than proactive; where emphasis is placed on strategies that return a short term financial gain rather than ensuring the longer term integrity of the system; and where management philosophies are not well translated through the organisation.²

8. In commenting on its own report, the Committee noted 'This report adds to 15 years of Auditor-General and parliamentary inquiries that have found shortcomings in the quality of the ATO's data and systems'.³ The Committee also observed 'in a general sense the tax revenue system is working well'.⁴ The Committee acknowledged the significant efforts of the ATO in balancing the competing priorities that it has to balance.⁵

9. In its report, *Numbers on the Run*, the Committee made 26 recommendations. The majority of these concurred with, or extended, the recommendations made by the ANAO. The Committee's recommendations were 'aimed at ensuring the ongoing quality and coverage of the TFN system. This is important for the administration of taxation, income support, superannuation and employment generally'.⁶ The Committee considered that the implementation of its recommendations were 'crucial for ongoing community and government confidence in the TFN system as a system that treats people fairly'.⁷ The Committee's recommendations are included in Table 1.2 of Appendix 2.

² *Numbers on the Run* page vii

³ *ibid.*, page vii.

⁴ *Ibid.*, page vii.

⁵ *Ibid.*, page 5.

⁶ *Ibid.*, page viii.

⁷ *Ibid.*, page viii.

10. At the time of this follow-up audit, the Government had not tabled a response to the *Numbers on the Run*. However, the ATO's budget for 2002–03 and 2003–04 included, in total, an additional \$26 million for the implementation of TFN improvements recommended by the two reports. The ATO has advised the ANAO that it spent a further \$4.42 million on TFN improvement initiatives.

11. As indicated in Table 1.2, some of the Committee's recommendations (or their components) have not been actioned by the ATO in the absence of a Government policy direction or because a recommendation (or its component) was addressed to an agency other than the ATO.

Audit objective

12. The objective of this audit was to examine the action taken by the ATO to improve TFN integrity, particularly through the implementation of the recommendations made in:

- Report No.37, taking into account any changed circumstances, or new administrative issues, affecting the implementation of those recommendations; and
- *Numbers on the Run*, taking into account that the Government has not formally responded to the report at this time.

13. The audit also aimed to identify further opportunities for the ATO to improve the effectiveness and efficiency of the TFN system.

14. The report of this audit is necessarily detailed as it considers each of the recommendations and the extent to which they have been implemented.

Audit conclusion

15. The ATO has fully or substantially implemented key recommendations of both reports across business lines, improving the integrity of the TFN system, and, as a result, ATO's administration of taxation. In particular, the ATO has cleansed the tax database substantially, removed extraneous records and upgraded data quality; tightened up identity requirements; brought TFN registration arrangements up to a higher standard; and is undertaking more effective data matching, especially with the use of more extensive third party data sets.

16. These improvements have, in large measure, been achieved as a result of the additional \$30.42 million that the ATO has spent during 2002–2004 on the TFN Integrity Improvement project.

17. Interrelationships between the TFN system and other systems within the ATO still require improvement. The ANAO notes that developments

underway as part of the ATO's Easier, Cheaper and More Personalised Program are, in part, designed to address these.

18. This follow-up audit identified opportunities for the ATO to further improve the effectiveness and efficiency of the TFN system. These include:

- publishing information about the quality of ATO's data;
- raising the standard of the quality of information on the ATO's databases dealing with partnerships, trusts and superannuation;
- enabling anyone to apply for a TFN through Centrelink;
- ensuring that value for money is obtained from the Schools' Education Program administered by the ATO;
- implementing a targeted community education and awareness program aimed at TFN fraud and misuse;
- acting on the risks brought to light in connection with the proposed anti-money laundering reforms and making improved use of Australian Transaction Reports and Analysis centre (AUSTRAC) data as a result; and
- better managing the compliance risks associated with assessable government payments.

19. ANAO has made seven recommendations to achieve these improvements with which the ATO has agreed, but with a qualification in one instance (Recommendation No. 3).

Summary of the ATO's response

20. The Tax Office regards the Tax File Number as the cornerstone of the tax system and acknowledges the important role it plays in administration of wider government revenue systems administered by other agencies. In this regard, the Tax File Number facilitates data matching between the Tax Office and other agencies providing significant revenue and welfare benefits to Government and the community. Recent years have seen significant investment to improve the integrity of the Tax File Number system and to implement the recommendations raised in previous reports prepared by the Australian National Audit Office and the House of Representatives' Standing Committee on Economics, Finance and Public Administration.

21. The Tax Office, Government and community are now benefiting from the substantial progress in improving the integrity of the Tax File Number system. In recognising this performance the Tax Office also acknowledges there are a few remaining issues that continue to be progressed.

22. The Tax Office supports the recommendations resulting from the current audit and will continue to progress initiatives, in a proactive manner, to deliver upon these recommendations and other areas where the potential for improvement is identified. The full text of the ATO's response to the report's recommendations is at Appendix 1.

Recommendations

Set out below are the ANAO's recommendations aimed at improving the integrity of the ATO's TFN system. Report paragraph references and the abbreviated ATO responses are also included. The ANAO considers that the ATO should give priority to Recommendations 1, 2, 6, 7.

Recommendation No.1
Para. 2.47

The ANAO recommends that to improve the transparency of data integrity, the ATO's annual report periodically include an overview about the quality of the ATO's data and strategies being pursued to continuously improve its data quality.

ATO response: Agreed.

Recommendation No.2
Para. 2.94

The ANAO recommends that the ATO improve the quality of the ATO's databases in the areas of partnerships, trusts and superannuation as a matter of priority and bring the integrity of the ATO's databases in these areas up to the ATO's corporate standard.

ATO response: Agreed.

Recommendation No.3
Para. 3.24

The ANAO recommends that the ATO improve client service by actioning the Committee's recommendation to have Centrelink accept TFN applications for non-Centrelink clients and ensuring that the TFN applications received by Centrelink on behalf of the ATO meet ATO requirements for verification of identity, and service standards.

ATO response: Agreed with qualification.

Recommendation No.4
Para. 3.54

The ANAO recommends that the ATO, in the context of its strategic marketing and education framework, review management of the Schools Education Program to ensure that value is achieved from the Program.

ATO response: Agreed.

**Recommendation
No.5
Para. 4.83**

The ANAO recommends that the ATO develop and implement a targeted community education and awareness program aimed at TFN fraud and misuse. This could be achieved by the ATO working with the Commonwealth Reference Group on Identity Fraud to develop a whole-of-government community education and awareness strategy, directed at the prevention of identity fraud.

ATO response: Agreed.

**Recommendation
No.6
Para. 6.64**

The ANAO recommends that, in relation to the additional transactions under consideration for inclusion in broader anti-money laundering legislation that may replace the *Financial Transaction Reports Act 1988*, the ATO:

- evaluate the risks to the integrity of tax administration and to the collection of revenue from those transactions;
- evaluate the extent to which it is able to make better use of the Financial Transaction Reports (FTR) data, including the additional transactions from any extension of FTR coverage, especially by the matching of the expanded financial intelligence information, as a database, against the ATO's databases; and,
- take appropriate measures necessary to make fuller use of the expanded financial intelligence information, within the ATO's overall risk management framework.

ATO response: Agreed.

**Recommendation
No.7
Para. 6.78**

The ANAO recommends that the ATO bring to the attention of Australian Government agencies that make significant Assessable Government Payments (AGPs) or which make AGPs to relatively high risk categories of taxpayers:

- the merits of the use by those portfolios and agencies of the Australia Business Register; and
- the inclusion of Australian Business Numbers on the records of AGPs made by those agencies, having regard to legislative requirements.

ATO response: Agreed.

Audit Findings and Conclusions

1. Background and Context

This chapter provides an overview of the Tax File Number system. It discusses the findings of the previous Australian National Audit Office audit, the House of Representatives Standing Committee on Economics, Finance and Public Administration review, and outlines the audit objectives and methodology.

Introduction

1.1 A Tax File Number (TFN) is an eight or nine digit number that is issued to an individual or a business by the Commissioner of Taxation. The TFN was originally intended to be a high integrity, unique identifier, enabling improved controls over the Australian Taxation Office's (ATO) income matching system.

1.2 The TFN system⁸ was designed to improve compliance in taxation and government payments systems, and improve service and administrative efficiency, whilst maintaining privacy. The TFN system has been significantly and progressively extended since its inception, both for taxation and broader Government policy purposes. For example, Centrelink is authorised to use TFNs to verify client identity and establish income levels. A TFN is also required for the Higher Education Contribution Scheme.

1.3 The TFN system consists of arrangements for:

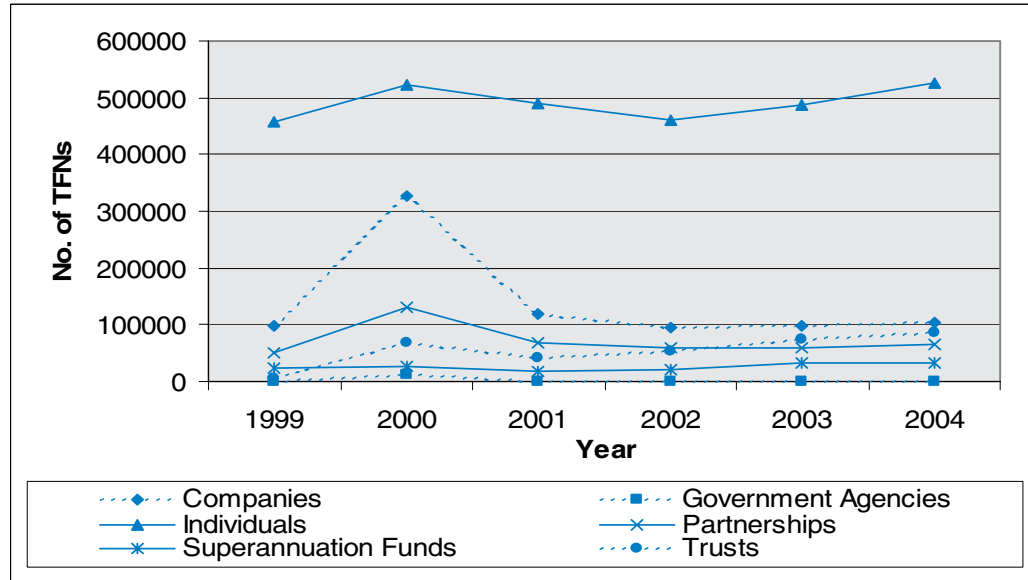
- TFN registration processes (e.g. submission of applications, complete and accurate recording of data, detection and elimination of duplicates, issuing of a single unique TFN);
- the verification of identity;
- internal information matching based on TFNs (in order to improve data quality, and detect, amongst other things, non-disclosure of income); and
- the administration of TFN withholding arrangements.

1.4 The ATO's Compliance Program 2004–05 states that 'correct registration is the basic building block of the revenue system'. Figure 1.1 shows total annual TFN registrations for the years 1999 to 2004 for each of the tax entity types (individuals, partnerships, trusts, companies, superannuation funds, companies and government agencies).

⁸ The TFN system is described in detail in Australian National Audit Office Report No.37 of 1998-99 *Management of Tax File Numbers Australian Taxation Office*, Chapter 1 The TFN System.

Figure 1.1

TFN registrations from 1999 to 2004 for all entity types



Source: ATO

ANAO Report No.37 of 1998–99

1.5 The Australian National Audit Office’s (ANAO’s) performance audit, Auditor-General’s Report No.37 of 1998–99, *The Management of Tax File Numbers* (Report No. 37) sought to determine how effectively and efficiently the ATO administered the TFN system, and to identify opportunities for improvement to that system. We confirmed that the ATO’s TFN system improved tax effectiveness by enabling the collection of additional revenue. The TFN system also improved administrative efficiency, through the provision of better services to clients at a lower cost.

1.6 The ANAO found that further gains in the effectiveness and efficiency of the TFN system were achievable, and made seven recommendations aimed at improving the ATO’s administration of the TFN system. The ATO agreed to all recommendations, with some qualification in two instances. The recommendations and ATO’s response at the time are included in Table 1.1 of Appendix 2.

Numbers on the Run

1.7 Following the tabling of Report No.37, the House of Representatives Standing Committee on Economics, Finance and Public Administration (the Committee) undertook a review of the report. As part of its inquiry, the

Committee investigated the administrative, policy, and client service issues of TFN management. The Committee also considered a number of broader policy issues and, in particular, looked at the growing problems of identity fraud and illegal work by non-residents. The Committee found that the ATO:⁹

was an organisation that was reactive rather than proactive; where emphasis is placed on strategies that return a short term financial gain rather than ensuring the longer term integrity of the system; and where management philosophies are not well translated through the organisation.

1.8 In commenting on its own report, the Committee noted ‘This report adds to 15 years of Auditor-General and parliamentary inquiries that have found shortcomings in the quality of the ATO’s data and systems’.¹⁰ The Committee also observed ‘in a general sense the tax revenue system is working well’.¹¹

1.9 In its report, *Numbers on the Run*, the Committee made 26 recommendations. The majority of these concurred with, or extended, the recommendations made by the ANAO. The Committee’s recommendations were ‘aimed at ensuring the ongoing quality and coverage of the TFN system. This is important for the administration of taxation, income support, superannuation and employment generally’.¹² The Committee considered that the implementation of its recommendations were ‘crucial for ongoing community and government confidence in the TFN system as a system that treats people fairly’.¹³ The Committee’s recommendations are included in Table 1.2 in Appendix 2.

1.10 The Committee’s final recommendation was that the ANAO undertake a follow-up performance audit of the ATO’s progress in implementing the recommendations of Report No. 37 and *Numbers on the Run*. This audit fulfils that recommendation.

1.11 The Government has not tabled a response to the *Numbers on the Run*. However, the ATO’s budget for 2002–03 and 2003–04 included in total, \$26 million for the implementation of TFN improvements.

⁹ Numbers on the Run page vii

¹⁰ *ibid.*, page vii.

¹¹ *Ibid.*, page vii.

¹² *Ibid.*, page viii.

¹³ *Ibid.*, page viii.

Recent developments

Easier, Cheaper and More Personalised Program

1.12 In March 2002, the ATO Commissioner announced the Listening to the Community program. This program involved the ATO working with the general community, small business, industry, and tax agents, to develop ideas to make people's compliance with their tax obligations easier and cheaper. Following this, the ATO is undertaking a four-year program designed to provide easier, cheaper and more personalised interactions, information and advice for individuals, business and tax agents. Through this program, known as the Easier, Cheaper and More Personalised Program (ECMP), the ATO is aiming to achieve the integration of its systems used to maintain taxpayers' details.

Tax File Number Improvement Project

1.13 In addition to business as usual funding for registrations, as noted above in paragraph 1.11, in 2002–03 and 2003–2004, the Government specifically allocated a total of \$26 million to the ATO to improve the integrity of the TFN system. This was to be achieved through cleansing the database, establishing cross-agency Proof of Identity (PoI) links, and developing the Department of Immigration, Multicultural and Indigenous Affairs (DIMIA) auto registration system.

Administrative changes

1.14 There have been a number of administrative changes within the ATO, largely in response to Report No.37, *Numbers on the Run* and the ATO's Tax File Number Improvement Project, which have enabled improved administration. These changes relate to TFN registrations, new modes of registration, identity crime and the creation of the position of Chief Knowledge Officer.¹⁴

Registrations Area

1.15 Towards the end of 2003–04, the previously separate areas within the ATO of TFN Integrity and Australian Business Number Integrity, were

¹⁴ In November 2004, the ATO appointed a Chief Knowledge Officer (CKO) to head a new service line within the Change Program (ie the ECMP) Sub-Plan. The role of the CKO is to provide leadership, direction and support for ATO's information management and analytic requirements, especially in relation to the implementation of the Information Management Strategic Framework and establishment of a Corporate Data Model. The ATO advises that this means having practical plans and strategies for enhancing data quality, information standards, use of analytic techniques and reporting to support areas of high corporate priority. The ATO states that particular emphasis will be placed on defining measurable outcomes and tracking progress in their achievement. A range of new strategies to improve long-term integrity of client data holdings is expected to emerge from this new focus area.

brought together into a single new team, the Register Integrity Team. Register Integrity forms part of the Registrations area, which is in the Operations business line. At the same time, the ATO established the Analysis and Understanding Team. This team provides the ATO with an understanding of movements in registration data, the environmental factors contributing to these movements, and the effects they may have on tax administration. The Analysis and Understanding team has a strategic focus to identify, analyse and inform ATO stakeholders of emerging trends within the ATO's registers and registration data.

New modes of registration

1.16 The ATO has also extended the channels through which taxpayers are able to register for a TFN. For example, permanent migrants and visitors with work visas can apply via the Internet, using the DIMIA auto registration system.¹⁵

Identity Crime Research Unit

1.17 On July 1 2004 the ATO established a new Identity Crime Research Unit (ICRU). The Unit is in the Serious Non-Compliance (SNC) business line, but is a resource for the ATO as a whole. The main focus of this Unit is to deepen the ATO's understanding of identity crime. The role of the ICRU is to provide the ATO with appropriate advice about strategies to detect and prevent identity crime, which in the ATO is invariably linked to the use of TFNs. The ICRU has been tasked with researching the nature and extent of identity crime as a facilitator of other crime types via the review of historic and current casework within SNC, across market segments, revenue products and focus areas.

Whole-of-government developments

1.18 In relation to the recommendations requiring a whole-of-government response, there has been significant progress in two areas:

- prevention and detection of identity fraud: processes have been established to support a whole-of-government approach to the management of identity verification and fraud. The establishment of formalised agreed governance arrangements, and an agreed common PoI framework strengthened these processes;¹⁶ and
- reforms to Australia's anti money laundering system: The Government has announced that Australia will implement new global standards,

¹⁵ See Chapter 3, *Client Service* for a detailed discussion of TFN registration channels.

¹⁶ See Chapter 4, *Identity Verification* for a detailed discussion on identity fraud and misuse.

aimed at cracking down on money laundering and terrorist financing, through a fundamental overhaul of relevant legislation.¹⁷

Administrative Arrangements Order

1.19 Following the general election of 9 October 2004, the Governor-General, acting on the advice of the Prime Minister, issued a new Administrative Arrangements Order (AAO) on 27 October 2004 (and revised on 16 December 2004). Amongst other things, the AAO created a new Department of Human Services (DHS). According to the AAO, the responsibilities of DHS include:

- development, delivery and co-ordination of government services; and
- monitoring and managing service delivery and purchaser/provider relationships involving Centrelink, the Health Insurance Commission, the Child Support Agency, Australia Hearing, Health Services Australia and Commonwealth Rehabilitation Services Australia.

1.20 Legislation enables two of these agencies (Centrelink and the Child Support Agency) to be significant users of TFN based records. The matters dealt with by DHS could be relevant to the further use of the TFN in the future, particularly in relation to improved coordination of government services such as may be made possible by TFN based data matching amongst the agencies within the DHS portfolio.

The audit

Audit objective

1.21 The objective of the audit was to examine action taken by the ATO to improve TFN integrity, particularly through the implementation of the recommendations made in:

- Report No.37, taking into account any changed circumstances, or new administrative issues, affecting the implementation of those recommendations; and
- *Numbers on the Run* taking into account that the Government has not formally responded to the report at this time.

The audit also aimed to identify further opportunities for the ATO to improve the effectiveness and efficiency of the TFN system.¹⁸

¹⁷ See Chapter 6, *TFN Quotation* for a detailed discussion of anti money laundering strategies, including the extension of financial transaction reporting requirements.

¹⁸ The quantitative data in this audit has been drawn from various sources indicated in the text. Unless otherwise shown, the quantitative data has been examined for reasonableness, but not audited.

1.22 The report of this audit is necessarily detailed as it considers each of the recommendations and the extent to which they have been implemented.

Audit methodology

1.23 The ANAO wrote to the ATO at the commencement of the audit, requesting information on the implementation of the recommendations from the previous audit and the Committee's report. Following receipt of the ATO's response, the ANAO interviewed key personnel at the ATO, the Attorney-General's Department, and DIMIA. The ANAO also reviewed relevant files and documents.¹⁹

1.24 The audit was conducted in accordance with auditing standards at a cost of \$325,500.

Audit report structure

1.25 To assist the reader, the recommendations have been grouped into themes, reflected in the six chapters. Figure 1.2 depicts the structure and content of the chapters.

1.26 Each chapter in this Report presents:

- a summary of the recommendations from Report No.37, and *Numbers on the Run*. Some of the interrelated recommendations have been grouped together;
- a summary of the ATO's response where appropriate;
- a brief background from *Numbers on the Run* and the previous audit's findings; and
- the findings of our current audit work.

¹⁹ Aspects of several of the recommendations have also been examined in previous ANAO audits. These audits include:

ANAO Audit Report No.7 of 2000-01 *The Australian Taxation Office's Use of AUSTRAC Data*;

ANAO Audit Report No.57 of 2002-03 *The Administration of the Payment of Tax by Non-Residents*;

ANAO Audit Report No.59 of 2002-03 *The Administration of Australian Business Number Registrations*;

ANAO Audit Report No.18 of 2003-04 *The Australian Taxation Office's Use of AUSTRAC Data Follow-up Audit*;

ANAO Audit Report No.48 2003-04 *The Australian Taxation Office's Management and Use of Annual Investment Income Reports*; and

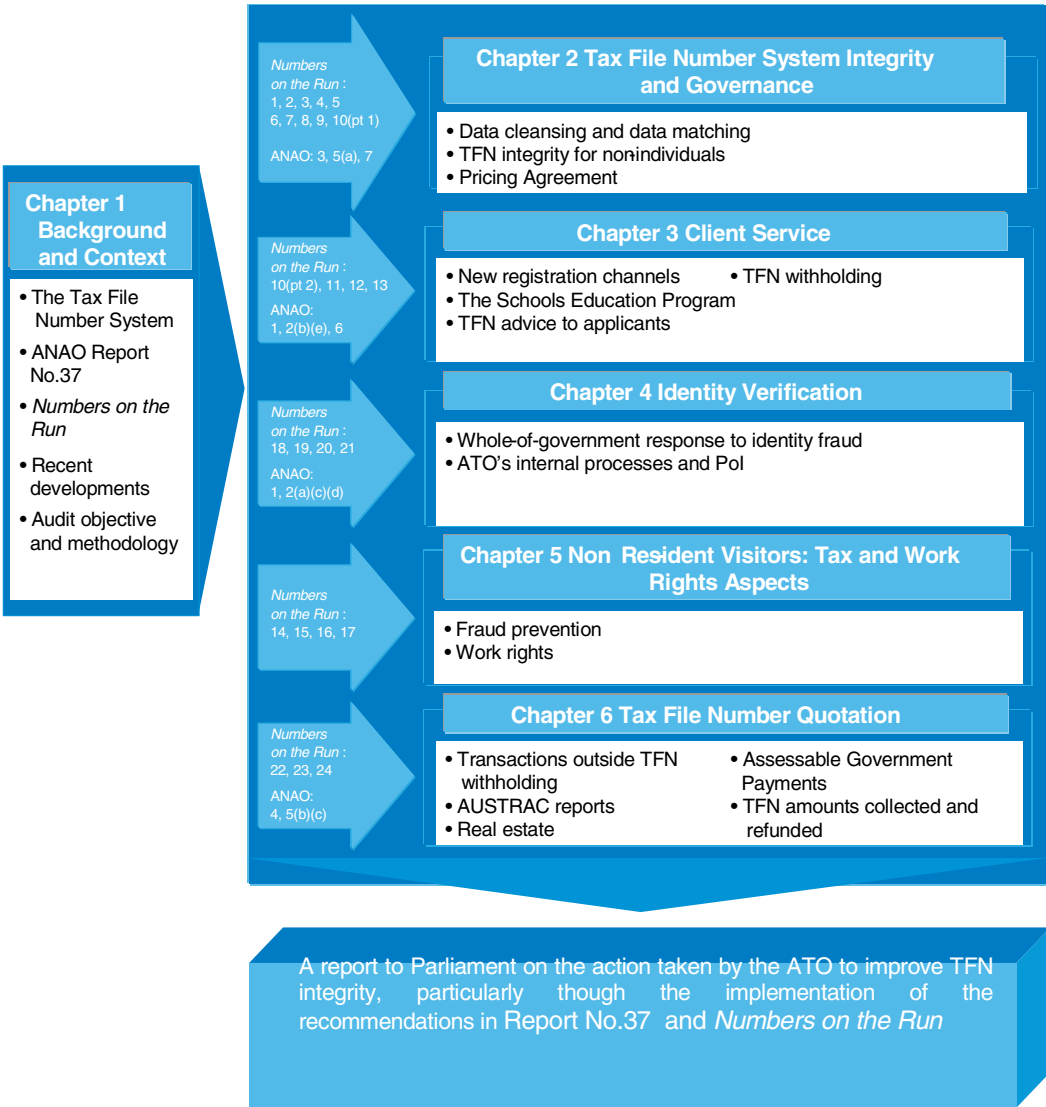
ANAO Audit Report No.2 2004-05 *Onshore Compliance-Visa Overstayers and Non-Citizens Working Illegally*.

Acknowledgements

1.27 The ANAO recognises and appreciates, the contribution of ATO officers and officers of the Australian Government organisations (the Attorney-General’s Department, Department of Immigration and Multicultural and Indigenous Affairs, Centrelink and AUSTRAC) who assisted in the conduct of this audit.

Figure 1.2

Structure of this Report



2. Tax File Number System Integrity and Governance

This chapter discusses the recommendations of Report No.37 and Numbers on the Run, that address issues about the integrity and quality of the ATO's databases, especially tax file number data and other closely related identity data. These are Recommendation Nos. 5(a), and 7 (a), (b), (c) and 7(d) of Report No. 37 and Recommendation Nos. 1 to 9 and 10 (part 1) of Numbers on the Run. In addition, we examine aspects of the data matching of non-individual tax records and the quality of the relevant data fields. We also review issues raised by the Committee associated with the Pricing Agreement that the ATO has with the Department of Finance and Administration.

Background

2.1 *Numbers on the Run* noted that the ATO is an organisation that is heavily dependent on high quality data and systems. The Committee considered that data and systems underpin the TFN system and must continually evolve to address the challenges faced by the ATO and to ensure the integrity of the tax system.

2.2 The distinction between the ATO's stock and flow of TFN data is important to the discussion of improvements to the integrity of the TFN system. The ATO's stock of TFN data consists of the TFN data already on ATO's databases. The flow of TFN data refers to the new TFNs being generated by the ATO in response to applications received.²⁰

2.3 The data and systems' quality issues examined by Report No.37 and *Numbers on the Run* and the findings and recommendations of both reports are closely interrelated. They cover all aspects of the integrity of the TFN system and depend on the good governance of the system. As a result, in this Chapter, we review the findings and recommendations about the integrity of the TFN system and its governance made in Report No.37 and *Numbers on the Run*, together.

Findings of Report No.37

2.4 Report No.37 documented a number of serious weaknesses in the ATO's stock of TFNs.

²⁰ In Report No. 37, the ANAO noted that: *an organisation faced with data integrity problems might periodically clean up data sets. Alternatively, it might identify the sources of poor quality data and take steps to ensure that poor quality data no longer enters its databases*, page 55.

2.5 In relation to the ATO's stock of TFNs, Report No. 37 found that ATO's databases were inaccurate and incomplete. There were numerous and significant entities or individuals with taxation responsibilities and obligations that did not have a TFN and were not on the ATO's Client Register or on its two main systems, the ATO Integrated System (AIS) or the National Taxpayers System (NTS). These systems also contained the TFNs and tax files of deceased persons and persons who had departed from Australia for whom all taxation action had ceased and for which there was no statutory reason to retain the records other than for archival purposes. These systems also contained an excessive number of TFNs that were duplicate or inactive and included many records that contained TFNs and other key identification data that were incorrect.

2.6 In relation to the flow of TFNs, Report No. 37 reported a range of shortcomings in systems, procedures and practices established to regulate the flow of TFNs. Examples include: poor or non-existent quality assurance; the absence of archival practices; anomalous proof of identity procedures resulting in TFNs being issued to applicants with doubtful or inadequate proof of identity.

2.7 In relation to management reporting, Report No. 37 found that there were no management reports for the ATO's managing executives that would inform them of the serious problems of data quality, especially those of the key identifiers such as TFN, name, address and date of birth. Nor were there any analytic projects (apart from those commenced in response to the audit) that would bring these concerns to light.

2.8 Furthermore, weak controls (or in some instances, the absence of appropriate controls) meant that there were serious shortcomings in the integrity of the flow of TFNs. For example, there were incidents of serious TFN fraud, including identity fraud.

Findings of *Numbers on the Run*

2.9 The Committee confirmed these findings and raised additional concerns about duplicate TFN records and the scope for the better use of Information Technology (IT) in the ATO's administration of TFN registrations. The Committee also made some broader observations about governance issues.

2.10 The Committee considered that, in its decision-making about data and systems, the ATO has to balance:

- the priorities of the day;
- the management of business as usual;
- maximising the amount of revenue collected in any one year;

- the complexity of legislation;
- the rapidly changing technology; and
- planning for the future.

2.11 The Committee acknowledged the significant efforts of the ATO in balancing these competing priorities. However, against this backdrop, the Committee expressed significant concern about the persistent findings by the Auditor-General and parliamentary inquiries of shortcomings in the quality of the ATO's data and systems over the last 15 years.

2.12 The Committee reported that it had significant doubts about the quality of the ATO's data and systems, and that this suggested that ten years of the Modernisation Project had not delivered improvements commensurate with the expectations and investment in that project. The Committee observed that underlying aspects of the ATO's management culture might contribute to this less than satisfactory situation. The Committee expressed its belief that at the base of these problems is an inability of executive management to see the maintenance of high quality data and systems as a high priority issue. The result has been a lack of resources for systems' improvements and a lack of willingness to prioritise allocation of systems' resources to the TFN system.

2.13 The Committee noted that during the period of administration reviewed by the ANAO in Report No.37, the ATO appeared to have many of the better practice principles identified in the Auditor-General's Audit Report No.48 1997–98, *Data Management in the APS*. The Committee found, however, that the data quality problems that it examined in its review of Report No. 37 suggested a need to review the practice of ATO data management at both the corporate and operational or business line level. In addition, there appeared to be a need to better anticipate data and systems' requirements.

2.14 The Committee considered that the ATO should, amongst other things, investigate the range of systems' solutions available to improve TFN registrations, including the possible use of fuzzy logic and other techniques of advanced mathematics.

2.15 The Committee also acknowledged that at a corporate level, the ATO must balance resources across competing priorities within the organisation and that this would be a key decider in data and systems' planning. However, the Committee considered that there is a need to review the practice of data management in relation to the TFN system. The purpose of this review should be to make sure that data and systems' problems and their implications are fully identified and that data management properly supports management decision-making.

Chapter structure

2.16 As previously noted, the recommendations of the Report No.37 and *Numbers on the Run* dealing with the issues of TFN system's integrity and governance are closely interrelated. Accordingly, we discuss the issues arising from our current audit about a number of these concurrently. However, recommendations from both reports relevant to data cleansing and data matching are discussed separately.

ANAO's findings from the current audit

2.17 Since 2000–01, the ATO has established a range of initiatives to implement initially the recommendations of Report No.37 and subsequently the Committee's Report, *Numbers on the Run*. The ATO's budgets for 2002–2003 and 2003–2004 included \$13 million each year for the TFN Integrity Improvement (TFNII) project.²¹ The purpose of this special funding was to implement the recommendations of the two reports that directly related to improving the integrity of TFNs. The work of TFNII was initially focussed on the ATO's stock of TFNs, but as this progressed TFNII also began to rectify weaknesses in the flow of TFNs. The ATO has advised the ANAO that it spent an extra \$4.42 million, making a total of \$30.42 million on TFNII over the two-year period.

2.18 Amongst other things, TFNII proceeded to rectify more than 2.5 million duplicate and inactive TFN records then on the ATO databases and rectify the status of almost 600 000 tax records that had anomalous Proof of Identity indicators. TFNII examined possibly fraudulent TFN records and initiated administrative and legal action in relation to a number of them. It also assisted in identifying persons who might have had lodgement responsibilities but had not lodged tax returns. This work brought to notice the need for a range of improved administrative procedures such as the management of returned unopened mail; registration procedures; procedures for the change of name and date of birth; and procedures for the identification of inactive tax records. These were drafted and issued as part of TFNII.

2.19 TFNII included the establishment of regular data matching with the records of all State Registrars-General, particularly in relation to births, deaths and marriages. A range of initiatives to improve Proof of Identity commenced. These are discussed in Chapter 4. The Integrated Auto Registration (IAR) project with the then Department of Immigration and Multicultural Affairs commenced, as did a similar project with Centrelink. These are examined in Chapters 3 and 5. Other initiatives, such as improved training for TFN

²¹ The relationship of this funding to the ATO's Output Pricing Agreement is discussed in paragraphs 2.96 to 2.104.

registration staff, improved procedures and practices for TFN registration and tighter controls over the updating of key fields, such as name and date of birth, were also implemented.

2.20 Towards the end of 2003–04, the previously separate areas within the ATO of TFN Integrity, and Australian Business Number (ABN) Integrity, were brought together into a single new team, the Register Integrity Team. This team assumed responsibility for the existing work of the TFNII. It was also given other projects designed to improve the integrity of the ATO's stock of ABNs, as well as all work designed to improve the stock and flow of TFNs and ABNs.

