

The Auditor-General  
Audit Report No.17 2005–06  
Performance Audit

# **Administration of the Superannuation Lost Members Register**

**Australian Taxation Office**

Australian National Audit Office

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of Australia 2005

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Canberra ACT  
29 November 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 *Administration of the Superannuation Lost Members Register*.

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

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ADF	Approved Deposit Fund
ANAO	Australian National Audit Office
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
ATO	Australian Taxation Office
CCM	Cooperative Compliance Model
CRIS	Cost Recovery Impact Statement
ECI	Electronic Commerce Interface
ERF	Eligible Rollover Fund
ICT	Information and Communications Technology Line
ISC	Insurance and Superannuation Commission
IT	Information Technology
IVR	Interactive Voice Recognition
LMR	Lost Members Register
LMW	Lost Members Week
NLA	Nil Lodgement Advice
OPA	Output Pricing Agreement
POI	Proof of Identity
RSA	Retirement Savings Account
SAC	Superannuation Administration Steering Committee

SBL	Superannuation Business Line
SG	Superannuation Guarantee
SMSF	Self Managed Superannuation Fund
TFN	Tax File Number



# **Summary and Recommendations**



# Summary

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## Background and Context (Chapter 1)

1. Superannuation is a large and complex area of tax administration. In addition to revenue collection the Australian Taxation Office's (ATO) superannuation role focuses on the regulation and preservation of the retirement income system.

2. As at 30 June 2005, the ATO's superannuation activity covered approximately \$19 billion in member contributions and \$38 billion in employer contributions per annum. Total superannuation assets under management within Australia grew by approximately 17 per cent during the 2004–05 financial year to \$742 billion.

3. The ATO's superannuation responsibilities have grown significantly in the 13 years since the introduction of the Superannuation Guarantee (SG). The Government has increasingly focussed on its retirement income policy, introducing broad and rapid changes that have challenged the ATO's capacity to efficiently administer its superannuation responsibilities.<sup>1</sup>

### The Lost Members Register

4. The Lost Members Register (LMR) is a central register of separated superannuation fund members and retirement savings account holders maintained by the ATO.<sup>2</sup> The LMR contains information sent to the ATO by a superannuation provider (provider), or its supplier.<sup>3</sup>

5. From 1996 to 1999, the ATO administered the LMR on delegation from the then Insurance and Superannuation Commission (largely due to its experience in system administration — particularly large-scale data matching). This changed with the introduction of the *Superannuation (Unclaimed Money and Lost Members) Act 1999*, which establishes the legislative framework supporting the ATO's administration of the LMR. The aim of the Act is to re-unite people with their lost superannuation, particularly casual and itinerant workers and

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<sup>1</sup> As outlined by the Commissioner of Taxation, page 9, ATO Annual Report 2003–04.

<sup>2</sup> For the purposes of the audit, the term member is taken to cover both members of superannuation funds and holders of retirement savings accounts.

<sup>3</sup> A superannuation provider is the trustee of a regulated superannuation fund, the trustee of an approved deposit fund, or the provider of a retirement savings account. A number of superannuation providers also rely on suppliers (or administrators) for the purpose of giving information to the ATO.

those with broken employment patterns. The Act and its accompanying regulations outline responsibilities for providers and the ATO.

6. The key responsibilities for providers established by the LMR legislation include:

- reporting details about its lost members every 6 months;
- applying the lost member criteria—which is satisfied where a member:
  - is uncontactable (no address details held or mail returned unclaimed);
  - is inactive (no contributions for past two years); or
  - joined the provider as lost<sup>4</sup>; and
- lodging statements that contain a member's Tax File Number (TFN) (where this has been quoted to the provider).

7. The key responsibilities for the ATO established by the LMR legislation include:

- keeping a register of lost members containing the information received from providers<sup>5</sup>;
- granting lodgement extensions, however, failure by a provider to lodge data on its lost members may attract a penalty of up to \$11 000; and
- reducing at an early stage the amount of lost superannuation that becomes unclaimed.

8. Where a member reaches 65 years of age, or has died, their superannuation monies become payable. Lost member accounts that satisfy relevant eligibility criteria, are deemed to be unclaimed superannuation. A provider that holds unclaimed superannuation must transfer the entire amount to the state or territory revenue office in which its headquarters is located. Under LMR reporting arrangements, providers notify the ATO of details for both lost members, and members whose superannuation has been forwarded to a relevant state or territory revenue office as unclaimed. A

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<sup>4</sup> However, providers are not obliged to report where a member's address has been verified in the last two years or the member is permanently excluded from being lost (due to the member indicating that they wish to remain with the provider or where the member is a member of a Self Managed Superannuation Fund).

<sup>5</sup> The ANAO notes that the ATO is given discretion to determine how the information on the LMR may be published. The only restriction is that TFNs must not be published or made available publicly.

member may then be advised of the status of their lost account when they search the LMR.

9. Aggregate LMR information has consistently featured in the ATO's Annual Report. Since 1999–00, the LMR has grown in size from 4.7 million accounts worth approximately \$7.3 billion to 5.4 million accounts worth approximately \$8.2 billion at the end of 2004–05.

10. While the overall number and value of lost member accounts stored on the LMR has remained relatively consistent, the ANAO notes that during this time the LMR has actually decreased as a proportion of total superannuation assets under management during the same period.<sup>6</sup>

11. The LMR is mainly comprised of a number of small value accounts. The ANAO found that during the past five years:

- around 40 per cent of accounts had a value of between \$1 and \$200. These accounts represent less than 2 per cent of the overall value of lost member accounts; and
- less than five per cent of accounts had a balance of \$10 000 or more. These accounts represent almost 45 per cent of the overall value of lost member accounts.

## **Audit Objective**

12. The objective of the audit was to assess the ATO's administration of the LMR. Specifically, the audit sought to:

- examine and report on aspects of LMR governance;
- assess the systems, processes and controls used by the ATO to capture and process LMR data reported by providers;
- examine the mechanisms and strategies the ATO uses to gain assurance that providers are complying with LMR legislation; and
- assess the mechanisms and strategies the ATO uses to promote awareness of, and enable access to, the LMR.

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<sup>6</sup> In 1999–00 there was a total of \$484 billion in superannuation assets under management. This had grown to \$742 billion by the end of 2004–05.

## LMR Governance (Chapter 2)

13. The ANAO identified a number of deficiencies with the Superannuation Business Line (SBL) governance framework as it related to the Superannuation Contributions Surcharge as part of ANAO Report No. 39 2004–05. At the time of audit fieldwork, the ATO was in the process of restructuring the SBL to better align with and support the broader ATO approach. This has impacted on LMR governance arrangements.

14. The ANAO found that, since July 2004, the ATO has adopted a co-ordinated approach to restructuring the delivery of its superannuation products.<sup>7</sup> New accountabilities for the LMR were, however, still being finalised at the time of audit fieldwork. The ATO has put in place arrangements to strengthen the integration of the SBL and Operations at the senior management level. In addition, the SBL has taken steps to establish a more robust planning and governance framework, with clear links to, and input from, other parts of the ATO.

15. The ANAO considers the re-alignment of operational and IT aspects of the LMR with those areas of the ATO best equipped to deal with existing risks should enable the SBL to focus on improving LMR compliance and its management of strategic issues impacting the effectiveness of the LMR.

16. As part of the audit the ANAO reviewed LMR funding arrangements. Since August 1998 the Commonwealth (through financial sector levies collected by the Australian Prudential Regulation Authority (APRA)) has recovered almost \$21 million from the superannuation industry to help cover the ATO's administration costs for the LMR.<sup>8</sup> The ATO also obtained specific LMR funding as part of the 2004 Budget. From 2004–05 to 2006–07 the ATO will receive more than \$10 million to undertake a Letters Project that aims to reduce the size of the LMR by directly notifying members that they have an account listed on the LMR.

17. The ATO advised that from its perspective the cost of administering the LMR is not linked to or guided by the amount of levy monies collected by APRA. The ATO only began to separately estimate LMR costs in 2002–03. During this time, the cost to the ATO of administering the LMR has exceeded the amount of levy monies recovered by the Commonwealth as part of the levy

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<sup>7</sup> The LMR was one of four superannuation products that were 'corporately realigned' with the Operations line.

<sup>8</sup> ATO related amounts account for approximately three per cent of all levy monies collected since 1998.

setting process (the ATO estimates that it has spent, on average, 93 per cent more on LMR administration than the amounts recovered by the Commonwealth as part of the levy setting process). This indicates that, since 2002–03, the ATO has funded additional LMR administration costs from within its overall appropriation funding.

**18.** The financial sector levy setting arrangements were reviewed by the Treasury and APRA in 2003, highlighting that the link between ATO activities funded by levies and the amounts raised were not well understood by the superannuation industry. It was recommended that the ATO ensure that its reporting of the use of levy funds satisfies the Government's cost recovery policy.

**19.** To achieve greater transparency and accountability regarding the use of levy funds, the ANAO considers the ATO should more accurately measure the cost of administering the LMR, and assist APRA to improve the links between this and the levy monies made available to it from the superannuation industry.

## **LMR Systems (Chapter 3)**

**20.** To maximise the benefit for members and providers that access the LMR, it is essential the ATO implement effective data capture practices, which take full advantage of existing ATO expertise (particularly in relation to identity matching). The ATO should also maintain a robust system control framework to support the operation of the LMR system.

**21.** A member generally needs to input their TFN in order to access data captured on the LMR. The ANAO found that the level of TFN quotation for lost member accounts reported to the ATO by providers is low (approximately 37 per cent). The ATO is able to derive or confirm the reported TFN for around 81 per cent of lost member accounts, however, the remaining 19 per cent of accounts are unmatched and effectively redundant for enquiry purposes.

**22.** Since the introduction of the LMR the ATO has adopted an ad-hoc approach to identity matching lost member accounts. Consequently, it is likely that a large number of lost member accounts have never been sent for identity matching. The ANAO considers that, to improve the completeness of the identity matching process, the ATO should identity match all lost member records prior to their inclusion on the LMR. This would also align with the ATO's standard approach for other areas of tax administration.

23. With regard to the LMR system control framework, the ANAO found there was an absence of baseline specifications (which should provide an up-to-date description, and history, of all aspects of the LMR system). Without such documentation, the ATO cannot be sure that the LMR is operating as intended and in accordance with the LMR legislation.

## LMR Compliance (Chapter 4)

24. The LMR legislation establishes clear responsibilities for providers regarding the provision of lost member data to the ATO. The effective administration of the LMR relies on the ATO gaining sufficient assurance that all providers are complying with their LMR obligations. All regulated superannuation funds (except for self managed super funds<sup>9</sup>), approved deposit funds, eligible rollover funds<sup>10</sup> and retirement savings account providers are required to report details of lost members to the ATO.