2.21 Register Integrity forms part of the Registrations area, which is in the Operations business line. At the same time, the ATO established the Analysis and Understanding Team. This team provides the ATO with an understanding of movements in registration data, the environmental factors contributing to these movements, and the effects they may have on tax administration. The Analysis and Understanding team has a strategic focus to identify analyse and inform ATO stakeholders of emerging trends within the registers and registration data.

2.22 The Register Integrity Team placed the work directed at the improvement of TFN and ABN integrity on a more strategic footing. As a result, the ATO has adopted a range of new procedures and practices to improve the flow of TFNs produced by the ATO in response to the applications received. These included improved quality assurance arrangements and using the electronic distribution of TFN applications and related correspondence to improve administrative efficiency.

2.23 During 2003–2004, the ATO established a new Identity Crime Research Unit (ICRU). The main focus of the ICRU is to deepen the ATO's understanding of identity crime and to provide the ATO with appropriate advice about strategies to detect and prevent identity crime, which in the ATO is invariably linked to the use of TFNs.

2.24 The ANAO found that there has been a significant tightening of TFN registration arrangements. In particular, the administration of the registration of TFNs has been changed to incorporate a range of methodologies that had been found to be effective in the registration of ABNs. As the registration of TFNs is now subject to the same arrangements as the registration of ABNs, some of the findings and recommendations of the ANAO's examination of the administration of ABN registrations that addressed arrangements to improve the registration and integrity of ABNs are relevant.²² In that Report, ANAO

²² Specifically, recommendations No. 3, 4, and 5 of *The Administration of Australian Business Number Registrations* Australian Taxation Office Audit Report No 59. 2002-2003.

concluded that overall, the ABN registration process is operating effectively.²³ Since that time, the ATO has established a project to identify and investigate anomalous ABNs such as duplicate, inactive, possibly fraudulent ABNs and those that ought not to have been issued in the first place.²⁴

2.25 As a result of these initiatives, the ATO has improved substantially the integrity of the flow of TFNs. Appendix 3 shows the total number of TFNs on the ATO Integrated System as at 17 December 2004, together with numbers of TFNs for each tax entity type and the status of the TFN as active or inactive.

Inactive TFN records

2.26 The ANAO notes that a TFN may be inactive even though a tax record is retained on the ATO's systems. Inactive records include those where an individual has died or departed from Australia and those where a business entity has ceased trading or has been deregistered. They include records where tax returns are not required in the current year, but may be required in a future year. They also include records for which no further returns are expected but for which some other administrative activity of the ATO may occur, for example, in relation to superannuation or debt. There will always be some records on the ATO's Client Register classified in any one year as inactive.

2.27 The important task is to remove those records that are permanently inactive and to flag those that are otherwise inactive, but retained on the ATO's Client Register. The ANAO notes that the ATO is implementing an automatic 'lock down' procedure for all inactive records, which will become operational during 2005. As a result, if an action is taken in respect of an inactive record, an alert will be activated. The action will not proceed until the status of the inactive record has been determined.

2.28 The ANAO considers that this is an important, if long overdue, improvement. It will assist in preventing fraudulent transactions from taking place in relation to an inactive record.

Revised data-matching arrangements

2.29 During 2003–04, the ATO established a Data Matching Steering Committee (DMSC) to ensure that data matching in the ATO is better coordinated and reflects a holistic ATO approach.

²³ Ibid., page 20.

²⁴ Work is also proceeding on the identification and examination of links between anomalous ABNs and TFNs.

Specifically, the ATO has advised that, to ensure a holistic approach, any third party data obtained by business lines will now be subject to a standard set of analyses that will include analysis:

- based around the primary objective for which the business line is seeking to match the data (e.g. non-detection on income);
- of matched records to establish a current picture of lodgement and debt related to Annual Income and Investment Reports (AIIR) data;
- of critical return labels to identify 'outliers' from the norm;
- follow up of all unmatched records to identify those outside the system; and
- that examines any other use the ATO can make of the information.

2.30 At the time of this audit, the new arrangements had been operating effectively for some six months. The ANAO found, amongst other things, that the arrangements require the ATO's business lines to prepare a data matching concept brief outlining the purposes for which data is being sought.

2.31 The ANAO found that the DMSC supervises all data matching and requires that there is complete compliance with all legal requirements, including those of privacy and administrative policy. A Senior Assistant Commissioner chairs the DMSC, which includes Assistant Commissioner representatives from the ATO's business lines as well as from the Easier, Cheaper and More Personalised Program (ECMP). The ATO's Compliance Systems Directorate conducts the data matching. The DMSC maintains an annual work programme and a register of all data matching projects. At the time of the audit, there were about 275 projects on the register.

2.32 In *Numbers on the Run*, the Committee expressed concern that the ATO appeared to have failed to fully investigate the data matching capacities of the data sources to which it currently has access. This failing reinforced the concern of the Taxation Institute of Australia that the ATO did not fully utilise the range of personal and business information that it collects and may access.²⁵ The ANAO considers that the establishment of the DMSC, the plans and strategies that it has adopted and the progress achieved to date, overcome these concerns.

²⁵ *Numbers on the Run* Chapter 7.

Strategic capacity, planning mechanisms and data management practices

Numbers on the Run - Recommendation No. 1

That the ATO place a higher priority on having the strategic capacity to ensure the long term integrity of the TFN system, including through:

- proactively managing the TFN system and its interrelationships with other systems within the ATO and across government; and
- ensuring that management philosophies and planning are put into practice throughout the organisation.

Numbers on the Run - Recommendation No. 4

That the ATO review its current planning mechanisms in relation to the TFN system, with a view to properly upgrading data management practices at both the agency and business line level.

ANAO's findings from the current audit

2.33 Interrelationships between the TFN system and other systems within the ATO still require much improvement. However, the ANAO considers that this work would have to be integrated into the new developments underway as part of the ECMP. Interrelationships between the TFN system and systems outside of the ATO may also be contingent on the achievements of the ECMP. This is because such interrelationships will inevitably depend upon electronic interchange of data. The ANAO notes that the ECMP includes projects for these two types of interrelationships. One of these projects is the design of a new taxpayers' database to replace AIS and NTS. The other is about the establishment of secure internet based facilities that would enable the provision of a large range of Australian Government services for the general public to be conducted over the internet in a secure manner.

ANAO conclusions in relation to *Numbers on the Run* Recommendations No. 1 and No. 4.

2.34 As a result of the initiatives previously outlined, the ANAO finds that the ATO has fully implemented Recommendations No. 1 and 4 of *Numbers on the Run*. This is a major undertaking and the ATO has achieved significant gains to the integrity of the TFN system over the last five years. The ANAO finds that the ATO has implemented sound strategies to clean up the ATO's stock and flow of TFNs and ABNs.

Data quality, integrity, duplicates and archiving

Report No.37 - Recommendation No. 7(a) and (b)

ANAO recommends that the ATO:

- a) improve client data quality throughout its business lines;
- b) progress strategies for the resolution of duplicate, and the archival of inactive, records;

ATO response: Agree to (a). The ATO considered that it was proceeding to improve data quality by means of the Client Identity Integration Project and the implementation of the ATO Data Standard. Agree with qualification to (b). The ATO considered that action to resolve the data quality problems would have to have regard to costs, priorities and risks.

Numbers on the Run - Recommendation No. 2

That the ATO act as a matter of priority to improve the significant shortcomings with its data integrity. This should include addressing the issue of excess and duplicate TFNs and archiving of redundant TFNs.

Numbers on the Run - Recommendation No. 3

That the ATO take all necessary steps to improve TFN systems quality to more properly reflect the importance of the TFN system within the ATO and across government.

ANAO's findings from the current audit

2.35 As part of the ECMP, substantial work is in progress to improve client data quality throughout the ATO's business lines in readiness for the new systems. The ANAO understands that the ATO aims to make these operational in 2007–08. The ANAO and the Committee emphasised, and the ATO agreed, the need for sound corporate guidance about the management of information as one of the ATO's critical resources. In August 2004, the ATO promulgated relevant guidance *Information Management Strategic Framework*, which addressed this need. It is to be implemented throughout the ATO.²⁶ A new Branch, established as part of the ECMP, is assisting the implementation of the new *Framework*.

2.36 A range of new initiatives established by the Registrations Branch is directed at improving client data quality. Whilst the Branch is responsible for the registration of TFNs and ABNs, responsibility for data quality generally

²⁶ Australian Taxation Office *Information Management Strategic Framework* August 2004.

(apart from identity data) will, in most instances, rest with the ATO's business lines. The Branch has promulgated advice that defines how data integrity can be measured.²⁷ Key features of this advice may be found at Appendix 4. The ANAO accepts this guidance as appropriate for defining, understanding and measuring the integrity of ATO's databases. The ANAO considers that this guidance, in conjunction with the new *Information Management Strategic Framework* and the initiatives underway to implement both, should enable the ATO to make continuing improvements to data quality over the next few years. ANAO notes that improving the quality of key identity information on the ATO's main databases across the ATO is a complex and time consuming task.

The ATO's Client Register

2.37 A key objective of the Registrations Branch is to achieve the quality of data integrity on the ATO's Client Register that is at the best practice standard for the finance sector of the Australian economy.

2.38 The Client Register consists of all ATO records of entities identified by a TFN. Typically, a record of an entity includes name and address information and is inclusive of obligation profiles characterised as taxation roles.²⁸ The Australian Business Register is therefore a subset of the Client Register and is consequently inter-dependent with the integrity of the TFN system

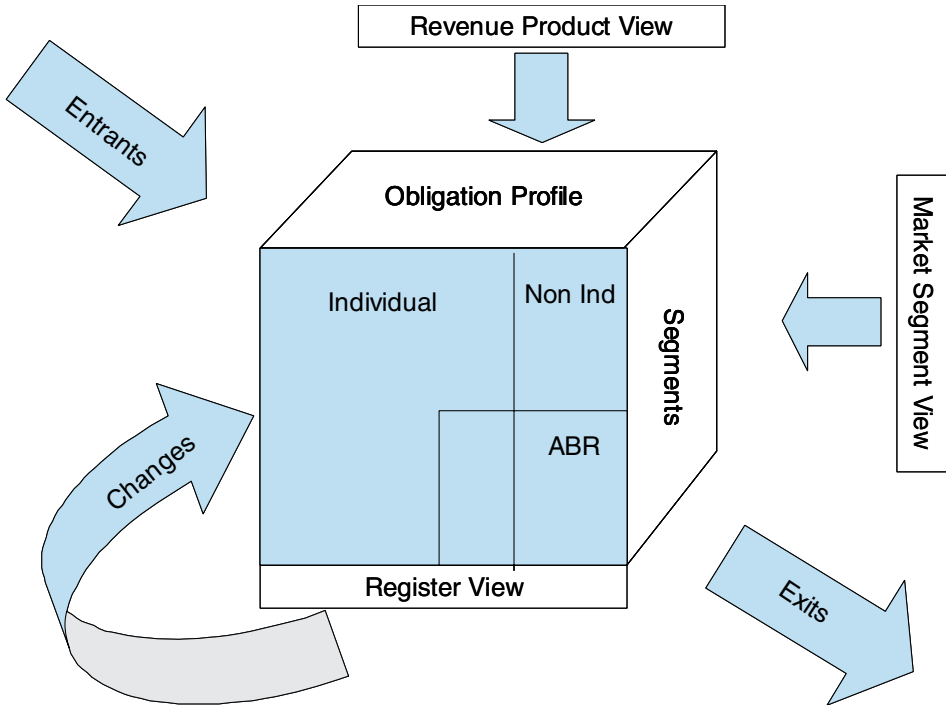
2.39 Figure 2.1 illustrates the concept of the Client Register. It shows that the Register can be viewed from three perspectives:

- revenue product perspective, which indicates a taxpayer's obligation role as defined by legislation;
- market segment perspective, which links the taxpayer to a range of demographic and economic variables; and
- the registration administration perspective, which indicates a range of essential data elements for administrative purposes.

2.40 The ANAO found that the quality of TFN data for individual taxpayers, as well as the quality of key identification fields (name, address and date of birth), has improved significantly over the last five years. However, there continues to be problems in the data of partnerships, trusts and superannuation entities

²⁷ Australian Taxation Office *TFN/Client Registers*. Internal ATO guidance memo, September 2004.

²⁸ 'Obligation profiles' refers to key data items, recorded on the register, that identify a taxpayer's role (i.e. individual, partnership, trust, company, superannuation fund, and government entity). These have a legislative basis and indicate the legislative obligations of the taxpayer, and therefore compliance behaviours, that are contingent on the taxpayer type.

Figure 2.1**A concept diagram of the ATO's Client Register**

Source: The ATO.

Partnership, trust and superannuation entities

2.41 The results of the regular *Australian Business Number Data Quality Survey of Registrants* have highlighted a number of accuracy issues that are relevant to the overall Client Register.²⁹ The conformance to the data standard for individual and company names is very high, slightly in excess of 98 per cent. However, partnership, superannuation and trust entities' conformance to the current standard is estimated at only 27 per cent, 15 per cent and 33 per cent respectively. This has arisen from either the lack of appropriate naming standards or application of differing naming standards during the life of the Client Register. The ANAO understands that, as part of the preparation for the

²⁹ The ABR data quality survey measures the quality and currency of the data on the Australian Business Register. The survey is conducted three times a year. Participants are selected from a stratified population of ABN registrants. The population categories include: Employing entities; Non-Employing entities; entities with a change made to their record since registration; and entities with no change since registration. In each of these categories, the Australian Bureau of Statistics provides assistance to ensure the survey proportionately covers all entity types and registration mediums. The seven data fields tested in the survey are: Legal/Main Name; Main Trading Name; Address for Service of Notices (Postal); Business Address; E-mail Address; Name of Company, Public Officer or Trustee; and Main Business Activity.

ECMP, the ATO has taken steps to establish agreed data standards for these entities.

2.42 The ANAO found that the ATO is advised of TFNs for only about one third of all of the beneficiaries listed on a trust tax return. This proportion has declined over the last decade. Similarly, the incidence of reporting of TFNs for any beneficiaries listed on a trust tax return has also declined over the same period. Amongst other things, this would seriously impede the ATO's capacity to verify that a taxpayer who was the beneficiary of a trust distribution accurately reported that income on their own tax return. This matter is discussed further below.

2.43 The poor quality of data for partnership, superannuation and trust entities is a matter of concern. There has been a significant increase in the number of superannuation TFNs issued each year over the last four years. For the 2004 financial year, the increase was in the region of 15.5 per cent above that of 2003. The ANAO understands that the increase is associated with the growth in popularity of Self-Managed Superannuation Funds. There has also been a significant increase in the number of TFNs issued to trust entities each year for the last four years. In 2004, this increase was 16.8 per cent above the number for 2003. The ANAO has been advised that, amongst other things, this growth is associated with investment strategy influences. The ATO has advised the ANAO that accounting industry representatives have specifically commented upon the capital gains tax advantage offered by trusts.

ANAO conclusions in relation to Recommendations No. 7(a) and No. 7(b) of Report No. 37 and Recommendations No. 2 and 3 of *Numbers on the Run*.

2.44 Having high integrity data on the ATO's Client Register is critical to the efficient and effective administration of Australia's tax system. Furthermore, the ATO has stated that integrity is a fundamental component of everything that the ATO does and that TFN integrity is the cornerstone of tax administration.³⁰ Accordingly, there would be merit in the ATO publishing from time to time, (e.g. every three years) in the ATO's annual report an overview of the ATO's data quality achievements and challenges. The report could include commentary on the ATO's key system wide databases (e.g. the Client Register, AIS and NTS) and the particular, business specific, databases of all of the ATO's business lines. This is especially relevant, given the scope for improvement in some of the business line data bases; the work still to be done to fully implement the recommendations of the two reports; and the planned introduction of new computer based systems for tax administration in

³⁰ Correspondence to the ANAO from the ATO dated 17 November 2004.

2007–2008. Providing such an update every 3 years would allow a useful public update of the integrity of the ATO's data. This is because of the need for inter-year comparisons of trends in the levels of data integrity, and the time taken for systemic weaknesses in data integrity to be revealed and then rectified. ANAO considers that the regular publication of this information would contribute to the integrity and transparency of tax administration.

2.45 The ANAO considers that there would also be merit in the Registrations Branch providing annual advice to the ATO Executive on these matters. The methodology developed by that Branch, in conjunction with the new *Information Management Strategic Framework*, provides a sound approach for the compilation of this information annually and triennially.

2.46 The ANAO finds that the ATO has substantially completed implementing recommendation No. 7(a) and has fully implemented Recommendation No. 7(b) of Report No. 37 and Recommendations No. 2 and 3 of *Numbers on the Run*.

Recommendation No. 1

2.47 The ANAO recommends that to improve the transparency of data integrity, the ATO's annual report periodically include an overview about the quality of the ATO's data and strategies being pursued to continuously improve its data quality.

ATO Response

2.48 Agree. Following the ANAO audit report of "ATO's Management and Use of the Annual Investment Income Reports (AIIR) in Taxation Administration" work is well underway on data standards. The Tax Office Chief Knowledge Officer is implementing a Data and Information Standards Program. The first priority will be to classify data according to its business criticality and develop a measurement framework that highlights current status and improvement opportunities. Improvement strategies can then be formulated based on business priorities and cost/benefit appraisal. This program will form the basis of periodic reporting via the Tax Office Annual Report.

Automated checks for duplicates

Numbers on the Run - Recommendation No. 10 (part 1)

The ATO review its TFN registration processes, including automating checks for duplicate TFNs and making better use of available software.

ANAO's findings from the current audit

2.49 The ATO has software-applications that are used to detect duplicate TFNs.³¹ This software is referred to as the Batch Matching Engine Version 5.0.³² The ANAO has found that 'the identity matching engine is now a highly sophisticated and effective tool'.³³

2.50 The electronic lodgement facility (known as the Integrated Auto Registration (IAR)) now functioning for the receipt of TFN registration forms by persons arriving in Australia, also contains a real time duplicate checking process. Whilst not as sophisticated as Batch Matching Engine Version No. 5.0, it will reject most duplicates submitted on the electronic lodgement facility. Nevertheless, Batch Matching Engine Version 5.0, which is run weekly, detects any further duplicates and also identifies additional possible duplicates. ATO staff expert in the detection of duplicates examine all of these manually.

2.51 The ANAO considers that the use of these two automated duplicate detection systems, together with the manual examination of the possibly anomalous records that the systems identify, constitutes an efficient, cost-effective way of detecting possible duplicates and resolving their status.

2.52 The ANAO notes that as part of the ECMP, the ATO has established an analytical capability. The Analytics Team, headed by an Assistant Commissioner, contains experts in a wide range of data mining and data analysis techniques.³⁴

ANAO conclusion in relation to *Numbers on the Run* Recommendation No. 10 (part 1)

2.53 ANAO finds that the ATO has fully implemented Recommendation No. 10 (part 1) of *Numbers on the Run*.

³¹ These are described in the ANAO's Report No. 48 of 2003-2004, *The Australian Taxation Office's Management and Use of Annual Investment Income Reports Audit Report* Chapter 4.

³² This software contains special purpose phonetic scoring software that the ATO has developed over the last decade. Amongst other features it has:

- traditional hard-matching techniques that do not involve phonetic software;
- sophisticated phonetic matching algorithms that allow for error and variation in real world data; and,
- 55 levels of confidence allowing users to determine which grades of match to use in their business systems.

³³ ANAO *The Australian Taxation Office's Management and Use of Annual Investment Income Reports Audit Report* Report No. 48 of 2003-2004, paragraph 4.16, page 61.

³⁴ These include fuzzy logic and other techniques of advanced mathematics referred to in the Committee's report at paragraph 4.15.

Quality of third party data

Report No.37 - Recommendation No. 5(a)

Seek concurrence of relevant financial institutions regarding the data specification for Annual Investment and Interest Reports information that provides the ATO with accurate and valid data that minimises compliance costs;

ATO Response: Agree. The ATO considered that there would be time lags inherent in updating systems arising from consultation with a range of umbrella industry bodies

Report No.37 - Recommendation No. 7(d)

Work with strategic partners to ensure that data sets conform to ATO standards before they are provided to the ATO.

ATO Response: Agree. The ATO considered that this would be done as part of business as usual.

Numbers on the Run - Recommendation No. 8

The ATO focus on steps to improve the quality of data it receives in order to improve its data matching capabilities, including through working with other agencies and organisations. A first priority for the ATO in this regard should be to review and improve reporting in Annual Investment Income Reports by financial institutions, in order to provide the ATO with accurate and valid data that minimises compliance costs:

ANAO's findings from the current audit

2.54 Following Audit Report No.48 of 2003–2004, *The Australian Taxation Office's Management and Use of Annual Investment Income Reports*, the ATO is implementing a range of initiatives to improve the quality of the AIIR data received by the ATO and of use of the AIIR data throughout the ATO. The ANAO notes that, as well, the ATO is engaged in negotiations with a wide range of external data providers.³⁵ The ANAO found that the negotiations include making sure that the data obtained by the ATO from these agencies is of high quality and in a format for ready use by the ATO. The ANAO considers that the ATO is proactively managing this process, which is, in part, driven by the objectives of the ECMP.

³⁵ These include some Australian Government agencies, and a range of State Government authorities such as workers' compensation agencies, fisheries management bodies, registrars of motor vehicles, and state rental boards.

2.55 The ANAO found that the ATO has engaged consultants, as part of the Information Management component of the ECMP, to undertake data quality audits. As a result, benchmark measures for data that can be used to evaluate the current state of ATO's data have been developed. The quality of name and address information held on AIS and NTS formed part of this audit. The ATO has advised that the quality of all active tax records on AIS and NTS will be upgraded prior to the new computer systems supporting tax administration becoming operational in 2007–2008.

ANAO conclusions in relation to Report No. 37 Recommendations No. 5(a) and No. 7(d) and *Numbers on the Run* Recommendation No. 8

2.56 The ANAO finds that the ATO has fully implemented Recommendations No. 5 (a) and No.7 (d) Report No.37 and Recommendation No.8 of *Numbers on the Run*.

Data cleansing and data matching

Report No.37 - Recommendation No. 7(c)

The ANAO recommends that the ATO:

Assess the cost-effectiveness of accessing and using additional data sets, such as those from the State Registrars-General;

ATO Response: Agree. The ATO stated that it was currently negotiating the cost of accessing additional data sets.

***Numbers on the Run* - Recommendations No. 6, 7 and 9**

The ATO, or an appropriately qualified consultant, review the databases and information sources the ATO currently has access to in order to determine the value of systemic data matching against this information. The ATO implement data cleansing and data matching strategies aimed at improving ATO data quality and reducing tax fraud, including data matching in the areas of:

- Fact of Death;
- DIMIA movements records;
- Health Insurance Commission (HIC) (for purposes of compliance with TFN identification);
- Additional data sets, such as those from the State Registrars-General (subject to cost effectiveness);
- ABN (including arrangements to ensure that relevant data is captured and able to be used for data matching purposes).

ANAO's findings from the current audit

2.57 The ANAO notes that the Data Matching Steering Committee (DMSC) established by the ATO (referred to in paragraph 2.29 and further discussed in Chapter 6) has addressed the immediate concerns of these recommendations. These concerns included the ATO approaching third parties on a corporate and strategic, rather than an individual and operational, basis; the use third party data to improve the quality of ATO's data and to identify fraud. The ANAO considers that the strategies and plans of the Committee mean that the ATO has the capacity to continue to implement them. In addition, the ATO has engaged suitably qualified consultants to review several key databases. Furthermore, the work underway as part of the ECMP is directed at systemic improvement in the quality of the ATO's databases.

ANAO conclusions in relation to Recommendation No. 7(c) of Report No. 37 and Recommendations Nos. 6, 7 and 9 of *Numbers on the Run*

2.58 The ATO has implemented sound strategies to clean up the ATO's stock and flow of TFNs and ABNs. In view of this, and the functioning of the DMSC, the ANAO finds that the ATO has fully implemented Recommendation No. 7(c) of Report No. 37 and Recommendation No. 6 of *Numbers on the Run*.

Fact of Death Data

2.59 In respect of Fact of Death data and the access and use of data from the State Registrars-General, the ANAO finds that the ATO now regularly matches fact of death data from State and Territory Registrars-General so that the tax records of deceased persons can be suitably flagged.

DIMIA Movements Records

2.60 In respect of ATO's use of DIMIA movements' records, the ANAO finds that the ATO has established arrangements with DIMIA to proceed with the matching of DIMIA data.³⁶ These arrangements are discussed in Chapter 5.

Health Insurance Commission Data

2.61 In Report No.37, the ANAO reported that ATO research had established ATO/Health Insurance Commission (HIC) data matching would generate additional annual revenue of \$180 million.³⁷ *Numbers on the Run* reported that this figure was based on 1986–87 ATO research. The Committee

³⁶ The arrangements between DIMIA and the ATO in relation to the use of movements records are covered by a Memorandum of Understanding signed in December 2002.

³⁷ ANAO *Management of Tax file Numbers* Audit Report No 37 of 1998-99, page 95.

reported, furthermore, that the figure consists of \$140 million due to under-reporting of income received from patients in the annual income of medical doctors and practitioners, and \$40 million through uncovering Medicare recipients who have not lodged tax returns or have committed identity fraud.³⁸

2.62 The ANAO expected that the ATO would have conducted further compliance research to evaluate the risks documented in the 1986–87 research. Depending on the findings of that research, the ANAO expected that the ATO would evaluate all key issues associated with the reintroduction of the ATO matching HIC data. The ANAO finds that the ATO has not progressed any data matching of HIC data nor has it conducted any evaluation or analysis of the issues, advantages and disadvantages involved with this aspect of the recommendations. The ATO was therefore unable to advise the ANAO about the likelihood of the compliance concerns that it identified in 1986–87 continuing at the present time.

2.63 The Committee expressed the view that the introduction of the ABN would require medical practitioners to quote their ABN to the HIC for payments or face the deduction of withholding tax from HIC payments. The Committee noted that, at face value, this approach would appear to provide an alternative means of ensuring collection of the \$140 million reported by the ANAO (see paragraph 2.61). The Committee observed that there would still be scope for fraud if medical practitioners understated their income to the ATO. To successfully address this issue, the Committee felt that the ATO would require access to the HIC data that contains the rebate records in order to verify the income declared in medical practitioners' tax returns.

2.64 The ATO advised the ANAO that the HIC does not, as a rule, require medical practitioners to quote their ABN.³⁹ As a result, the scope for the ATO to extract ABN linked information from HIC records is quite limited because many of the payments that it makes to medical practitioners and others are free from the Goods and Services Tax (GST), even if existing legislation enabled the ATO's use of the HIC data in this way. The ANAO understands that the HIC requires quotation of the ABN only for those payments the HIC makes that are not GST free.

2.65 During 2003, the ATO served a Notice upon the HIC to give information pursuant to Section 264 (1)(a) of the *Income Tax Assessment Act 1936* (ITAA) in respect of an individual taxpayer. The ANAO understands that

³⁸ House of Representatives Standing Committee on Economics, Finance and Public Administration report, *Numbers on the Run*, page 28.

³⁹ See the HIC website about the circumstances in which an ABN needs to be quoted at: http://www.hic.gov.au/providers/publications_guidelines/gst_hic/affect_payment.htm

the HIC information was required in connection with suspected identity fraud. In response, the HIC has stated:

that Medicare information is protected by the *Health Insurance Act 1973* (HIA). Section 10 of HIA prohibits an officer from HIC from divulging information acquired in the performance of duties under that Act, to a person other than the person to whom the information relates.

2.66 The HIC considered that Section 130 of the HIA meant that ‘an officer of the HIC is not required to provide the information’ that the ATO required.

2.67 The HIC added that it was prepared to consider certain individual requests under Section 130(3)(a) of HIA (Public Interest Provisions). The HIC advised that:

it will be necessary for the ATO when requesting information to provide sufficient justification for the release of information, e.g. in the cases of individual non-routine investigations by the ATO where that Office can demonstrate that there is a strong case of understatement of income.

2.68 The new Administrative Arrangements Order issued on 27 October 2004 (and revised on 16 December 2004) creates a new Department of Human Services (DHS). Amongst other things, the role of this department is the monitoring and management of service delivery and purchaser/provider relationships involving Centrelink, the HIC, and several other agencies that provide services to the community. This may present an opportunity for the ATO to explore opportunities, where appropriate, for access to data relevant to tax administration that is held by these agencies, including the HIC.

2.69 The ATO has advised that it is securing legal advice about access to HIC data. The ATO has commenced discussions with DHS and the HIC about access to HIC data about payments made to medical practitioners. The ATO has also advised that it plans to conduct new studies to assess the risk of medical practitioners’ under reporting their income.

The Australian Business Number

2.70 The Committee considered that the introduction of the ABN and the new GST fraud control mechanisms offered the opportunity to review data matching opportunities. This included a number of the proposals in the ANAO report, such as data matching against Australia Transactions Reports and Analysis Centre (AUSTRAC) transactions and HIC data. These are discussed in Chapter 6.

2.71 The Committee stated that any data matching with the ABN is likely to require systems’ enhancements amongst Commonwealth agencies so that the requisite data is actually captured and rendered matchable. In addition, data matching using the ABN would have little impact if tax evasion in the

particular area is primarily being committed by individuals, as these transactions will fall outside ABN data collections.

2.72 The Committee considered that ABN quotation by Commonwealth authorities and improved data matching by the ATO of relevant data from these authorities would have the potential to improve the ATO's collection of revenue. The Committee noted that current administrative arrangements did not guarantee that correct tax would be paid on all taxable payments and like benefits made by the Commonwealth. A large number of these transactions relate to business and hence would be subject to ABN quotation and withholding arrangements. This would mean that many of the benefits achievable by extending TFN quotation to these arrangements could be achieved through the ABN.

2.73 The ANAO notes that the ABN was introduced as 'a new unique business identifier for all Commonwealth purposes to facilitate business being able to meet its regulatory obligations and access information and assistance through the business entry point to government.'⁴⁰

2.74 The ANAO found that the ATO has taken initiatives about the use of the ABN for tax compliance, including data matching purposes. The ATO has made progress in establishing external partnerships with Commonwealth agencies on their use of the ABR and the recording of ABNs on their databases in relation to Assessable Government Payments issued by those agencies. However, there appear to be several key Commonwealth agencies with which the ATO does not have such partnerships. Issues associated with ABNs and AGPs are discussed in Chapter 6 in connection to *Numbers on the Run* Recommendation No. 24.

ANAO conclusions in relation to Recommendations No. 7(c) and Nos. 6, 7 and 9 of *Numbers on the Run*

2.75 The ANAO finds that that the ATO has substantially completed implementation of Recommendation No. 7 and fully implemented Recommendation No. 9 of *Numbers on the Run*.

⁴⁰ *A New Tax System (Australian Business Number) Bill 1998, A New Tax System (Australian Business Number Bill 1998 Consequential Amendments) Bill 1998* Explanatory Memorandum (Circulated by authority of the Treasurer, the Hon Peter Costello, MP) The Parliament of the Commonwealth of Australia House of Representatives, 1998. Page 2.

TFN integrity for non-individuals

ANAO's findings from the current audit

2.76 In addition to reviewing the ATO's implementation of the recommendations of the two reports, we also examined opportunities for the ATO to improve the effectiveness and efficiency of the TFN system. The ANAO considers that, in the main, these are to be found in the better use of TFN and related identity data of non-individuals, especially through data matching. However, the integrity of the TFN data of non-individuals is critical to the better use of this data.

2.77 The *Income Tax Assessment Act 1936* (ITAA) provides that individuals, partnerships, trusts, companies, superannuation funds and some classes of government entities are required to pay tax on taxable income. Partnerships, trusts, companies, superannuation funds and government entities are referred to as 'non-individuals'.

2.78 Whilst the main focus in the ATO has been on the use of data matching for individuals, data matching for non-individuals is relevant to tax administration. In this regard, the ATO advise that, generally, data matching in the small business sector does not differentiate between individuals in business and non-individuals in business. ATO has advised that over 45 per cent business entities are individuals.

2.79 Data matching for non-individuals may be undertaken in at least five ways:

- as individuals may receive taxable income from non-individuals, it is necessary in some cases to match some of the detail in non-individual tax returns to those of individuals;
- in other cases there may be information relevant to the role of individuals in non-individual entities that has a bearing on compliance issues for both the individual and the non-individual entity;
- interconnectivities between individuals and non-individuals that have a bearing on compliance matters may be best revealed by data matching, and in some instances, more sophisticated data mining or relationship mapping;
- there will, as well, be numerous instances where it is necessary to match non-individual tax returns against various third party data sets for a range of compliance matters, including verification that all relevant income has been included in the tax return of the non-individual; and

- finally, just as data matching has made tax administration of individuals more efficient and effective, it may, in a number of instances, make the tax administration of non-individuals more efficient and effective.

2.80 The ATO has advised that data matching program in 2004–05 for the small business sector has about 100 datasets, or over 1 million third party micro-business records, for both individuals and non-individuals. These will be matched to ATO records. This data matching activity is particularly prevalent in the ATO's cash economy projects where high-risk industries are a focus.⁴¹

2.81 State and Territory agencies now record an entity's ABN as part of the applicable business registration or licensing requirements. This is an important development in the matching of business data. It enables the more effective and efficient matching of data held by those agencies with ATO data. Amongst the sets of data that the ATO now receives from State and Territory agencies are, in NSW, the ABNs for applicants for master security licences, and in Victoria for travel agents, real estate agents and liquor licences. Discussions with a number of agencies are underway or planned, including discussions with the various State and Territory departments of transport with the aim to capture ABNs as part of registration for taxis and commercial vehicles.

2.82 The TFN will be invariably a critical matching key in all of these types of data matching involving non-individual tax records. The ABN and the Australian Company Number (ACN) will also be of relevance in many instances. The complexity of the tax returns of some non-individual entities, such as those administered by the ATO's Large Business and International business line, would preclude many types of data matching that is appropriate for entities and individuals with less complex arrangements.

2.83 As has been demonstrated in previous ANAO audits and in *Numbers on the Run*, the achievement of high quality data matching requires high quality data, especially high quality matching keys. As previously reported in this Chapter, there are serious shortcomings in the quality of key data items in ATO's partnership, superannuation and trust databases.

2.84 Furthermore, as shown in Appendix 5, *Trust Tax Returns and TFN Quotation Rates*, only 26 per cent of trusts disclose the TFNs of all beneficiaries and that this percentage has declined since 1995, when it was 31 per cent. In contrast, the percentage could have been expected to increase as a result of

⁴¹ An example provided by the ATO from the cash economy project is the horse racing industry. In this case, data matching relates to about 1 700 jockeys and 4 800 trainers, mostly individuals in business. Records are being matched for about 12 000 owners, with most ABNs provided being for companies and partnerships. Other cash economy data matching projects of note are bartering, antique and art dealings, and motor vehicle sales.

amendments to ITAA and other tax laws introduced in the 1998 Budget. The purpose of these amendments was to increase the disclosure rate of TFNs for some categories of trusts.⁴² It is not apparent from the data about TFN quotation rates for the beneficiaries of trusts that the ATO has received additional TFNs for any trust beneficiaries. Furthermore, the decline in the incidence of the quotation of the TFNs of beneficiaries is occurring at the same time as the number of trust entities lodging tax returns has increased significantly, as previously noted in this Chapter.

2.85 The ANAO considers that there is a range of data matching strategies, including the five categories mentioned above, that would apply to partnerships, trusts, companies, (particularly those in the micro segment administered by the ATO's Small Business business line), superannuation funds and some government entities.

Data matching with Australian Securities and Investments Commission

2.86 Since June 2002 the ATO has electronically matched company details against Australian Securities and Investments Commission (ASIC) data whilst conducting TFN and ABN registrations. This has improved the quality of company name data and assisted in the proof of identity process. In addition to the checks carried out during registration, the ATO has been electronically matching and updating ATO non-individual company records with ASIC data since May 2004. This enables the ATO to update company names with the correct name as reported and verified by the ASIC. The update is done each day. Further, the ATO is currently exploring the potential to utilise ASIC data to improve the integrity of superannuation data as part of the Superannuation Integrity project.

2.87 In 2003-2004, the ATO began matching the ASIC's registration status of a company with ATO data. The ATO is investigating the action that should be taken where the ASIC has deregistered a company requiring it to cease trading. The ATO may cancel the relevant ABN following deregistration by ASIC. The ATO may contact the entity in the first instance to determine its legal and trading status and therefore its entitlement to an ABN. In 2003-2004, this information was used to cancel about 28 000 ABNs. The ANAO notes that the ASIC can deregister a company for a variety of reasons, including the non-payment of ASIC fees, which might not have an immediate bearing on the

⁴² More specifically, the purpose of the amendments was to ensure that, broadly speaking, the trustee of a closely held trust with a trustee beneficiary discloses to the Commissioner of Taxation the identity, that is, the TFN, of the ultimate beneficiaries of certain net income and tax-preferred amounts of the trust within a specified period after the end of the year of income. The amendments did not apply to all trusts but only to closely held trusts where a trustee beneficiary is entitled to a share of a tax-preferred amount in the trust, or where a share of the net income of the trust is included in the trustee beneficiary's assessable income. This measure was expected to raise an additional \$30 million in each of 1999-2000 and 2000-2001.

company's legal and trading status. The ASIC's list of deregistered companies is available publicly.

2.88 At the time of the first audit, the ATO did not use ASIC data in this way. Report No.37 reported the results of matching ATO data against the publicly available ASIC list of deregistered companies. In that report, ANAO reported the results of matching the publicly available ASIC data against ATO's databases. This match showed that 40 per cent of deregistered companies were still recorded as active on the ATO's databases.

Income matching: trusts, companies and superannuation entities

2.89 The ANAO reported in Audit Report No. 48 of 2003–2004, *the Australian Taxation Office's Management and Use of Annual Investment Income Reports*, that the ATO could make better use of data available to it about the income of trusts and the distribution of trust income to beneficiaries.⁴³ The ATO has agreed to the ANAO's recommendations. The ATO has advised that it has commenced a risk assessment of Partnerships and Trusts from the perspective of whether the distributions from those entities have been flowing correctly down to beneficiaries.

2.90 ANAO notes that the Superannuation business line (SPR) uses data matching to support administration in many significant ways. ANAO considers that SPR could use additional data matching strategies to improve administration further in several areas, including:

- clearing the backlog of Superannuation Contribution Surcharge exceptions;
- reducing the likelihood of a member of a superannuation fund becoming 'lost', and therefore placed on the Lost Members Register by the better use of members' TFNs together with additional data matching, to help track benefits throughout a member's life; and
- clarifying the classification and status of a superannuation fund, especially those with small numbers of members.

ANAO conclusion about TFN integrity for non-individuals

2.91 The ANAO found that in response to the two reports, the ATO has taken a number of substantial initiatives to improve the integrity of the TFN system, particularly for individuals.

2.92 The ATO has also advised ANAO that:

⁴³ Audit Report No. 48 of 2003–2004, *The Australian Taxation Office's Management and Use of Annual Investment Income Reports*, paragraphs 5.38 to 5.51.

Integrity is a fundamental component of everything that the Tax Office does. TFN integrity is the cornerstone of our business. It is not confined to special projects, but is also a key focus of our business-as-usual activities.⁴⁴

2.93 There are, however, serious shortcomings in the quality of key data items for some categories of non-individuals, particularly non-individual entities such as partnerships, trusts and superannuation funds. The records for these entities do not have the same level of integrity as those of individuals. Accordingly ANAO considers that the areas of concern in relation to the TFN system are chiefly the ATO's administration of partnerships, trusts and superannuation.

Recommendation No. 2

2.94 The ANAO recommends that the ATO improve the quality of the ATO's databases in the areas of partnerships, trusts and superannuation as a matter of priority and bring the integrity of the ATO's databases in these areas up to the ATO's corporate standard.

ATO Response

2.95 Agree. The Tax Office is currently working with superannuation funds to improve reporting. The Tax Office is actively working to review corporate standards and processes to manage new and existing data holdings on a risk management basis. Further data tools are also being assessed to assist with the maintenance of Tax Office data and addressing of integrity issues.

Output Pricing Agreement

Numbers on the Run - Recommendation No. 5

That the Department of Finance and Administration and the Australian Taxation Office review the Australian Taxation Office Output Pricing Agreement to ensure that it reflects the whole-of-government requirements in relation to the Tax File Number system.

Findings of *Numbers on the Run*

2.96 The role of the TFN system is much broader than ensuring the collection of tax revenue. The TFN system plays an important role in the management of both the superannuation industry and the Commonwealth benefits payment systems. Furthermore, subject to regulation by the Privacy

⁴⁴ Correspondence to the ANAO from the ATO dated 17 November 2004.

Commissioner, a wide range of other Australian government departments use ATO data to facilitate the operation of their systems

2.97 The Committee considered there was scope to broaden the perspective of the Output Pricing Agreement (OPA)⁴⁵ to include consideration of the whole-of-government service provided by the TFN system and that the Department of Finance and Administration (Finance) and the ATO should consider means of better reflecting the use of the TFN system across government.

2.98 The Committee considered that formally including the broader use of the TFN system in the OPA would be an effective means of ensuring the activities are given suitable priority by the ATO.

ANAO's findings from the current audit

2.99 The ANAO found that the ATO received additional funding of \$13 million in 2002–2003 and again in 2003–2004 to implement the recommendations of the two reports that had a direct bearing on TFN integrity. This funding was provided under its OPA for a range of new initiatives.

2.100 The ATO advised that the funding has been used for various TFN integrity related activities. This has included establishment of the Tax File Number Integrity Improvement (TFNII), including TFN registration and maintenance services, and TFN integrity related data matching. The ATO also advised that the total investment in TFN related activities over this time, exceeded the additional funding received by \$4.42 million.

2.101 The ANAO observed that the ATO has also made an investment in several whole of government or cross agency initiatives.

ANAO conclusion in relation to *Numbers on the Run* Recommendation No. 5

2.102 The ANAO found that the ATO received additional funding to implement the recommendations of the two reports that directly related to TFN integrity as part of its 2002–2003 OPA. This funding has assisted the ATO to implement a number of new initiatives that enhance the quality of its Client Register. This has a whole-of-government flow-on effect as the TFN is used across government agencies for various purposes.

⁴⁵ The Output Pricing Agreement is an agreement between Department of Finance and Administration (Finance) and the ATO that sets out ATO funding against specified outputs.

2.103 The ATO has also invested in several whole of-government and/or inter-agencies initiatives to improve the integrity of the TFN system overall.⁴⁶

2.104 The ANAO considers that the ATO, by working with Finance to secure additional funding for TFN integrity and related activities, has fully implemented Recommendation No. 5 of *Numbers on the Run*.

⁴⁶ These have included:

- development of the automated individual auto registration (IAR) system for visitors and permanent migrants to Australia;
- scoping and conduct of a pilot study for the implementation of an IAR system for Centrelink clients;
- implementation of the common proof of identity framework;
- development of a real time transactional searching facility for DIMIA, to facilitate locating non-residents believed to be illegally residing in Australia; and
- participating in cross agency activities under the direction of the Commonwealth Reference Group on Identity Security looking at ways to improve the integrity of agencies registers.

3. Client Service

This Chapter discusses Recommendations No. 1, 2(b) and 2(e), and 6 of Report No. 37, and Recommendations No. 10 (part 2 only), 11, 12, and 13 of Numbers on the Run. These recommendations concern client service aspects of TFN registration, including using new registration channels, enhancing the Schools Education Program, improving TFN advice to applicants, and simplifying TFN withholding arrangements for exempt investors.

Introduction

3.1 In Report No. 37, the ANAO found that the ATO's TFN system has improved administrative efficiency by enabling the provision of better services to clients at lower cost. The Committee considered that high quality, efficient, accessible, and timely TFN registration procedures are important for delivering good customer service. In order to streamline TFN registration, the Committee encouraged the ATO to:

- continue to review its procedures; and
- seek client feedback, to ensure that it is making effective use of available technologies.

3.2 The Committee noted that improving TFN registration procedures would result in increased taxpayer awareness, and higher quality client service. This could be achieved through improved accessibility to TFN registration services, and faster processing time.

Chapter structure

3.3 This Chapter discusses our findings and recommendations relating to the client service aspects of TFN registration, focusing on:

- accessibility of TFN registration services, including providing registration services through alternative means additional to the ATO;
- improving TFN advice to applicants; and
- simplifying TFN withholding arrangements for exempt investors.

Registration channels

3.4 The ATO assigns a TFN to a client after an application has been successfully lodged and processed. A client can lodge a TFN application through the following registration channels:

- in person, at an ATO shopfront;

- mail, by posting the application form and original identity verification documents to the ATO;
- the internet, through the Australian Business Register (ABR) for business clients, and through ATO's website for temporary visitors or permanent migrants;
- the Schools Education Program (SEP), for secondary schools students enrolled at participating schools; and
- Centrelink or the Department of Veterans' Affairs, for clients of these agencies.

3.5 Ensuring that people have ready and equal access to TFN registration services is an important part of delivering on the ATO's commitment to treating all taxpayers fairly, as required by the ATO's Taxpayers' Charter. The ANAO and the Committee investigated TFN registration channels during the previous audit, and during the *Numbers on the Run* review.

Report No.37 - Recommendation No. 2(b)

The ANAO recommends that the ATO in conjunction with other agencies research and report appropriately upon the privacy considerations, client benefits and cost-effectiveness of:

- delivering TFN client services through appropriate alternative means additional to the ATO.

ATO Response: Agree. The ATO has been for some time undertaking work with Centrelink on a range of initiatives, including electronic transfer of Centrelink client applications and Pol certification by Centrelink for non-Centrelink clients. In relation to new arrivals into the country, DIMIA and the ATO are working together on a new system of automatic registration.

***Numbers on the Run* - Recommendation No. 12 and 13**

That Centrelink be able to accept TFN applications from any applicant and not just Centrelink customers as an option for those with limited access to alternatives, and that a system for electronically transferring this information to the ATO be introduced.

That the Department of Immigration and Multicultural Affairs (DIMIA) and the ATO introduce automated TFN registration for new arrivals into Australia.⁴⁷

⁴⁷ At the time of the previous audit and the Committee's inquiry, this was the Department of Immigration and Multicultural Affairs.

Findings of Report No. 37 and *Numbers on the Run*

Alternative means of delivering client service

3.6 The ANAO and the Committee noted the potential for increased TFN registrations through schools, Centrelink and DIMIA. ANAO and the Committee also considered that using alternative means to register TFNs would improve client service, and verification of the identity of applicants. In order to improve registration services in rural and remote areas, the Committee suggested that the ATO also investigate using other agencies to register or accept TFN applications.

Schools

3.7 The ANAO and the Committee's recommendations and findings in relation to the SEP, and our comments on the ATO's progress in implementing this recommendation, are discussed later in this chapter.

Centrelink

3.8 ANAO considered that there was significant benefit for Centrelink clients in remote and regional areas to be able to register for a TFN through Centrelink offices. Consequently, ANAO suggested that there was merit in Centrelink being able to accept TFN applications from any applicant, not just those who are Centrelink clients. The Committee agreed with this proposition, and determined that the ATO was responsible for advancing this proposal. Accordingly, the Committee urged the ATO to act on their agreement to investigate this proposal.⁴⁸

Department of Immigration and Multicultural and Indigenous Affairs

3.9 The ATO advised the ANAO during the previous audit that a joint ATO-DIMIA project was underway.⁴⁹ This project aimed to systematically exchange visa issue data as the basis for automated TFN registration. The ATO anticipated that this initiative could automate the registration of 200 000-300 000 TFN applications per year.

3.10 The auto-registration system would be based upon the ability of DIMIA to ascertain the identity of the applicant. The ATO believed that if DIMIA had satisfied itself of the applicant's identity for entry purposes into Australia, then sufficient verification of identity for TFN purposes was established.

⁴⁸ The first step advocated by the Committee was for the ATO to obtain a costed option from Centrelink.

⁴⁹ The previous audit was conducted in 1998-99, however the DIMIA Individual Auto Registration (IAR) system was not implemented until November 2002.

ANAO's findings from the current audit

Alternate means of delivering client service

3.11 ANAO found that in 2003–04, over 70 per cent of TFN applications for individuals were received through third parties. A breakdown of TFN applications by registration channel is provided in Table 3.1.

Table 3.1

New individual Tax File Number registrations by channel for 2003–04

Registration channel	No. of TFN registrations	Total No. of TFN registrations	% of TFN registrations	Total % of TFN registrations
ATO		137,205		26.31
Counter	78,633		15.08	
Mail	58,572		11.23	
Non-ATO¹		384,294		73.69
Schools Education Program	115,637		22.17	
Government Departments	48,763		9.35	
DIMIA auto-registratin	219,894		42.17	
Total		521,499	100	100

Source: ANAO analysis of data provided by the ATO.

Note 1. We have classified a channel as 'non-ATO' if the ATO has transferred responsibility for verifying identity to another agency or entity.

3.12 ANAO found that when individuals apply for a TFN through the mail, they are currently required to provide original copies of their identity documents to the ATO. This may include, but is not limited to, their birth certificate, passport, and driver's licence. The potential loss of these documents is a risk for both the individual and the ATO. The ATO could investigate the option of allowing applicants who apply by mail to provide certified copies of their original identity documents.⁵⁰ This initiative would reduce the risk of losing original documents, and provide identity verification assurance commensurate with present standards. ANAO considers that the level of

⁵⁰ A certified copy means a genuine copy of the original document declared to be true and correct by a specified authority, such as a solicitor or Justice of the Peace.

assurance could be significantly enhanced through the use of a document verification service, as discussed in Chapter 4, *Identity Verification*.

Centrelink

3.13 The Commissioner made a commitment in the ATO's ECMP to generate TFNs faster electronically through Centrelink, and other approved partners. These processes were to be operational by June 2004. As a first step, the ATO and Centrelink are trialling processes for the electronic transfer of TFN application details for Centrelink clients.

3.14 The trial of the streamlined TFN application process for Centrelink clients was conducted between September and November 2004. The trial involves Centrelink, as a trusted third party:

- collecting client information for a TFN application;
- verifying applicants' identity details; and
- electronically transferring this information to the ATO.

3.15 Client approval is required for information to be transmitted online to the ATO. Written client consent is also required for the ATO to advise Centrelink of the applicants' TFN.

3.16 The ATO advised that discussions with Centrelink have recently commenced regarding Centrelink accepting TFN applications from non-Centrelink clients.

Department of Immigration and Multicultural and Indigenous Affairs

3.17 In November 2002, the first phase of the Individual Auto Registration (IAR) system was deployed. Over 40 per cent of individual TFN applications were received through the IAR facility in 2003–04. The IAR system enables overseas visitors and permanent migrants, who are issued with a work visa by DIMIA, to apply for a TFN over the internet. The IAR application process was designed for possible extension to other sources of TFN applications, such as Centrelink and schools.

3.18 The ATO shopfronts have internet terminals that may be used for IAR applications. If an applicant has trouble with registration, ATO staff are able to help. Applying online has improved TFN registration services by allowing applicants to:

- apply for a TFN 24 hours a day, 7 days a week;
- retain identity documents while their application is being processed;
- not queue to have their identity documents sighted by ATO staff;
- complete Proof of Identity (PoI) documentation only once;⁵¹ and

⁵¹ The IAR system uses personal identity data from DIMIA's systems to meet the ATO's PoI requirements.

- apply for, and receive, their TFN more quickly.⁵²

3.19 The ANAO notes that in August 2004, the ATO completed a Post Implementation Review of the IAR system. The review was designed to inform the potential future expansion of IAR to Centrelink, Births Deaths and Marriages, and other agencies. It assessed whether the ATO has addressed the Report No. 37 and *Numbers on the Run* recommendations, and aimed to discover any lessons learnt from the ATO's and DIMIA's involvement in the project. The review report contains seven recommendations, including improving the search engine, improving the integrity of both agencies' data, the establishment of a forum to improve communications between the agencies on matters of mutual interest and the standardisation of report formats.

3.20 The ATO has accepted the recommendations. The review also suggested that issues relating to the search engine, improving data integrity, and establishing a business owner for the link be addressed prior to any expansion of IAR to Centrelink.

3.21 The ANAO found that in 2003–04, the majority of the ATO's TFN registration services for individuals were delivered through means additional to the ATO. These channels include the SEP, Centrelink, and the DIMIA auto registration facility. The ATO is working with Centrelink to clarify issues relating to Centrelink's acceptance of TFN applications from all TFN applicants, not just Centrelink clients.

3.22 Centrelink has advised the ANAO that the issue of Centrelink accepting TFN applications from non-Centrelink customers has been discussed with the ATO from the perspective of a second phase post implementation of the automated facility for Centrelink customers. Centrelink has further advised that the TFN automation project will implement an automated process that will enable Centrelink to request TFNs on behalf of its customers and will automatically process TFN requests and enquiries. Centrelink states that this automated process will be replicated by the ATO for the purpose of returning TFN information to Centrelink. Centrelink has also advised that it is seeking clarification from the ATO on the issue of verification of identity and service standards to ensure that the requirements of both agencies are met through this process.

ANAO conclusion in relation to Recommendation No. 2(b) of Report No. 37 and Recommendations No. 12 and 13 of *Numbers on the Run*.

3.23 The ANAO considers that the ATO has fully implemented Recommendation No. 2(b) of Report No. 37, achieved limited progress in the

⁵² The ATO has advised that the waiting time for 97 per cent of TFN applications for new arrivals has reduced from 28 days to 14 days.

implementation of Recommendation No. 12 of *Numbers on the Run* and has fully implemented recommendation No. 13 of *Numbers on the Run*. ANAO acknowledges that the ATO is progressing Recommendation 12 of *Numbers on the Run*. However, we consider that progress to date has been slow.

Recommendation No. 3

3.24 The ANAO recommends that the ATO improve client service by actioning the Committee's recommendation to have Centrelink accept TFN applications for non-Centrelink clients and ensuring that the TFN applications received by Centrelink on behalf of the ATO meet ATO requirements for verification of identity, and service standards.

ATO Response

3.25 Agree with qualification. The Tax Office will continue to work closely with Centrelink, and other agencies, on a range of initiatives to improve client service. Centrelink's acceptance of Tax File Number applications from non-Centrelink clients is a matter requiring Centrelink's agreement. The Tax Office will also continue to work closely with the Attorney-General's Department and other agencies to ensure identity verification processes are consistent with those endorsed by the whole of Government proof of identity working group.

The Schools Education Program

Report No.37 - Recommendation No. 1

The ANAO recommends that the ATO:

- examine the cost effectiveness of offering an electronic service to schools in regard to TFN applications;
- maximise the proportion of eligible 15 and 16 year olds enrolled at schools who choose to receive their TFN through the ATO's SEP; and
- seek the support of the Department of Education, Training and Youth Affairs in preparing a submission for ministerial consideration about obtaining the cooperation of peak school bodies to the conduct of the ATO's Schools Education Program in Year 9 classes on an annual basis.

ATO Response: Agree. The ATO realises that we are fortunate to be in a somewhat privileged position to have access to those schools who choose to take part in the SEP. There is a pilot underway in two schools in Victoria to test the viability of electronic applications in schools. The ATO is conscious that: it must not, nor must it be perceived to be, transferring its costs to other organisations; positive marketing is essential for SEP; the intention of Parliament in the TFN legislation is quite clear in that all taxpayers, including students, still have a choice whether to apply or not; there are other curriculum pressures and priorities for schools.

Numbers on the Run - Recommendation No. 11

That the ATO take steps to improve the coverage of the SEP, including through working with the Department of Education, Training and Youth Affairs in approaching peak school organisations in order to seek their support for this program.

Findings of Report No.37 and *Numbers on the Run*

3.26 In 1994 the ATO began implementing SEP in secondary schools. The dual objectives of the program were to inform students of their future taxation responsibilities, and provide the opportunity to apply for a TFN through their school. The school authorities would certify the identity of each student applying for a TFN.

3.27 The ANAO noted that in 1995–96, 88 376 TFNs were registered through the SEP. This accounted for 43 per cent of the TFNs registered to young people between the ages of 15 and 18, and 19 per cent of Year 9 and Year 10 students in Australian schools. In 1997–98 the SEP was responsible for 61 per cent of the registrations for young people between the ages of 15 and 18.

3.28 The ANAO and the Committee agreed that the SEP is an ATO initiative that was beneficial to all parties involved. The SEP:

- helped young people understand their tax rights and responsibilities under Commonwealth law;
- registered a high proportion of the TFNs issued to youth;
- provided an effective way of obtaining quality, low cost TFN registrations;⁵³ and
- ensured that students entering the workforce had a TFN, and therefore did not incur TFN withholding tax.

3.29 The ANAO estimated that between one third and one half of the SEP staff time was spent negotiating access to schools. ANAO considered that if the SEP obtained a high-level agreement to access schools, there would be an administrative efficiency for the ATO. The Committee agreed with the ANAO in recommending that the ATO work through peak school organisations in order to seek support for the program.

3.30 The Committee found that despite having software and systems that would be highly suited to offering schools an electronic TFN application (e-TFN) service, the trial of e-TFN foreshadowed by the ATO in response to the

⁵³ The ANAO estimated that the cost of registration through SEP was \$10 less than direct application through ATO.

ANAO's recommendation, was delayed. In its submission to the Committee the ATO stated that:

Since preliminary discussions with the schools, the proposed pilot has been somewhat delayed because of other priorities, but the ATO still intends to progress this initiative. Current timing would see the pilot commence early in 2000.⁵⁴

ANAO's findings from the current audit

Management of the SEP

3.31 The ATO's marketing and education strategy for the individuals' market, comprising some 10 million people, is made up of a number of smaller strategies relating to particular segments within this market. These segments include, for example, seniors, youth, investors and families. All of these strategies are based on an analysis of the risks and needs relating to that particular segment. According to the ATO, the balancing and prioritising the risks within each segment determines resource allocation.

3.32 The strategy to educate and introduce the youth segment to the tax system consists of a range of activities and deliverables based around the sometimes complicated and varied needs of clients in the 12–25 year old age group. The SEP is one program within the overarching youth strategy and as such any information, planning and delivery requirements are specified in this 'Youth Strategy'.

3.33 ANAO found that the ATO's *Youth Strategy* for 2004–05 was finalised in January 2005. The *Youth Strategy* is essentially a communication strategy for the youth market. We found that the *Youth Strategy* does not contain program planning or resource allocation information for the SEP.

3.34 The ATO has advised that, whilst it has finalised the strategy for 2004–5, all sub-segment strategies for 2005–6 will be developed in line with the ATO governance and risk assessment frameworks.

3.35 ANAO found that up to the equivalent of 4 Full-Time Equivalent (FTE) staff are involved in administering and delivering the SEP over a full year. However, because the workload is variable throughout the year, there are no dedicated staff members who work solely on the program. Resourcing is balanced across all marketing and education programs depending on which is the priority at a particular time of year. For example, during December and January SEP has little need for resources because of the school holiday period.

⁵⁴ Australian Taxation Office, *ATO Submission to the House of Representatives Standing Committee on Economics, Finance and Public Administration's Inquiry into The Management of the Tax File Number System*, 1999, p.20.

3.36 ANAO found that in January 2005, the ATO finalised the SEP's internal procedures. Amongst other things, the procedures are designed to achieve national consistency.

3.37 ANAO found that the ATO has not worked through peak school organisations to increase coverage of the SEP. When we asked if the ATO has any plans to do so, we were advised that:

[the ATO] directly contacts schools to obtain their agreement to participate in SEP. Each school make[s] their own agreement with the ATO with reference to running the program.

The ATO has advised that as it has agreements with 97 per cent of schools, and 85 per cent are considered to be actively participating in the program, it considers that it is not necessary to take any further action in relation to Recommendation No. 1(c) of Report No. 37 and Recommendation No. 11 of *Numbers on the Run*.

Self management in schools

3.38 The ATO has adopted recently a self-management approach to deliver SEP. Client Access and Education (CAE), the area within the ATO responsible for delivering the SEP has provided a 'Self-Management Kit' to all secondary schools in Australia. CAE encourages schools to inform students of the need to obtain a TFN. Schools now perform the education and identity verification process that were previously performed by ATO staff.

3.39 The ATO pays schools \$3.30 for each TFN application received. This funding covers the administrative cost of the school checking the TFN application, and performing PoI validation. CAE visits approximately 10 per cent of schools each year, focusing on schools that were not visited, or did not submit applications the previous year. CAE also visits any school that specifically requests a visit.

3.40 In relation to the provision of an electronic service to schools, the ATO advised that it has considered this as the ANAO and the Committee recommended. However, the ATO has concluded that the provision of an electronic service to schools is not cost-effective at this time. The ANAO accepts this conclusion. Nevertheless, as IT facilities in schools improve and become more standardised, electronic lodgement of TFN applications in the SEP could prove cost effective in the longer term.

Curriculum Kit

3.41 In addition to CAE staff, the ATO engaged the Curriculum Corporation, to:⁵⁵

⁵⁵ The Curriculum Corporation, 2004, <<http://www.curriculum.edu.au>>.

- redevelop the student and teacher materials for the secondary education program. This included re-writing the text and developing graphics to produce a 'Curriculum Kit'. This material was previously prepared by the ATO; and
- consult with a range of national stakeholders to ensure relevancy of the Curriculum Kit to each of the State and Territory curriculum systems.⁵⁶

3.42 ANAO found that the ATO intends to make the Curriculum Kit the flagship product in its relationship with schools. The Kit, released in October 2004, will be targeted at Year 9 and 10 students. It contains an introduction to the tax system, personal tax information, and business tax information.

Objectives, monitoring and reporting

3.43 In 2003–04, SEP registered 115 637 new TFNs. This constituted 45 per cent of the total TFNs registered to young people between the ages of 15 and 18. Table 3.2 depicts the 2003–04 TFN registrations for 13 to 18 year olds, according to the channel used to apply for a TFN.

Table 3.2

2003–04 Tax File Number registrations by age

Age	Number of TFN applicants for 2003–04 by channel						Percent registered through SEP	
	Counter	Mail	Govt Dept	SEP	DIMIA	Total	Secondary school students	Total TFN ¹
13	800	753	57	594	91	2,295	0.22	25.88
14	1,727	2,243	112	8,737	186	13,005	3.28	67.18
15	7,345	10,024	574	46,768	712	65,423	18.49	71.49
16	14,188	16,454	12,853	43,886	1,513	88,894	19.55	49.37
17	10,451	9,455	18,742	10,957	2,058	51,663	6.33	21.21
18	10,825	5,956	3,361	3,302	3,174	26,618	8.98	12.41
19	8,886	3,294	2,006	1,116	7,949	23,251	21.12	4.80
All age groups²	78,633	58,572	48,763	115,637	219,894	521,499	N/A	22.17

Note 1: Total TFN means total number of TFN applicants.

Note 2: All age groups is the total number of TFN applications registered by the ATO for all age groups.

Source: ANAO analysis of data provided by the ATO and ABS data.

⁵⁶ The contract between the ATO and the Curriculum Corporation for producing the 'Curriculum Kit' was valued at approximately \$110 000.

3.44 While the SEP targets students in Year 9 and 10 (i.e. 14 and 15 yr olds), the table above shows that in 2003–04, most TFN applications in the 13 to 19 year old age range were for 16 year olds (88 894 applications). Approximately 50 per cent of the TFN applications by 16 year olds were through the program. Also, approximately 71 per cent of fifteen year olds that received a TFN were registered through the SEP. ANAO notes that the ATO has examined and acted on any age anomalies in the data.

3.45 ANAO found that in the past the ATO's targets for the numbers of TFN applications received by the SEP were simply based on past achievements, namely, the previous years' TFNs received.⁵⁷ The ATO is undertaking an analysis of the youth segment and the channels it uses to apply for TFNs with a view to setting stretch targets in future years. The ATO intends to annually increase the targets over the next 3-year period.

3.46 The proportion of eligible 15 and 16 year olds registered through SEP has changed little over the years. The ATO has not evaluated whether or not it has maximised the proportion. In this regard, ANAO notes that some students may choose to obtain their TFN through other means such as the family tax agent. However, the ATO could not provide estimates of the number or proportion of students who may choose to do so. ANAO considers that the ATO should aim to receive TFN applications from a nominated percentage of the relevant age group.

3.47 Good program administration practices suggest that the ATO regularly monitor and report the performance of the SEP. To review the SEP performance over time, we requested that the ATO provide longitudinal data, such as the number of TFN applications received through the SEP, and SEP cost estimates by financial year. Our analysis of this data showed inconsistencies in the information provided. We also found that it is difficult to obtain definitive SEP registration information. This is due to discrepancies between the CAE's and Registrations' reporting practices. The ATO has recently implemented a process with the ATO's TFN registration area to identify and rectify these discrepancies.

Risk management

3.48 Risk management is an integral part of good management practice. It involves establishing the context, identifying, analysing, evaluating, treating, monitoring and communicating risks.⁵⁸ The ATO uses risk to prioritise and

⁵⁷ The ATO have advised that the TFN target has been increased to 115, 000 for the 2005 financial year and will be updated annually thereafter. A moderate increase in the target was implemented to acknowledge exceeding of the target in 2004.

⁵⁸ Standards Australia, *Risk Management AS/NZS 4360:1999*. Standards Association of Australia. Strathfield, 1999, p.1.

resource all of its marketing and education strategies including the *Youth Strategy*. When we asked if a risk analysis had been done, or if there is a risk management plan for the SEP, the ATO advised that:

no formal risk management plan has been done, since SEPs existence is based on low risk, high return efficiency.⁵⁹

While it may not be necessary for the ATO to have risk management plan for the SEP, this decision should be made as a result of undertaking risk identification and/or analysis.

ANAO conclusions in relation to Recommendation No. 1 of ANAO Report No. 37 and Recommendation No. 11 of *Numbers on the Run*.

3.49 ANAO accepts that the ATO's approach to youth in the SEP needs to be consistent with its broader youth sub-segment strategies. ANAO also acknowledges the administrative challenges of providing an electronic service to schools for TFN applications.

3.50 There are several factors indicating that there may be opportunities for the ATO to manage the SEP more effectively. The SEP program strategy was not finalised until half way through the year to which it relates. The ATO has only begun to consider the setting of 'stretch' targets that nominate the percentage of the relevant age group from which the ATO should receive TFN registrations through the SEP. In addition, there has been no ATO analysis of the maximum coverage achievable. These factors have directly impacted on the ATO's ability to implement the recommendations.

3.51 The ANAO understands that the objectives of the SEP are broader than simply maximising the proportion of young people in the relevant age groups who obtain a TFN through the SEP. The SEP principally aims to help young people understand their taxation rights and responsibilities. Furthermore, there will always be a proportion of young people who do not need a TFN at the time of the SEP presentation.⁶⁰ However, the ANAO accepts that the setting of stretch targets for the SEP that related solely to the numbers of TFN registrations obtained as a result of a SEP presentation would be inappropriate. The ANAO notes that the stretch targets that the ATO proposes to set for SEP are expected to be an improvement on past practice.