25. Despite identifying the need to develop appropriate strategies to assist with the management of LMR compliance following the introduction of the LMR legislation, the ATO did not implement these. As the ATO noted at the time, by failing to ensure that providers lodge, and lodge accurate data in the approved form, the risk was that providers would form the view that the LMR is a low priority for the ATO and hence, would not provide adequate details of lost members for inclusion on the LMR.

26. To a large extent, this has proven to be the case. While the ATO has established useful relationships with many of the larger providers to improve their lost member reporting, a number of key risks have not been properly addressed. In particular, the ATO needs to enhance the functionality of the LMR system to assist with compliance activities — particularly in relation to being able to establish a reasonable understanding of the population of lost member data lodgers.

27. To be effective in re-uniting people with their lost superannuation the ATO also needs to improve the quality of data stored on the LMR. The ATO

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<sup>9</sup> The ANAO notes, however, that despite being permanently excluded from the LMR reporting requirements, Self Managed Superannuation Funds may report lost members where the trustees of the fund decide that a member cannot be permanently excluded, or continue being permanently excluded, from being lost.

<sup>10</sup> Eligible rollover funds (ERFs) have a prominent role in relation to lost superannuation. ERFs are required to treat all members as protected (as defined by the SIS Act). This basically means that administration costs incurred by the member cannot exceed the investment earnings of their benefit for any given reporting period. In addition, the balance of a member's benefit cannot be reduced below \$1 000. Providers that do not wish to comply with member protections standards can transfer the benefit entitlements of affected members (generally lost members) to an ERF.



advised that a significant number of larger providers recently confirmed that there are problems with the quality of data previously lodged. In this respect, the ATO has signalled its intention to introduce measures to improve the quality of LMR data.<sup>11</sup>

28. The ANAO considers the ATO has further opportunities to improve LMR data quality through lost member data matching. This includes implementing a more systematic approach towards matching lost member data with other superannuation data sets received from providers and making better use of the provisions of the LMR legislation that enable the ATO to share lost member data with state and territory revenue offices (the holders of unclaimed superannuation).<sup>12</sup>

## Accessing the LMR (Chapter 5)

29. The primary aim of the LMR is to re-unite people with their lost superannuation. As such, the effective administration of the LMR relies on how the ATO promotes and enables access to the information stored on the LMR.

30. The ANAO found that the ATO has been involved in two major initiatives to promote LMR awareness. The first of these was Lost Members Week — a partnership between the ATO and industry groups to promote LMR awareness by enabling the general public to make LMR enquiries via ATO staffed information booths in shopping centres across Australia during October 2002.

31. The second of these initiatives is the Letters Project, which aims to increase awareness of the LMR amongst members, and to motivate people to reclaim their lost superannuation accounts. It involves the ATO sending three million letters, over three years, to members concerning their lost superannuation accounts as recorded on the LMR. The ATO began to issue letters in February 2005.

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<sup>11</sup> The ATO advised that consideration is being given to the use of a Cooperative Compliance Model (CCM) approach to improve LMR data quality. The CCM is an adaptation of the ATO's Compliance Model, and promotes the use of tailored responses to different taxpayers based on their compliance risk profile and compliance history. For further information about the CCM, refer to *Cooperative Compliance—Working With Large Business in the New Tax System*, available from the ATO's website, <http://www.ato.gov.au>.

<sup>12</sup> Apart from improving the quality of data stored on the LMR this would also assist state and territory revenue offices to manage compliance risks where a provider may have failed to transfer unclaimed superannuation.

32. The ATO offers SuperMatch and SuperSeeker as tools that enable providers and members to access details stored on the LMR.

33. SuperMatch allows providers to search the LMR for lost superannuation on behalf of their members by matching their members' details against those stored on the LMR. It is important that only authorised entities are allowed to perform SuperMatch exercises.<sup>13</sup> The ANAO found two instances where a systems deficiency had enabled unauthorised providers to conduct SuperMatch exercises. The ATO advised that this has now been corrected and that it has tightened its authority checking procedures related to the acceptance of SuperMatch files.

34. The ANAO also found that the majority of matches against the LMR resulting from SuperMatch exercises have been based on name matching, as opposed to TFN matching.<sup>14</sup> The ATO advised, however, that name based matches take a significantly longer time to process than TFN based matching. The ANAO considers that the ATO could improve the timeliness of SuperMatch exercises by identity matching all SuperMatch input records before matching these against details stored on the LMR.

35. SuperSeeker enables members to directly access details stored on the LMR. Available both online and via the telephone, it provides members with the contact details of providers holding any 'possible matches'. To use SuperSeeker, members need to satisfy Proof of Identity (POI) requirements by quoting their TFN. While the ATO keeps track of the proportion of enquiries that satisfy POI requirements, it does not measure the effectiveness of SuperSeeker access by members. The ANAO considers that, to monitor the effectiveness of this service, the ATO should measure and report on the proportion of SuperSeeker enquiries that actually result in a match with ATO records.

## Overall Conclusion

36. The ANAO found the ATO has significantly restructured its governance arrangements for the delivery of superannuation products over the last 12 months. These measures are designed to integrate superannuation

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<sup>13</sup> To obtain authorisation, providers must sign a formal agreement to abide by the ATO's conditions of use. Key aspects of these conditions include obtaining member authority to be included in a SuperMatch exercise, and agreeing to treat all information received from the ATO confidentially.

<sup>14</sup> Since July 2001 providers have input more than 24 million member records as part of SuperMatch exercises conducted by the ATO. During this time over seven million of these records (30 per cent) achieved a name based match compared to only two million (9 per cent) for TFN based matching.

products with the ATO's broader operations. The revised arrangements have strengthened the LMR governance framework.

37. The ATO has established systems and controls to capture lost member data received from providers. However, the ANAO found shortcomings with the LMR system control framework and the ATO's approach to identity matching lost member data stored on the LMR.

38. While the ATO has established some compliance strategies for its larger providers the ANAO considers further steps are required to strengthen LMR compliance. In particular, the ATO should improve the functionality of the LMR system to support compliance activities and address problems with the quality and completeness of lost member data received from providers.

39. The ATO has implemented strategies and mechanisms to promote awareness of, and enable access to, the LMR. Two separate tools, SuperMatch and SuperSeeker, have been developed to allow providers and members access to lost member data. The ANAO considers that, given the recent changes to LMR administration, it is now timely for the ATO to evaluate the effectiveness of its strategies and tools used to reunite people with their lost superannuation.

40. The ANAO made eight recommendations aimed at improving the transparency of LMR funding, and the systems and compliance strategies used by the ATO in its administration of the LMR.

## Summary of ATO's Response

41. The ATO's administration process for the Lost Members Register is designed to ensure that the register is well maintained and easily accessible to individuals. The ATO has included in its design a significant investment in compliance strategies to ensure the information provided by the funds is timely and complete. The ATO is making use of its capacity to match with other information sources to improve data integrity, and continues to improve systems and processes. In addition, the ATO is undertaking a major campaign to inform and educate 'lost' superannuation contributors about their entitlements. The campaign aims to increase awareness of the Lost Members Register and SuperSeeker, and to motivate individuals to reclaim their lost superannuation accounts.

42. The ATO welcomes the acknowledgement by the ANAO of the recent initiatives taken to strengthen the integration of the Superannuation business

line and Operations at the senior management level, and that steps have been taken to establish a more robust planning and governance framework.

**43.** The ATO generally agrees with the recommendations contained in the report, but has qualified its agreement to one recommendation. However, to the extent recommendations propose system enhancements to the LMR they cannot be implemented in this way. For the next 3 years the ATO's system resources are fully committed on implementing new policy, the Change Program and superannuation systems rebuild (which at this stage only includes minor changes to the LMR), along with maintaining existing systems and undertaking urgent remediation work. The design team undertaking the rebuild has been asked to evaluate the recommendations in terms of the overall priority for the superannuation rebuild.

**44.** The ATO's full response is at Appendix 1.

# Recommendations

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*The ANAO's recommendations with report paragraph references and ATO's abbreviated responses are set out below. More detailed responses are shown in the body of the report. The ANAO considers that the ATO should give priority to Recommendations 1, 4 and 6.*

**Recommendation No.1  
Para 2.32** The ANAO recommends that, to improve the transparency and accountability of the financial sector levy, the ATO:

- revisit the existing model used to estimate LMR costs with a view to implementing a robust methodology for determining LMR costs; and
- provide relevant information to the Australian Prudential Regulation Authority to allow it to report on the ATO's cost in administering the LMR as part of the disclosure requirements under the Government's cost recovery policy.

*ATO Response: Agreed.*

**Recommendation No.2  
Para 3.17** The ANAO recommends that, to improve the efficiency and effectiveness of the lost member data capture and identity-matching process, the ATO identity-match all lost member accounts prior to their inclusion on the Lost Members Register.

*ATO Response: Agreed.*

**Recommendation No.3  
Para 3.26** The ANAO recommends that, to provide adequate assurance that the LMR is operating as intended and in accordance with the LMR legislation, the ATO:

- compile a complete set of baseline specifications to document the LMR system; and
- introduce a robust system of controls to maintain the currency and completeness of the LMR baseline specifications.

*ATO Response: Agreed with qualification.*

**Recommendation  
No.4  
Para 4.19**

The ANAO recommends that to properly manage the completeness of lost member data lodgements, the ATO improve the functionality of the LMR system to record relevant compliance information not presently captured. Importantly, this should enable it to:

- obtain a comprehensive understanding of the number of providers that transfer their lost members to eligible rollover funds; and
- maintain an up to date listing of non lodgement advices (NLAs). In this regard, the ANAO considers the ATO should give consideration to making NLAs mandatory (as permitted by s.23 (1)(e) of the LMR legislation).

*ATO Response: Agreed.*

**Recommendation  
No.5  
Para 4.38**

The ANAO recommends that, to improve the quality of data stored on the Lost Members Register, the ATO implement a systematic approach to matching lost member data with other superannuation data sets received from superannuation providers.

*ATO Response: Agreed.*

**Recommendation  
No.6  
Para 4.45**

The ANAO recommends that, to improve the reporting of unclaimed superannuation monies by providers, and the quality of data stored on the Lost Members Register, the ATO establish comprehensive data sharing arrangements with all state and territory holders of unclaimed superannuation. This will also allow holders to properly address potential compliance risks relating to the transfer of unclaimed superannuation.

*ATO Response: Agreed.*

**Recommendation  
No.7  
Para 5.26**

The ANAO recommends that to improve the timeliness of SuperMatch exercises, the ATO identity match all SuperMatch input records before matching these against details stored on the LMR.