3.52 The ANAO considers that the new stretch targets should be used to guide resourcing and performance evaluation. In this regard, it is important

⁵⁹ Australian Taxation Office, Client Access and Education, 2004.

⁶⁰ ABS data notes that only 37.4 per cent of year 10 students and 47.5 per cent of year 11 students are in the labour force. ABS Series 6227.0 *Education and Work May 2004*, published 2 Dec 2004.

that they are informed by a sound statistical analysis of the proportion of young people at school for whom the SEP is relevant.⁶¹

3.53 ANAO finds that the ATO has partially implemented Recommendation No. 1 of Report No. 37 and Recommendation No. 11 of *Numbers on the Run*.

Recommendation No. 4

3.54 The ANAO recommends that the ATO, in the context of its strategic marketing and education framework, review management of the Schools Education Program to ensure that value is achieved from the Program.

ATO Response

3.55 Agree. (i) The Tax Office notes that the intent of the Schools Education Program is broader than Tax File Number registration, and seeks to educate school students on their responsibilities as participants in the tax system. From current evaluation of Tax File Number statistics the Tax Office has identified that the average number of Tax File Numbers from a school that has received a Tax Office visit is almost double the average number of Tax File Numbers from a school that has not received a visit. As a result of this analysis the Tax Office will be ensuring value by increasing the number of visits to schools in 2005/6.

(ii) The Tax Office is currently working to develop a risk management plan with strategies that will maximise the integrity of the system and reduce the duplication of Tax File Numbers.

Tax File Number advice to applicants

3.56 The ATO's client service is supported by the Taxpayers' Charter, and associated service standards. Under the Taxpayers' Charter (2003), the ATO has committed to:

- help members of the community comply with their tax obligations;
- listen to the community to continue to find ways to improve their experience with the tax system; and
- work with the community to make their experience easier, cheaper and more personalised.

⁶¹ The new stretch targets should also include statistical estimates of the proportion of young people at school of relevant age groups that might be expected to require TFNs. The ANAO understands that, in relation to TFN registrations from young people of school age, the ATO receives a significant proportion (approx 42%) of TFN applications through other channels, mainly family tax agents and ATO Access sites. It would be necessary to include estimates of the numbers that come through these channels, in addition to those that come through the SEP, in the statistical estimates used to inform the stretch targets.

The advice provided to individuals who apply for a TFN, or who enquire about an existing TFN, is an important education opportunity and communication mechanism through which the ATO interacts with members of the community. The ANAO and the Committee investigated the TFN advice provided to TFN applicants during the previous audit, and the *Numbers on the Run* review.

Report No.37 - Recommendation No. 2 (e)

The ANAO recommends that the ATO in conjunction with other agencies research and report appropriately upon the privacy considerations, client benefits and cost-effectiveness of:

- providing the client service number in a format which is easy for clients to access, use and maintain, while protecting their individual privacy.

ATO Response: Agreed with qualification. The ATO believes that such consideration should include taking into account the preferences of a range of different clients and notes that certain formats have not, at least in the past, seemed palatable to the general public (as recognised during the Australia Card debate). In reviewing options, there will also be a question of balance between community compliance costs and the ATO's cost of administration.

***Numbers on the Run* - Recommendation No. 10 (Part 2)**

That the ATO review its TFN registration processes, including ... improving the format and content of TFN advice supplied to TFN applicants.

Findings of Report No.37 and *Numbers on the Run*

3.57 At the time of the ANAO report and the Committee's review, TFNs were posted to clients on paper, a format that was not considered to be user friendly or secure. It was suggested that the ATO investigate best practice methods of advising clients of their TFN. This included considering the medium by which financial institutions advise their clients of their Personal Identification Number, and the way the United States issues Social Security Numbers.

3.58 The ATO advised the Committee that, as part of the Tax File Number Improvement Initiative (TFNII), they were reviewing the format and content of TFN advice supplied to TFN applicants. Additionally, they were 'developing some prototypes'. The ATO was considering:

- developing a more retainable format;
- options for improving taxpayer education at TFN issuing point;
- tailoring advice to market segments; and

- including information about the importance of retaining TFN details.

The Committee saw the review as an opportunity to improve taxpayer awareness. In particular, the information sent to people who applied for a new TFN, but already have an existing TFN, did not indicate that there was an existing TFN.

ANAO's findings from the current audit

3.59 ANAO found that the ATO continues to provide TFNs to applicants on paper through the post.

3.60 When a client applies for a TFN, or enquires about an existing TFN, the ATO sends them a 'TFN Advice Letter'. This letter is multipurpose by design. It does not make it clear to applicants whether they are receiving their TFN for the first time, or if it is a reminder of their original TFN.

3.61 The 'TFN Advice Letter' is different for individuals, non-resident individuals, and non-individuals. The advice letter for individuals clearly states that '... you only need one TFN. Your TFN will stay the same regardless of your changing circumstances'. New entrants also receive a letter from the Deputy Commissioner Personal Tax, accompanied by a brochure *Entering the Australian tax system—what you need to know*. This brochure provides the entrant with information on a range of taxation topics including: why we pay tax, TFN registration, TFN declarations, and lodging a tax return etc. However, this brochure does not highlight the fact that you will only ever have one TFN, and it is important to keep it safe and secure.

3.62 The ATO advised that the TFN Advice Letters were updated in 2002 with a view to simplifying language and improving their readability. These letters are again under review as part of the Letter Improvement Project.⁶² The current review is being used to ensure that important education messages are incorporated into TFN Advice Letters and brochures. The ATO has advised that it is planning to conduct user testing of the new letters to ensure their suitability and ease of use.

ANAO conclusions in relation to Recommendation 2(e) of Report No. 37 and Numbers on the Run Recommendation No. 10 (part two)

3.63 In respect of Recommendation 2(e) of Report No. 37, ANAO notes that, as legislation provides, the TFN is used across a range of Australian Government agencies in administration of various programs. ANAO accepts

⁶² This is a continuous improvement process initiated by the ATO in December 2002. It is intended to improve the quality and administration of the ATO's correspondence. It is reviewed in paragraphs 4.26 to 4.33 of Audit Report No. 19 of 2004-2005 *Taxpayers' Charter*, tabled in the Parliament on 17 December 2004.

that now Government direction would be required before proceeding with the introduction of a Client Service Number (CSN). Accordingly, research into the client benefits and cost effectiveness of providing a CSN, would be best managed at whole of government level, through established groups and forums.

3.64 In respect of *Numbers on the Run* Recommendation No. 10 (part two), ANAO finds that the ATO has fully implemented this recommendation. The ATO has reviewed its TFN advice to applicants, and is continuing to do so, as part of a Letter Improvement Project.

Tax File Number withholding

3.65 It is not compulsory to have a TFN. However, if a TFN is not quoted, or if details of an exempt status are not provided to a financial institution, the law requires that the institutions withhold a percentage of the amount of the interest payable to the account.⁶³ ANAO investigated the ATO's administration of the TFN withholding tax in the previous audit.

Report No.37- Recommendation No. 6

The ATO examine opportunities for simplifying the refund process for exempt investors who have incurred the TFN withholding tax, and examine the cost-effectiveness of establishing suitable arrangements to ensure the automatic identification of exempt investors.

ATO Response: Agree. The ATO agrees that this matter should be considered. Any proposed action will be evaluated in the light of tax reform and other priorities.

Findings of Report No.37

3.66 The ANAO ascertained that investors who receive certain income support payments were exempt from the imposition of the TFN withholding tax.⁶⁴ Exempt investors who had the TFN withholding tax deducted from the interest earned on investments applied to the ATO to obtain a refund. The ANAO found that the ATO refunded approximately 6 500 claims per year, and managed these through a stand-alone database. ANAO found that the system for refunding exempt investors was overly complex, and that there was scope for improvement and simplification of procedures.

⁶³ TFN withholding tax is levied at the highest marginal rate, which is currently 48.5 per cent, plus the Medicare levy.

⁶⁴ Examples of exempt investors include: pensioners (e.g. age pension, widows pension, disability support pension), children under sixteen (whose investments are valued at under \$420 per year), and no-for-profit organisations.

3.67 The ATO advised the ANAO during the previous audit that some instances of non-quotation of a TFN arose because investors changed accounts within the investment body. This situation was occurring with increasing frequency. Although investment bodies had the ability to automatically transfer their customer's TFN to a new account, many did not. In many cases reviewed by the ANAO, the status of the investor was apparent from their bank statement, as it identified them as a recipient of the income support payment that determined their exempt status.

ANAO's findings from the current audit

3.68 ANAO found that if the TFN withholding tax has been incorrectly withheld, exempt investors can now apply directly to financial institutions to have the amount withheld refunded. This includes when a TFN was provided, or notification of exempt status was made. When TFN withholding tax has been correctly withheld by a financial institution, exempt investors can apply to the ATO to obtain a refund, by:⁶⁵

- completing an 'Australian resident investor. Refund application for tax file number amounts deducted' form; or
- including the amount withheld in the 'gross interest' section of their tax return.

3.69 The refund form for exempt investors was revised in order to make the refund process easier. This form is available from ATO shopfronts, and may be downloaded from the internet. However, it is difficult to find the form and relevant information on the ATO's internet site. Nor could it be obtained from the ATO's personal tax line.

3.70 The ATO currently refunds approximately 3 800 claims per year. The ATO now records TFN withholding refunds on the ATO Integrated System (AIS).⁶⁶ The ANAO found that the ATO has procedures to ensure that exempt investors are not able to apply for a refund twice, for example, by lodging a form, and then claiming again through their tax return.

3.71 ANAO found that the ATO consulted with financial institutions through the Interest and Dividend consultative forum over several months about TFN withholding arrangements and exempt investors. The ATO found that not all financial institutions have the ability to automatically apply TFNs to accounts and investments held. Further, the financial institutions believed

⁶⁵ Where TFN withholding tax is withheld for an investor who has not provided a TFN, and is not exempt, the investor may only apply for a refund through their tax return.

⁶⁶ The ATO Integrated System is an accounting system for instalment based taxes. It maintains client details, and the transaction related to each client.

that administrative costs, and the cost of having Centrelink provide proof of exemption status on payments was prohibitive.

3.72 The ATO proceeded to educate exempt investors by publishing articles in pensioner magazines and newsletters, and by asking financial institutions to integrate TFN advice into their procedures. Further, the new refund application form requires exempt investors to declare that they have now informed the financial institution of their TFN or exempt status.

3.73 The ATO advised that it would re-examine the cost effectiveness of the automatic identification of exempt investors during their progression of the IAR process with Centrelink.

ANAO conclusion in relation to Recommendation No. 6 of Report No. 37

3.74 The ANAO considers that the ATO has fully implemented Recommendation No. 6 of Report No. 37. The ATO has worked to increase the awareness of exempt investors, in order to prevent them from incurring TFN withholding tax unnecessarily. The ATO has also simplified the refund process for exempt investors who have incurred the tax. The cost-effectiveness of establishing automatic identification of exempt investors was examined by the ATO, and found to be cost prohibitive.

4. Identity Verification

This Chapter presents the ANAO's findings against Recommendations 18 through 21 of Numbers on the Run and Recommendations 2(a), 2(c) and 2(d) of Report No. 37. These recommendations relate to proof of identity and the verification of identity.

Introduction

4.1 Identity fraud is an increasing threat throughout the world as false and stolen identities are used for a range of criminal and terrorist activities. Identity fraud involves the gaining of benefits, whether money, goods or services, through the use of a false identity. It may include, but is not limited to:

- evading the payment of taxes, levies or other debts;
- fraudulently obtaining benefits, pensions and/or entitlements;
- fraudulently obtaining money, loans, finance and/or credit; and
- counterfeiting and/or skimming of credit cards.⁶⁷

4.2 The client registration and identity verification processes of government agencies are an important control in preventing identity fraud. The integrity of these processes is essential in preventing the registration of identities in false or assumed names.

4.3 The ATO has a legislative requirement to accurately identify a client before it can issue a TFN. The ATO relies on various identity documents to establish the identity of an individual.⁶⁸ Once a TFN is obtained, it can then be used to access other government payments and services. This creates interdependency between government agencies' identity verification and client registration processes.

4.4 *Numbers on the Run* highlighted weaknesses in Australian Government agencies' client registration and identity verification processes. Accordingly, the Committee made several recommendations to address these issues. These recommendations were largely directed to the Government, and focused on developing whole-of-government strategies to prevent identity fraud and misuse.

⁶⁷ Australasian Centre for Policing Research, *Australasian Identity Crime Policing Strategy 2003-2005*, p.1.

⁶⁸ These documents are outlined in Appendix 9.

Chapter structure

4.5 This Chapter provides an overview of the whole-of-government response to identity fraud, including a summary of ANAO's findings from the current audit on this matter. In the absence of a Government response to *Numbers on the Run*, the ANAO has not audited matters outside the ambit of ATO's direct responsibility. Accordingly, the ANAO has not reached specific conclusions on these matters. The Chapter also reviews specific matters that are the ATO's responsibility.

Whole-of-government response to identity fraud

4.6 A number of government agencies have worked together to develop strategic solutions to the issues identified in *Numbers on the Run*.⁶⁹ This work commenced in 2000, with the establishment of an informal working group. The working group was convened to develop a common proof of identity (PoI) framework. This early work was later picked up by the Attorney-General's Department (AGD) and progressed as part of a whole-of-government strategy to enhance client identification and verification processes in government agencies. Appendix 6, presents a summary of developments in relation to management of identity fraud and related issues.

Governance arrangements

4.7 Since 2001, the AGD has been the lead agency in developing whole-of-government strategies and policies in relation to identity verification and fraud. It works extensively through a range of other groups, including the Commonwealth Reference Group on Identity Fraud. This group was formed in 2003 and is chaired by the AGD. It has a broad role, which encompasses strengthening identification systems and combating identity fraud. The Reference Group's terms of reference and a listing of its member agencies are outlined in Appendices 7 and 8.

Assessing the risk of identity fraud

4.8 To gain an insight into the extent and nature of identity fraud in Australia, the AGD undertook a study of the management of identity fraud risks within several Australian Government agencies. Subsequent reports entitled *Who Goes There* and *Scoping Identity Fraud: an abridged version of a report on Identity Fraud Risks in Commonwealth Agencies* (later referred to as *Scoping Identity Fraud*) were released in 2001. The AGD, after consultation with relevant Australian Government agencies about the recommendations arising from *Who Goes There*, coordinated a submission to Government. The

⁶⁹ This includes Australian Government, State and Territory government agencies.

submission sought approval to develop a whole-of-government strategy to enhance identification and verification processes in Australian Government agencies.

4.9 In July 2003, the Minister for Justice and Customs announced a whole-of-government proposal to address identity fraud and misuse. The AGD was nominated as the lead agency with responsibility for co-ordinating this work in consultation with relevant agencies. The Government's proposal included the completion of three feasibility studies to examine:

- developing a common set of identifying documents of higher integrity to be used by government agencies;
- establishing an on-line identity verification service for primary identification documents; and
- defining cross-agency data matching to support activities directed at detecting fictitious identities and cleansing identity registers.

4.10 Steering committees, comprising representatives from Australian Government, State and Territory government agencies, were established to oversee the feasibility studies. The studies were completed in December 2003. The AUSTRAC PoI Steering Committee also commissioned a study to examine the extent and cost of identity fraud to Australia. The findings of these studies are discussed in the relevant sections of this chapter.

Recommendations from *Numbers on the Run*

4.11 In *Numbers on the Run*, the Committee recommended that the Commonwealth Government undertake a number of activities aimed at strengthening PoI processes. In summary, the Committee recommended that the Commonwealth Government:

- assess the extent and cost of identity fraud in Australia;
- instigate a formal process for assessing PoI risks and reform across the Commonwealth; and
- formalise a process for working with other levels of government and industry to develop options for reducing and preventing identity fraud.

4.12 The audit has looked at how each of these points have been addressed.

***Numbers on the Run* - Recommendation No. 18**

That the Commonwealth Government work with other levels of government and industry to develop national statistics on the extent and cost of identity fraud in Australia.

Findings of *Numbers on the Run*

4.13 The Committee identified in *Numbers on the Run* that PoI fraud was of particular community concern. Anecdotal evidence suggested that PoI fraud was increasing. However, there was a lack of available information on the extent and cost of identity fraud. The Committee expressed the view that, quantifying the economic impact of identity fraud would be a powerful step towards ensuring support for reform across all levels of government, business and the community. A point-in-time estimate of identity fraud was considered to be a useful first step.

ANAO's findings from the current audit

4.14 The AGD in its report *Scoping Identity Fraud*, estimated the potential cost of identity fraud in Australia to be in excess of \$4 billion per annum.⁷⁰ This was an approximation of the cost of identity fraud based on the estimated financial and economic cost of crime in Australia. The report noted that a greater knowledge of the type and incidence of identity fraud is required before a more accurate quantification of the size and cost of the problem is possible.⁷¹

4.15 The AUSTRAC PoI Steering Committee, commissioned a study to examine the extent and cost of identity fraud in Australia. This study was, in part, commissioned because of the size of this annual estimate, the methodological and data complexities involved in preparing the estimate.

4.16 The Securities Industry Research Centre of Asia-Pacific (SIRCA) was selected as the partner of choice. The report, *Identity Fraud in Australia: An Evaluation of its Nature, Cost and Extent* (later referred to as *Identity Fraud in Australia*); was published in September 2003. SIRCA's research estimated the cost of identity fraud in Australia in 2001–02, to be approximately \$1.1 billion. SIRCA identified that most of the costs associated with identity fraud are incurred in proactively combating it.

4.17 *Identity Fraud in Australia* cited the many previous studies of identity fraud both within Australia and overseas. Similarly, the report acknowledged the limitations of available data to support the estimation of the cost of identity fraud, and other agencies difficulties with defining identity fraud. SIRCA states that its estimate of \$1.1 billion is conservative. This is because the data provided by some organisations was incomplete, non-financial costs for organisations and victims were not measured, and also, the opportunity cost to the government sector was not measured because there was no objective

⁷⁰ Attorney General's Department, *Scoping Identity Fraud: an abridged version of a report on Identity Fraud Risks in Commonwealth Agencies*, Canberra, Commonwealth of Australia, 2001, p.11.

⁷¹ *ibid.*, p.12.

measure to attribute a cost to the opportunities foregone by government organisations.⁷² ANAO notes that the AGD's estimate precedes the SIRCA study. The ANAO understands that the SIRCA estimate is now generally accepted by Commonwealth authorities as being a more reliable estimate than the initial AGD estimate.

ANAO conclusion in relation to *Numbers on the Run* Recommendation No. 18

4.18 The ANAO acknowledges the difficulty of trying to accurately estimate the cost of identity fraud to Australia. Based on independent research and research undertaken by Australian Government agencies, the cost of identity fraud to Australia has been estimated to be at least \$1.1 billion per year. We acknowledge that a more precise estimate is not possible, due to the limitations of the available data.

***Numbers on the Run* - Recommendation No. 20**

That the Commonwealth Government instigate a formal process for assessing Proof of Identity risks and reform across the Commonwealth, drawing on relevant policy and administrative departments and agencies.

Findings of *Numbers on the Run*

4.19 The need to correctly establish the identity of individuals exists in all Australian Government service provision. The Committee noted in its report that, with the interdependence of agencies' identity processes, agencies are highly reliant on the integrity of each other's documents to establish individuals' identities.

4.20 The Committee strongly supported moves to improve data quality, strengthen data matching, and reach some level of consistency in PoI processes across Australian Government agencies. It was noted that this should include consideration of which documents will be accepted as PoI, and a commitment by agencies whose documents are being used as identity documents, to ensure the integrity of those documents.

4.21 The Committee considered that there was a strong case for the AGD to take responsibility for leading PoI reform across the Commonwealth because of its:

- responsibility for Commonwealth fraud control policy;
- strategic work in relation to identity fraud; and

⁷² Securities Industry Research Centre of Asia-Pacific, *Identity Fraud in Australia, An evaluation of its nature, cost and extent*, Sydney, Standards Australia International Ltd., 2003, p.114.

- existing links and forums for dealing with both law enforcement agencies and administrative agencies.

ANAO's findings from the current audit

4.22 The ANAO observed that, in October 2000, various government agencies participated in a risk assessment of the range of documents accepted by agencies as PoI. The informal working group developed a common PoI framework, which was agreed to in 2001.⁷³ The common PoI framework did not hold a formal status because it was not finalised or submitted to Government for endorsement and promulgation. Nonetheless, because of the implications for good governance, several Australian Government agencies, developed and implemented PoI models based on this framework, specific to their business requirements.

4.23 As noted earlier, the Minister for Justice and Customs announced in July 2003 that a whole-of-government study would be undertaken to enhance the identification and verification processes for government agencies.⁷⁴

4.24 A feasibility study entitled, *Common Proof of Identity Documents and Processes*, was completed in December 2003. The feasibility study made five recommendations. In summary, the recommendations suggested that:

- a common whole-of-government PoI framework be endorsed by the Government, to be used by all relevant agencies to develop PoI models appropriate to their business requirements;
- a governance group be delegated responsibility for developing formal partnership arrangements with relevant State and Territory agencies. This would ensure effective engagement of all key stakeholders in the operation of a consistent PoI system across Australia;
- an ongoing across-agency management group be established to maintain and develop the common PoI framework;
- a Privacy Impact Assessment of whole-of-government PoI processes be undertaken; and
- a project management structure be established to oversee implementation of the common PoI framework.

4.25 The Commonwealth Reference Group on Identity Fraud (of which the ATO is a member) reviewed the feasibility study. In doing so, it agreed that the

⁷³ The informal working group consisted of Australian Government agencies in collaboration with State and Territory government road transport and traffic authorities, and births, deaths and marriage authorities.

⁷⁴ C Ellison (Minister for Justice and Customs), *Identity fraud initiative to offer better protection for Australians*, media release, Parliament House, Canberra, 6 July 2003.

implementation of a common PoI framework supported by a document verification service (DVS), were key aspects of a preventative solution to identity fraud. The Reference Group also supported further empirical work. The scope of this work is to quantify the benefits, risks and costs, which might flow from more robust PoI processes and the verification of PoI documents. An empirical study is currently underway and ANAO understands that it will be completed before the end of 2005.

4.26 In July 2004, the Standing Committee of Attorneys-General (SCAG) endorsed the proposed common PoI framework. The Ministers, in endorsing the framework, noted that further work is being undertaken, which might identify enhancements to the framework. The Ministers agreed that the common PoI framework is to be used by relevant agencies to develop their own PoI models.

ANAO conclusion in relation to *Numbers on the Run* Recommendation No. 20

4.27 Although the Australian Government has not responded to the recommendations outlined in *Numbers on the Run*; a feasibility study entitled *Common Proof of Identity Documents and Processes* has been completed. This was under the auspice of the Commonwealth Reference Group on Identity Fraud. The feasibility study assessed PoI risks and agencies' experiences in developing and operating PoI models. The feasibility study also recommended a common PoI framework. This framework was subsequently endorsed by SCAG for consideration by relevant agencies in developing their own PoI models, specific to their business needs. The ANAO notes that implementation of the common PoI framework across government, is progressing. As noted in Appendix 6, the ATO implemented a revised PoI framework in 2003 prior to SCAG's endorsement.

***Numbers on the Run* - Recommendation No. 21**

That the Commonwealth Government formalise a process for working with other levels of government and industry to develop options for reducing and preventing identity fraud. This should include investigation and development of a national electronic gateway for document verification.

Findings of *Numbers on the Run*

4.28 The issue of identity fraud is not just a problem for government administration; it is a much more pervasive problem effecting many businesses and the wider community. Although individual agencies can take steps to improve their internal processes, there is a need for a wider solution across the public and private sectors.

4.29 The Committee observed that the public and private sectors are dependent on each other for identification documents. Commonwealth agencies have been heavily dependent on State and private sector issued documents for PoI, while customers or potential customers of financial institutions largely use PoI documents issued by government authorities.

4.30 In *Numbers on the Run*, the Committee identified that national standards for identity documents across the Commonwealth, State and Territory governments could improve PoI processes by simplifying the range of documents that staff must identify. The Committee also identified the need for the Government to develop both national standards for the production and issue of identity documents, and a national secure electronic gateway for the verification of documents.

ANAO's findings from the current audit

Enhanced governance arrangements

4.31 The ANAO notes that the AGD made a submission to Heads of Commonwealth Operational Law Enforcement Agencies Forum (HOCOLEA), in August 2004. The submission outlined the need to establish formal links with relevant State and Territory agencies. The submission further identified the need to develop some common solutions that require a more cohesive over-arching strategy. Accordingly, it was proposed that HOCOLEA agree to the establishment of a formal strategic framework for the management of PoI issues. The core groups within the proposed framework and their anticipated roles are the:

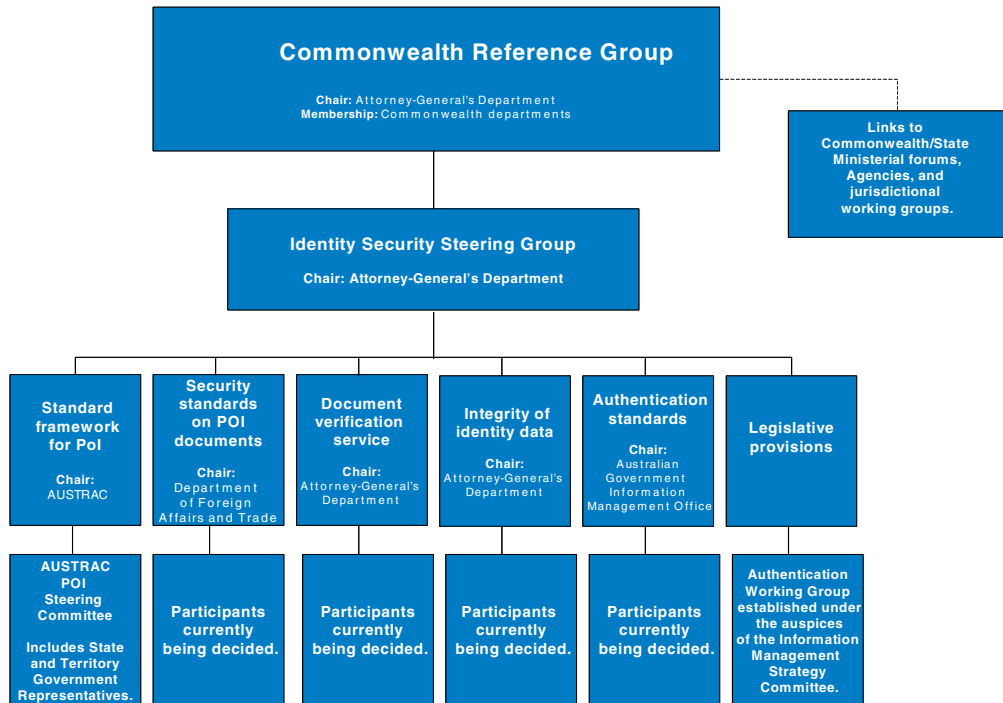
- Commonwealth Reference Group on Identity Fraud, under the auspices of the AGD, with responsibility for strategy and policy development;
- Opal Group, under guidance of the Australian Federal Police, which would lead the development of operational initiatives;
- AUSTRAC Proof of Identity Steering Committee, that would provide the primary linkage between Australian Government agencies, State and Territory agencies, the financial sector, and other key private sector organisations; and
- Information Management Strategy Committee's (IMSC) Authentication Working Group. This group would have responsibility for developing standardised processes for authenticating that existing customers who

transact business with government agencies are the same individuals who were initially enrolled.⁷⁵

4.32 The proposed relationship between the Commonwealth Reference Group on Identity Fraud and the other groups involved in combating identity misuse and fraud, at a whole-of-government level, are illustrated in Figure 4.1.

Figure 4.1

Governance framework to implement identity security recommendations



Source: Attorney-General's Department – May 2005

4.33 The ANAO observed that a number of these groups have been operating for several years and have played a significant role in developing the common PoI framework, and advancing other PoI initiatives. The Australasian Police Ministers Council (APMC) and SCAG have the ultimate responsibility for guiding development of strategies to prevent and detect identity crime. These ministerial bodies endorse policy and strategic initiatives.⁷⁶

⁷⁵ Attorney General's Department, *Submission to HOCOLEA 40 Conference, Progress Report: Identity Crime*, 2004, pp.6-7.

⁷⁶ There have been several recent developments, including the Government's Budget initiatives announced on 10 May 2005. For example, on 14 April 2005 the Government announced a National Id Security Initiative to Protect Australians. These developments, including the Budget initiatives, may be found on the Attorney-General's website, www.law.gov.au/ag

National electronic gateway for document verification

4.34 As previously cited, a feasibility study for the development of a DVS was completed in December 2003. The ANAO notes that in combating identity fraud, Australian Government agencies have agreed that a document verification capability would represent a useful investment. The ability to check the details recorded on an identity document, against the document issuing agency's records, is considered important in improving the accuracy of registrations and/or enrolments. It is also considered important that any strategies developed to check identity documents also recognise the growing problems posed by identity theft and include measures to address that issue.

4.35 The DVS feasibility study found that PoI processes could be significantly strengthened and registrations/enrolment of persons for high value transactions, made less open to fraud, if agencies were able to confirm the personal information appearing on key PoI documents. Accordingly, it was recommended that a DVS be implemented in a staged manner with the AGD in the lead role.

4.36 It was suggested in the DVS feasibility study, that a DVS could take the form of an online electronic gateway. The service would allow subscribing government agencies to compare the limited personal information on key PoI documents, against the data recorded in the registers of the document issuing agencies. The study also highlighted a number of issues that require more detailed consideration, including privacy impacts.

4.37 ANAO notes that, although the development and implementation of a DVS is a sound initiative, the functionality of any DVS would be substantively limited by the ability to access document issuing agencies' records. The availability of electronic records to support validation processes is limited in some instances. For example, the availability of electronic births, deaths and marriage records and the time period covered by these records, varies between the States and Territories.

ANAO conclusion in relation to *Numbers on the Run* recommendation No. 21

4.38 The ANAO found that processes have been established to support a whole-of-government approach to the management of identity verification and fraud. These processes have been strengthened with the establishment of formalised agreed governance arrangements. A feasibility study for the development of a DVS has also been completed. This study has highlighted a number of issues, which require further consideration, prior to development and implementation of a DVS. Further work to assess the benefits that may flow from a DVS is being undertaken.

Australian Taxation Office's internal processes and Proof of Identity

4.39 The TFN is not only the cornerstone of tax administration, but also a unique identifier used by a number of other agencies in the administration of Australian Government payments and services. In 2002–03 the ATO issued approximately 520 000 TFNs to individuals. The Commissioner has the discretion to refuse to issue a TFN, if PoI requirements cannot be met or there is question over the applicant's true identity.

4.40 The Committee recommended in *Numbers on the Run* that the ATO improve its internal processes for establishing identity, and preventing identity fraud. In Report No.37, ANAO also recommended that the ATO research and report on the privacy considerations, client benefits and cost effectiveness of:

- implementing an effective PoI risk management process;
- providing a more secure means of generating/composing TFNs; and
- conducting PoI audits within and across government agencies.

4.41 The ATO's progress in implementing these recommendations is discussed in the following sections.

***Numbers on the Run* - Recommendation No. 19**

That the ATO improve its internal processes for establishing identity and preventing identity fraud. This should include investigation of the extent of the problem within the ATO, including a trial of the New South Wales Registry of Births, Deaths and Marriages' Certificate Validation Service.

Findings of *Numbers on the Run*

4.42 In *Numbers on the Run*, the Committee noted that PoI fraud had occurred through misrepresentations to the ATO, and through the misuse of falsely obtained TFNs. Essentially, the ATO faced two types of PoI fraud: that which related to people born in Australia, and that which related to people born outside Australia. To manage the risk of identity fraud, the Committee observed that the ATO must develop short and long-term strategies that deal with these potential areas for fraud. A significant step towards reducing identity fraud in both of these areas would be through improving TFN registration processes. This would include the:

- SEP with regard to people born in Australia; and
- establishment of comprehensive arrangements with the then Department of Immigration and Multicultural Affairs, in the case of those people born outside of Australia.

4.43 The Committee considered that the ATO had not adequately evaluated the extent and cost of identity fraud being perpetrated against the organisation, or the risks and impact of such fraud. The Committee also considered that one way of gaining a better insight into the extent of this problem may be for the ATO to trial the New South Wales (NSW) Registry of Births, Deaths and Marriages' Certificate Validation Service. This would assist the ATO in determining the level of fraudulent NSW birth certificates presented as identification to the ATO.

ANAO's findings from the current audit

Introduction of the common Proof of Identity framework

4.44 The ATO has identified identity crime as a significant emerging risk for the organisation. In 2003, the ATO implemented a revised PoI model. The model was an adaptation of the common PoI framework developed in 2001 and outlined in Appendix 9.

4.45 The ATO's ability to verify and authenticate TFN applicant details is also widely recognised. The ANAO found that the ATO's current PoI model has strengthened its identity verification processes. Restricting the number and type of documents that can be used for PoI purposes has supported this outcome. For TFN applications, the ATO is now better positioned to explore data matching opportunities and PoI document verification with document issuing agencies.

Trial of the NSW Births, Deaths and Marriages' Certificate Validation Service

4.46 In May 2000, the ATO completed a trial of the Certificate Validation Service offered by the NSW Registry of Births, Deaths and Marriages. A second trial commenced in late 2002, following the addition of the Victorian Registry of Births Deaths and Marriages to the Service. The ATO advised that it received and verified 1 090 birth certificates. No fraudulent use of the birth certificates in applying for TFNs, was identified in either trial.

4.47 The ANAO was advised that the ATO is exploring options for online real-time document verification with births, deaths and marriages registers in NSW, Victoria and the Australian Capital Territory. These are the only States and Territory with an online capability at this time. A limiting factor for online real-time document verification is the accessibility of historical records. Where these records are available electronically, they may only cover a particular time period. We found that in 2003–04, approximately 94 per cent of individual residents applying for a TFN were aged 30 or less. Accordingly, the availability of historical records should have a minimal impact on the ATO in processing TFN applications.

Alternative means of applying for a Tax File Number and Proof of Identity requirements

4.48 An important consideration for the ATO in managing identity verification processes is the way it receives TFN applications. Of the approximately 520 000 TFN applications received by the ATO in 2003–04:

- 42 per cent were received through DIMIA's IAR facility;
- 9 per cent were received from other government agencies, largely Centrelink;
- 22 per cent were received through the SEP; and
- 26 per cent were received through the mail or at ATOaccess sites.

4.49 The receipt of TFN applications through other agencies makes the ATO heavily reliant on these agencies' identity verification processes. We were advised that both DIMIA and Centrelink have implemented PoI models based on the common PoI framework. This maintains some level of consistency in identity verification processes for applications received from these agencies.

4.50 The ANAO found that for TFN applications received through Centrelink, the ATO only requires the Centrelink officer receiving the application to: record their name; sign the application form; and stamp the form with a Centrelink stamp. Details of the PoI documents sighted to support the application are not required. This means that the primary source identity document details, such as the Birth Certificate Number, may not be recorded on the application form. This limits the ATO's future ability to verify the identity details, with the document issuing agencies' records. The ATO is progressing this issue with Centrelink.

4.51 ANAO notes that the need to record identity document details on the TFN application may be overtaken if the ATO and Centrelink establish an Individual Auto Registration (IAR) facility for Centrelink clients. In this regard, we note that the ability to verify identity document details, through a DVS, was one of the three core issues assessed as part of the whole-of-government strategy to prevent identity fraud and misuse.

Lower documentation Proof of Identity Tax File Number applications

4.52 The ATO has implemented low documentation PoI processes for some clients. This includes clients applying for a TFN through the SEP, and clients using the Aboriginal and Torres Strait Islander (ATSI) TFN application or enquiry form. These initiatives are designed to promote maximum client coverage and assist individuals in entering the taxation system.

4.53 These two initiatives are subject to the standard risk management controls of the Personal Tax business line (Ptax). The basis upon which SEP

operates is that the ATO requires a lower level of PoI because the school is able to vouch for the identity of the student based on the personal knowledge of the teachers and the school's records. Whilst no formal risk assessment has been undertaken, the ATO believes that the risk is very low.

4.54 The ANAO was advised that the ATO is proposing to select a small sample of schools at which to enforce the requirement to provide birth certificate or citizenship certificate details on SEP applications. The ATO feels that this will help it to gauge whether the requirement for additional information negatively impacts on the number of applications received or the schools' enthusiasm to provide the program to their students. The application form is also undergoing review.

4.55 The ATO receives approximately 2 600 indigenous TFN applications per year. The ATSI TFN application or enquiry form allows the applicants to nominate a referee to substantiate their identity. This option can be used if the applicant does not have enough PoI documents or is lodging the application with Centrelink to obtain ABSTUDY. The ATO advised that about two thirds of the applications received using the ATSI form, rely on referee details for PoI. The Alice Springs ATO Access Site processes all TFN applications received on ATSI forms.

4.56 The ATO considers that the opportunity for PoI fraud or misuse by applying for a TFN through use of the ATSI form is relatively low. ANAO is satisfied that the practical arrangements established by the ATO at the ATO's Alice Springs Access Site are likely to ameliorate risks further. They constitute a sensible and sensitive arrangement for the provision of an important service to indigenous Australians.

Tax File Number integrity and the Australian Taxation Office's Identity Crime Research Unit

4.57 The ANAO found that in recent years, the ATO has undertaken several initiatives aimed at improving TFN integrity. In 2001, the ATO established the TFN Integrity and Improvement Unit with responsibility for improving integrity of the TFN registration system. This unit developed expertise in identity crime issues, and their impact on the ATO. Following a reorganisation of the Registry Division, some of these staff transferred to the SNC business line. Consequently, during 2003–2004, the ATO established the Identity Crime Research Unit (ICRU), which has been mentioned in Chapter 2.

4.58 The ICRU's objectives are to conduct research and analysis, and provide assessments of risks associated with identity crime activity as it affects the ATO. This includes identifying potential priority risk areas and suggesting risk treatments.

4.59 The ATO has researched over 2,300 external fraud cases that have arisen since 1 July 2000 and found nearly 30 per cent of these have had an identity crime component and that this incidence has trended up from 14 per cent in 2000 to 35 per cent currently. Furthermore, the research discloses that identity takeover has exceeded the creation of false identities as a means to facilitate identity crime. The ATO considers that identity takeover is usually more difficult to detect than a false identity.⁷⁷

Tax File Number departed indicator

4.60 The ATO has undertaken several data matching exercises to improve data quality, and prevent the fraudulent use of TFNs. A significant area of work has been the matching of ATO records with DIMIA's historical movements records of persons who have left the country and/or whose visa has expired. These records were matched in 2002–03 and 2003–04.

4.61 In data matching with DIMIA's movement records, the ATO has successfully identified approximately 650 000 TFNs to be flagged as departed. The flagging of these records has been included on the ATO's Information Technology Plan for 2004–05. The ATO advised that preliminary sampling of these records indicates very low rates of use following the departure date. Nevertheless, ANAO was advised of instances where TFNs of departed individuals had been used in committing a significant income tax fraud against the ATO.

ANAO conclusion in relation to Numbers on the Run Recommendation No. 19

4.62 The ANAO found that the ATO has fully implemented this recommendation. In line with whole-of-government initiatives, the ATO implemented a revised PoI framework in 2003. Also in early 2004, the ATO established an Identity Crime Research Unit, tasked with responsibility for identifying, assessing and proposing treatments for identity crime in the ATO. The ATO has advised ANAO that it will further strengthen controls around the ATO's Client Register, by flagging the TFNs for departed taxpayers. This arrangement will become operational during 2005.

⁷⁷ A recent speech, *Ensuring effective identity fraud management*, by the ATO's Deputy Commissioner Michael Monaghan to the Government Technology World Conference, Canberra, 28 April 2005 outlined the ATO's approach to identity fraud management. In that speech, Mr Monaghan gave an overview of the impact of identity crime from the ATO's perspective, presented some examples of the modus operandi and the penalties being imposed by the courts, and then covered some measures that the ATO is taking to deter, detect and deal with the problem. Mr Monaghan's speech may be found on the ATO website <http://www.ato.gov.au/corporate/content.asp?doc=/content/57719.htm>

Report No.37 - Recommendations No. 2 (a), 2(c) and 2(d)

The ANAO recommended that the ATO, in conjunction with other agencies, research and report appropriately upon the privacy considerations, client benefits and cost-effectiveness of:

- (a) implementing an effective risk management process, including quantitative analyses of PoI data;
- (c) providing a more secure, client focussed and cost-effective means of generating / composing TFNs; and
- (d) conducting PoI audits within and across government agencies.

ATO response: Agree. The ATO agreed with each component of the recommendation. In responding it provided an update on progress and raised a number of additional issues for consideration.

Findings of Report No.37

Quantitative analyses of Proof of Identity data

4.63 In Report No.37, ANAO noted that the ATO's databases recorded the documents and the combinations of documents used by clients to support TFN applications. Analysis at the time of the previous audit identified a higher degree of risk of PoI fraud, associated with the use of some documents or combinations of documents. ANAO found that the periodic analysis of the incidence of usage of particular PoI documents, as well as variation in their pattern of usage, could be a useful aid in preventing and detecting PoI fraud.

4.64 In reviewing cases of documented PoI fraud, including two cases where a criminal conviction had been recorded, ANAO found that the ATO had not systematically examined the practices and procedures that permitted the occurrence of the PoI frauds. ANAO considered, that unless this is done, the ATO runs the risk that similar frauds would be perpetrated.

Secure, client focussed means of generating/composing Tax File Numbers

4.65 Despite the considerable growth in the use of TFNs beyond the boundaries of the ATO, ANAO found that the ATO used the check digit routine adopted in the early 1970s to generate TFNs. The ANAO obtained advice from the Department of Defence, Defence Signals Directorate (DSD), about the security of TFNs, particularly the TFN algorithm. DSD advised that the check digit routine used to generate the TFNs was widely known and could be regarded as 'in the public domain'. DSD further advised that the TFN algorithm was not secure. This means that there is a risk that people who have

unauthorised use of the algorithm could generate valid but illegal TFNs from the set of five million unused TFNs.

Proof of Identity audits within and across government agencies

4.66 As part of the previous audit, ANAO considered that there was a range of initiatives that the ATO could adopt to reduce the cost of verifying low risk PoI cases. This would enable the ATO to transfer resources to high-risk areas. ANAO further considered that the ATO should adopt strategies to prevent fraud in high-risk PoI cases. This included carrying out PoI audits.

ANAO's findings from the current audit

Quantitative analyses of Proof of Identity data

4.67 ANAO now considers that the need for the ATO to undertake quantitative analyses of PoI data has been mitigated. This is as a result of the introduction of the common PoI framework, and the removal of higher risk PoI documents from the listing of acceptable documents. The ATO has also implemented a range of data matching programs aimed at improving the integrity of the ATO's Client Register. We consider that through these processes the ATO is better targeting the verification of both previously registered clients and new clients to the taxation system.

Secure, client focussed means of generating/composing TFNs

4.68 The ANAO was advised that the introduction of a revised TFN is considered cost prohibitive. With significant levels of integration across government and industry, the change in the format of the TFN would impose a significant cost on the community. The ATO advised that it has the capability to amend the algorithm when the current stock of TFNs is exhausted. Approximately five million TFNs can still be produced using the existing algorithm. However ANAO acknowledges that the improved arrangements for the integrity of the TFN system ameliorate concerns raised by DSD, in Report No. 37, sufficiently, having regard to the probable costs of replacing the insecure TFN algorithm with a secure one.

4.69 As new technologies are developed, the ATO may review its position in relation to generating TFNs. This issue may also be further explored at a whole-of-government level in respect to introducing a CSN. A CSN would potentially identify a client across a range of government entities. This would be similar to the ABN introduced as part of the *New Tax System* in 2000.

Proof of Identity audits within and across government agencies

4.70 The endorsement by SCAG of the common PoI framework has been a significant strategic achievement in combating identity fraud. Until use of the common PoI framework is widespread amongst government agencies, the value of conducting PoI audits across government agencies is limited.

Sharing of intelligence

4.71 The development of an Identity Crime Register by the Australian Crime Commission has been a useful step in assisting agencies in identifying potentially fictitious clients in their identity registers. In 2003–04, the ATO matched the Identity Crime Register to its Client Register. This returned only a small number of matches. We have been advised that the ATO has established a program of periodic matching.

4.72 Although the ATO can receive information from other entities for the purposes of tax administration, it is limited in its ability to provide information to other entities. Under s 16 of ITAA, the ATO is prohibited from making a record of, divulging or communication to any person information concerning the affairs of another person, where that information is either disclosed or obtained under the Act.

4.73 As access to the Identity Crime Register includes a range of both government and private sector bodies, the ATO is not able to provide information for inclusion in the Register. Accordingly, information and intelligence collected by the ATO that may be useful to other agencies in preventing identity fraud and misuse cannot be divulged and/or included in the Identity Crime Register.

4.74 The sharing of information between government agencies is currently under review as part of e-government initiatives. *Discussion Paper No. 13, E-government: Legal and Administrative Obstacles to Sharing Data held by Australian Government Agencies*, was released in May 2004. The Paper notes the significant legal and administrative obstacles that limit effective collaboration and data sharing across agencies.

ANAO conclusions in relation to Report No. 37 Recommendations No. 2(a), 2(c) and 2(d)

4.75 The ANAO considers that the ATO has fully implemented Report No. 37 Recommendations 2(a) and (c) and, to the extent possible, Recommendation 2(d). The ATO has played a significant role in developing solutions to identity verification and misuse at the whole-of-government level. The ATO has implemented a revised PoI model based on the common PoI framework. The reduced number of acceptable PoI documents has mitigated the need to undertake PoI quantitative analysis to identify high-risk areas.

4.76 The ANAO also considers the ATO's view on the introduction of a revised, secure TFN algorithm is reasonable. The ATO believes that given the broad use of the TFNs in the community, changing its format would be cost prohibitive.

4.77 The conduct of PoI audits is an issue that we consider would best be managed at a whole-of-government level. This could form part of an overall identity verification and misuse strategy. We also consider that other activities, such as comprehensive data matching to cleanse Client Registers, would represent a more strategic commitment of resources. When the common PoI framework is well established across government agencies, the completion of PoI audits may then be appropriate.

Community education and awareness

4.78 The problems of identity fraud and misuse are well documented and widely recognised. Occasionally the ATO has issued media releases to inform the community about the need to, maintain securely their TFNs. The ATO also publicises successful prosecutions relating tax fraud, including identity fraud. One recent example was of a woman who was given a custodial sentence after defrauding the ATO of approximately \$211 000. This was achieved through the use of several false identities.

4.79 Publicising the efforts of the ATO in preventing fraud, including identity fraud and misuse, is an important fraud prevention strategy.

4.80 The ATO released a general press release nationally. Key messages in the release were: 'Giving your tax file numbers to others could be as dangerous as giving out your bank details and PIN number'; 'You don't have to provide your TFN when applying for a job'; and 'If you know of a website that requires job applicants to give their tax file number or you think someone might be using your TFN details improperly, you can call the Tax Office. Your details will be kept confidential.'

4.81 The media release received extensive coverage in newspapers and radio. It generated a number of responses from the public. This campaign has been evaluated for future use.

4.82 ANAO considers that there is further opportunity for the ATO to work with the various groups and forums focused on preventing identity fraud and misuse, in order to develop a comprehensive community education and awareness program. Working across all levels of Government, presents a unique opportunity to communicate with the community on the importance of preventing identity fraud and misuse. An important part of any prevention strategy of this nature is to ensure that the community understands the need to securely maintain their identity and other related documents.

Recommendation No. 5

4.83 The ANAO recommends that the ATO develop and implement a targeted community education and awareness program aimed at TFN fraud and misuse. This could be achieved by the ATO working with the Commonwealth Reference Group on Identity Fraud to develop a whole-of-government community education and awareness strategy, directed at the prevention of identity fraud.

ATO Response

4.84 Agree. The Tax Office has been and will continue to be an active member of the Commonwealth Reference Group on Identity Fraud and will, through that group, look to explore the potential value that a whole-of-government community and awareness strategy may add to future activities. The Tax Office has already conducted targeted community education and awareness activities where particular TFN fraud and misuse has been identified and will be continuing to look for appropriate opportunities to deploy this type of strategy in the future.

5. Non-Resident Visitors: Tax and Work Rights Aspects

This Chapter presents the ANAO's findings in relation to Numbers on the Run Recommendations 14 through to 17. These recommendations relate to non-resident individuals visiting Australia and working outside of their visa conditions and/or misrepresenting their residency status for taxation purposes.

Background

5.1 *Numbers on the Run*, highlighted as a concern the tax treatment of some categories of non-resident individuals. This Chapter examines the Committee's concerns relating to non-resident individuals visiting Australia and working outside of their visa conditions and/or misrepresenting their residency status for taxation purposes. It does not address the broader tax treatment of non-residents generally.⁷⁸

Misrepresenting residency status for taxation purposes

5.2 Each year approximately 8.7 million people arrive in Australia.⁷⁹ In 2003–04, the ATO issued 219 894 TFNs to permanent migrants and temporary visitors to Australia through the IAR facility.

5.3 The ANAO understands that a key reason why non-resident individuals visiting Australia try to avoid paying tax is that they are taxed at a higher marginal rate than residents and are not entitled to the tax-free threshold. This difference in tax treatment means that non-resident individual visiting Australia can gain a benefit if they misrepresent their residency status. This poses a risk of revenue leakage and compromises both the integrity of Australian Government systems and compliance with Australian law.

5.4 Misrepresentation of residency status by non-resident individuals, in order to lower their tax liabilities, can take various forms. Misrepresentation can occur by the provision of incorrect details on the income tax assessment form. It can also arise in relation to long stay student visas and protection

⁷⁸ Australia's tax legislation requires that non-residents pay tax on any income they receive that originates in Australia. In broad terms, people, companies, trusts, and other entities not residing in Australia are referred to in tax legislation as non-residents. ANAO reviewed the ATO's administration of the payment of tax by non-residents in Audit Report No.57 of 2002-2003, *Administration of the Payment of Tax by Non-Residents*.

⁷⁹ Department of Immigration and Multicultural and Indigenous Affairs, *Managing the Border Immigration Compliance 2002-03 edition*, p.12. (2002-03 8.62 million people arrived in Australia, 2001-02 8.807 million people arrived in Australia, 2000-01 8.9 million people arrived in Australia (no sea arrival figure was available for 2000-01). 8.7 million is based on the average of the previous three financial years data).

visas. DIMIA regularly publishes data about overstayers and people in breach of visa conditions.⁸⁰

5.5 The Committee noted that misrepresentation of residency also took place in the harvest labour industry. A concessional tax rate of 15 per cent was applied to Australian residents working in the harvest labour industry, whereas, non-residents were taxed at a rate of 29 per cent. The Committee also noted that employers commonly viewed a non-resident individual having a TFN, as an indication of residency and right to work.

5.6 The Committee made four recommendations to strengthen the ATO's and DIMIA's systems to prevent and identify non-resident individuals working illegally, and non-resident tax evasion and fraud. These recommendations have been considered as part of this audit.

Identifying illegal workers

5.7 DIMIA provides an annual estimate of the number of visa overstayers in the Australian community.⁸¹ In December 2004, according to this website the number of overstayers at 30 June 2004 was estimated to be under 51 000, a significant decrease on the estimate of 59 800 as at 30 June 2003. A proportion of these overstayers are believed to be working illegally in Australia. During 2002–03, DIMIA confirmed that 3 233⁸² non-citizens were working illegally in Australia. ANAO consulted with DIMIA as part of the audit; however, we did not audit DIMIA's management of non-resident illegal workers.⁸³

Numbers on the Run - Recommendation No. 14

That the ATO introduce systematic data matching against DIMIA visa data in order to identify illegal workers. As part of this process, the ATO has to improve its data quality and data recording processes.

⁸⁰ These are regularly published on the website <http://www.immi.gov.au/facts/86overstayers.htm>. Protection visa applications may be made by people who are already in Australia and are seeking protection from persecution in their home country. Applicants are assessed according to the definition of Refugee in the UN convention.

⁸¹ DIMIA defines 'overstayers' as people suspected of remaining in the Australian community unlawfully after their temporary visa expires.

⁸² Department of Immigration and Multicultural and Indigenous Affairs, *Managing the Border Immigration Compliance 2002-03 edition*, p.57. DIMIA advise that the true figure is likely to be much higher, as most unlawful non-citizens located by the Department are unwilling to openly declare that they have been working illegally in Australia.

⁸³ In 2004-05, the ANAO completed an audit entitled *Onshore Compliance-Visa Overstayers and Non-Citizens Working Illegally* (later referred to as Report No.2 of 2004 05). The audit examined DIMIA's administration of onshore compliance under the *Migration Act 1958*, as amended. In part, the audit examined DIMIA's administration of non-citizens working contrary to their visa conditions.

Findings of *Numbers on the Run*

5.8 DIMIA⁸⁴ visa data identifies work rights granted to individuals and duration of stay for people entering Australia. DIMIA visa information was available to the ATO, however, it had only been used on a case by case basis. The ATO and DIMIA developed a proposal to use the information to automate TFN registration for people entering Australia. The Committee reported that the need for this system was identified by the ANAO in 1994 and again in 1998.⁸⁵ However, at the time of the Committee's hearings the proposal had not been implemented.

5.9 The Committee noted that visa data could also provide an effective method of identifying illegal workers. With a systematic exchange of visa issue data from DIMIA, the ATO could match the information with its individual income records and identify those individuals that had exhausted their work rights, or had not been granted permission to work in Australia.

ANAO's findings from the current audit

5.10 In June 2004, the ATO and DIMIA entered into a Memorandum of Understanding (MoU) in relation to 'The exchange of data for the purpose of locating persons who are unlawfully in Australia'. The MoU establishes arrangements for the exchange of information between the two agencies, to support DIMIA in locating persons who are reasonably believed to be in Australia unlawfully.

5.11 DIMIA and ATO have matched the entire overstayers file against ATO records in both July and September of 2004. According to DIMIA, 86,000 records were referred to the ATO in July 2004 and DIMIA received 59,871 matches, from the ATO relating to nearly 12,000 individuals. The September 2004 data-match returned similar results. The ANAO notes that although the data-matching program is a sound initiative, the quality of the data recorded in the DIMIA's overstayers file is limited. DIMIA's overstayers file has a statistically calculated error rate of 30 per cent.⁸⁶

5.12 To support its field staff in locating illegal non-citizens, DIMIA has agreed to fund the ATO to develop an interface to the ATO's Transaction Searching Facility (TSF). The ATO's TSF is a generic search and retrieval

⁸⁴ At the time of the previous audit and the Committee's review, this was the Department of Immigration and Multicultural Affairs.

⁸⁵ House of Representative Standing Committee on Economics, Finance and Public Administration, *Numbers on the Run*, Parliament of the Commonwealth of Australia August 2000, paragraphs 4.43 to 4.50, pages 46 to 48.

⁸⁶ ANAO Audit Report No.2 of 2004-05, *Onshore Compliance – Visa Overstayers and Non-citizens Working Illegally*. Paragraphs 2.10 to 2.17.

capability that allows users to search against a range of data held by the ATO.⁸⁷ ANAO has been advised that the DIMIA/ATO interface for the TSF system will be completed and become operational in June 2005. The interface will be available to key DIMIA staff with compliance, investigations or intelligence responsibilities. DIMIA advise that in general terms, it would expect that between 40 and 100 of the 200 or so DIMIA staff with these responsibilities would be given access to the TSF interface.

5.13 ANAO has been advised that, in keeping with the legislative framework for disclosure of information reflected in the MoU, the TSF interface will be used by DIMIA only for searches in relation to non-citizens who are already unlawfully in Australia. DIMIA's staff will not be able to use it to make queries in relation to Australian citizens or non-citizens in Australia who hold a current visa.

5.14 DIMIA has advised ANAO that the cooperative arrangements with the ATO actively supports efforts to locate persons believed to be unlawfully in Australia.

5.15 DIMIA has further advised the ANAO that the existing legal framework does not support the exchange of information between the ATO and DIMIA in relation to non-citizen visa holders who may be working illegally in contravention of a visa condition. The ATO's ability to disclose this information to DIMIA is limited by paragraph 16(4)(hd) the *Income Tax Assessment Act 1936* which relevantly provides that the ATO can disclose information to the Secretary of DIMIA 'for the purpose of assisting in locating persons who are unlawfully in Australia'.

ANAO conclusion in relation to *Numbers on the Run* Recommendation No. 14

5.16 The ANAO found that the ATO and DIMIA have worked together to establish cooperative arrangements for the sharing of information. As part of these new arrangements, DIMIA and the ATO are also proceeding to improve the quality of relevant data. The exchange of data supports DIMIA's efforts to locate persons considered to be unlawfully in Australia. The ANAO considers that the ATO has fully implemented Recommendation No. 14 of *Numbers on the Run*.

⁸⁷ The Transaction Searching Facility includes data drawn from Annual Investment Income Reports, Pay As You Go Payment Summaries, Group Certificates, TFN Declarations and Employment Declarations, welfare payments, partnerships and trust income records, Health Insurance Commission - income data, and Australian Electoral Commission records.

Numbers on the Run - Recommendation No. 16

That the ATO:

- identify the extent of tax fraud being committed by non-residents;
- review potential vulnerabilities with the current tax treatment of non-residents; and
- propose ways to address these issues, particularly focussing on options within existing laws.

Findings of *Numbers on the Run*

5.17 The Committee received information about TFN fraud committed by non-residents. This information had largely been anecdotal, but included comments based on fieldwork by the ATO and DIMIA.

5.18 DIMIA advised the Committee that through its fieldwork it had come across cases of misuse of TFNs. DIMIA's legislation did not allow specific questioning of illegal workers in relation to TFNs, but DIMIA had passed on to the ATO information collected during fieldwork. The two agencies had also conducted a number of joint operations.

5.19 An officer of the ATO also advised the Committee that TFNs were being used for fraudulent activities. The ATO informed the Committee that it was taking action on these activities. It also acknowledged that its compliance programs would be assisted by improved systematic access to the records of individuals permanently leaving the country.

5.20 The Committee required the ATO to identify the extent of TFN fraud committed by non-residents through the use of TFNs issued to them, and to take steps to address known means of fraud. Fraudulent use of TFNs issued to individuals who have left Australia was of particular concern to the Committee, because they are believed to form a proportion of the 3.2 million excess TFNs identified by the ANAO.

ANAO's findings from the current audit

Identifying the extent of tax fraud

5.21 The ANAO found that the ATO has not assessed the extent of tax-fraud being committed by non-resident individuals visiting Australia and working outside of their visa conditions and/or misrepresenting their residency status for taxation purposes. The Serious Non-Compliance business line (SNC) would

primarily be the area responsible for this assessment.⁸⁸ SNC has established a strategic assessment capability, but has not undertaken an analysis of fraud committed by non-resident individuals. Nevertheless, anecdotal evidence suggests that fraud perpetrated by non-resident individuals or persons using non-resident individuals' TFNs is a risk for the ATO. The ANAO notes that some broader risk assessments of non-resident compliance have been completed.

Tax treatment of non-resident individuals

5.22 The ATO advised that it has undertaken a number of risk assessments in relation to non-resident compliance issues. The ATO provided details of the assessment undertaken, of backpackers, or persons residing in Australia under a Working Holiday Maker Visa.

5.23 In January 2002, the ATO identified a high incidence of requests for a change of residency status from individuals, who had entered Australia, on a Working Holiday Maker Visa. As a consequence, the ATO commenced the "Backpackers Project" to review the compliance and revenue risks associated with persons entering Australia on this visa type.

5.24 As part of the ATO's Backpackers Project, interpretation of the taxation law was referred to the Tax Technical Network (TTN). The TTN concluded that, the ATO's previous interpretation of the taxation law was incorrect. The TTN estimated that 70 per cent of the taxpayers would be able to meet the requirements of the residency tests.⁸⁹ This meant that the majority of persons visiting Australia on a Working Holiday Maker Visa, should be taxed as residents. A subsequent review of cases has confirmed the TTN view. The ATO in 2003, reviewed 15 523 relevant cases and made a revenue adjustment of approximately \$578 000. The ATO advised that most of the additional revenue was associated with the application of the tax-free threshold. The ANAO consider that the ATO completed a comprehensive risk assessment of this issue.

5.25 The ATO has also undertaken a risk assessment of non-residents visiting Australia and working outside visa conditions and/or misrepresenting their residency status for taxation purposes. Initial findings of that sampling exercise have concluded that, in respect to the backpacker population, while the risk is minimal, with a number of initiatives underway to better explain the ATO view, the ATO will continue to monitor the situation. The ATO also has

⁸⁸ The Serious Non-Compliance Business line was formed in July 2003. This Business line has a broad responsibility to counter extreme tax avoidance behaviour in all areas of tax.

⁸⁹ To satisfy the residency tests for taxation purposes, the taxpayers must be able to show that they have lived and worked in the same location with one employer for four months or more; or lived and worked in the same location with multiple employers for five months or more, and been in Australia for at least 183 days. The timeframe for the tests is not limited to financial years.

an ongoing Compliance Strategy tailored to risk assess Foreign Source Income compliance levels.

5.26 The ATO has undertaken some further risk assessment of non-resident taxation issues including transfer-pricing work that focussed upon non-resident permanent establishments and the withholding systems as a whole. In addition, investment income reported as being earned by non-residents from Australian sources is distributed by the ATO to Australia's Treaty Party countries. In return, the ATO receives details of income earned in Treaty Party countries by individuals claiming to be Australian residents. This information is used in the ATO's compliance activities.

5.27 As discussed in Chapter 4, *Identity Verification*, the ATO has also undertaken data matching against DIMIA's historical movements records. This is a record of persons who have left the country and/or whose visa has expired. The ATO has identified approximately 650 000 TFNs to be flagged as departed. The flagging of these records as departed has been included on the ATO's Information Technology Plan for 2004–05.

Non-resident individuals and the cash economy

5.28 Another potential vulnerability associated with non-residents is that of having a potential or actual tax liability and not complying with Australian tax law by informing the ATO of the liabilities. Working in the cash economy is one form of this non-compliance.

5.29 To minimise the risk of non-resident individuals working in the cash economy, the ATO, DIMIA and Centrelink have established an Inter-agency Compliance Steering Group and an Inter-agency Cash Economy Working Group. The agencies have also entered into a MoU. The MoU is entitled 'Joint Compliance Activities and Other Aspects of Cooperation in Connection with the Inter-Agency Cash Economy Working Group'. Under the MoU, the agencies are committed to working together to jointly develop plans and coordinate compliance activities in relation to areas of mutual interest in the cash economy. The ATO signed the MoU in July 2003. The MoU further states that

The agencies will report on inter-agency cash economy activities to their respective Ministers bi-annually, generally in each September and March.⁹⁰

5.30 Outcome measures for the ATO under the MoU, are the:

- increase in taxation revenue as a result of inter-agency activities;

⁹⁰ *Memorandum of Understanding between the Australian Taxation Office, Department of Immigration and Multicultural and Indigenous Affairs and Centrelink in relation to Joint Compliance Activities and Other Aspects of Cooperation in Connection with the Inter Agency Cash Economy Working Group*, dated 18 July 2003, p.7.

- number of joint inter-agency field operations;
- extent to which the ATO has assisted Centrelink in meeting its savings targets; and
- resources used to achieve these outcomes.

5.31 Data about the achievement of these outcomes was not available to ANAO at the time of this audit.

ANAO conclusion in relation to *Numbers on the Run* Recommendation No. 16

5.32 The ANAO found that the ATO has undertaken a range of relevant risk assessments and implemented appropriate compliance strategies. In addition, improved arrangements with Australia's Treaty Party countries assists in the identification and prevention of non-resident tax fraud. However, the ATO has not researched fully the extent of tax-fraud being committed by non-resident individuals visiting Australia and working outside of their visa conditions and/or misrepresenting their residency status for taxation purposes. Accordingly, the ANAO considers that the ATO has substantially completed the implementation of Recommendation No. 16 of *Numbers on the Run*.

Work rights

***Numbers on the Run* - Recommendation No. 15 and 17**

That the ATO work with DIMIA to investigate reforms for addressing taxation and work rights for non-residents, in particular harvest labour, having regard to known areas of fraud and the costs to employers in this industry.

Findings of *Numbers on the Run*

5.33 The Committee noted the report, *Review of Illegal Workers in Australia: Improving Immigration Compliance in the Workplace*.⁹¹ The Committee stated, 'The report is openly critical of DIMIA's procedures in many areas regarding the treatment of illegal entrants and visa issuing processes.'⁹² DIMIA advised the Committee that this review and its recommendations are its principal vehicle for addressing the issue of illegal workers.

⁹¹ Department of Immigration and Multicultural and Indigenous Affairs, *Review of Illegal Workers in Australia: Improving immigration compliance in the workplace*.

⁹² House of Representative Standing Committee on Economics, Finance and Public Administration, *Numbers on the Run*, Parliament of the Commonwealth of Australia August 2000, paragraph 5.54, page 60.

5.34 The Committee observed that a number of the recommendations in the report were of relevance to the ATO, and strongly supported them and the need for reform in this area. In particular, the Committee was interested in making identification of visa work rights easier and more recognisable for employers; and identifying breaches of those rights in a more consistent and timely manner.

5.35 Harvest labour was acknowledged as a particularly problematic area for both the ATO and DIMIA. The itinerant nature of this work means that it is difficult to establish work rights, ensure correct taxation and to track down individuals who are defrauding the system. The Committee considered that there was a need for the ATO to be more actively involved in these issues.

ANAO's findings from the current audit

5.36 The ANAO found that DIMIA has implemented several initiatives to assist employers in confirming the work rights of non-resident individuals. In 2001, DIMIA released an employer awareness kit, *'Don't give a job to an illegal worker!'*. A revised edition of the kit was released in 2003 and DIMIA has advised that a new edition will be released later this year. The kits have been distributed across Australia to employers, labour suppliers and others who need information about non-resident work rights.

5.37 To further assist employers in confirming the work rights of non-resident individuals, DIMIA has established a faxback facility, a work rights line and an on-line service, the Entitlements Verification On-Line (EVO) system. The EVO is a new departmental service providing on line verification of entitlements held by visa holders. The on-line service is the Department's principal vehicle for checks of work rights entitlements by employers, labour suppliers and licensing authorities. It is available for use by any employer or labour supplier in Australia. Licensing authorities may use it for work rights checks, and educational institutions to check study entitlement checks.⁹³

5.38 DIMIA has also introduced a system of warning notices for employers and labour suppliers of illegal workers. Where persons are found to be working illegally, DIMIA can issue a warning notice. This approach is aimed at encouraging employers to take all reasonable steps to satisfy themselves that non-resident employees have work rights in Australia. We note that in the absence of a penalty regime, DIMIA has focused on education and awareness activities.