*ATO Response: Agreed.*

**Recommendation  
No.8  
Para 5.40**

The ANAO recommends that to measure the effectiveness of SuperSeeker access by members, the ATO measure and report on the proportion of SuperSeeker enquiries that result in a match with ATO records. This should also differentiate matches that relate to the Lost Members Register, as opposed to the Superannuation Guarantee system or the Superannuation Holding Accounts Reserve.

*ATO Response: Agreed.*





## **Audit Findings and Conclusions**



# 1. Background and Context

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## Background

### The Australian Taxation Office

**1.1** The Australian Taxation Office (ATO) is responsible for effectively managing and shaping the systems that support and fund services for Australians, and for giving effect to social and economic policy through the tax system. It is the principal agency charged with administering Australian tax law, including applicable superannuation law. In 2004–05, the ATO collected \$215 billion in tax, superannuation and excise revenue, and received an appropriation of \$2.4 billion. As at 30 June 2005 it employed 22 294 staff.

### The ATO's role in managing superannuation

**1.2** Superannuation is a large and complex area of tax administration. In addition to revenue collection the ATO's superannuation role focuses on the regulation and preservation of the retirement income system.

**1.3** As at 30 June 2005, the ATO's superannuation activity covered approximately \$19 billion in member contributions and \$38 billion in employer contributions per annum. Total superannuation assets under management within Australia grew by approximately 17 per cent during the 2004–05 financial year to \$742 billion.

**1.4** The ATO's superannuation responsibilities have grown significantly in the 13 years since the introduction of the Superannuation Guarantee (SG). The Government has increasingly focussed on its retirement income policy, introducing broad and rapid changes that have challenged the ATO's capacity to efficiently administer its superannuation responsibilities.<sup>15</sup>

## The Lost Members Register

**1.5** The Lost Members Register (LMR) is a central register of separated superannuation fund members and retirement savings account (RSA) holders<sup>16</sup>

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<sup>15</sup> As outlined by the Commissioner of Taxation, page 9, ATO Annual Report 2003–04.

<sup>16</sup> A Retirement Savings Account (RSA) is an account offered by banks, building societies, credit unions, life insurance companies and prescribed financial institutions. It is used for retirement savings and is similar to a superannuation fund.

maintained by the ATO.<sup>17</sup> The LMR contains information sent to the ATO by a superannuation provider (provider), or its supplier.<sup>18</sup>

**1.6** The LMR was established on 1 July 1996, originally as the responsibility of the then Insurance and Superannuation Commission (ISC).<sup>19</sup> However, on the basis of greater experience and efficiencies in system administration (particularly large-scale data matching), the ISC immediately conferred administrative responsibility for the LMR to the Commissioner of Taxation (the Commissioner) via a number of Modification Declarations. These delegation arrangements continued following the creation of the Australian Securities and Investments Commission (ASIC) on 1 July 1998.

**1.7** During this time, the Commissioner's administrative powers were limited regarding the operation of the LMR. Most notably, superannuation providers were not allowed to pass on the Tax File Numbers (TFNs) of lost members, impeding the ATO's ability to link member enquiries with the details stored on the LMR.

**1.8** These limitations were addressed in 1999, with the introduction of ATO specific LMR legislation.

## **LMR legislative framework**

**1.9** The *Superannuation (Unclaimed Money and Lost Members) Act 1999* (the Act) was introduced to address existing deficiencies in the ATO's LMR administrative powers, and to formally transfer the administration of the LMR to the Commissioner.

**1.10** The Act aims to re-unite people with their superannuation, particularly casual and itinerant workers and those with broken employment patterns. The Act and its accompanying regulations outline important responsibilities for providers and the ATO with respect to the LMR.

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<sup>17</sup> For the purposes of the audit the term 'members' is taken to cover both members of superannuation funds and holders of RSAs.

<sup>18</sup> A superannuation provider is the trustee of a regulated superannuation fund, the trustee of an approved deposit fund or the provider of a RSA. A number of superannuation providers also rely on suppliers (or administrators) for the purpose of giving information to the ATO.

<sup>19</sup> The basis of the Insurance and Superannuation Commission's authority to receive information concerning lost members can be found in regulation 11.08 of the *Superannuation Industry (Supervision) Regulations 1994*.

### *Provider responsibilities*

**1.11** A provider must provide details<sup>20</sup> to the Commissioner about its lost members:

- on or before the relevant date, which is:
  - 31 October for the half year ending 30 June in a year; and
  - 30 April for the half year ending 31 December in a year; and
- that are within their knowledge and specified in the approved form.

**1.12** Providers are responsible for applying the lost member criteria.<sup>21</sup> A member is lost at a particular time if he or she:

- is uncontactable (i.e. the provider never had an address for the member or the trustee has sent two written communications to the member's last known address that have been returned unclaimed); or
- is inactive (i.e. no superannuation contributions made to the account for two consecutive years); or
- joined the provider as a lost member.

**1.13** However, a provider is not obliged to report a member as lost where:

- the member's address has been verified within the last two years, and the provider has no reason to believe that the address is now incorrect; and
- the member is permanently excluded from being lost.<sup>22</sup>

**1.14** The Act also authorises providers to lodge statements with the Commissioner that contain a member's TFN (where this has been quoted by the member to the provider).

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<sup>20</sup> It is important to note that no money is actually transferred to the ATO. It remains with, and is the responsibility of, the provider.

<sup>21</sup> The meaning of a lost member under the Act is based on definitions contained in the *Superannuation Industry (Supervision) Regulations 1994* and the *Retirement Savings Account Regulations 1997*.

<sup>22</sup> A member is permanently excluded from being lost if:

- the member is an inactive member who has indicated by a positive act (eg benefit deferral) that he or she wishes to remain a member; or
- the member has contacted the provider at any time after the time at which he or she joined and indicated that he or she wishes to continue being a member; or
- the member is a member of a Self Managed Superannuation Fund (SMSF).

### *The ATO's responsibilities*

**1.15** The Commissioner must keep a register of lost members that contains the information given to the Commissioner by providers. It may also contain other relevant information given to the Commissioner, including a member's TFN where it has been quoted for any other purpose.

**1.16** The Act provides the Commissioner with discretion to determine how the information contained on the LMR may be published. The only restriction is that TFNs must not be published or made available.

**1.17** The Commissioner may grant to a provider an extension of the date by which information must be given.<sup>23</sup> Where a provider fails to lodge data on its lost members, the ATO can apply a penalty of up to \$11 000.

**1.18** The ANAO notes that, in implementing a scheme for the reporting of lost members, the Act envisages that the ATO would aim to reduce, at an early stage, the amount of lost superannuation that becomes unclaimed.

### **Unclaimed Superannuation**

**1.19** Where a member reaches 65 years of age, or has died, their superannuation monies become payable. Lost member accounts that satisfy relevant eligibility criteria<sup>24</sup>, are deemed to be unclaimed superannuation. A provider that holds unclaimed superannuation must transfer the entire amount to the state or territory revenue office in which its headquarters is located. Members (or their estates) may then recover unclaimed superannuation at any time.

**1.20** As noted above, the LMR was partly introduced to reduce, at an early stage, the amount of lost superannuation that becomes unclaimed. Under LMR reporting arrangements, providers are required to notify the ATO of details for both lost members, and members whose superannuation has been forwarded to a relevant state or territory revenue office as unclaimed. A member may then be advised of the status of their lost account when they search the LMR.

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<sup>23</sup> The granting of an extension must be in writing and can be made before or after the date that the data is due for lodgement.

<sup>24</sup> A member's account must have been inactive for the last two years and the provider has determined that a benefit is immediately payable (and cannot ensure that the member receives the benefit).

## LMR Context

### The size of the LMR

**1.21** The ATO reported limited information on the LMR during its period of delegated responsibility (1996–99). However, since this time, aggregate LMR information has consistently featured in the ATO’s Annual Report. Table 1.1 notes the number and value of lost member accounts compared to total superannuation assets under management.

**Table 1.1**

#### Number and value of the lost member accounts 1999–00 to 2004–05 compared to total superannuation assets under management

	1999–00	2000–01	2001–02	2002–03	2003–04	2004–05
Value of lost member accounts	\$7.3bn	\$5.5bn	\$6.8bn	\$7.3bn	\$7.3bn	\$8.2bn
Number of lost member accounts	4.7m	3.8m	4.7m	4.6m	4.9m	5.4m
Total Superannuation Assets under Management	\$484.2bn	\$519.0bn	\$518.1bn	\$537.8bn	\$630.9bn	\$741.7bn

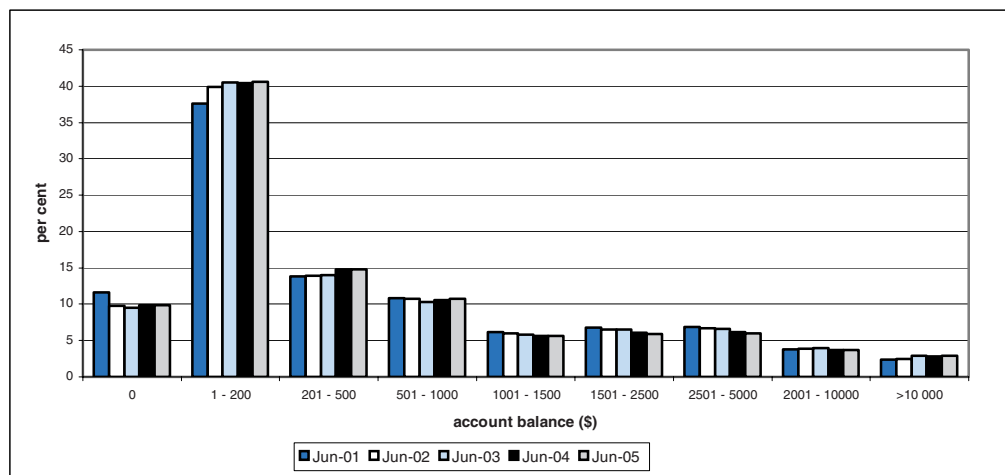
Source: ANAO summary of ATO data

**1.22** Table 1.1 indicates that, while the overall number and value of lost member accounts stored on the LMR has remained relatively consistent since 1999, during this time the LMR has actually decreased in comparison to total superannuation assets under management.

**1.23** The ANAO found that there has also been a constant trend regarding the size of lost member accounts stored on the LMR during the last five years. This is shown in Figure 1.1 below.

**Figure 1.1**

# **Lost member account balances for the period 2000–01 to 2004–05**



Source: ANAO analysis of ATO information

**1.24** Figure 1.1 indicates that the LMR is mainly comprised of a number of small value accounts.<sup>25</sup> During the past five years:

- approximately 40 per cent of lost member accounts stored on the LMR had a value of between \$1 and \$200. These accounts represent less than 2 per cent of the overall value of lost member accounts; and
- less than five per cent of accounts had a balance of \$10 000 or more. These accounts represent almost 45 per cent of the overall value of lost member accounts.