5.39 As part of its education and awareness campaigns, DIMIA has targeted both employers and employees. A broad range of information about work

⁹³ http://www.immi.gov.au/e visa/visa_conditions.htm has more information about the system.

rights and working in Australia is available direct from the Department, or from its website.

Australian Taxation Office's Individual Auto Registration process

5.40 As mentioned in Chapter 2 and discussed in Chapter 3, the ANAO found that the ATO has implemented, in cooperation with DIMIA, a TFN IAR process. This allows permanent migrants and non-residents with work rights to apply for a TFN online. The supporting system uses the information supplied by individuals to confirm their identity and if they have work rights. This information is held in DIMIA's systems.

5.41 The IAR system has streamlined the process for non-resident individuals and permanent migrants applying for a TFN. However, if a non-resident individual has a TFN it does not imply that they have work rights in Australia. A non-resident may require a TFN for other purposes, such as, investment.

ANAO conclusions in relation to *Numbers on the Run* Recommendations Nos. 15 and 17

5.42 The ANAO found that the ATO has fully implemented Recommendations Nos. 15 and 17 of *Numbers on the Run*.

5.43 In relation to *Numbers on the Run* Recommendation No. 15, ANAO found that DIMIA has implemented education and awareness campaigns focused on informing employers and labour suppliers about their obligations when employing non-residents. This appears to be an appropriate approach in the absence of a penalty regime that could be used to induce compliance.

5.44 In relation to *Numbers on the Run* Recommendation No. 17, ANAO found that the ATO and DIMIA have developed an IAR facility to streamline the TFN application process. As part of this process the ATO uses DIMIA data to confirm that non-resident individuals have work rights or have been granted permanent migrant status in Australia. We also found that the ATO is working with DIMIA and Centrelink to develop solutions to the issue of non-residents working in the cash economy.

6. Tax File Number Quotation

This Chapter presents the ANAO's findings in relation to Recommendation No. 4 of Report No. 37 and Recommendations No. 22, 23 and 24 of Numbers on the Run about extending Tax File Number quotation arrangements to include additional transactions. It discusses the conclusions of the Financial Action Task Force (an international inter-governmental body), that some of these transactions are used for money laundering and the financing of terrorism. The Chapter also presents ANAO's findings in relation to Recommendation No. 3 and 5(b) and (c) of Report No. 37 about the ATO's collection and remittance of Tax File Number withholding tax.

Introduction

6.1 When the Government introduced the reforms to the TFN system in 1988, the role of the TFN as a numeric code for tracking financial transactions was emphasised.⁹⁴ In this way, the TFN system would improve the effectiveness and efficiency of taxation administration by ensuring that transactions that involve information that may have a bearing on the assessment of income are linked to the TFN of the individual for whom an income tax assessment is being determined. Legislation provides that quotation of the TFN is optional for taxpayers in respect of a range of financial transactions.⁹⁵

⁹⁴ The Government emphasised this purpose of the TFN in the following way: *a person entering into a relevant transaction will be required only to quote his or her tax file number which will then be included on reports forwarded to the Taxation Office for matching purposes.* (Economic Statement May 1988). Statement delivered on 25 May 1988 by the Treasurer, page 107.

⁹⁴ Australian Taxation Office, *Commissioner of Taxation Annual Report 1991-92*, p28.

⁹⁵ Please refer to Appendix 10 Quotation of the Tax File Number for a listing of these transactions.

Transactions outside the Tax File Number quotation arrangements

Numbers on the Run - Recommendation No.22

That the AUSTRAC and the ATO: analyse the revenue at risk from AUSTRAC transactions being outside TFN quotation arrangements; consider the proportion of AUSTRAC transactions to which a TFN may be able to be attached; and undertake a consultation process with industry to develop a detailed option for attaching TFN to AUSTRAC reported transactions.

Report No.37 - Recommendation No. 4

The ANAO recommended that the ATO examine the risks to the integrity of tax administration and to the collection of revenue arising from transactions (for example, those listed in paragraph 3.30 of Report No.37) being outside the TFN withholding arrangements, and consider options for addressing these risks, such as their inclusion within the TFN withholding arrangements.

ATO Response: Agree. Whether further extension is required in the areas detailed in the Report needs further consideration in the context of balanced risk assessment and alternative strategies. Our findings in the general real estate area have highlighted a number of potential risks.

Approval to seek legislative change is an option but it is not our preference without first seeking other solutions, including education, awareness raising via publicity, increased reporting or enforcement action. (Refer to ANAO's *Assessment of Progress* in Appendix 2 for the full text of ATO's response).

Numbers on the Run - Recommendation No. 23

That, after the proposed business tax reforms have been introduced, the ATO investigate the remaining risk to revenue from real estate transactions being outside TFN withholding arrangements and take appropriate steps to address this risk.

Findings of Report No.37

6.2 The range of additional information made available by the quotation of the TFN for transactions has a bearing on revenue collected. Therefore, the ANAO examined whether or not quotation of the TFN was currently requested for all relevant transactions. The ANAO reported that the ATO's capacity to collect the revenue due to the Commonwealth had been improved by having available transactions relevant to the assessment of income tax that are linked to taxpayer records through their TFNs. The ANAO observed that this capacity might not be fully utilised if there were transactions relevant to the assessment of income tax for which a TFN was not requested and to which the TFN withholding arrangements did not apply.

6.3 Report No.37 found that there was a range of financial transactions to which the TFN quotation arrangements did not apply. These included:

- purchase and sale of real estate;
- the renting of real estate;
- new financial products such as uninscribed (unregistered) money market and derivative securities and the like;
- *Financial Transaction Reports Act 1988* (FTR Act) transactions;⁹⁶
- transactions of trustee bankrupt estates;
- loan transactions;
- futures contracts;
- insurance payments (such as commissions to salespersons and payouts on policies);
- purchase and sale of insurance products; and
- use of safety deposit box and similar services.

6.4 The quotation of the TFN in relation to these transactions could provide the ATO with information that might improve its capacity to assess tax liability. The ATO agreed with the ANAO's findings and recommendation on this matter.

6.5 The ANAO considered that there would be merit in the ATO providing the Government with advice about the extension of the TFN withholding arrangements. Advice to Government about completing the extension of the arrangements to cover all investment bodies and all relevant financial transactions could help Government make decisions to improve the effectiveness and efficiency of the TFN system.

Findings of *Numbers on the Run*

6.6 The Committee inquired further into several of the transactions identified by the ANAO as being outside the TFN withholding arrangements, namely transactions subject to the FTR Act reporting requirements (FTR transactions), real estate, and Assessable Government Payment (AGP) transactions. In the following, we discuss issues arising in relation to FTR transactions and real estate first of all. A subsequent section reports on issues arising in relation to AGPs.

⁹⁶ ANAO Report No.37 of 1998-99 referred to these as Australian Transactions Reports and Analysis Centre (AUSTRAC) transactions. In these Chapters, we refer to them as FTR transactions, or collectively, as FTR data.

Financial Transaction Reports Act 1988 *transactions*

6.7 The Committee noted that AUSTRAC was established in 1988 as ‘one of Australia’s primary anti-money laundering and anti-tax evasion agencies’.

6.8 Through the collection, analysis and dissemination of FTR information, AUSTRAC has made a significant contribution to the enforcement of taxation laws. In addition, substantial indirect contributions were made towards the ATO collecting revenue in a wide range of its business areas.

6.9 The ANAO had noted that in 1998 the Cash Economy Task Force recommended to Government that:

careful consideration should be given to extending financial reporting requirements under the Financial Transaction Reports Act 1988 to require cash dealers to report the TFN details in conjunction with reports where the TFN is held (for example, banks) by the cash dealer.⁹⁷

6.10 The Committee reported that despite being a member of the Cash Economy Task Force that made the recommendation (in the preceeding paragraph 6.9), and despite recognising that ‘the present name and address matching of FTR information with taxation information has certain limitations’, AUSTRAC has made little progress on evaluating this proposal. The Committee noted the concerns raised by AUSTRAC, namely the possible costs to cash dealers and AUSTRAC of collecting and including TFNs in reports.⁹⁸ The Committee further reported that these concerns were echoed in other evidence to the Committee.

6.11 AUSTRAC outlined to the Committee a consultation process that it considered important for the development of this option. The need for consultation was raised by the Cash Economy Task Force in their report in early 1998 and yet the Committee discovered, over two years later, that no progress appeared to have been made.

6.12 The Committee further considered that AUSTRAC and the ATO should commence negotiations with relevant industry groups on ways in which this proposal could be taken forward. This could start with discussion around those transactions which the ATO considers are ‘capable of attaching a TFN’ – namely Significant Cash Transaction Reports, International Funds Transfer Reports and Suspect Transaction Reports.

6.13 The Committee concluded that there was also a need for analysis of the magnitude of revenue potentially at risk under current arrangements and ‘the

⁹⁷ Australian Taxation Office, *ATO Improving Tax Compliance in the Cash Economy*, April 1998 p48.

⁹⁸ Particularly due to system reengineering requirements.

percentage or quantum of AUSTRAC reports that, potentially, would carry a TFN if the proposal is successful’.

Real estate

6.14 The Committee reported that in relation to options for extending the TFN system, the Australian Bankers’ Association (ABA) stated in evidence presented to the Committee that:

Our view (i.e. the ABA) is that we would have thought that the real property transaction is the one to obviously target. ... real property has not been touched at all by the ATO. I do not believe there is any overview or filtering of property data at all.⁹⁹

6.15 The Committee was informed that recent research by the ATO had estimated ‘the revenue at risk for all property transactions currently outside of the TFN quotation arrangements is agreed to be \$280 million to \$350 million’.

6.16 Noting the ATO’s advice presented to it regarding the considerable revenue at risk, the Committee considered that this proposal warranted close consideration. The Committee observed that of significance in considering extending TFN quotation to real estate transactions was the current process of business tax reform. The Committee stated that the level of revenue risk remaining in this area after business tax reform would be a crucial input to reaching a final decision on the appropriate balance between privacy concerns, compliance costs and efficient public administration.

6.17 The Committee considered that despite significant discussion of possible extensions of TFN quotation arrangements, this issue had not been properly evaluated by the ATO and hence had not progressed. The Committee agreed with the ANAO that the appropriate response to these recommendations would have been the development of ‘an estimate of the additional revenue collectable, and of the administrative efficiencies achievable’.¹⁰⁰

6.18 The Committee concluded that the result of ATO inaction has been poor quality policy advice to the Government. Despite ATO claims to ‘never rule out taking a case to Government to extend the regime’,¹⁰¹ they have failed to investigate and advise on this issue in a timely manner. The Committee agreed with the ANAO that ‘the ATO could have been more proactive in

⁹⁹ House of Representatives Standing Committee on Economics, Finance and Public Administration Report, *Numbers on the Run* page 90.

¹⁰⁰ Australian National Audit Office, ANAO Audit Report No.37 of 1998-99, *Management of Tax File Numbers*, Canberra, 1999, p.65.

¹⁰¹ Transcript of HoRSCEFA hearings, p.5.

advising government about problems with the TFN system and options to address these'.¹⁰²

ANAO’s findings from the current audit

6.19 In the following, the recommendations of both reports about transactions outside of the TFN quotation arrangements are discussed together.

Financial Transactions Reports data

6.20 In 2002, the ATO initiated discussions with AUSTRAC to progress Recommendation No.22 of *Numbers on the Run*. ANAO understands that this Recommendation is about the matching of FTR records as a database against the ATO’s databases, in a way that is similar to the large scale matching of databases that has proven to be so successful in Commonwealth agencies such as the ATO and Centrelink. The ATO has not used FTR data for this type of data matching in the past.

6.21 During 2004 AUSTRAC provided the ATO with about 7.2 million name and address records extracted from FTR data for 2003–04. The ATO and AUSTRAC sought and obtained the concurrence of the Privacy Commission with the data match. This project is a pilot test only and it is still at an early phase. The pilot study of the use of the FTR in large scale data matching is the first initiative carried out by the ATO and AUSTRAC.

6.22 The results of the ATO’s matching of name and address records derived from FTR data was that a low level of identity matching was achieved. Table 6.1 shows the results of the match in comparison to the results of matching the approximately 13 million records on the Electoral Roll of the Australian Electoral Commission (AEC) as of November 2004.¹⁰³

Table 6.1

Match strength	AUSTRAC	AEC
High grade	5.5%	77.57%
Medium/low	24.5%	20.22%
Not matched/multi-matched	70%	2.21%

Source: Australian Taxation Office

¹⁰² Australian National Audit Office, ANAO Audit Report No.37 of 1998-99, *Management of Tax File Numbers*, Canberra, 1999, p.14.

¹⁰³ AUSTRAC has advised that there are important differences between the AUSTRAC and AEC data. For example, according to AUSTRAC approximately 50 per cent of the names and addresses derived from the FTR data contain information on non-residents whereas the AEC data does not contain this proportion of non-residents.

6.23 The ATO has advised that the next stage of the pilot project will be a coordinated effort between AUSTRAC, the ATO's SNC team and the PTax Computer Systems group evaluating the matching process to determine cause and effect around:

- the reasons for the low level per centage matches;
- reviewing quality issues with the data;
- how the matched data will be used and whether it adds value in a compliance sense;
- whether the unmatched data is valuable e.g. non lodgers; and¹⁰⁴
- whether it is possible to improve the matching process using other FTR data such as bank account details.

6.24 The ATO has further advised that the pilot project may take more than 18 months to complete. Depending on the results, the ATO might establish a data-matching project that could address the Committee's concerns. That is, the project could analyse the revenue at risk from AUSTRAC transactions being outside TFN quotation arrangements. It might also estimate the proportion of AUSTRAC transactions to which a TFN could be attached.

6.25 The ATO has advised that matching most of the AUSTRAC data remains difficult when matched only on the basis of names and addresses. Further, the identification of those transactions of interest is made even more difficult because there is no numeric identifier such as a TFN or an ABN with which to match the data. The absence of the account information, which is normally part of the relevant AUSTRAC record, is another factor that contributes to the difficulty.¹⁰⁵

6.26 The ANAO notes that the ATO has been matching FTR data with its databases for many years. The FTR data has been shown to be of significant value where the ATO initiates inquiries of the data in relation to suspected compliance risks of particular individuals or entities. In these cases, the matches are obtained by searching the FTR data in relation to specific details identified through the ATO's compliance research.

6.27 The results of this work have been reported by the ATO in successive annual reports. For example, in the ATO's most recent Annual Report, the Commissioner has stated that 'over the past four financial years, the Tax Office

¹⁰⁴ The assumption is that the unmatched residents listed on AUSTRAC are either non-taxable or outside the tax system. Further sampling will assist in determining whether follow up case-by-case work would be useful.

¹⁰⁵ AUSTRAC has advised that whilst the ABN might be recorded on some FTR transactions, there is no mandatory requirement for ABNs to be recorded.

has raised assessments totalling \$279 million as a direct result of information obtained by AUSTRAC'.¹⁰⁶

6.28 The ANAO understands that the Committee's Recommendation No. 22 is about a different type of data matching to this, namely the matching of the FTR data as a database against the ATO's relevant databases. The main purpose in matching data sets in this way is to enable software to identify transactions of interest to the ATO. This process would bring such transactions, or families of such transactions, to light without the need to connect them in the first instance with a suspect transaction or particular individuals identified of interest by other means.

6.29 Given the complexity of the task of matching FTR data against ATO's taxpayer databases in this way, it may be necessary for the ATO to conduct more extensive analyses of FTR data, including the account information recorded by AUSTRAC, in conjunction with a range of other relevant data maintained or available to the ATO, using more sophisticated analytic techniques to address fully the Committee's concerns on this matter. Otherwise, there are real risks that the work may produce inconclusive outcomes.

6.30 ANAO has been advised that AUSTRAC can provide further information, including account information, to the ATO as part of the data match, although not all transactions are account-based. In this regard, ANAO understands that the identification of customers to accounts has been a requirement under the FTR Act since 1991.

6.31 Where available, account information could be sufficient if it enabled the ATO, perhaps by the use of other databases as well, to find the relevant TFNs or ABNs by other means. Amongst other things, the use of account information or the attachment of TFNs or ABNs could facilitate the identification of legitimate FTR transactions and valid FTR/ATO matched records that do not present compliance concerns. If this were achieved, it would be easier to identify the relatively small subset of potentially high-risk transactions and improve the efficiency of the matching process.

6.32 Given that the total number of transactions is large, any such efficiency gain in the data matching process could prove to be quite advantageous.

6.33 The ATO considers that any matching of AUSTRAC data with ATO databases as recommended by the Committee would be quite complex. ATO is of the view that it would be more complex than the other large-scale data matching activities that the ATO now routinely performs. In those instances,

¹⁰⁶ Australian Taxation Office, *Commissioner of Taxation Annual Report 2003-2004*, page 174.

the data obtained from third parties generally relates to assessable income that can be readily matched with return form information.

6.34 The ATO advises that AUSTRAC data merely records some of the 'money movement' and suspicious transactions in the financial system. No taxation liability as such is attached to that movement of money. The ATO considers that AUSTRAC data is also very difficult to match with specific information held by the ATO in order to draw any conclusions relevant to compliance matters generally.

6.35 The ATO states that the real value of AUSTRAC data comes when it is combined with a range of other information held by the ATO and it helps to complete a picture. According to the ATO, the data matching recommended by the Committee would require far greater and sophisticated analytical work than the ATO usually carries out in the large scale data matching work that it conducts.

6.36 There are two important features of data matching to consider in relation to the pilot project under discussion. One is to achieve the highest possible confidence level that the matches obtained are valid. The other is to reduce to the minimum the proportion of false negatives (or misses) and false positives (false alarms) produced by the match.¹⁰⁷

6.37 The ANAO notes that the possible extension of TFN quotation arrangements to FTR transactions is a matter for Government policy and would require legislative change. Nevertheless, the ATO has explained that a business case is being prepared about the matter of requiring cash dealers supply a TFN. Amongst other things, the business case will include an assessment of compliance and systems' improvement expenses as well as estimates of the possible revenue and compliance improvements that might accrue.

6.38 The ATO has advised that progressing a review of the matched cases identified by the pilot project will allow an evaluation of the value of adding TFNs to FTR data. The proposal to attach TFNs to FTR transactions requires extensive consultation with cash dealers about compliance costs, and with civil liberties and privacy groups.

¹⁰⁷ In relation to FTR data, a false negative is the conclusion that a FTR transaction cannot be matched against an ATO record when, in fact, there is a valid ATO record against which it should be matched. A false positive, on the other hand, is the conclusion that a FTR record can be matched against an ATO record when, in fact, there is no valid ATO record against which it could be matched.

ANAO conclusion in relation to Recommendation No. 22 of *Numbers on the Run*

6.39 Whilst the ATO has been matching FTR data against its databases in relation to specific queries for many years, a pilot project to match FTR data against ATO data on the basis of the matching of databases has only recently been established. However, given the current level of the resourcing of this project it may take more than 18 months to complete. As a result, the ANAO is not able to report about the extent to which the matching of FTR data, as data base, against the ATO's databases might reveal compliance issues additional to those revealed by the ATO's current use of the FTR data.¹⁰⁸ In view of these considerations, ANAO concludes that the ATO has made limited progress in implementing Recommendation No. 22 of *Numbers on the Run*.

Real estate transactions

6.40 The ATO has investigated some aspects of the compliance risks associated with real estate transactions. For example, the ATO has investigated the incidence of claims for excessive deductions in relation to rental income reported on income tax returns.

6.41 New legislation now regulates the taxation of non-residents in relation to a range of transactions.¹⁰⁹

6.42 In mid 2002, the ATO examined whether to bring non-resident rental income into the non-resident withholding tax regime. This involved an examination of the risk to the revenue, the compliance costs associated with such a withholding regime and its feasibility in terms of design. That examination, particularly the risk analysis concluded that the risk to the revenue was low, based on:

- the numbers of non residents involved;
- the level of income, net of expenses such as interest, building write off and decline in value deductions (depreciation); and
- evidence that non lodgers were either in a loss situation, held the property as trustees or actually lived in it.

¹⁰⁸ In general, matching the FTR database against the ATO's databases will reveal compliance concerns in two main ways. One is as a result of a valid match against ATO data. The other is by the identification of people or entities that may have tax lodgement responsibilities that they might not have acquitted.

¹⁰⁹ *Tax Laws Amendment Act (No.4) 2003* contains the legislative framework regulating aspects of the taxation of non-residents. The Bill received Royal Assent on 30 June 2003. Included in the Act is Schedule 5 that introduces new withholding obligations to apply to certain payments to foreign residents. Regulations have been promulgated that concern payments made to foreign residents in relation to gaming junkets, entertainment or sports activities, and construction and related activities. (Regulations 44A, 44B, 44C and 44D of the *Taxation Administration Regulations 1976*. The regulations came into effect on 1 July 2004). These are in addition to existing regulations about dividend, interest, royalty, mining and certain superannuation payments made to foreign residents.

6.43 It was also considered that the risk to the revenue was likely to remain low into the immediate future. Given this assessment, the proposal was not proceeded with.

6.44 The ATO advised that the 2004–05 Commonwealth Budget provided funds to address the risks of capital gains tax (CGT) non-disclosure. Project work initiated in July 2004 is assessing the useability of external real property data holdings, for a number of purposes, including the identification of under-reporting of capital gains.

6.45 Small-scale compliance studies, of a pilot nature, have shown some early positive results in the high growth/high value areas such as the Gold Coast. These activities have also identified CGT record keeping as a significant compliance risk.

6.46 For more systemic analysis, the ATO is negotiating access to state-based real estate data holdings held in land titles offices and state revenue offices. Access to these records from all state based agencies is being negotiated either under memorandum of understanding arrangements or under licence agreements. Until complete state records can be made available for matching against ATO information, an interim measure of short-term licences with commercial third party property providers is being pursued.

6.47 The ATO considers that the limited analysis of matched cases derived from two states data holdings has not indicated a compliance risk of widespread proportions. A large number of main residence transactions, exempt from the capital gains tax regime, have been identified. The ATO has stated that when automated matching capability is online it will be in a position to assess the quality of taxpayer identification and data integrity.

6.48 The ATO has stated that upon conclusion of the project work, the steps and strategies developed will be designed to address the nature and extent of non-disclosure of revenue from real estate transactions detected.

ANAO conclusion in relation to Recommendation No. 23 of *Numbers on the Run*

6.49 Whilst the work reported by the ATO should improve the ATO's understanding of compliance issues associated with real estate transactions, it has not addressed the concern of the Committee in Recommendation No. 23 of *Numbers on the Run*. ANAO found that the ATO has made limited progress implementing Recommendation No. 23 of *Numbers on the Run*.

Anti Money Laundering Reform and transactions outside of Tax File Number quotation arrangements

6.50 The ANAO understands that the international inter governmental body, the Financial Action Task Force (FATF), recently revised its recommendations to extend coverage of transactions that may be misused for money laundering or terrorist financing. The Australian Government is now considering changes to Australia's anti-money laundering legislation to address these additional requirements. An implication of that would be that anti-money laundering reporting arrangements would extend to a range of transactions outside the TFN arrangements.

6.51 Since 1998 FATF has periodically released reports of money laundering techniques and trends.¹¹⁰ Australia is a founding member of the Task Force, which now includes 31 nations.

The Financial Action Task Force and transactions outside of Tax File Number quotation arrangements

6.52 The FATF reported that 'the real estate sector is now fully within the sphere of money laundering activities'. The FATF found that 'Investment of illicit capital in real estate is a classic and proven method of laundering dirty money... Laundering may be effected either by way of a chain of transactions in real estate to cloak the illicit source of funds, or by investment in tourist or recreational real estate complexes which lend an appearance of legality'.¹¹¹

6.53 FATF has also found that a range of other transactions is used throughout the world for money laundering purposes. These transactions include several referred to in Recommendation No.4 of Report No.37 (and listed in paragraph 6.3) such as new financial products and insurance payments, products and services. The laundering of money necessarily involves the loss of taxation revenue because, by definition, laundered money is not reported to the ATO as income.

6.54 ANAO understands that AUSTRAC, in conjunction with consultants, are currently conducting a further project in this area, to be completed during 2005. AUSTRAC has advised that this project is unlikely to specifically focus on tax revenue, but may refer to it in the report.¹¹²

6.55 The extent to which there is money laundering and the financing of terrorism taking place in Australia in relation to these transactions including

¹¹⁰ 1997-1998 Report on Money Laundering Typologies Financial Action Task Force (FATF) 12 February 1998. Available from the OECD website http://www1.oecd.org/fatf/FATDocs_en.htm#Trends

¹¹¹ Ibid., paragraph 59.

¹¹² In 1995 AUSTRAC had a consultant prepare a report on *The Extent of Money Laundering in and Through Australia*. See AUSTRAC's website www.austrac.gov.au/publications

those currently outside TFN quotation arrangements is relevant to tax administration. If transactions such as those identified by FATF are used for extreme forms of non-compliance like money laundering and the financing of terrorism, then it is more likely than not that such transactions will be used for less extreme forms of non compliance like avoiding the payment of tax. Accordingly, it could prove useful to the ATO to evaluate the extent to which this is happening in Australia.

The Financial Action Task Force and the role of official identification data in the records of financial institutions

6.56 Recommendation 10 of the FATF's forty recommendations requires that:¹¹³

Financial institutions should keep records on the identification data obtained through the customer due diligence process (e.g. copies or records of official identification documents like passports, identity cards, driving licences or similar documents) account files and business correspondence for at least five years after the business relationship has ended.

6.57 ANAO notes that legislation gives the TFN and the ABN the status of official identifiers, albeit in legislatively specified ways in the case of the TFN.¹¹⁴

6.58 The Government has, in principle and subject to consultations with the industry sectors affected, accepted the findings and recommendations of FATF regarding the risk of money laundering and the financing of terrorism by the means identified by FATF. The Government is to 'implement new global standards aimed at cracking down on money laundering and terrorist financing', subject to consultations with the industry sectors affected.¹¹⁵

Financial Transactions Reports Act 1988: possible extension of transaction coverage

6.59 The Attorney-General's Department has advised ANAO that it is envisaged that the FTR Act will be eventually replaced by broader anti-money

¹¹³ Financial Action Task Force on Money Laundering *The Forty Recommendations* published 20 June 2003. Available from the Attorney-General's Department website www.ag.gov.au

¹¹⁴ The following are the main items of legislation that regulate the use of the TFN and the ABN. TFNs: *Income Tax Assessment Act 1936* *Tax Administration Act 1953*; *Privacy Act 1988*; *Data-matching Program (Assistance and Tax) Act 1990*; *Income Tax (Deferred Interest Securities) (Tax File Number Withholding Tax) Act 1991*; *Social Security Act 1991*; *Veterans' Entitlements (Rewrite) Transition Act 1991*; *Higher Education Funding Act 1988*; *Superannuation Industry (Supervision) Act 1993*; *Small Superannuation Accounts Act 1995*; *Tax Laws Amendment Act (No. 2) 1996*; *Retirement Savings Accounts Act 1997*; and *Superannuation Contributions Tax (Assessment and Collections) Act 1997*. ABNs: *A New Tax System (Australian Business Number) Act 1999*.

¹¹⁵ "Australia endorses global anti-money laundering standards" Minister for Justice and Customs media release of 8 December 2003 and "New laws take shape to strengthen fight against money laundering" Minister for Justice and Customs media release of 10 June 2004.

laundering legislation. Accordingly, in the following we have referred to 'financial intelligence information' and 'financial intelligence reporting' instead of 'FTR data' and 'FTR reporting' respectively.

6.60 If the FTR Act is replaced by anti-money laundering legislation that extends financial intelligence reporting in the manner indicated in relation to money laundering and the financing of terrorism, there will be significantly more financial intelligence information available to the ATO. Furthermore, this data is being collected because of the evidence, accepted by the Government, that some of the additional transactions in the to-be-extended financial intelligence information reporting arrangements, will relate to behaviour that presents serious compliance risks, especially in relation to money laundering and the financing of terrorism. As a result, the expanded financial intelligence information database would provide the ATO with a wider range of data potentially capable of improving compliance in a range of significant areas, given FATF's findings.

ANAO conclusions in relation Recommendation No. 4 of Report No. 37 and Recommendation No. 23 of *Numbers on the Run*

6.61 The ANAO acknowledges that progressing the implementation of Recommendation No. 4 of Report No. 37 by the ATO requires Government agreement. The ANAO finds that the ATO has made limited progress in the implementation of Recommendation No. 23 of *Numbers on the Run*.

6.62 The ANAO notes that the Government has, in principle and subject to consultations with the industry sectors affected, accepted the advice of FATF to require the transactions identified by FATF as being used for money laundering and the financing of terrorism to be included in an extended regime of financial intelligence reporting. Given FATF's findings about the serious compliance concerns associated with the transactions under consideration for inclusion in an extended coverage of the broader anti-money laundering legislation, there would be merit in the ATO evaluating the tax consequences of those concerns for tax administration.

6.63 The successful conclusion of the project that matches FTR data, as a database, against the ATO's databases discussed in this Chapter in relation to the Committee's Recommendation No. 23 could be a useful indicator of the extent to which the ATO will be able to make fuller use of any additional financial intelligence information.

Recommendation No. 6

6.64 The ANAO recommends that, in relation to the additional transactions under consideration for inclusion in broader anti-money laundering legislation that may replace the *Financial Transaction Reports Act 1988*, the ATO:

- evaluate the risks to the integrity of tax administration and to the collection of revenue from those transactions;
- evaluate the extent to which it is able to make better use of the Financial Transactions Reports (FTR) data, including the additional transactions from any extension of FTR coverage, especially by the matching of any expanded financial intelligence information, as a database, against the ATO's databases; and
- take appropriate measures necessary to make fuller use of the expanded financial intelligence information, within the ATO's overall risk management framework.

ATO Response

6.65 Agree. The Tax Office undertakes ongoing matching of Financial Transaction Report information against its databases to assist in the identification of non-compliance. The Tax Office has also undertaken a matching exercise of the full Financial Transaction Report database against the Tax Office client register to better identify potential non-compliance. This is currently being evaluated. The outcomes from individual cases, together with those from this matching exercise, will be used to better incorporate Financial Transaction Report data into the Tax Office's risk management framework. If the *Financial Transaction Reports Act 1988* is extended, the Tax Office will undertake an evaluation to determine how best the information can be best used in tax office compliance programmes.

Assessable Government Payments and the Australian Business Number

Numbers on the Run - Recommendation No. 24

That the Treasury investigate extending TFN quotation and withholding arrangements to include business with the Commonwealth Government, particularly in the case of Assessable Government Payments.

Findings of *Numbers on the Run*

6.66 The Committee reported that the extension of the TFN system to cover Assessable Government Payments (AGP) would result in a situation similar to that in the United States of America (USA). In the USA, the Committee reported, all federal agencies are required to obtain Taxpayer Identification Numbers from the taxpayer in all cases in which the taxpayer makes payments or may obtain some benefit (broadly defined) as a result of doing business with the Government.

6.67 'Doing business with the Government' is broadly defined in US legislation to include virtually all dealings with the USA Federal Government that involve obtaining a benefit, making a payment of any kind, or being part of an arrangement by means of which the US Government underwrites a risk or incurs a contingent liability.¹¹⁶

6.68 The Committee noted that the equivalent definition applied to the Commonwealth Government would mean mandatory use of the TFN whenever an individual or entity applied to enter into a transaction to do business with the Commonwealth. The Committee emphasised that it did not necessarily endorse this idea.

6.69 As the new ABN reforms had not been introduced at the time of the Committee inquiry, *Numbers on the Run* did not include any comment about a possible relationship between the ABN and the ATO's ability to manage risks associated with AGPs.

ANAO's findings from the current audit

6.70 Since *Numbers on the Run* was tabled, the Government's ABN reforms have become operational. The Government has stated that the policy objective of the ABN is to 'Introduce a new unique business identifier for all Commonwealth purposes to facilitate business being able to meet its regulatory obligations and access information and assistance through the business entry point to government.'¹¹⁷

6.71 In relation to Recommendation No. 24 of *Numbers on the Run*, the Treasury advised the ANAO that as the ABN would apply to almost all AGPs,

¹¹⁶ This would include transactions in the following categories:

- Financial benefits from the Commonwealth. (For example, the payment of grants, rebates, subsidies, and bounties);
- Purchase of services by the Commonwealth;
- Payments to the Commonwealth. (For example, levies, charges, royalties, fees, fines, or penalties and taxes not collected by the ATO);
- Entitlements and other rights granted by the Commonwealth. (For example, the issuing of visas, passports, licences, permits and other legislated rights; and
- Commonwealth contingent liabilities. (For example, loans, trade insurance, and guarantees, indemnities).

¹¹⁷ *A New Tax System (Australian Business Number) Bill 1998, A New Tax System (Australian Business Number Bill 1998 Consequential Amendments) Bill 1998* Explanatory Memorandum (Circulated by authority of the Treasurer, the Hon Peter Costello, MP) The Parliament of the Commonwealth of Australia House of Representatives, 1998. Page 2. The legislation states: 'The purpose of the ABN is to change the system of business registration to make it possible for business to deal with the whole of government at one place and with one business identifier. Under the new system of registration, companies registered under the Corporations Law, government and business entities and other entities for which registration for the GST is required, will be issued with unique identifying numbers so that they can easily identify themselves in all their dealings with the Australian Government and for all other Commonwealth purposes'. *A New Tax System (Australian Business Number) Act 1998*, Subsections 3(1) and 3(2).

there was no need to conduct the investigation called for by the recommendation. The ABN and the TFN are closely linked. Legislation provides that before an ABN can be issued, the ATO requires the TFN of the relevant person behind the entity for which the ABN is sought.