## **The introduction of Superannuation Choice**

**1.25** The introduction of Superannuation Choice (Choice) from 1 July 2005 is likely to impact on the ATO's administration of the LMR in the future. Choice gives employees the ability to choose the superannuation provider into which their compulsory superannuation contributions are made. It also provides those with multiple superannuation balances an opportunity to consolidate their superannuation savings throughout their working lives. This may ultimately reduce the number of lost member accounts stored on the LMR.

<sup>25</sup> Figure 1.1 also indicates that about 10 per cent of the accounts stored on the LMR have a nil balance. The ANAO notes, however, that the actual balance of a lost members account is not a mandatory field for LMR reporting (for more detail see paragraph 3.8 of chapter 3). As such, a nil balance does not necessarily mean that the actual value of the account is zero.



## The Audit

### Audit Objective

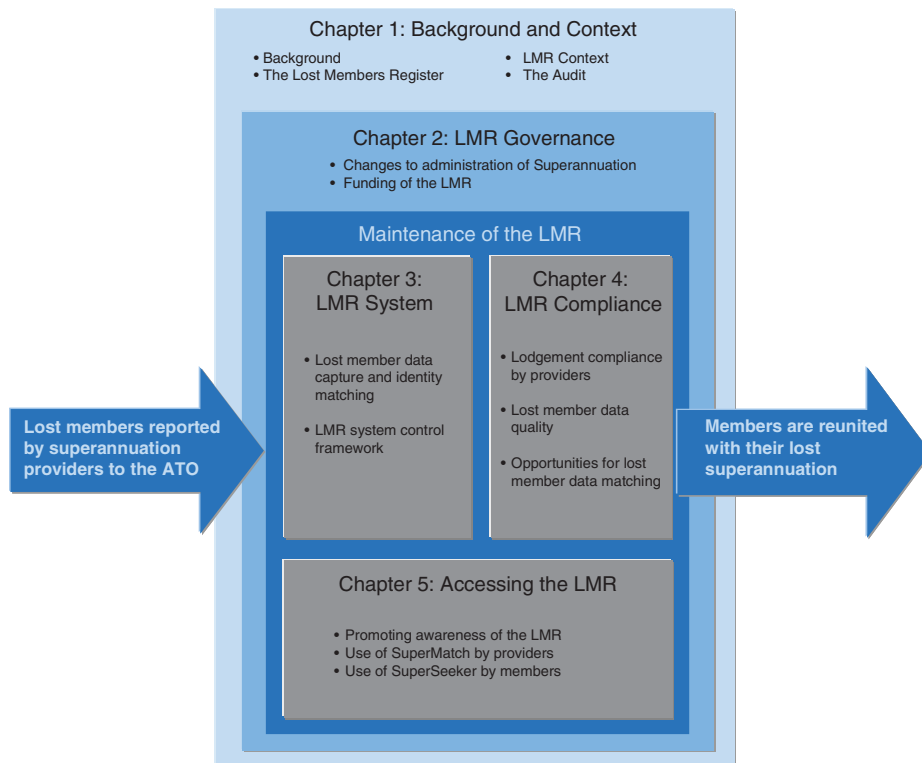
1.26 The objective of the audit was to assess the ATO's administration of the LMR. Specifically, the audit sought to:

- examine and report on aspects of LMR governance;
- assess the systems, processes and controls used by the ATO to capture and process LMR data reported by providers;
- examine the mechanisms and strategies the ATO uses to gain assurance that providers are complying with LMR legislation; and
- assess the mechanisms and strategies the ATO uses to promote awareness of, and enable access to, the LMR.

1.27 Figure 1.2 depicts the structure of the report.

**Figure 1.2**

### Structure of the report



Source: ANAO

## **Audit Methodology**

**1.28** The ANAO conducted fieldwork in the ATO's National Office, and Melbourne and Canberra offices in April and May 2005. This included a review of relevant superannuation documentation and the systems, processes and controls used in the administration of the LMR. The ANAO conducted interviews with ATO staff from the Operations, Information Communications and Technology, Superannuation and Personal Tax business lines.

**1.29** The ANAO also consulted with a range of stakeholders from the superannuation industry<sup>26</sup>, and relevant Australian Government organisations<sup>27</sup>, regarding aspects of the ATO's administration of the LMR.

**1.30** The audit was conducted in accordance with ANAO auditing standards at an estimated cost of \$282 280.

## **Acknowledgements**

**1.31** The ANAO recognises, and appreciates, the contribution of ATO officers, superannuation industry representatives, and other relevant Commonwealth organisations, who assisted in the conduct of this audit.

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<sup>26</sup> Superannuation industry representatives interviewed included: AusFund, SuperPartners, Primary Superannuation Services, Australian Administrative Services, Association of Superannuation Funds of Australia, AON Consulting, Commonwealth Bank of Australia, Colonial First State and Mercer HR Consulting.

<sup>27</sup> The Australian Government agencies consulted as part of the audit were the: Department of the Treasury, Department of Finance and Administration, Australian Securities and Investments Commission, Australian Prudential Regulation Authority, Commonwealth Ombudsman and ComSuper.

## 2. LMR Governance

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*This chapter focuses on changes to the governance arrangements supporting the administration of superannuation within the ATO. It also considers the funding arrangements supporting the ATO's administration of the LMR.*

### Introduction

**2.1** The governance arrangements within the ATO will influence the effectiveness of the ATO's administration of the LMR. Governance broadly refers to the processes by which organisations are directed, controlled and held to account. The concept of public sector governance is explained in the ANAO's Better Practice Guide, *Public Sector Governance, Volumes 1 & 2*.<sup>28</sup>

**2.2** At the time of audit fieldwork, the ATO was in the process of restructuring the Superannuation Business Line (SBL) to better align with and support the broader ATO approach.<sup>29</sup>

**2.3** In light of this, the ANAO's assessment of LMR governance during the audit focussed on:

- changes to the governance arrangements for the administration of superannuation in the ATO; and
- funding of the LMR.

### Governance arrangements for the administration of superannuation in the ATO

#### Previous arrangements

**2.4** Prior to the current restructure, the delivery of the superannuation product set<sup>30</sup> was self-contained within the SBL. Administration of the LMR product (including overall governance, systems implementation and development, compliance, and access or awareness activities) was the responsibility of SBL staff.

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<sup>28</sup> A copy of the guide is available at <http://www.anao.gov.au/WebSite.nsf/Publications/5A8717E993DEB3484A256D730015D4F4>

<sup>29</sup> The Commissioner signalled the initiation of this process to ATO staff on 12 July 2004 in a National Office Circular. This circular indicated that there would be a broad focus on operational backlogs, operational processes and practices redesign, superannuation IT systems and superannuation active compliance.

<sup>30</sup> The Superannuation Business Line Plan for 2004–05 indicates a responsibility for seven superannuation products plus the income tax product. The LMR is one of six products that fall under the banner of transfers/regulations.

**2.5** The decision to restructure the SBL was preceded by an in-depth ATO review of superannuation products in June 2004. This review recognised the need to address a number of identified and emerging risks, relating to deficiencies in the SBL's end-to-end business systems, and its past management of operational backlogs. As a result, responsibility for superannuation IT systems was transferred to the Information and Communications Technology (ICT) line. Similarly, responsibility for the operational aspects of all superannuation products was transferred to the Operations line of the ATO.<sup>31</sup>

**2.6** The ATO expect that this restructure will allow the SBL to focus on the compliance aspects of superannuation products, and to also:

- improve its understanding of the superannuation environment, markets and clients;
- better assess and prioritise superannuation product risks; and
- undertake appropriate treatments (advisory and enforcement).

**2.7** During the audit, the ANAO examined the transition to these new arrangements, with particular reference to the LMR. This is discussed below.

## **The transition to new arrangements**

**2.8** Following the Commissioner's announcement of changes on 12 July 2004, responsibility for superannuation IT systems was immediately transferred to ICT. As a result, the ICT line became responsible for the LMR system.<sup>32</sup> At the same time, two Senior Executive positions were created in the SBL to lead the development of superannuation's active compliance strategy.<sup>33</sup>

**2.9** A co-ordinated approach was also initiated in August 2004 between the SBL and Operations to oversee the transfer of the operational aspects of superannuation products. The LMR was one of four superannuation products that were 'corporately realigned' with Operations. The rationale for the re-alignment of the LMR was that, as it is a central register of information, it aligns better with the Registration process managed within Operations. Registrations look after similar types of systems such as the Australian

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<sup>31</sup> The Information and Communications Technology (ICT) and Operations lines are the ATO's knowledge experts in these areas (it is part of their core functions), and therefore best placed to deal with the types of risk identified.

<sup>32</sup> The LMR system is discussed further in chapter 3.

<sup>33</sup> LMR compliance is discussed further in chapter 4.

Business Register and the Client Register. Aligning the LMR would also promote consistency in the updating of client details.

**2.10** The ANAO found that the transition process continued until late March 2005. At this time, Operations became accountable for the operational aspects of all superannuation products. A Superannuation Administration Steering Committee (SAC) was established, supported by senior management from the affected business lines, and responsible for ensuring the integration of changes into everyday business.

**2.11** Between April and June 2005, the ATO embarked on an investigative process to deliver a gap assessment across the superannuation product set, which aimed to establish a set of key priorities or ‘must haves’ to enable sound administration. The three main focus areas used to guide this process were law, compliance and operations. The SAC is responsible for approving and guiding a program of work that aims to deliver on the identified key priorities.

**2.12** The ANAO notes that the ATO has put in place arrangements to strengthen the integration of the SBL and Operations at the senior management level. These arrangements included cross-line representation on all key management committees as part of the transition. The ANAO also notes that the SBL has taken steps to establish a more robust planning and governance framework<sup>34</sup>, with clear links to, and input from, other parts of the ATO.

**2.13** The ANAO supports the steps being taken to improve governance arrangements and the centralisation of LMR ‘operations’ as part of the broader ATO registrations framework. Importantly, this will enable the SBL to focus on improving LMR compliance, and other strategic issues impacting the effectiveness of the LMR product.<sup>35</sup>

**2.14** The ATO advised in August 2005 that the agreed roles and responsibilities for the LMR across the ATO would be as follows:

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<sup>34</sup> Weaknesses with the then SBL planning and governance framework as it related to the Surcharge, were also identified in ANAO Report No.39 2004–05 *Op. Cit.* Refer to Recommendation No.’s 1 – 4.

<sup>35</sup> For instance, as noted in chapter 1, there is a need to establish a better understanding of the links between unclaimed superannuation and the LMR. This was one of the stated aims of the LMR legislation.

**Table 2.1****Roles and responsibilities for the LMR**

ATO Business Line	Responsibility
Operations	<ul style="list-style-type: none"> <li>• Maintenance of the register. This includes improvements and enhancements, integrity and accuracy of information contained on the register, update of information including processing lodgement of LMR data and deletions as required.</li> <li>• Processing and recording of unclaimed monies payments associated with LMR legislation.</li> <li>• Maintenance of the web page and related search engines (SuperSeeker and SuperMatch).</li> <li>• Registration of entities for SuperMatch enquiries.</li> <li>• Client enquiries, particularly non-interpretive correspondence.</li> <li>• Management reporting regarding information contained on the register.</li> <li>• Provide support as required to the Superannuation and Lodgement Compliance lines in relation to relevant compliance activities and programs (eg, the LMR mail out program).</li> </ul>
Superannuation	<ul style="list-style-type: none"> <li>• Policy and legislation regarding LMR (including establishing intent of the LMR). This includes policy for registration of entities for SuperMatch.</li> <li>• Development and implementation of compliance strategies (including LMR mail out) to ensure achievement of intent. This includes compliance strategies to ensure quality and integrity of data received from providers.</li> <li>• Monitor and report on compliance.</li> <li>• Communication and education and contents of related educational material (including the web page), including management of telephony and interpretive enquiries.</li> <li>• Support Operations and Lodgement Compliance Business Lines by provision of policy, guidelines and advice in relation to LMR administration.</li> </ul>
Lodgement Compliance	<ul style="list-style-type: none"> <li>• Development and implementation of lodgement compliance strategies in conjunction with Superannuation Business Line.</li> <li>• Monitor and report on lodgement compliance.</li> </ul>
Information Communication and Technology	<ul style="list-style-type: none"> <li>• Provide systems support, including operation, maintenance and enhancement of the register and relevant search facilities.</li> </ul>

Source: ATO

## Funding of the LMR

**2.15** As outlined from paragraph 1.15 of chapter 1, the LMR legislation outlines clear responsibilities for the ATO concerning lost superannuation and unclaimed monies. Since August 1998, the ATO has been allocated funding as

part of its overall annual appropriation to assist with meeting these responsibilities. The Commonwealth has recovered these costs through the financial sector levies paid by the superannuation industry.

## **Allocation of financial sector levies to the ATO**

**2.16** The levy-setting arrangements that apply to the superannuation industry were established as a result of the 1997 Financial System Inquiry<sup>36</sup>, which also led to the creation of the Australian Prudential Regulation Authority (APRA) in July 1998. All superannuation funds (for which APRA has a regulatory responsibility)<sup>37</sup> are charged a levy to cover APRA's costs of supervision.<sup>38</sup>

**2.17** Under Section 50(2) of the *Australian Prudential Regulation Authority Act 1998*, the Treasurer also determines, for each financial year, an amount of levy monies that is retained by the Commonwealth to be 'made available' to cover the costs of providing 'market integrity' and 'consumer protection' functions for prudentially regulated institutions.

**2.18** The ANAO found that the amount of levy monies retained as part of the annual determinations has been confined to the activities of ASIC and the ATO. The ATO functions covered directly relate to the costs of administering the LMR.

**2.19** The total amount of levy money recovered by the Commonwealth related to ATO activities since 1998 totals almost \$21 million<sup>39</sup> and represents approximately 3 per cent of all levy monies collected by APRA during this time. During audit fieldwork, the ANAO sought to compare the cost to the ATO of administering the LMR with the levy monies recovered by the Commonwealth related to ATO activities.

## **Cost of administering the LMR to the ATO**

**2.20** As part of the audit, the ANAO requested information from the ATO on the actual cost of administering the LMR. The ATO advised that the SBL

<sup>36</sup> For general information on the inquiry refer to <http://fsi.treasury.gov.au/content/default.asp>

<sup>37</sup> This includes all superannuation funds except for SMSFs, which are regulated by the ATO. As at 30 June 2005 this accounted for 8 621 entities, with \$576 billion in assets under management.

<sup>38</sup> Further detail on the levy setting arrangements as they apply to APRA can be found from pages 23-26 of ANAO Report No. 6 2003-04 *APRA's Prudential Supervision of Superannuation Entities*.

<sup>39</sup> This consists of \$2.35 million per annum, between 1998-99 and 2003-04, \$3.78 million for 2004-05 and \$2.95 million for the 2005-06 financial year.

only began to separately estimate the cost of its products during the 2002–03 financial year, when it introduced its own product-costing model (the model).

**2.21** The model allocates costs by mapping activity and attribution data, based on enquiries and surveys of key line managers, against all superannuation products. Under the model, the estimated cost of administering the LMR was \$4.2 million for 2002–03 and \$5.38 million for 2003–04. The ANAO notes that the largest proportion of LMR costs under the model, relates to staff costs of the superannuation Contact Centre<sup>40</sup>, with \$2.3 million (or 55 per cent) of the overall LMR cost being allocated to this function in 2002–03 and \$3.9 million (or 72 per cent) in 2003–04.

**2.22** The ATO advised in August 2005 that, as a result of the changes to the SBL discussed in paragraph 2.5 above, the estimated cost of the LMR from 2004–05 onwards would now be determined by ATO Finance. The estimated cost for 2003–04 under the model has been adjusted by ATO Finance to ensure consistency with other corporate approaches. The following table compares amounts recovered by the Commonwealth related to ATO activities from levy monies against the costs determined by the ATO for the LMR during the last three financial years.

**Table 2.2**

**Comparison of amount recovered by the Commonwealth related to ATO activities to estimated cost of the LMR 2002–03 to 2004–05**

Financial Year	Financial Sector Levy Allocation (\$million)	ATO estimated cost of the LMR (\$million) <sup>41</sup>	Variance (\$million)
2002–03	2.35	4.20	(1.85)
2003–04	2.35	6.19	(3.85)
2004–05	3.78	5.20	(1.42)
<b>TOTAL</b>	<b>8.48</b>	<b>15.59</b>	<b>(7.11)</b>

Source: ANAO analysis of relevant determinations and ATO internal costings

**2.23** Table 2.2 indicates that (at least since it began separately identifying the cost of its superannuation products) the cost to the ATO of administering the LMR has exceeded the amount of levy monies recovered by the

<sup>40</sup> The superannuation Contact Centre handles enquiries relating to all superannuation products from the general public. The estimates for the Contact Centre also include the Provision of Advice (via written correspondence) function.

<sup>41</sup> The cost of administering the LMR for 2002–03 was determined using the model outlined in paragraph 2.21 above. For 2003–04 and 2004–05, the estimated cost is also based on the model but has been adjusted by ATO Finance.



Commonwealth as part of the levy setting process. This indicates that, during this time, the ATO has funded additional LMR costs from within its overall appropriation funding.

**2.24** The ATO advised that, in practice, it does not receive any special appropriation<sup>42</sup> in relation to the levy monies recovered by the Commonwealth. Initially, there was explicit recognition of levy monies in determining the ATO's annual appropriation. However, with the introduction of the ATO's Output Pricing Agreement (OPA) in 1999–00 this ceased. Notwithstanding this, the share of the ATO's annual appropriation allocated to the LMR has continued to increase in line with the standard parametric adjustments made under the OPA.

**2.25** As noted in paragraph 2.21, a significant amount of the LMR costs determined by the ATO under the model are based on the estimated use of Contact Centre resources. The ANAO notes that the ATO recently introduced an Interactive Voice Recognition (IVR) service for the LMR<sup>43</sup>, which should reduce the LMR's overall impact on the Contact Centre. Therefore, the ANAO considers the ATO would benefit from revisiting the assumptions underlying the model used to determine its LMR costs, to ensure that these continue to be accurately tracked against actual work effort.<sup>44</sup>

#### *Funding provided to the ATO as part of the 2004 Budget*

**2.26** The ATO has also received specific LMR related funding as part of the 2004 Budget. From 2004–05 to 2006–07, the ATO will receive almost \$10.7 million to undertake a letters project that aims to reduce the size of the LMR by directly notifying members with an account listed on the LMR. The letters project is discussed in detail in chapter 5.

### **Review of financial sector levies**

**2.27** The Department of the Treasury (the Treasury) and APRA reviewed the financial sector levies paid by APRA regulated superannuation funds in 2003.<sup>45</sup> The key findings from this review as they relate to the ATO's administration of the LMR included that:

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<sup>42</sup> Special appropriations are made in Acts that deal with particular purposes of spending. All levy monies allocated to APRA are done so under a special appropriation.

<sup>43</sup> This service is examined in chapter 5.

<sup>44</sup> The need for overall acceptance of the methodology employed to determine LMR costs is also important given the new accountabilities for the LMR across the ATO.

<sup>45</sup> A copy of the final report can be found at <[www.fslevies.treasury.gov.au](http://www.fslevies.treasury.gov.au)>.

- the amount spent by the ATO can in practice exceed the amounts raised through levies, thus reducing the amount spent on other functions of the agency;
- concern has been expressed by industry stakeholders that the nature of ATO activities funded by the levies and the link between the amounts raised and ATO functions were not well understood;
- the need for earlier and more complete disclosure of relevant information, in particular, the basis of estimating the relevant costs of the ATO, along with the provision of objective supporting material; and
- if a proportion of the funds raised through levies is to go to the ATO in the future, greater transparency and accountability will be required.

**2.28** In addition, the final report made a specific recommendation that:

The activities for which financial sector levy funds are raised be continued and that APRA, ASIC and the ATO ensure that their reporting of the use of the levy funds satisfies the requirements of the Government's cost recovery policy.

#### The Government's cost recovery policy

**2.29** The Government's cost recovery policy is detailed in Finance Circular (FC) No. 09/2005 issued by the Department of Finance and Administration (Finance) and the associated Commonwealth Cost Recovery Guidelines for Regulatory Agencies.<sup>46</sup> It aims to improve the consistency, transparency and accountability of Commonwealth cost recovery arrangements and promote the efficient allocation of resources. An important element of the FC is that agencies separately identify all cost recovery revenues in the notes to their financial statements.<sup>47</sup> Where there are significant cost-recovery arrangements<sup>48</sup>, an agency must also undertake appropriate stakeholder consultation and may need to prepare a Cost Recovery Impact Statement (CRIS). The ANAO understands that the use of financial sector levy monies within the Commonwealth will be disclosed by APRA in its CRIS for the 2005–06 financial year.