6.72 The Treasury also considered that the Government would expect that all Australian Government agencies that make AGPs would include the ABN in the record of the payment, if the entity receiving the payment had an ABN.

6.73 The ANAO has reported on the work underway over the period 2001 to 2003 by the ATO to promote the use of the ABN (in particular, the Australian Business Register (ABR)) amongst Commonwealth and State agencies.¹¹⁸ In that audit, the ANAO found that the ATO had achieved 'limited results' in the establishment and development of external partnerships with Commonwealth and State agencies about their the use of the ABR.¹¹⁹

6.74 During 2003–2004, the ATO researched the possibility of using the ABN to match HIC and ATO records. Whilst the research has concluded that most HIC records would not contain the ABN, as mentioned in Chapter 2, the ATO is undertaking discussions with the HIC to gain access to data relevant to the assessment of medical practitioners' income. As mentioned in Chapter 2, the ATO advised the ANAO that the HIC does not, as a rule, require medical practitioners to quote their ABN. The ANAO understands that the HIC requires quotation of the ABN only for those payments it makes that are not GST free.

¹¹⁸ *Administration of Australian Business Number Registrations* Audit Report No.59 2002-2003, Chapter 6.

The Australian Business Register (ABR) is the register of all ABNs. The ABR is the central collection, storage and verification system for basic business information, supplied by businesses with an ABN. Some of this information is available to the public. Business information relates to name, address and type of business, its email contact address, whether the business is registered for GST and the number of staff it employs. The ABR is also a whole-of-government initiative, primarily developed to make it easier for business clients to transact business with Commonwealth Government agencies. In due course it is expected that the ABR will be able to deliver similar efficiencies to State and Local Governments.

¹¹⁹ *ibid.*, Recommendation No 7, page 102.

6.75 The relevant AGP label requires the taxpayers to identify the receipt of any AGPs.¹²⁰ ANAO understands that recent ATO research shows a relatively high level on non-compliance with this reporting requirement, including by medical practitioners. Recent data matching activities by the ATO in the areas of Diesel Fuel Rebates, Diesel and Alternative Fuel Grants and payments made under the Dairy Structural Adjustment Program have identified that despite significant non-compliance with reporting amounts at the correct label, the residual risk to revenue is low as taxpayers have included the receipts under other labels. Of course, data matching activities are made more cumbersome and resource intensive as a result of incorrect reporting. ANAO considers that there would be merit in the ATO initiating strategies to rectify the matter. Amongst other things, a high level of compliance with the reporting requirement is necessary for the data matching that would assist in indicating the extent to which tax is being paid on AGPs. In 1997–98 the ATO advised ANAO ‘The ATO has estimated that Assessable Government Industry Payments (which includes Medicare payments) amounts to over \$10 billion per annum in assessable income’.¹²¹

6.76 The ANAO understands that ATO research completed in 2003 has shown that the aggregate amount of AGPs returned in 2002 income tax returns for the financial year 2001–2002 was less than half of this amount.¹²²

¹²⁰ ATO’s instructions to taxpayers provide the following guidance. Generally, government grants, rebates, benefits, bounties and subsidies are assessable income in the hands of the recipient if they are received in, or in relation to, the carrying on of a business. This generally includes payments of a capital nature. However, payments relating to the commencement or cessation of a business may not be assessable. Taxpayers are required to show at the relevant Assessable Government Payment label the following assessable government industry payments:

- bounties;
- diesel fuel rebate;
- diesel and alternative fuels grant;
- drought relief; employee subsidies;
- fuel grant under the energy grants credits scheme;
- export incentive grants;
- fuel sales grant;
- industry assistance grants, including grants relating to research and development;
- Medicare payments to medical practice companies; and
- product stewardship (oil) benefit.

¹²¹ Auditor-General Report No 3 of 1998-99, *Assessable Government Industry Assistance; Follow-up Audit*, tabled on 12 August 1998, page 25.

¹²² ATO advise that some of those not completing the relevant Assessable Government Payment label include the AGP income in their tax return.

ANAO conclusion in relation to *Numbers on the Run* Recommendation No. 24

6.77 In relation to the implementation of *Numbers on the Run* Recommendation No. 24, ANAO concludes that the introduction of the ABN has overtaken the need for this recommendation. However, as a result of the introduction of the ABN, the ATO could be expected to use it to progress some forms of data matching that previously required the TFN. These new opportunities would largely relate to business entities. To progress these opportunities in respect of AGPs, the ATO would need to establish external partnerships with Australian Government agencies about their use of the ABR and the recording of ABNs on their databases in relation to the AGPs issued by those agencies.

6.78 In connection with Recommendation No.24, whilst the ATO has made progress in the establishment of external partnerships with Australian Government agencies, there appear to be several key Australian Government agencies with which the ATO does not have such partnerships.

Recommendation No. 7

6.79 The ANAO recommends that the ATO bring to the attention of Australian Government portfolios and the agencies within them that make significant Assessable Government Payments (AGPs) or which make AGPs to relatively high risk categories of taxpayers:

- the merits of the use by those portfolios and agencies of the Australia Business Register; and,
- the inclusion of Australian Business Numbers on the records of AGPs made by those agencies, having regard to legislative requirements.

ATO Response

6.80 Agree. The Tax Office has invested significant effort to promote use of the Australian Business Number by government agencies, and has established a formal program for actively engaging agencies, in use of the Australian Business Register. The success of this activity continues to increase with the wide spread adoption of the Australian Business Number as a key business identifier. The Tax Office is working with government agencies to include Australian Business Numbers on Assessable Government Payments and other transactions. Many of these payments fall within the Recipient Created Tax Invoice rules which must have an Australian Business Number included.

Interest, royalties and withholding systems

Report No.37 - Recommendation No.3

The ANAO recommends that the ATO ascertain the cost-effectiveness of assigning appropriate information technology resources to Interest, Royalties and Withholding Branch.

ATO Response: Agree. The benefits of redevelopment of the Interest, Royalties and Withholding system has been recognised and prioritised. However, delivery is subject to balancing all tax reform priorities.

Findings of Report No.37

6.81 At the time of the previous audit, the ATO's Investment and Royalties Withholding taxes (IRW) Branch administered activities associated with a range of investment and royalties withholding taxes, including the TFN withholding tax. It was also responsible for the collection of the TFN withholding tax from remitters and ensuring that they complied with the law.

6.82 The ANAO found the administrative functions of TFN withholding tax arrangements were distributed across several organisational units with a consequent loss of coordination, accountability and focus. The information technology system upon which IRW administration depended was found to be fundamentally defective. The IRW IT system was a legacy system and was the reason for most of the IRW administrative problems. The unsatisfactory nature of the IRW IT system compounded the problems arising from the dispersed administration of TFN withholding tax as it precluded improvements that would be possible by system interconnectivity.

ANAO's findings from the current audit

6.83 In 2000–01, the ATO incorporated the functions of the former IRW Branch into other ATO business lines. In particular, the Accounts Processing Branch now processes the administration of refunds of the TFN withholding tax. These are entered directly onto the ATO's main taxpayer database. The ANAO finds that the new arrangements are a significant improvement on previous practices. This matter is discussed in more detail in Chapter 3.

ANAO conclusion in relation to Recommendation No. 3 of Report No.37

6.84 The ANAO finds that the ATO has fully implemented Recommendation No. 3 of Report No.37. The ANAO considers that the integration of the functions of the former IRW Branch into other ATO business lines has overcome the problems that the ANAO had identified.

TFN withholding tax collected and refunded

Report No.37 - Recommendations No. 5 (b) and (c)

The ANAO recommends that the ATO:

- b) investigate the disparity between the TFN withholding tax collected and the amounts remitted to taxpayers; and
- c) reconcile remitter/investment body payments as appropriate and ascertain the level of tax payable having regard to the quality and timeliness of available data.

ATO Response: Agree. This issue will be investigated and prioritised as part of the overall ATO risk assessment process.

Findings of Report No.37

6.85 In relation to Recommendation No.5(b), ANAO noted in Report No.37 that tax legislation provides that moneys withheld under the TFN withholding tax arrangements may be remitted to taxpayers upon the quotation of their TFN. Many taxpayers who have incurred the TFN withholding tax claim it back as a tax credit in their income tax return. The liability on the ATO to remit withheld moneys to taxpayers has no time limit. The ANAO considered that the analysis of the circumstances of investors who have incurred sizeable TFN withholding taxes and who do not claim the amounts in assessments is likely to be of interest to the ATO from a taxation audit perspective. Such an investor who did not lodge a tax return might also warrant closer ATO scrutiny. The ANAO reported that there might be many transactions in this category. The ANAO further reported that problems with ATO's systems and data meant that it was not possible to do satisfactory investigation of the matter.

6.86 In relation to Recommendation No.5(c), the ANAO noted in Report No.37 that the ATO's official advice to investment bodies on reconciliation of financial transactions is:

amounts deducted from investment income and reported for a financial year must reconcile with amounts remitted to the ATO. The ATO will use the information from your Annual Investment Income Report, and what has been paid, to reconcile your account. If there is a discrepancy you will be asked to provide an explanation.¹²³

6.87 Notwithstanding this advice, the ANAO found that the ATO has been unable to reconcile the accounts of almost all investment bodies for each of the eight years that the TFN withholding tax arrangements have been operating.

¹²³ *Tax File Number Arrangements, Information for Investment Bodies New Edition*, ATO August 1995 p15.

6.88 The ANAO noted that those investment bodies that do not comply fully with the Commonwealth reporting requirements may obtain an advantage over those that do. The ANAO commented that this could arise from their under investment in IT systems that enable full compliance with the reporting requirements. Investment bodies that fully comply might incur an additional impost that is avoided by non-compliers.

ANAO's findings of the current audit

6.89 In relation to Recommendation No.5(b), the ANAO found that the ATO is undertaking research and sampling on those identified within the AIIR population who appear to be most at risk of not meeting their tax obligations. In particular, the SNC is working co-operatively with Debt and Lodgement Branch within the Operations Services business line to initiate contact with individuals who have chosen not to report their tax file number.

6.90 The ANAO understands that the aim is to assess the level of risk to the tax base through identifying the TFN and reasons for non-disclosure of TFNs. ANAO considers that this could assist the management of potentially serious risks that the AIIR data can disclose, including those associated with incurring substantial TFN withholding taxes as a result of the non disclosure of TFNs. As the results of this research project were not available to the ANAO at the time of the audit, the ANAO found that the ATO has made limited progress in the implementation of this recommendation.

6.91 In relation to Recommendation No.5(c), the ANAO found that as a result of Government requirements for the Business Activity Statement (BAS), the ATO is unable to carryout any reconciliation activity between the amounts collected by financial institutions and the amounts remitted to the ATO.¹²⁴ The ATO has further advised that the current payment and reporting model requires large withholders, including investment bodies, to pay all amounts withheld (including those from their employees' salary and wages and amounts withheld from investment income) for a period in a single payment. At this point it is not possible to differentiate categories of amounts withheld. Total amounts reported as withheld annually can be reconciled with total payments of amounts withheld.

6.92 The ATO has further advised that as part of the ATO planning process, including planning for 2004–05, consideration will be given to the investment of resources to continue the enhancement of ATO Matching System (ATOMS) and resultant cases. According to the ATO, the reporting model for large withholders will be reviewed within the context of the ECMP.

¹²⁴ See *Administration of the Payment of Tax by Non-residents, Audit Report No. 57 of 2002-2003*, paragraphs 2.105 to 2.110.

6.93 The ANAO understands that the ATO's official advice of 1995 to investment bodies about the reconciliation of financial transactions has been withdrawn.

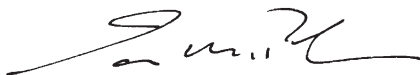
ANAO conclusion in relation to Recommendations No. 5(b) and (c) of Report No.37

6.94 In respect of Recommendation No.5(b) of Report No.37, the ANAO notes that there is a research project underway by the SNC in co-operation with the Debt and Lodgement Branch within the Operations Services business line. The ATO has therefore partially implemented the Recommendation.

6.95 In respect of Recommendation No.5(c) of Report No.37, the ANAO notes ATO's advice that the Government's requirements for design of the Business Activity Statement now precludes the ATO from doing this.

Canberra ACT

31 May 2005



Ian McPhee

Auditor-General

Appendices

Appendix 1: ATO's response

PO Box 900, Civic Square, ACT 2608



Australian Government

Australian Taxation Office

Mr Ian McPhee *AM*
Auditor-General
Australian National Audit Office
19 National Circuit
Barton ACT

Dear Mr McPhee,

Thank you for your letter of 8 April 2005, from Acting Executive Director Medha Kelshiker, and the opportunity to provide comments on the proposed audit report on Tax File Number Integrity.

The Tax Office regards the Tax File Number as the cornerstone of the tax system and acknowledges the important role it plays in administration of wider government revenue systems administered by other agencies. Recent years have seen significant investment to improve the integrity of the Tax File Number system and to implement the recommendations raised in previous reports prepared by the Australian National Audit Office and the House of Representatives' Standing Committee on Economics, Finance and Public Administration'.

As recognised in your current report I believe the Tax Office, Government and community are now benefiting from the substantial progress in improving the integrity of the Tax File Number system. In recognising this performance I also acknowledge there are a few remaining issues that we are currently addressing.

The Tax Office supports the recommendations contained in your report and has provided a response to each.

Should you wish to discuss this matter further please contact me on (03) 9275 4890.

I thank you for the collaborative and constructive approach your office has taken to this performance audit. I would like to acknowledge your auditors, Richard Mackey and Andrew Huey who were committed and thorough in their dealings with Tax Office representatives throughout the course of this audit.

Yours sincerely

Erin Holland
Deputy Commissioner of Taxation

5 May 2005



**Recommendation
No.1
Para. 2.47**

The ANAO recommends that to improve the transparency of data integrity, the ATO's annual report periodically include an overview about the quality of the ATO's data and strategies being pursued to continuously improve its data quality.

ATO response: Agreed. Following the ANAO audit report of ATO's Management and Use of the Annual Investment Income Reports (AIIR) in Taxation Administration work is well underway on data standards. The Tax Office Chief Knowledge Officer is implementing a Data and Information Standards Program. The first priority will be to classify data according to its business criticality and develop a measurement framework that highlights current status and improvement opportunities. Improvement strategies can then be formulated based on business priorities and cost/benefit appraisal. This program will form the basis of periodic reporting via the Tax Office Annual Report.

**Recommendation
No.2
Para. 2.94**

The ANAO recommends that the ATO improve the quality of the ATO's databases in the areas of partnerships, trusts and superannuation as a matter of priority and bring the integrity of the ATO's databases in these areas up to the ATO's corporate standard.

ATO response: Agreed. The Tax Office is currently working with superannuation funds to improve reporting. The Tax Office is actively working to review corporate standards and processes to manage new and existing data holdings on a risk management basis. Further data tools are also being assessed to assist with the maintenance of Tax Office data and addressing of integrity issues.

**Recommendation
No.3
Para. 3.24**

The ANAO recommends that the ATO improve client service by actioning the Committee's recommendation to have Centrelink accept TFN applications for non-Centrelink clients and ensuring that the TFN applications received by Centrelink on behalf of the ATO meet ATO requirements for verification of identity, and service standards.

ATO response: Agreed with qualification. The Tax Office will continue to work closely with Centrelink, and other agencies, on a range of initiatives to improve client service. Centrelink's acceptance of Tax File Number applications from non-Centrelink clients is a matter requiring Centrelink's agreement. The Tax Office will also continue to work closely with the Attorney General's Department and other agencies to ensure identity verification processes are consistent with those endorsed by the whole of Government proof of identity working group.

**Recommendation
No.4
Para. 3.54**

The ANAO recommends that the ATO in the context of its strategic marketing and education framework, review management of the Schools Education Program to ensure that value is achieved from the Program.

ATO response: Agreed. (i) The Tax Office notes that the intent of the Schools Education Program is broader than Tax File Number registration, and seeks to educate school students on their responsibilities as participants in the tax system. Current evaluation of Tax File Number statistics the Tax Office has identified that the average number of Tax File Numbers from a school that has received a Tax Office visit is almost double the average number of Tax File Numbers from a school that has not received a visit. As a result of this analysis the Tax Office will be ensuring value by increasing the number of visits to schools in 2005/6. (ii) The Tax Office is currently working to develop a risk management plan with strategies that will maximise the integrity of the

system and reduce the duplication of Tax File Numbers.

**Recommendation
No.5
Para. 4.83**

The ANAO recommends that the ATO develop and implement a targeted community education and awareness program aimed at TFN fraud and misuse. This could be achieved by the ATO working with the Commonwealth Reference Group on Identity Fraud to develop a whole-of-government community education and awareness strategy, directed at the prevention of identity fraud.

ATO response: Agreed. The Tax Office has been and will continue to be an active member of the Commonwealth Reference Group on Identity Fraud and will, through that group, look to explore the potential value that a whole-of-government community and awareness strategy may add to future activities. The Tax Office has already conducted targeted community education and awareness activities where particular TFN fraud and misuse has been identified and will be continuing to look for appropriate opportunities to deploy this type of strategy in the future.

**Recommendation
No.6
Para. 6.64**

The ANAO recommends that, in relation to the additional transactions under consideration for inclusion in broader anti-money laundering legislation that may replace the *Financial Transaction Reports Act 1988*, the ATO:

- evaluate the risks to the integrity of tax administration and to the collection of revenue from those transactions;
- evaluate the extent to which it is able to make better use of the Financial Transaction Reports (FTR) data, including the additional transactions from any extension of FTR coverage, especially by the matching of the expanded financial intelligence information, as a database, against the ATO's databases; and

- take appropriate measures necessary to make fuller use of the expanded financial intelligence information, within the ATO's overall risk management framework.

ATO response: Agreed. The Tax Office undertakes ongoing matching of Financial Transaction Report information against its databases to assist in the identification of non-compliance. The Tax Office has also undertaken a matching exercise of the full Financial Transaction Report database against the Tax Office client register to better identify potential non-compliance. This is currently being evaluated. The outcomes from individual cases, together with those from this matching exercise, will be used to better incorporate Financial Transaction Report data into the Tax Office's risk management framework. If the *Financial Transaction Reports Act 1988* is extended, the tax office will undertake an evaluation to determine how best the information can be best used in tax office compliance programmes.

**Recommendation
No.7
Para. 6.78**

The ANAO recommends that the ATO bring to the attention of Australian Government agencies that make significant Assessable Government Payments (AGPs) or which make AGPs to relatively high risk categories of taxpayers:

- the merits of the use by those portfolios and agencies of the Australia Business Register; and
- the inclusion of Australian Business Numbers on the records of AGPs made by those agencies, having regard to legislative requirements.







ATO response: Agreed. The Tax Office has invested significant effort to promote use of the Australian Business Number by government agencies, and has established a formal program for actively engaging agencies, in use of the Australian Business Register. The success of this activity continues to increase with the wide



spread adoption of the Australian Business Number as a key business identifier. The Tax Office is working with government agencies to include Australian Business Numbers on Assessable Government Payments and other transactions. Many of these payments fall within the Recipient Created Tax Invoice rules that must have an Australian Business Number included.

Appendix 2: ANAO Assessment of Progress

Table 1.1

Report No. 37 recommendations, agency response, and ANAO assessment of progress to date

Fully Implemented	Substantially Completed	Partially Implemented	Limited Progress	No Progress	Not a direct ATO responsibility or overtaken by events
					

Rec No	ANAO Recommendations	Agency Response	ANAO Assessment of Progress
No. 1	The ANAO recommends that the ATO:		Discussed in paras 3.26 to 3.55
1 (a)	examine the cost-effectiveness of offering an electronic service to schools in regard to TFN applications;	ATO Response: Agree. The ATO agrees that this option should be considered; in fact, there is a pilot underway in two schools in Victoria to test its viability. However, the ATO is conscious that it must not, nor must it be perceived to be, transferring its costs to other organisations.	 The ATO has examined offering an electronic service to schools but has moved to a different strategy in line with its risk assessment and analysis of the whole youth sub-segment of the individual market.
1 (b)	maximise the proportion of eligible 15 and 16 year olds enrolled at schools who choose to receive their TFN through the ATO's Students Education Program;	ATO Response: Agree. Given the debate when the ATO introduced the Schools Education Program (SEP) we are conscious that positive marketing is essential for this program. Accordingly, the ATO notes that the objective of the TFN registration component of the SEP is to maximise the proportion of students who choose to apply for a TFN. However, the intention of Parliament in the TFN legislation is quite clear in that all taxpayers, including students, still have a choice whether to apply or not.	 The proportion of eligible 15 and 16 year olds registered through SEP has changed little over the years. The ATO has not evaluated whether or not it has maximised the proportion. In this regard, ANAO notes that some students may choose to obtain their TFN through other means such as the family tax agent.





Rec No	ANAO Recommendations	Agency Response	ANAO Assessment of Progress
1 (c)	seek the support of the Department of Education, Training and Youth Affairs in preparing a submission for ministerial consideration about obtaining the cooperation of peak school bodies to the conduct of the ATO's Schools Education Program in Year 9 classes on an annual basis.	ATO Response: Agree. The ANAO has acknowledged that the SEP was an initiative which the ATO instigated and which has proven to be very successful. The ATO realises that we are fortunate to be in a somewhat privileged position to have access to those schools who choose to take part in the SEP. While we continue to seek further access and cooperation in this regard, we recognise that there are other curriculum pressures and priorities for schools.	● The ATO has advised that, as it has agreements with 97 per cent of schools, and that 85 per cent are considered to be actively participating in the program, it considers that it is now not necessary to implement this recommendation. ANAO accepts the ATO's position. <i>See Numbers on the Run</i> Recommendation No.11.
No.2	The ANAO recommends that the ATO in conjunction with other agencies research and report appropriately upon the privacy considerations, client benefits and cost-effectiveness of:		
2(a)	implementing an effective risk management process, including quantitative analyses of Proof of Identification (PoI) data;	ATO Response: Agree	● Discussed in paras 4.63 to 4.77 The ATO has played a significant role in developing solutions to identity verification and misuse at the whole-of-government level. The ATO has implemented a revised PoI model based on the common PoI framework. The reduced number of acceptable PoI documents has mitigated the need to undertake PoI quantitative analysis to identify high-risk areas.

Rec No	ANAO Recommendations	Agency Response	ANAO Assessment of Progress
2(b)	delivering TFN client services through appropriate alternative means additional to the ATO;	<p>ATO Response: Agree.</p> <p>The ATO has been for some time undertaking work with Centrelink on a range of initiatives, including electronic transfer of Centrelink client applications and Pol certification by Centrelink for non-Centrelink clients. In relation to new arrivals into the country, DIMA and the ATO are working together on a new system of automatic registration.</p>	<p>Discussed in paras 3.6 to 3.22</p> <p>We found that in 2003–04, the majority of the ATO's TFN registration services for individuals were delivered through means additional to the ATO. These channels include the Schools Education Program, Centrelink, and the DIMIA auto-registration facility.</p>
2 (c)	providing a more secure, client focussed and cost-effective means of generating/ composing TFNs. The ATO should have regard to the widespread use of the TFN (by employers, investment bodies and other government agencies) and to Defence Signals Directorate's advice concerning secure algorithms;	<p>ATO Response: Agree.</p> <p>However, the ATO considers that the avenue for abuse through TFN generation using the algorithm is limited and that current TFN systems are an appropriate, cost effective response to the risk identified. This is an area where a balance needs to be struck between risk and cost from both a client and an ATO perspective. As we continue to improve our understanding of client needs through working closely with them, we recognise that new and emerging risks may arise needing new and different solutions.</p>	<p>Discussed in paras 4.63 to 4.77</p> <p>We note that the ATO has assessed options for implementing a revised TFN algorithm and found it to be cost prohibitive. We also note the broad use of the TFN in the community and the potential cost to the community if the format of the TFN was to be changed.</p>

Rec No	ANAO Recommendations	Agency Response	ANAO Assessment of Progress
2 (d)	conducting Pol audits within and across government agencies;	ATO Response: Agree. This issue will be evaluated as part of the ATO risk assessment process.	⊖ Discussed in paras 4.63 to 4.77 The conduct of Pol audits is an issue that ANAO considers would best be managed at a whole-of-government level. This could form part of an overall identity verification and misuse strategy. When the common Pol framework is well established across government agencies, the completion of a Pol audit may then be appropriate
2(e)	providing the client service number (CSN) in a format which is easy for clients to access, use and maintain, while protecting their individual privacy.	ATO Response: Agree with qualification. The ATO believes that such consideration should include taking into account the preferences of a range of different clients and notes that certain formats have not, at least in the past, seemed palatable to the general public (as recognised during the Australia Card debate). In reviewing options, there will also be a question of balance between community compliance costs and the ATO's cost of administration.	⊖ Discussed in paras 3.56 to 3.64 As legislation provides, the TFN is used across a range of Australian Government agencies in administration of various programs. ANAO accepts that now Government direction would be required before proceeding with this recommendation.
No. 3	The ANAO recommends that the ATO ascertain the cost-effectiveness of assigning appropriate information technology resources to Interest Royalties and Withholding Branch.	ATO Response: Agree. The benefits of redevelopment of the Interest Royalties and Withholding system has been recognised and prioritised. However, delivery is subject to balancing all tax reform priorities.	● Discussed in paras 6.81 to 6.84 As a result of The New Tax System, the investment, royalties and withholding function has been integrated into general ATO administration

Rec No	ANAO Recommendations	Agency Response	ANAO Assessment of Progress
No. 4	<p>The ANAO recommends that the ATO examine the risks to the integrity of tax administration and to the collection of revenue arising from transactions (for example, those listed in paragraph 3.30 [of Report No.37 of 1998–99]) being outside the TFN withholding arrangements and consider options for addressing these risks, such as their inclusion within the TFN withholding arrangements.</p>	<p>ATO Response: Agree.</p> <p>The ATO has previously proposed and received legislative support for extension of TFN reporting arrangements in the clothing, fishing, smash repair and fruit and vegetable industries. Whether further extension is required in the areas detailed in the report needs further consideration in the context of balanced risk assessment and alternative strategies.</p> <p>The ANAO report makes specific reference to compliance research for non-resident property owners. The ATO is carrying out further research in relation to this group but notes that there is still significant uncertainty as to the extent of rental income and capital gains non-disclosure.</p> <p>In particular, the figures used in the report for non-resident property owners rental and capital gains were taken from ATO research which was based on a very small and localised sample and then extrapolated nationally. There is some question as to the appropriateness of the methodology used for extrapolation purposes, and therefore, on the overall level of risk.</p>	<p>Discussed in paras 6.1 to 6.65</p> <p>Given the acknowledged community sensitivity associated with the extension of TFN withholding arrangements, and the absence of a Government response to <i>Numbers on the Run</i>, the ATO considers that it is appropriate to wait upon Government direction on this matter before proceeding with the implementation of the Recommendation. ANAO accepts this situation.</p> <p>See <i>Numbers on the Run</i> Recommendations No. 22 and 23.</p>

Rec No	ANAO Recommendations	Agency Response	ANAO Assessment of Progress	
4 Cont.	<p>The transactions listed in paragraph 3.30 are: purchase and sale of real estate; the renting of real estate; new financial products such as unincorporated (unregistered) money market and derivative securities and the like; <i>Financial Transactions Reports Act 1988</i> transactions; transactions of trustee bankrupt estates; loan transactions; futures contracts; insurance payments (such as commissions to salespersons and payouts on policies); purchase and sale of insurance products; and use of safety deposit box and similar services.</p>	<p>Our findings in the general real estate area have highlighted a number of potential risks and we are assessing risk based strategies to address these as a matter of course. This research to date has indicated that the disclosure of rental income and net capital gains by resident landlords may not be as significant a risk as rental deduction claims.</p> <p>In this regard, we note that we have researched and introduced a comprehensive compliance program particularly targeting rental deductions.</p> <p>When a risk area is identified the ATO considers a range of options to address that risk including education, awareness raising via publicity, increased reporting or enforcement action. Approval to seek legislative change is an option but is not our preference without first seeking other solutions.</p>		
No. 5	The ANAO recommends that the ATO:			
5 (a)	<p>seek concurrence of relevant financial institutions regarding the data specification for Annual Investment Income Reports information that provides the ATO with accurate and valid data that minimises compliance costs;</p>	<p>ATO Response: Agree.</p> <p>Recognising that there is a requirement for financial institutions to provide regular reports, the ATO consults with a range of umbrella organisations of investment bodies in order to seek agreement to and improvement of the data specifications needed. These consultative forums allow early industry input into the ATO specifications recognising the time lags inherent in updating systems.</p>	●	<p>Discussed in paras 2.54 to 2.56</p> <p>The ATO has sought the concurrence of relevant financial institutions as recommended and has fully adopted this recommendation as part of implementing the recommendations of Audit Report No. 48 of 2003–2004, <i>The Australian Taxation Office's Use of Annual Investment Reports</i>.</p>







Rec No	ANAO Recommendations	Agency Response	ANAO Assessment of Progress	
5 (b)	investigate the disparity between the TFN withholding tax collected and the amounts remitted to taxpayers;	ATO Response: Agree. This issue will be investigated and prioritised as part of the overall ATO risk assessment process.		Discussed in paras 6.85 to 6.95 The ATO has commenced a research project on this matter. The ATO expects to finalise this work by 30 June 2005.
5 (c)	reconcile remitter/investment body payments as appropriate and ascertain the level of tax payable having regard to the quality and timeliness of available data.	ATO Response: Agree. The ATO agrees that this matter should be investigated and prioritised in the ATO's risk assessment process.		Discussed in paras 6.85 to 6.95 The ANAO accepts the ATO's advice that the Government's requirements for design of the Business Activity Statement now precludes the ATO from doing this.
No. 6	The ANAO recommends that the ATO:			
6 (a)	examine opportunities for simplifying the refund process for exempt investors who have incurred the TFN withholding tax;	ATO Response: Agree. The ATO agrees that this matter should be considered. Any proposed action will need to be evaluated in the light of tax reform and other priorities.		Discussed in paras 3.66 to 3.74 The ATO has worked to increase awareness of exempt investors, in order to prevent them from incurring TFN withholding tax unnecessarily. The ATO has also simplified the refund process for exempt investors who have incurred the tax.
6 (b)	examine the cost-effectiveness of establishing suitable arrangements to ensure the automatic identification of exempt investors.	ATO Response: Agree. The ATO agrees that this matter should be considered. Any proposed action will need to be evaluated in the light of tax reform and other priorities.		Discussed in paras 3.66 to 3.74 The cost-effectiveness of establishing automatic identification of exempt investors was examined by the ATO, and found to be cost prohibitive.




Rec No	ANAO Recommendations	Agency Response	ANAO Assessment of Progress
No. 7	The ANAO recommends that the ATO:		
7 (a)	improve client data quality throughout its business lines;	<p>ATO Response: Agree.</p> <p>However, the ATO notes that major elements of the Corporate Data Management Plan have already been put in place across Business and Service Lines by means of the Client Identity Integration Project including implementation of the ATO Data Standard. This standard imposes corporate client information business rules, data formats and edit rules across all ATO business systems.</p> <p>The ATO is also contributing to the development of an Australian Standard for "Interchange of Client Information" and the ATO Data Standard is being used as the base document for this exercise.</p>	<p>Discussed in paras 2.33 to 2.48</p> <p>The ATO is implementing this recommendation. This is a substantial undertaking. The quality of the ATO's data in relation to partnerships, trusts and superannuation funds is particularly in need of improvement. The ATO expects to re-assess progress during 2004/05.</p>
7 (b)	progress strategies for the resolution of duplicate, and the archival of inactive, records;	<p>ATO Response: Agree with qualification.</p> <p>The ATO is investigating these issues, but also notes that the effort required in cleansing duplicate and archival records raises priority issues, with the need to balance this effort with the evaluation of risks posed and the systems' efforts required for other work including tax reform.</p>	<p>Discussed in paras 2.33 to 2.48</p> <p>The ATO has fully adopted this recommendation, and has devoted substantial resources to its implementation. The ATO expects to complete this work by May 2005.</p>

Rec No	ANAO Recommendations	Agency Response	ANAO Assessment of Progress	
7 (c)	assess the cost-effectiveness of accessing and using additional data sets, such as those from the State Registrars-General;	ATO Response: Agree. The ATO is currently negotiating the cost of accessing additional data sets.	●	Discussed in paras 2.57 to 2.75 The ATO has fully implemented this recommendation.
7 (d)	work with strategic partners to ensure that data sets conform to ATO standards before they are provided to the ATO.	ATO Response: Agree. The ATO treats this as part of its business as usual and has regular meetings of the Data Matching Programs Working Group. See also the response to recommendation 5(a) above.	●	Discussed in paras 2.53 to 2.56 The ATO has fully adopted this recommendation. This is a major undertaking with ongoing processes that have become part of the ATO's business as usual administration. Accordingly, the ATO regularly seeks new strategic partnerships from whom to acquire data relevant to taxation administration.