**2.30** As noted in paragraph 2.24, at present, the cost to the ATO of administering the LMR is not linked to or guided by the amount of levy

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<sup>46</sup> For further information, refer to [http://www.dofa.gov.au/finframework/fc\\_2005\\_09.html](http://www.dofa.gov.au/finframework/fc_2005_09.html).

<sup>47</sup> This includes Annual Reports and Portfolio Budget Statements prepared by the agency.

<sup>48</sup> Significant cost recovery arrangements are defined with reference to the amount of revenue received and the impact of the arrangements on stakeholders.

monies made available. Levy arrangements were reviewed in 2003 and the need for greater transparency and accountability with regard to the ATO's use of levy monies was identified.

**2.31** The ANAO considers that while APRA is responsible for meeting the disclosure requirements of the Government's cost recovery policy for financial sector levies, the ATO retains primary responsibility for providing relevant information relating to its administration of the LMR to APRA. To provide clarity to industry stakeholders regarding its use of levy monies it is important the ATO liaise with APRA and provide relevant information to ensure that APRA's disclosures for the 2005–06 financial year (to meet the Government's cost recovery policy) also accurately reflect the ATO's cost of administering the LMR.

## Recommendation No.1

**2.32** The ANAO recommends that, to improve the transparency and accountability of the financial sector levy, the ATO:

- revisit the existing model used to estimate LMR costs with a view to implementing a robust methodology for determining LMR costs; and
- provide relevant information to the Australian Prudential Regulation Authority to allow it to report on the ATO's cost in administering the LMR as part of the disclosure requirements under the Government's cost recovery policy.

### *ATO response*

**2.33** Agreed. The ATO accepts this recommendation and acknowledges the need to be able to more explicitly cost the operation of the LMR. To this end, costing for the LMR from 2005–06 will be undertaken corporately in ATO Finance and in accordance with the ATO's overall costing regime.

**2.34** Further the ATO intends to include requirements for annual reporting of LMR costs in an updated Memorandum of Understanding between the ATO and APRA. This recognises that APRA is the administrator of the Financial Sector Levy.

## 3. LMR System

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*This chapter examines the system the ATO use to capture and update data stored on the LMR. It also reviews the system control framework supporting the LMR.*

### Introduction

**3.1** As outlined in paragraph 1.6 of chapter 1, the ATO gained responsibility for the administration of the LMR largely due to its experience and efficiency in system administration (particularly large-scale data matching).

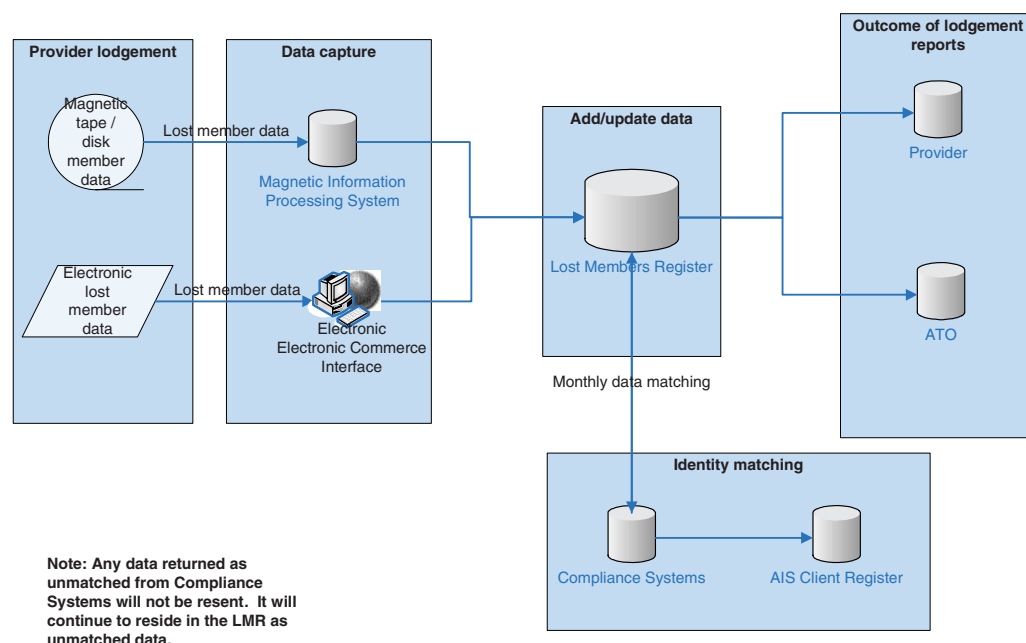
**3.2** The LMR system was implemented in October 1996. It is a mainframe system designed to capture and store up-to-date data on lost members that can be easily accessed by members and providers. To maximise the benefits for members and providers it is crucial the ATO implement effective data capture practices that take full advantage of existing ATO expertise (particularly in relation to identity matching) and establish a robust system control framework to support its operation.

**3.3** In assessing LMR systems during the audit, the ANAO reviewed:

- lost member data capture and identity matching; and
- key aspects of the LMR system control framework;

### Lost member data capture and identity matching

**3.4** The accurate capture of lost member data that has been verified against existing ATO systems is necessary to ensure the LMR remains up-to-date. It also gives members and providers the best opportunity to find their lost superannuation. The lost member data capture and identity-matching process is shown in Figure 3.1.

**Figure 3.1****Lost member data capture and identity matching process**

Source: ANAO analysis of ATO systems

**Lost member data capture**

**3.5** Lost member data capture refers to the process the ATO uses to accurately capture data on lost member accounts in a standard format that can be processed by ATO systems. The approved form for lost member data files includes lodgement via magnetic media<sup>49</sup> or through the ATO's Electronic Commerce Interface (ECI).<sup>50</sup> As outlined in Figure 3.1, all data on lost member accounts is transmitted directly to the LMR, once captured.

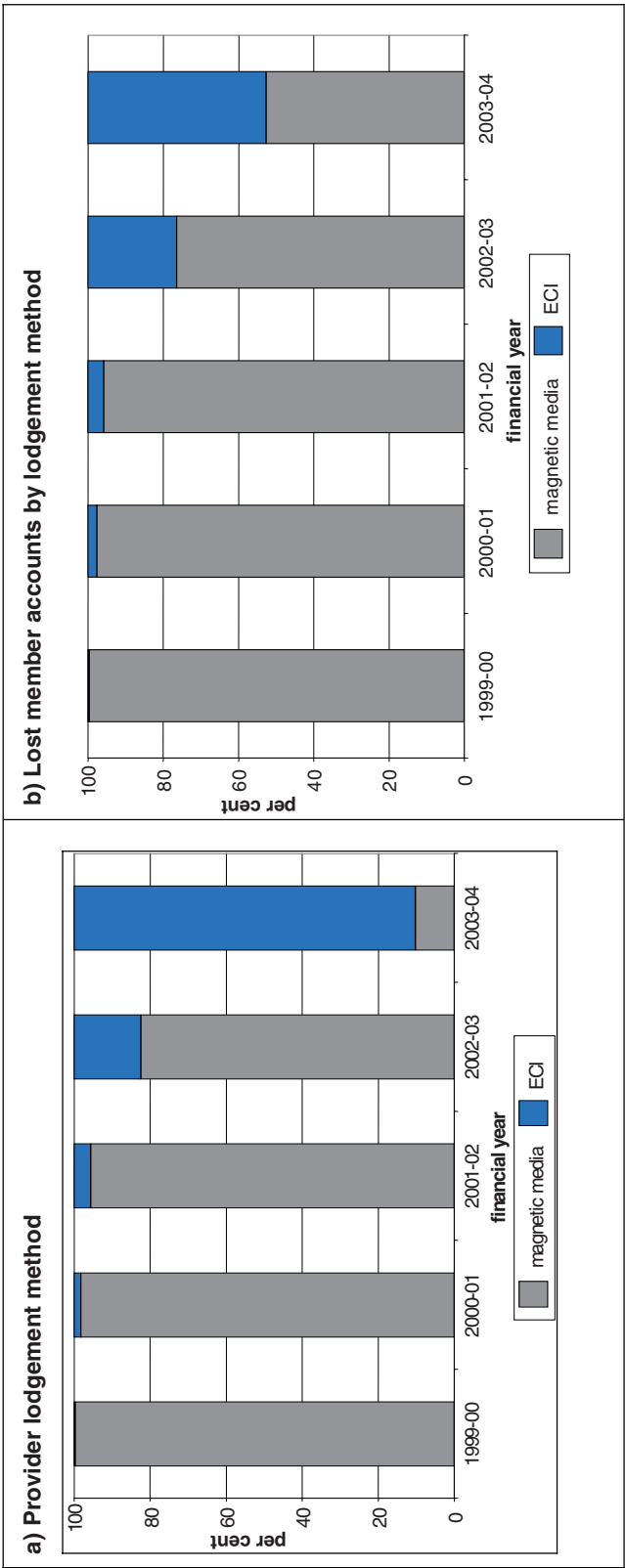
**3.6** As part of the audit, the ANAO analysed the lodgement method used by providers when reporting lost member accounts to the ATO during the past five years. This included the proportion of total lost member accounts reported using each lodgement method.

<sup>49</sup> Magnetic media refers to a range of different mediums, including DAT tapes, cartridges, floppy disks and CD-ROMs.

<sup>50</sup> Electronic Commerce Interface (ECI) provides for the secure exchange of digitally signed and encrypted files and messages between the ATO and its clients.

**Figure 3.2**

**Analysis of LMR lodgements 1999–00 to 2003–04**



Source: ANAO analysis of ATO data.

3.7 Figure 3.2 shows that, in recent times there has been a significant take-up of the ECI lodgement method (with 90 per cent of all providers lodging via ECI in 2003–04).<sup>51</sup> However, more than 50 per cent of lost member accounts continue to be received via magnetic media, suggesting that a number of larger providers continue to lodge this way.

#### *Lost member reporting specifications*

3.8 The ATO have developed and promulgated detailed reporting specifications, instructing providers how to lodge data on their lost member accounts.<sup>52</sup> A provider must lodge details about lost members that are within their knowledge and specified in the approved form. The ANAO reviewed the current LMR reporting specifications and found that:

- a limited number of mandatory fields exist for the lost member data record. These include the:
  - member's account number;
  - member's status (i.e whether they are newly lost, found, transferred during the reporting period, or were originally reported in error and should now be deleted from the LMR); and
  - member's money status (i.e is the member's money still held by the provider, has it been transferred to a relevant state or territory revenue office as unclaimed, or has it been transferred to another provider);
- some fields that are not mandatory for LMR reporting, are mandatory for other superannuation data reported to the ATO.<sup>53</sup> These include a member's first name, family name and the date that an account was opened; and

<sup>51</sup> The ANAO support ATO efforts to improve the take-up of the ECI lodgement method. Compared to magnetic media, ECI offers the ATO improved controls over the quality of data that it accepts from providers. Refer to paragraph 3.10 of ANAO Report No.39 2004–05 *The ATO's Administration of the Superannuation Contributions Surcharge*, for more detail on the benefits of lodging via ECI.

<sup>52</sup> A copy of the current specifications is available from <http://www.ato.gov.au/content/downloads/LMR4.pdf>

<sup>53</sup> Refer to the Member Contributions Statement (MCS) reporting specifications for the Surcharge and the Superannuation Co-Contribution - available from <http://www.ato.gov.au/content/downloads/MCSv7.pdf>

- some of the mandatory fields for other superannuation data reported to the ATO may prove useful for the ATO's administration of the LMR.<sup>54</sup>

**3.9** As is the case for other superannuation data reported to the ATO, the quotation of a member's TFN is optional.<sup>55</sup> The impact of this is outlined below.

## **Identity matching of lost member data**

**3.10** Lost member data is treated differently to other external data received by the ATO, in that it undergoes identity matching once it has already been stored on its primary system (the LMR).<sup>56</sup> Identity matching is an important feature of the ATO's administration of the LMR. It allows the ATO to verify the member's reported TFN, or to derive a TFN where one has not been quoted.<sup>57</sup>

**3.11** The ANAO found the level of TFN quotation for lost member accounts reported to the ATO is low. The ANAO requested information from the ATO relating to TFN quotation levels for lost member accounts reported during 2003–04 and 2004–05. The ATO advised that, on average, 37 per cent of the lost member accounts had a TFN originally quoted for the member.

**3.12** As at 30 June 2005, approximately 4.4 million (or 81 per cent) of the accounts stored on the LMR had either had the member's quoted TFN verified or one had been derived for the member by the ATO's corporate identity matching engines. The remaining 1 million accounts (or 19 per cent) were unmatched and effectively redundant for enquiry purposes.<sup>58</sup>

**3.13** The ANAO also found that the ATO only started to identity match lost member accounts in June 2001. As shown in Figure 3.1, this occurs via the provision of lost member data to Compliance Systems. As part of the audit, the ANAO analysed the number of lost member accounts received by Compliance

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<sup>54</sup> Ibid. The MCS specifications include mandatory fields relating to whether or not a provider has received returned correspondence for a member, or if the member became deceased during the reporting period. Opportunities for the ATO to improve its internal matching of LMR data are detailed further from paragraph 4.35 of chapter 4.

<sup>55</sup> As noted above, however, a provider must lodge details that are within their knowledge.

<sup>56</sup> Nearly all other external data reported to the ATO is immediately sent for identity matching by the Compliance Systems area of the Personal Tax Business Line. Further information on the scale and magnitude of external data processed by the ATO's identity matching engines can be found on pages 57–58 of ANAO Report No.48 2003–04 *The ATO's Management and Use of Annual Investment Income Reports*.

<sup>57</sup> The TFN is also a fundamental requirement for a member to be able to search the LMR via the ATO's SuperSeeker (refer to paragraph 5.29 for further detail).

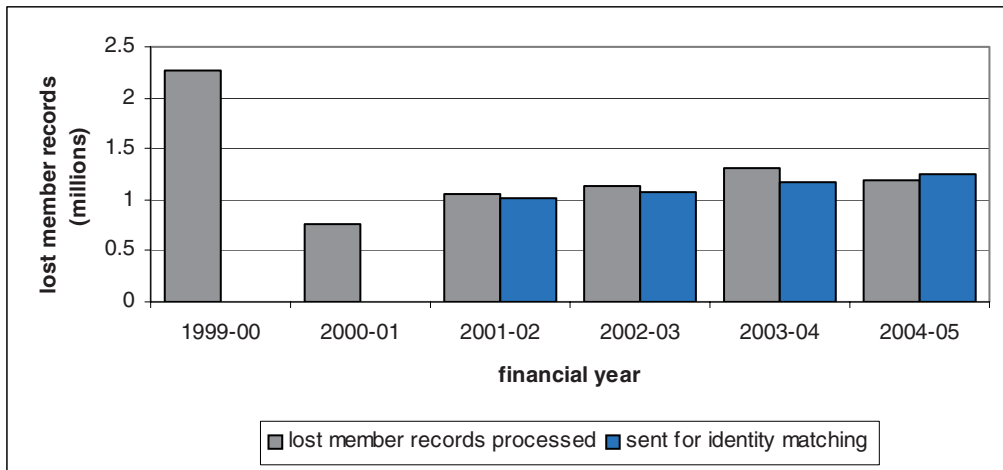
<sup>58</sup> As noted in footnote 57 above, a member needs to input their TFN in order to use SuperSeeker.



Systems<sup>59</sup>, compared to the total number of lost member accounts processed since the inception of ATO specific LMR legislation. This is illustrated in Figure 3.3.

**Figure 3.3**

**Lost member accounts received by Compliance Systems for identity matching compared to total records processed 1999–00 to 2004–05**



Source: ANAO analysis of ATO data

**3.14** As shown above, since 2001–02, approximately 4.5 million lost member accounts have been received by Compliance Systems for identity matching. However, since 1999–00, approximately 7.7 million lost member accounts have been processed by the ATO. The ANAO notes that a proportion of all accounts processed may have since been deleted, or reported to the ATO as found/transferred. Notwithstanding this, it is likely that a large number of accounts have never been sent for identity matching.

**3.15** To ensure that all lost member accounts reported to the ATO have been identity matched the ANAO requested that staff from the ICT line verify that the record of lost member accounts maintained by Compliance Systems reconciles with their own internal records. The ATO advised that this was not possible, as documentary evidence of the number of member accounts sent to Compliance Systems is only retained for three months following data load.

**3.16** As noted in paragraph 3.10, the current approach for lost member identity matching does not align with that taken for other external data sources

<sup>59</sup> Compliance Systems maintain a spreadsheet recording all lost member accounts sent to it for identity matching.

captured by the ATO. As well as improving control over the completeness of the process, identity matching all lost member accounts prior to their inclusion in the LMR would align with the ATO's standard approach for other areas of tax administration.

## Recommendation No.2

**3.17** The ANAO recommends that, to improve the efficiency and effectiveness of the lost member data capture and identity-matching process, the ATO identity-match all lost member accounts prior to their inclusion on the Lost Members Register.

### *ATO response*

**3.18** Agreed. The ATO agrees that the recommended approach to identity match accounts prior to loading them onto the LMR would be more efficient. However, this would involve system redevelopment work and will not be implemented (refer to Appendix 1).

**3.19** To improve the quality of the LMR data the ATO has commenced identity matching of all records already on the LMR against other ATO data and will ensure this process continues as further records are added.

## LMR system control framework

**3.20** A robust system control framework provides assurance that a system is operating as intended and there are no unexpected impacts on a system's performance as a result of changes made to the system. As part of the audit, the ANAO examined the LMR system control framework, focussing on:

- system documentation; and
- change management and system testing.

### LMR system documentation

**3.21** The ANAO's examination of LMR system documentation centred on the IT technical documentation for the LMR. It is essential that this:

'... includes an up to date description of all aspects of the system, including hardware, software and data. It is essential that it is constantly updated during the system life cycle'.<sup>60</sup>

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<sup>60</sup> Australian Standard 3876–1991, *Information Processing-Guidelines for the documentation of computer-based application systems*, p.5.

**3.22** If this documentation is not created and kept up to date, the ATO cannot be certain that the LMR is operating as intended, and applying business rules in accordance with relevant legislation and ATO policy. As the LMR is a stable system, the most important IT technical documentation will be the baseline specifications<sup>61</sup>, which should provide an up-to-date description, and the history, of all aspects of the LMR system.

**3.23** The ANAO requested a complete set of baseline specifications for the LMR system. The ATO advised that when the LMR was first developed in 1996–97, it did not develop baseline specifications, and it has not developed them since that time. Without this documentation, the ATO is not able to be confident that it understands how the LMR system is operating.

**3.24** The ANAO found there was some lower level functional documentation, covering discrete parts of the LMR system that was kept up to date. ICT staff interviewed during the audit also confirmed they were only familiar with the area of the LMR they directly worked on, and there was no overarching documentation that explained how the LMR system works.

**3.25** The ATO should develop, from source computer code, a complete set of baseline specifications to document the overall LMR system, and to assess whether business rules are operating as intended and in accordance with LMR legislation.

## Recommendation No.3

**3.26** The ANAO recommends that, to provide adequate assurance that the LMR is operating as intended and in accordance with the LMR legislation, the ATO:

- compile a complete set of baseline specifications to document the LMR system; and
- introduce a robust system of controls to maintain the currency and completeness of the LMR baseline specifications.

### *ATO response*

**3.27** Agreed with qualification. Robust controls have been implemented to ensure that any changes to the LMR are documented and current specifications are updated.

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<sup>61</sup> For systems that undergo a number of changes, it is also preferable that an organisation maintains a set of change specifications, which separately identify all system changes. However, as noted in paragraph 3.30 below, there are relatively few system changes undertaken for the LMR.

**3.28** The ATO acknowledges that specification documentation supporting this application is deficient. However, it would not be cost effective to go back and develop baseline specifications.

### **LMR system change management and testing**

**3.29** An important feature of a robust system control framework is the application of effective practices that provide for the identification, prioritisation, assessment and authorisation of changes. A system-testing environment that provides assurance that changes operate as intended, and do not have any unexpected impacts on the overall operation of a system, should complement this.

**3.30** The ANAO reviewed the ATO's approach to managing changes to the LMR system. There were a limited number of changes made, and these tended to cover minor issues such as updating previously lodged provider contact details.<sup>62</sup> All changes examined during the audit were properly authorised.

**3.31** Given the small number of changes made to the LMR, the LMR system is typically tested only where it has been included in a scheduled maintenance release. Where this has occurred, the ANAO found that the methodology used to test changes to the LMR system was sound.

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<sup>62</sup> While these changes are relatively minor from a system change management perspective, the fact that they need to be actioned by systems staff is a result of limitations with the LMR system that prevents 'business' staff from being able to perform such updates to the LMR themselves. This has wider implications on the effectiveness of LMR compliance activities, and is discussed in further detail from paragraph 4.8 of chapter 4.

## 4. LMR Compliance

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*This chapter examines the ATO's approach to managing LMR compliance. It focuses on two key areas — lodgement compliance and data quality. It also considers how the better use of data matching may improve LMR compliance.*

### Introduction

**4.1** The LMR legislation establishes clear responsibilities for providers regarding the provision of lost member data to the ATO.<sup>63</sup> The effective administration of the LMR relies on the ATO gaining sufficient assurance that providers are complying with their LMR obligations.