Table 1.2

Numbers on the Run recommendations, and ANAO assessment of progress to date¹²⁵






Fully Implemented	Substantially Completed	Partially Implemented	Limited Progress	No Progress	Not a direct ATO responsibility or overtaken by events
					

Rec Nos.	Numbers on the Run Recommendations	ANAO Assessment of Progress
1	<p>That the ATO place a higher priority on having the strategic capacity to ensure the long term integrity of the Tax File Number system, including through:</p> <ul style="list-style-type: none"> proactively managing the Tax File Number system and its interrelationships with other systems within the Australian Taxation Office and across government; and ensuring that management philosophies and planning are put into practice throughout the organisation. 	<p> Discussed in paras 2.33 to 2.34</p> <p>The ATO has fully adopted this recommendation. This is a major task the completion of which now depends upon initiatives of the recently introduced Easier, Cheaper and More Personalised Program (ECMP). This work is now part of the practice of ongoing ATO administration.</p>
2	<p>That the Australian Taxation Office act as a matter of priority to improve the significant shortcomings with its data integrity. This should include addressing the issue of excess and duplicate Tax File Numbers and archiving of redundant Tax File Numbers.</p>	<p> Discussed in paras 2.35 to 2.48</p> <p>The ATO has fully adopted this recommendation. This is a major task that is now part of the practice of ongoing ATO administration.</p>
3	<p>That the Australian Taxation Office take all necessary steps to improve Tax File Number systems' quality to more properly reflect the importance of the Tax File Number system within the Australian Taxation Office and across government.</p>	<p> Discussed in paras 2.35 to 2.48</p> <p>The ATO has fully adopted this recommendation. This is a major task the completion of which now depends upon initiatives of the recently introduced ECMP. This work is now part of the practice of ongoing ATO administration.</p>

¹²⁵ To date the Government has not responded to the recommendations of *Numbers on the Run*.




Rec Nos.	<i>Numbers on the Run Recommendations</i>	ANAO Assessment of Progress
4	That the Australian Taxation Office review its current planning mechanisms in relation to the Tax File Number system, with a view to properly upgrading data management practices at both the agency and business line level.	<p>Discussed in paras 2.33 to 2.34</p> <p>● The ATO has fully adopted this recommendation. This is a major task the completion of which now depends upon initiatives of the recently introduced ECMP. This work is now part of the practice of ongoing ATO administration.</p>
5	That the Department of Finance and Administration and the Australian Taxation Office review the Australian Taxation Office Pricing Agreement to ensure that it reflects the whole-of-government requirements in relation to the Tax File Number system.	<p>Discussed in paras 2.96 to 2.104</p> <p>● The ATO has fully implemented this recommendation. The new Output Pricing Agreement took effect from July 2002, and included additional funding of \$13 million in 2002–2003 and again in 2003–2004 to implement the recommendations of the two reports that had a direct bearing on TFN integrity.</p>
6	That the Australian Taxation Office or an appropriately qualified consultant review the databases and information sources the ATO currently has access to in order to determine the value of systemic data matching against this information.	<p>Discussed in paras 2.57 to 2.75</p> <p>● The ATO has fully implemented this recommendation. The ATO has implemented sound strategies to clean up the ATO's stock and flow of TFNs and ABNs, including retaining suitably qualified consultants to review several key databases and establishing the Data Matching Steering Committee to have strategic oversight of all ATO data matching.</p>
7	<p>That the Australian Taxation Office implement data matching strategies aimed at improving Australian Taxation Office data quality and reducing tax fraud, including in the areas of:</p> <ul style="list-style-type: none"> ● Data cleansing; ● Fact of Death data matching; ● Department of Immigration and Multicultural Affairs movements records data matching; and ● Investigating the reintroduction of Health Insurance Commission data matching for purposes of compliance with Tax File Number identification. 	<p>Discussed in paras 2.57 to 2.75</p> <p>◐ The ATO has substantially completed implementation of this recommendation. The investigations in relation to HIC are yet to be completed. In the other areas addressed by this Recommendation, the ATO has ongoing processes whereby the action required has become part of the ATO's business as usual administration</p>




Rec Nos.	Numbers on the Run Recommendations	ANAO Assessment of Progress
8	That the Australian Taxation Office focus on steps to improve the quality of data it receives in order to improve its data matching capabilities, including through working with other agencies and organisations. A first priority for the Australian Taxation Office in this regard should be to review and improve reporting in Annual Investment Income Reports by financial institutions.	<p>Discussed in 2.54 to 2.56</p> <p>● The ATO has fully adopted this recommendation. This is a major, systemic undertaking, and has become a component of the ATO's ongoing administration.</p>
9	That the Australian Taxation Office evaluate and act on data matching opportunities provided by new Australian Business Number arrangements, including putting in place mechanisms to ensure that relevant data is captured and able to be used for data matching purposes.	<p>Discussed in paras 2.57 to 2.75</p> <p>● The ATO has fully adopted this recommendation. It is being progressed, as part of the implementation of ANAO Report No. 59 of 2002–2003, <i>The Administration of Australian Business Number Registration</i>. This work is now part of the practice of ongoing ATO administration.</p>
10	That the Australian Taxation Office (Part One) review its Tax File Number registration processes, including automating checks for duplicate Tax File Numbers, making better use of available software, and (Part Two) improving the format and content of Tax File Number advice supplied to Tax File Number applicants.	<p>● Part One: discussed in paras 2.49 to 2.53</p> <p>The ATO has fully adopted this recommendation. The ATO is making good and systemic use of its flagship matching facility, Batch Matching Engine Version No. 5 to detect duplicates.</p> <p>Part Two: discussed in paras 3.57 to 3.64</p> <p>The ATO is expanding the coverage of the Individual Auto-Registration system to include other Commonwealth agencies, such as Centrelink. This work is now part of ATO's ongoing administrative practices. The ATO has also reviewed its TFN advice to applicants, and is continuing to do so, as part of a Letter Improvement Project.</p>
11	That the Australian Taxation Office take steps to improve the coverage of the Schools Education Program, including through working with the Department of Education, Training and Youth Affairs in approaching peak school organisations in order to seek their support for this program.	<p>○ Discussed in paras 3.26 to 3.55</p> <p>The ATO has advised that as it has agreements with 97 per cent of schools, and that 85 per cent are considered to be actively participating in the program, it considers that it is not now necessary to implement this recommendation. ANAO considers that it is necessary for the ATO to evaluate the scope to increase the proportion of eligible 15 and 16 year olds who could benefit from SEP.</p> <p>See ANAO Recommendation No.1.</p>

Rec Nos.	Numbers on the Run Recommendations	ANAO Assessment of Progress
12	That Centrelink be able to accept Tax File Number applications from any applicant and not just Centrelink customers as an option for those with limited access to alternatives, and that a system for electronically transferring this information to the Australian Taxation Office be introduced.	<p>Discussed in paras 3.6 to 3.25</p> <p> The ATO is working with Centrelink to resolve the matter of Centrelink accepting TFN applications from all TFN applicants, not just Centrelink clients.</p> <p> The ATO has trialled an online TFN registration service for Centrelink clients.</p>
13	That the Department of Immigration and Multicultural Affairs and the Australian Taxation Office introduce automated Tax File Number registration for new arrivals into Australia.	<p> Discussed in paras 3.6 to 3.25</p> <p>The ATO has implemented an online TFN registration facility for DIMIA clients.</p>
14	That the Australian Taxation Office introduce systematic data matching against Department of Immigration and Multicultural Affairs visa data in order to identify illegal workers. As part of this process, the Australian Taxation Office has to improve its data quality and data recording processes.	<p>Discussed in paras 5.7 to 5.16</p> <p> The ATO and DIMIA have worked together to establish cooperative arrangements for the sharing of information. This exchange of data supports DIMIA's efforts to locate persons believed to be unlawfully in Australia, and/or working illegally in Australia.</p>
15	That the Department of Immigration and Multicultural Affairs and the Australian Taxation Office investigate options for addressing taxation and work rights issues in relation to harvest labour, including in relation to known areas of fraud and without overly burdening employers in this industry.	<p>Discussed in paras 5.33 to 5.44</p> <p> The ANAO found that DIMIA has implemented education and awareness campaigns focused on informing employers and labour suppliers about their obligations when employing non-residents. This appears to be an appropriate approach in the absence of a penalty regime that could be used to induce compliance. We also found that the ATO is working with DIMIA and Centrelink to develop solutions to the issue of non-residents working in the cash economy.</p>

Rec Nos.	Numbers on the Run Recommendations	ANAO Assessment of Progress
16	<p>That the Australian Taxation Office:</p> <ul style="list-style-type: none"> • identify the extent of tax fraud being committed by non-residents; • review potential vulnerabilities with the current tax treatment of non-residents; • propose ways to address this issue, particularly focussing on options within existing laws; and • seek to implement these proposals as soon as practicable 	<p>Discussed in paras 5.17 to 5.32</p> <p>● The ANAO found that the ATO has undertaken a range of relevant risk assessments and implemented appropriate compliance strategies. In addition, improved arrangements with Australia's Treaty Party countries assists in the identification and prevention of non-resident tax fraud. However, the ATO has not researched fully the extent of tax-fraud being committed by non-resident individuals visiting Australia and working outside of their visa conditions and/or misrepresenting their residency status for taxation purposes.</p>
17	<p>That the Australian Taxation Office more actively work with the Department of Immigration and Multicultural Affairs to implement reforms in the area of work rights for non-residents, including full consideration of possible Australian Taxation Office delivered solutions.</p>	<p>Discussed in paras 5.33 to 5.44</p> <p>● The ANAO found that the ATO and DIMIA have developed an Individual Auto Registration (IAR) facility to streamline the TFN application process. As part of this process the ATO uses DIMIA data to confirm that non-resident individuals have work rights or have been granted permanent migrant status in Australia. See also ANAO assessment of Recommendation No.15.</p>
18	<p>That the Commonwealth Government work with other levels of government and industry to develop national statistics on the extent and cost of identity fraud in Australia.</p>	<p>Discussed in paras 4.13 to 4.18</p> <p>⊘ The ANAO acknowledges the difficulty of trying to accurately estimate the cost of identity fraud in Australia. Based on independent research and research undertaken by the Securities Industry Research Centre of Asia-Pacific for Australian Government agencies, the cost of identity fraud in Australia has been estimated to be at least \$1.1 billion per year. ANAO acknowledges that a more precise estimate is not possible, due to the limitations of the available data.</p>

Rec Nos.	Numbers on the Run Recommendations	ANAO Assessment of Progress
19	<p>That the Australian Taxation Office improve its internal processes for establishing identity and preventing identity fraud. This should include investigation of the extent of the problem within the Australian Taxation Office, including a trial of the New South Wales Registry of Births', Deaths' and Marriages' Certificate Validation Service.</p>	<p>Discussed in paras 4.42 to 4.62</p> <p>In line with whole-of-government initiatives, the ATO implemented a revised Pol framework in 2003. Also in early 2004, the ATO established an Identity Crime Research Unit, tasked with responsibility for identifying, assessing and proposing treatments for identity crime in the ATO. The ATO is proceeding to flag the TFNs of departed taxpayers in order to, amongst other things, prevent and detect identity fraud.</p>
20	<p>That the Commonwealth Government instigate a formal process for assessing Proof of Identity risks and reform across the Commonwealth, drawing on relevant policy and administrative departments and agencies.</p>	<p>Discussed in paras 4.19 to 4.27</p> <p>Although the Australian Government has not formally responded to the recommendations of <i>Numbers on the Run</i>; a feasibility study entitled <i>Common Proof of Identity Documents and Processes</i> has been completed. This was under the auspice of the Commonwealth Reference Group on Identity Fraud. The feasibility study assessed Pol risks and agencies' experiences in developing and operating Pol models. The feasibility study also recommended a common Pol framework. This framework was subsequently endorsed by Standing Committee of Attorneys-General for consideration by relevant agencies in developing their own Pol models, specific to their business needs. The ANAO notes that implementation of the common Pol framework across government, is progressing.</p>
21	<p>That the Commonwealth Government formalise a process for working with other levels of government and industry to develop options for reducing and preventing identity fraud. This should include investigation and development of a national electronic gateway for document verification</p>	<p>Discussed in paras 4.28 to 4.38</p> <p>The ANAO found that processes have been established to support a whole-of-government approach to the management of identity verification and fraud. These processes have been strengthened with the establishment of formalised agreed governance arrangements. A feasibility study for the development of a document verification service (DVS) has also been completed. This study has highlighted a number of issues, which require further consideration, prior to development and implementation of a DVS. Further work to assess the benefits that may flow from a DVS is being undertaken</p>

Rec Nos.	Numbers on the Run Recommendations	ANAO Assessment of Progress
22	<p>That the Australian Transaction Reports and Analysis Centre and the Australian Taxation Office:</p> <ul style="list-style-type: none"> analyse the revenue at risk from Australian Transaction Reports and Analysis Centre transactions being outside Tax File Number quotation arrangements; consider the proportion of Australian Transaction Reports and Analysis Centre transactions to which a Tax File Number may be able to be attached; and undertake a consultation process with industry to develop a detailed option for attaching Tax File Numbers to Australian Transaction Reports and Analysis Centre reported transactions. 	<p>Discussed in paras 6.1 to 6.39</p> <p> The ATO has established a pilot project to progress the first two dot points of this recommendation. However, given the current level of the resourcing of this project it may take more than 18 months to complete. As it is important to reduce to the minimum the number of records that might require manual examination, the ATO will need as much additional information, including account and other identifying information, about the FTR transaction as AUSTRAC can provide. Given the complexity of the task of matching FTR data against ATO's taxpayer databases, it may be necessary for the ATO to conduct more extensive analyses of FTR data, including the account information recorded by AUSTRAC, in conjunction with a range of other relevant data maintained or available to the ATO, using more sophisticated analytic techniques to address fully the Committee's concerns on this matter.</p> <p> Given the acknowledged community sensitivity associated with the extension of TFN withholding arrangements, and the absence of a Government response to <i>Numbers on the Run</i>, the ATO and AUSTRAC consider that it is appropriate to wait upon Government direction on this matter before proceeding with the implementation of the Recommendation. ANAO accepts this situation.</p>
23	<p>That, after the proposed business tax reforms have been introduced, the Australian Taxation Office investigate the remaining risk to revenue from real estate transactions being outside Tax File Number withholding arrangements and take appropriate steps to address this risk.</p>	<p>Discussed in paras 6.1 to 6.65</p> <p> The ATO received specific funds in the 2004–05 Commonwealth Budget to address the risks of capital gains tax non-disclosure and the ATO's understanding of compliance risks associated with real estate transactions has improved as a result. Nevertheless, the ATO has not addressed the specific concern of the Committee in this Recommendation as it has not specifically investigated the remaining risk to revenue from real estate transactions being outside Tax File Number withholding arrangements.</p> <p>See ANAO Recommendation No. 4.</p>

Rec Nos.	Numbers on the Run Recommendations	ANAO Assessment of Progress	
24	That the Treasury investigate extending Tax File Number quotation and withholding arrangements to include business with the Commonwealth Government, particularly in the case of Assessable Government Payments.		Discussed in paras 6.66 to 6.80 The introduction of the ABN has overtaken the need for this recommendation.
25	That the Auditor-General conduct a performance audit of the Australian Taxation Office's administration of the Australian Business Number system, and that this audit include, but not be limited to, the examination of the following issues: <ul style="list-style-type: none"> • registration and issue of Australian Business Numbers; • data quality/integrity; • data matching; and • privacy implications. 		Audit Report No. 59 of 2002–2003, <i>Administration of Australian Business Number Registrations</i> implements this Recommendation.
26	That the Auditor-General conduct a follow-up performance audit of the Australian Taxation Office's management of the Tax File Number system, and that this audit include, but not be limited to, progress by the Australian Taxation Office against recommendations for improving the Tax File Number system made by the Australian National Audit Office and this Committee.		This audit fulfils the recommendation.

Appendix 3: Total number of TFNs on the ATO Integrated System (AIS)

Details	Individuals	Companies	Partnerships	Trusts	Superannuation	Government	Total
Total Records on AIS	21 541 143	2 224 099	2 044 704	1 543 391	646 842	19 949	28 020 128
Less Inactive Records							
Deceased	1 092 962	0	0	0	0	0	1 092 962
Culled	199 510	31 041	21 718	13 183	3 968	3 284	272 704
Nominal Tax File Numbers	818	109 717	2 400	50	777	0	113 762
FRNN (Non Individuals)	0	820 081	1 074 027	701 332	330 062	0	2 925 502
Departed	676 580						676 580
Total inactive records	1 969 870	960 839	1 098 145	714 565	334 807	3 284	5 081 510
Potentially active	19 571 273	1 263 260	946 559	828 826	312 035	16 665	22 938 618
Potential dupes	6 979	5 509	19 052	13 639	1 721	3	46 903
	19 564 294	1 257 751	927 507	815 187	310 314	16 662	22 891 715
Deemed inactive	1 590 121						1 590 121
Active	17 974 173	1 257 751	927 507	815 187	310 314	16 662	21 301 594

Source: Australian Taxation Office – As at 17 December 2004.

Definitions:

Deceased - This figure is based on clients having one or more of the following indicators present: a deceased indicator; a deceased date present; a death confirmed indicator; a Lear Lodgment deceased indicator of 'y'.

Culled - TFN's with CUL as TFN role status – TFN's are culled as a result of the resolution of a duplication or compromised TFN process.

Nominal - These are TFN's with a nominal Proof of Identity status. These are mostly created for administrative purposes. They do not appear on the income tax processing system and do not trigger any obligations for clients.

Further Return Not Necessary (FRNN) - Non Individual TFN's with an FRNN indicator on the record. This represents ceased or inactive non-individual entities. The FRNN data has not been used for the individuals as they can no longer be required to lodge a return but still have a legitimate use for their TFN.

Potentially active - Population with active ABN, Income Tax and activity statement lodgment obligations, requirement to declare TFN to government department, education institution, financial Institution.

Departed - Determined by data matching to Department Of Immigration, Multi-Cultural And Indigenous Affairs (DIMIA) data.

Potential duplications – Count of potentially duplicate records. This is not a count of all TFN's involved in a duplication situation. The count is reflective of the number of TFN's that might be culled when the duplication is resolved. Of the numbers identified as potential duplicates only a portion is actually found to be duplicates.

Deemed Inactive (Individuals) – Individual clients who have not lodged an Income Tax Return or otherwise interacted with the ATO for 5 years, and have not in that time used their Tax File Numbers to interact with other Government Departments, Educational Institutions, Financial Institutions or employers. It is expected that this category will be eliminated as TFN lock down processes are put into place.

Source: Australian Taxation Office – as at May 2005.

Appendix 4: Register Integrity strategies

Introduction

A Client Register could sustain its ongoing integrity if it contained only correct data and always received correct data. In this case, the register could by itself generate all appropriate and timely feedback from the clients represented on the register. In such a circumstance, the Client Register would be viewed as a self-maintaining, full information system that correctly represented the actual entities whose identity and obligation profiles are recorded on it.

However, in practice the flow of information invariably contains inaccuracies and errors, resulting in deficiencies in the register's representation of the actual entities. Since the Client Register is central to tax administration, there is a range of compliance behaviours that the register invokes in the population who should be represented on it. These are recorded in the obligation profiles on the register. This is one source of the dislocation between the Client Register and the actual entities it represents.

As a result, all administrative and compliance activity undertaken by the ATO influences both the content of the register and the behaviours of those it represents. It is in this context that register integrity strategies are deployed to address the areas where the deficiency poses a significant risk to the effective and efficient use of the register.

Attributes of Register Data Quality

To provide a common language by which the quality of the Client Register is described a small set of attributes is employed. A Client Register whose records meet all of these attributes would be described as one having high integrity. The attributes are:

- authenticity;
- validity;
- eligibility;
- accuracy;
- completeness;
- currency;
- the register control environment; and
- the register assurance environment

Each of these attributes is briefly described below.

Authenticity

The bona fides of the entity and those who purport to represent it at the time of registration and at any time after is a critical integrity characteristic. A failure to maintain authenticity can result in the fraudulent creation or amendment of a record on the Client Register.

Validity

Each entity is required to be singularly and uniquely recorded as the correct legal entity on the Client Register. A failure to maintain validity can result in the creation of duplicate records for the same entity and/or the creation of a record incorrectly depicting the type of legal entity.

Eligibility

An entity exists and is classed as active in the Client Register if it is eligible for a Tax File Number. Eligibility is also relevant to the entities' obligation profile characterised by its taxation roles. Failures in eligibility can result in the registration of entities not entitled to a Tax File Number or the addition of taxation roles that are inappropriate to the actual obligations of the registered entity.

Accuracy

There are two dimensions to the attribute of accuracy. The first, conformance, refers to how accurately the data representing a registered entity conforms to specified data standards. Typically, standardised keying standards for names and addresses fall into this category. Failure to conform results in data that lacks consistency in appearance and/or format.

The second dimension is utility. This is the level of accuracy required so that the record will be fit for a specific purpose. Accuracy always has to be considered in the context of the purpose for which the data is to be used. Failure in utility means that the data is not sufficient for the specific purpose for which it is being used. For example, the quality of data on the register that is used only for the purpose of statistical analysis may not be as high as that which is used for sending official correspondence.

Completeness

A record is complete when it contains all the data that is considered as being compulsory, which usually means as specified by legislation (including by regulation). Incompleteness can be characterised at the record level where it is missing one or more data values or by the presence of partial information at the field level.

Currency

The attribute of currency reflects that a client record can change over time. In addition, often there will be a variety of circumstances that require the record to change over time. Consequently, assessing the integrity of the Client Register at any point in time requires an assessment of all the attributes at that instant.

The Authenticity, Validity, Eligibility, Accuracy and Completeness of a record or the register as a whole can all be subject to change over time.

The Register Control Environment

To maximise the levels of integrity in the register, the processes by which records are created and maintained are subject to controls. These controls can also be described in the context of the data quality attributes that apply to them. Examples include:

Authenticity Controls

Proof of Identity (POI) and Evidence of Identity (EOI): These controls are applied at the time of initial registration where they would take the form of an individual providing their Birth Certificate, for example. They are also applicable at all subsequent interactions with the registrant (or their authorised representative) and are administered via the ATO wide application of Proof of Identity policy and procedures.

Validity Controls

Searching and potential duplicate detection: These controls are aimed at minimising the likelihood of duplicate registrations occurring. These include operators searching for potential existing TFN records as an initial step prior to the creation of a new TFN record. It also encompasses the system searching, matching and exceptions processes embedded in the on-line registration processes. An example is the validation of company information with ASIC for corporate entities.

In addition, there are the subsequent routine processes conducted after registration to detect potential duplications that have been created. These include those provided via Compliance Systems.

Business rules to exception potential entity mismatch: Ensuring that the type of entity being registered is valid is a particular control relevant to the creation of Tax File Numbers for Non Individual entities (Company, Partnership, Trusts, Superannuation funds and certain categories of government entities). An example of such a control is the requirement that details of the type of associate of the registering non individual entity are provided. Only acceptable combinations of type of associate to type of entity (e.g. Partners to Partnership)

are allowed. Mismatches are identified as exceptions and set aside for staff to action.

Eligibility

The entitlement to be registered with a TFN is quite broad, given the extended use of the TFN into the provision of commonwealth benefits, its use in tertiary education and in the superannuation industry. A practical example of an eligibility control at the time of initial registration is the process of confirming those individuals registering via the IAR DIMIA process with DIMIA records.

Eligibility controls after registration involve the identification of registrants whose circumstances have changed and as a consequence are no longer eligible. An example of this is the procedure that identifying those who are deceased, departed or ceased as legal entity.

Accuracy

These controls are aimed at ensuring that the information that is recorded for a registrant, both at initial registrations and at any subsequent change or update accords with or is aligned to a specified standard. This includes the provision of keying standards for staff to follow when capturing client details and also embedded formatting rules within the various systems' environments.

Completeness

These controls ensure that information that has been determined to be a mandatory requirement as part of the registration record is captured. An example is the creation of an Individual TFN record requiring the capture of a full date of birth.

The Register Assurance Environment

The management of the Client Registers is subject to a number of layers of assurance. Taken together, these layers provide the ATO with confidence that the control environment is operating appropriately.

Management System

The overall operation of the registrations area is delivered within an ISO9000 certified management system. The design and operation of that management system and its processes may be assured by regular internal reviews and confirmed by third party audits.

Quality Assurance

Key register capture processes performed within Registrations are subject to routine quality assurance (QA). These provide the organisation with a level of assurance that the people, processes and systems are consistently being applied and together with the control environment are delivering the desired

levels of quality. For example, the Registrations Branch's QA processes reported in August 2004 that the capture accuracy of identity data was 99.5% for Individual TFNs.

Register Assessment

The registers as a whole are subject to assessment to identify and quantify the extent of any integrity deficiencies. These assessments include structured processes such as the Client Register Reconciliation and the Australian Business Register Data Quality Survey. They are complemented by feedback from business processes and users of the registers.

Feedback

There are two main feedback loops for improving the integrity of the register. One is the information regularly gathered from each of the assurance layers. The other is the information provided by business processes and users of the register.

Source: Based on Australian Taxation Office TFN/Client Registers. Internal ATO guidance memo, September 2004.

Appendix 5: Trust Tax Returns and TFN Quotation Rates

Trust returns without a complete list of all tax file number beneficiaries

Year	No. Trust Returns	No. Trust Returns with a Beneficiary Disclosed	No. Trusts Without Complete List of Beneficiary TFNs	% Trust Returns with a Beneficiary Disclosed	% Trusts Without Complete List of Beneficiary TFNs
1995	404 470	275 078	126 054	31	46
1996	432 065	303 042	140 397	32	46
1997	460 081	324 028	145 626	32	45
1998	492 172	353 016	153 486	31	43
1999	501 239	365 855	150 891	30	41
2000	500 895	368 880	144 613	29	39
2001	490 883	354 184	127 236	26	36
2002	485 999	351 802	125 453	26	36
2003	420 282	311 447	110 571	26	36

Source: ATO

Trust beneficiaries without a tax file number

Year	No. Trust Beneficiaries	No. Trust beneficiaries Without TFN	%
1995	766 158	301 096	39
1996	832 444	327 325	39
1997	891 657	344 352	39
1998	970 709	366 144	38
1999	996 455	359 403	36
2000	1 002 026	344 787	34
2001	937 219	302 647	32
2002	931 216	300 352	32
2003	823 496	263 782	32

Source: ATO

Appendix 6: Summary of progress about the management of Proof of Identity

	Whole of Government Initiatives	ATO Actions
1999	<p>ANAO <i>Report No. 37 of 1998-99</i></p> <p>Recommendations:</p> <ul style="list-style-type: none"> Conduct quantitative Pol analysis: risk management Securely and cost effectively generate/compose TFNs Conduct Pol audits within and across Government agencies 	
2000	<p>Committee Report <i>Numbers on the Run</i></p> <p>Whole-of-government recommendations:</p> <ul style="list-style-type: none"> Determine cost of identity fraud Pol risks/reforms across Government Government/industry processes (includes Document Verification Service trial) ATO processes (includes BDM trial) 	<p>ATO</p> <ul style="list-style-type: none"> Births Deaths Marriages (BDM) Certificate Validation Service (CVS) trial number 1 May 2000 Trial of the Certificate Validation Service offered by the NSW Registry of BDM Manually assessed 80-100 birth certificates per day No instances of fraud found
	<p>Commonwealth & State Agencies Risk assessment</p> <ul style="list-style-type: none"> Assessment of Pol documents Informal working group established 	
	<p>AGD <i>Who Goes There?</i></p> <ul style="list-style-type: none"> Commonwealth agency fraud risks (classified report) 	
2001	<p>AGD <i>Scoping Identity Fraud</i></p> <ul style="list-style-type: none"> Abridged version of <i>Who Goes There?</i> AGD estimates cost of identity fraud to be \$4 billion 	
	<p>AGD Submission to Government</p> <ul style="list-style-type: none"> Joint agency budget submission Request approval to develop a whole-of-government strategy Aim: enhance identification and verification processes in Commonwealth agencies (The Minister for Justice and Customs announced the Government's response in 2003. This is described below.) 	
	<p>Commonwealth & State Agencies Pol framework</p> <ul style="list-style-type: none"> Common Pol framework developed Adopted by several agencies in the informal working group 	
2002		<p>ATO</p> <ul style="list-style-type: none"> BDM CVS trial number 2 Included Victorian Register of BDM Verified 1 090 birth certificates No instances of fraud

2003	AUSTRAC Proof of Identity Steering Committee (POISC)	<ul style="list-style-type: none"> Commissioned study by the Securities Industry Research Centre of Asia Pacific (SIRCA) to Examine nature, cost, and extent of identity fraud SIRCA estimates cost of identity fraud in Australia in 2001–02 to be at least \$1.1b 	<p>ATO</p> <p>Adopted revised Pol framework</p> <ul style="list-style-type: none"> Based on common Pol framework
	Minister for Justice and Customs Announcement	<ul style="list-style-type: none"> Whole-of-government proposal to address identity fraud and misuse AGD is lead agency Three feasibility studies to be conducted 	
	Commonwealth Reference Group on Identity Fraud (CRGoIF) Established	<ul style="list-style-type: none"> AGD as chair, 21 member agencies Develop strategies to combat identity fraud, and strengthen identification systems 	
	CRGoIF Feasibility study results	<p>Feasibility studies completed in December 2003:</p> <ul style="list-style-type: none"> Common Pol Documents and Processes Document Verification Service Cross Agency Data Cleanse 	
2004	AGD Submission to Heads of Commonwealth Operational Law Enforcement Agencies Forum (HOCOLEA)	<ul style="list-style-type: none"> Formal links to State & Territory agencies Strategic framework to manage Pol issues 	<p>ATO</p> <p>Established Identity Crime Research Unit</p>
	Standing Committee of Attorneys-General (SCAG) Endorsed Pol framework	<ul style="list-style-type: none"> Officially endorsed common Pol framework 	
	Aust. Federal Police Seminar	<ul style="list-style-type: none"> International identity crime seminar Delegates from 12 Asia-Pacific nations 	
	POISC	<ul style="list-style-type: none"> Further research with SIRCA through Australian Research Council Linkage Grant Covers identity fraud control systems, identity fraud profiling, costs and crime control policy 	

Source: ANAO analysis of AGD and ATO information

Appendix 7: Commonwealth Reference Group on Identity Fraud - terms of reference

The Reference Group has agreed that an Australian Government strategy to strengthen identification systems and combat identity fraud should:

- (a) be based on a whole-of-government approach;
- (b) strengthen the integrity of documents it issues which are, or may be used in the community for identification;
- (c) enhance the identification processes for Australian government programs and services; and
- (d) have common supporting mechanisms, which could include:
 - agreement on a common set of evidence-of-identity documents;
 - an on-line identity verification service;
 - cross-agency data-matching to cleanse registers and identify false identities;
 - greater and more co-ordinated use of the National Fact of Death data; and
 - a register of lost and stolen identity documents.

Appendix 8: Member agencies of the Commonwealth Reference Group on Identity Fraud

Member agencies of the Reference Group as at April 2005 are:

- Attorney-General's Department;
- Australian Crime Commission;
- Australian Communications Authority;
- Australian Customs Service;
- Australian Electoral Commission;
- Australian Federal Police;
- Australian Government Information Management Office;
- Australian Taxation Office;
- Australian Security Intelligence Organisation;
- Australian Securities Investment Commission;
- Australian Transaction Reports and Analysis Centre;
- Centrelink;
- Commonwealth Science and Industrial Research Organisation;
- Department of Communications, Information Technology and the Arts;
- Department of Education, Science and Training;
- Department of Employment and Workplace Relations;
- Department of Family and Community Services;
- Department of Finance and Administration;
- Department of Foreign Affairs and Trade;
- Department of Human Services;
- Department of Immigration and Multicultural and Indigenous Affairs;
- Department of Transport and Regional Services;
- Department of Veterans' Affairs;
- Department of Health and Ageing;
- Department of Prime Minister and Cabinet;
- Health Insurance Commission;
- Office of the Federal Privacy Commissioner; and
- The Treasury.

Source: AGD

Appendix 9: Summary of common proof of identity framework, and proof of identity documents accepted by the ATO

Category of document	Acceptable documents	Accepted by the ATO
Category A: evidence of identity into Australia	Australian Birth Certificate	Yes
	Record of Immigration Status	Yes
	Foreign Passport and Current Visa	Yes
	Travel Document and current Australian Visa	Yes
	Certificate of Evidence of Residence Status	No
	Citizenship Certificate	Yes
Category B: linkage between identity and person	Australian Drivers Licence	Yes
	Australian Passport	Yes
	Firearms Licence	Yes
	Foreign Passport	No
Category C: evidence of identity operating in the community	Medicare Card	Yes
	Credit or Account Card	No
	Centrelink or DVA Card	No
	Security Guard/Crowd Control Licence	No
	Births, Deaths and Marriage Certificate	No
	Tertiary ID Card	Yes
Category D: evidence of residential address	Utility documents that include current residential address	No
	Bank statements with current residential address	

Source: Attorney-General's Department

Note: The ATO generally requires an individual to supply the following documents to support a TFN application:

- over the age of 16 years, one Category A and two Category B documents; and
- under the age of 16 years, one Category A and one Category B document.

Appendix 10: Quotation of the Tax File Number

<i>Mandatory</i>	<i>Voluntary</i>
Centrelink benefits	Family Tax Initiative
Dept of Veteran’s Affairs benefits	Tax returns and general enquires with the ATO
Training Guarantee Act	Prescribed Payments System
Higher Education Contribution Scheme	Employment Declaration Forms
	Reportable Payments System
	Superannuation transactions
	Financial transactions including:
	<ul style="list-style-type: none">• interest bearing accounts;• loans to government bodies and companies;• trust accounts;• unit trusts;• shares; and• tax assessable proceeds of certain games of chance.

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