**4.2** Recent changes to LMR governance (as outlined in chapter 2) mean that the Superannuation Business Line (SBL) will focus on LMR compliance as part of its broader compliance responsibilities across the superannuation product set. The SBL's approach to compliance will influence how this impacts the LMR.

### Superannuation business line's approach to compliance

**4.3** The ATO's general approach to compliance aims to address compliance risks by finding the right balance between active compliance (e.g. audits, risk reviews and prosecutions) and compliance assistance (e.g. help and education) activities.<sup>64</sup> In the past, the SBL has relied heavily on compliance assistance activities to address compliance risks.

**4.4** As noted in chapter 2, during July 2004, the Commissioner signalled his intention to rebalance the SBL's approach by strengthening its active compliance capability.

**4.5** The ANAO's examination of LMR compliance focussed on the ATO's approach to managing:

- lodgement compliance by providers;
- lost member data quality; and
- opportunities for lost member data matching.

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<sup>63</sup> Refer to paragraph 1.11 of chapter 1.

<sup>64</sup> More information on the ATO's overall approach to compliance can be found in the *ATO Compliance Program 2005–06*, available from <http://www.ato.gov.au/corporate/content.asp?doc=/content/47980.htm>

## Lodgement compliance by providers

**4.6** In May 2005, the SBL recognised the complete and timely lodgement of superannuation data reports (including lost member data reports) as the highest priority risk in its superannuation product risk register. The SBL's approach to managing lodgement compliance by providers should offer sufficient assurance that all providers with a responsibility to lodge reports do so in a timely manner.

**4.7** All regulated superannuation funds (except for Self Managed Super Funds[SMSFs]<sup>65</sup>), approved deposit funds (ADFs), eligible rollover funds (ERFs)<sup>66</sup> and retirement savings account (RSA) providers are required to report details of lost members to the ATO. In assessing the SBL's approach to managing lodgement compliance by providers, the ANAO examined how it manages:

- the completeness of lost member data lodgements; and
- the timely lodgement of lost member data.

### Completeness of lost member data lodgements

**4.8** To offer members the best opportunity of being reunited with their lost superannuation, it is important the LMR includes up to date details from all relevant providers. Providers must advise the ATO every six months of all new lost, found and transferred members.<sup>67</sup> The ATO relies on providers to apply the lost member criteria established by the LMR legislation, including the application of relevant opt-out and exclusion categories.<sup>68</sup> If a provider does not have any lost member data to lodge during a reporting period, it may lodge a non-lodgement advice (NLA) with the ATO.

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<sup>65</sup> The ANAO notes, however, that despite being permanently excluded from the LMR reporting requirements, SMSFs may report lost members where the trustees of the fund decide that a member cannot be permanently excluded or continue being permanently excluded from being lost.

<sup>66</sup> Eligible rollover funds (ERFs) have a prominent role in relation to lost superannuation. ERFs are required to treat all members as protected (as defined by the SIS Act). This basically means that administration costs incurred by the member cannot exceed the investment earnings of their benefit for any given reporting period. In addition, the balance of a member's benefit cannot be reduced below \$1 000. Providers that do not wish to comply with member protections standards can transfer the benefit entitlements of affected members (generally lost members) to an ERF.

<sup>67</sup> As noted in paragraph 1.17 of chapter 1, where a provider fails to lodge lost member data, the ATO can apply a penalty of up to \$11 000. The ANAO note that since the introduction of the LMR the ATO have not applied any penalties for the non-lodgement of lost member data.

<sup>68</sup> See paragraph 1.12 to 1.13 of chapter 1.

**4.9** Following the introduction of LMR specific legislation in 1999, the SBL completed a detailed LMR compliance project (finalised in July 2000) to highlight strategies that could be implemented to improve the quality and quantity of information stored on the LMR. An immediate step was to require all known providers to re-report all lost members as at 31 December 1999 as a one-off measure.

**4.10** Key findings and recommendations arising from the LMR compliance project, of direct relevance to improving the SBL's understanding of the completeness of lost member data lodgements, included the following.

- A large number of providers transfer lost members to ERFs. An attempt was made to understand how many providers use ERFs, but it was recommended that the SBL establish a comprehensive understanding of the providers that use each ERF.
- The NLA form was created for providers with no lost members to report. However, the NLA was viewed as non-mandatory (i.e. the ATO cannot enforce lodgement of a NLA), as there is no specific requirement for NLAs in the LMR legislation.
- Providers were encouraged to lodge NLAs. It was recognised that by obtaining information on non-lodgers and ERF usage, the ATO would be able to compile a list of providers more than likely to have an LMR reporting obligation, which would assist with compliance work, and encourage funds to be more regular with their LMR reporting.
- There was a need for specific education campaigns to better promote the fact that the LMR reporting requirements apply to a number of different providers outside of the larger superannuation funds and ERFs. This includes RSA providers, small APRA funds, and in instances where the trustee had deemed a member to be lost, SMSFs.
- There was a need to improve the capacity of the LMR system to record relevant data to assist with LMR compliance work, including information obtained from NLAs and where a provider had wound-up since it first reported lost member data.

**4.11** Despite identifying many useful opportunities to improve the completeness of lost member data lodgements, the SBL did not follow through with the development of strategies to address any of these areas until early 2003 (more than two years following the completion of the project).

**4.12** In early 2003, the Superannuation Product Providers (SPP) team within the Key Client Group<sup>69</sup> of the SBL initiated a lost member reporting project to improve the lodgement rate and quality of lost member data provided by key clients. The project targeted the top 300 providers (based on membership data lodged with the 2002 Income Tax Return) to review compliance with lost member reporting requirements. ERFs were also targeted in a 'reminder to lodge' capacity (as the majority were considered to be compliant).

**4.13** The lost member reporting project was successful in improving lodgement completeness within the target group by:

- improving the number of key client providers actually lodging lost member data or NLAs as appropriate. More than 160 providers (or 50 per cent) had previously not lodged or lapsed lodging. The project enabled the ATO to rectify this situation with 123 (or 75 per cent) of these providers;
- ensuring the ongoing lodgement of lost member data by all ERFs. A total of 16 ERFs were identified as likely to have an ongoing lodgement obligation; and
- establishing more comprehensive LMR communications with key client providers via the use of email reminders and the SuperUpdate publication.

**4.14** The ANAO found that the SPP team continue to apply similar strategies to those described above in order to preserve the completeness of lodgements by key client providers.

**4.15** However, there are a number of providers who are not ERFs or fall outside of the key client group (see paragraph 4.7) who do not receive the same ongoing service and assistance. Since the introduction of the LMR, the SBL has not concentrated on obtaining any assurance that providers outside the key client group are complying with their LMR lodgement obligations. The ANAO considers that by addressing some of the key issues, first identified in July 2000, the SBL will be able to better establish a population of providers likely to have a lost member data lodgement obligation. This includes:

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<sup>69</sup> The Key Client Group was established in 2002 to assist larger superannuation providers comply with their superannuation obligations. Further information on the key client group can be found from page 133 of ANAO report no. 39 2004–05 *The ATO's Administration of the Superannuation Contributions Surcharge*.



- improving the functionality of the LMR system to support compliance activities. Shortcomings in this area have led to the creation of a 'shadow LMR system' maintained on spreadsheet, which records relevant information not able to be captured on the system proper. The LMR spreadsheet requires ongoing maintenance and has to be manually updated each reporting period;
- obtaining a reliable and up-to date understanding of provider usage of ERFs. While the SPP team has focussed on ensuring that ERFs lodge lost member data, the ATO needs to better understand how many providers transfer their lost members to an ERF; and
- making the lodgement of a NLA form mandatory. While there is no specific requirement for NLAs in the LMR legislation, the Commissioner may seek any information from providers that he reasonably believes will assist him in administering the LMR.<sup>70</sup>

**4.16** As mentioned in paragraph 4.6, the complete lodgement of superannuation data (including lost member data) is the most severe risk facing the SBL. As part of the recent changes to the SBL's approach to compliance, a team from the newly formed Lodgement Compliance business line was established to develop a sustainable lodgement program for all superannuation products.

**4.17** The team's final report, endorsed by the superannuation Executive in June 2005, recommended that the current arrangements for key client providers continue, with the possibility of a small number of audits on providers to test compliance with LMR obligations, as part of broader reviews including the Surcharge and RBL.<sup>71</sup>

**4.18** The ANAO considers that the SBL needs to apply additional effort towards improving the completeness of lost member data lodgements.<sup>72</sup> In addition to the steps outlined in paragraph 4.15 above, the ANAO notes that the ATO recently indicated it is working closely with the APRA to identify

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<sup>70</sup> See Section 23 (1) (e) of the Act.

<sup>71</sup> It is important that any audit work undertaken to test compliance with LMR obligations include in its scope steps to ensure that providers are properly applying any opt-out or exclusion categories to their members. See paragraph 4.8 above.

<sup>72</sup> The ANAO notes for example, that the work undertaken by the SPP team for key client providers consumes approximately 2.5 full-time equivalent staff. By comparison, as noted in paragraph 2.26 of chapter 2, the ATO plan to allocate more than \$10 million over three years towards the Letters Project (which is discussed further in chapter 5).

opportunities to share information and analyses to improve compliance.<sup>73</sup> The Lodgement Compliance business line is currently reviewing the level of business systems support available for superannuation lodgement enforcement. Both of these developments provide the SBL with an opportunity to improve its understanding of the completeness of lost member data lodgements.

## **Recommendation No.4**

**4.19** The ANAO recommends that to properly manage the completeness of lost member data lodgements, the ATO improve the functionality of the LMR system to record relevant compliance information not presently captured. Importantly, this should enable it to:

- obtain a comprehensive understanding of the number of providers that transfer their lost members to eligible rollover funds; and
- maintain an up to date listing of non lodgement advices (NLAs). In this regard, the ANAO considers the ATO should give consideration to making NLAs mandatory (as permitted by s.23 (1)(e) of the LMR legislation).

### *ATO response*

**4.20** Agreed. The ATO acknowledges that the capture of compliance information directly on the LMR would assist in improving its functionality. However, this would involve system redevelopment work and will not be implemented (refer to Appendix 1).

**4.21** The ATO will achieve a similar compliance outcome by continuing to improve its lodgement compliance activity and using systems such as the Data Warehouse to capture relevant compliance information.

**4.22** While preliminary analysis indicates that the cost to both the ATO and industry (particularly small APRA funds) outweighs any benefit of making NLAs mandatory, we will develop a formal position through the Superannuation Risk Committee.

## **The timely lodgement of lost member data reports**

**4.23** The timely lodgement of lost member data is important to ensure the LMR remains up to date. As noted in chapter 1, the LMR legislation requires providers to lodge lost member data within four months following the

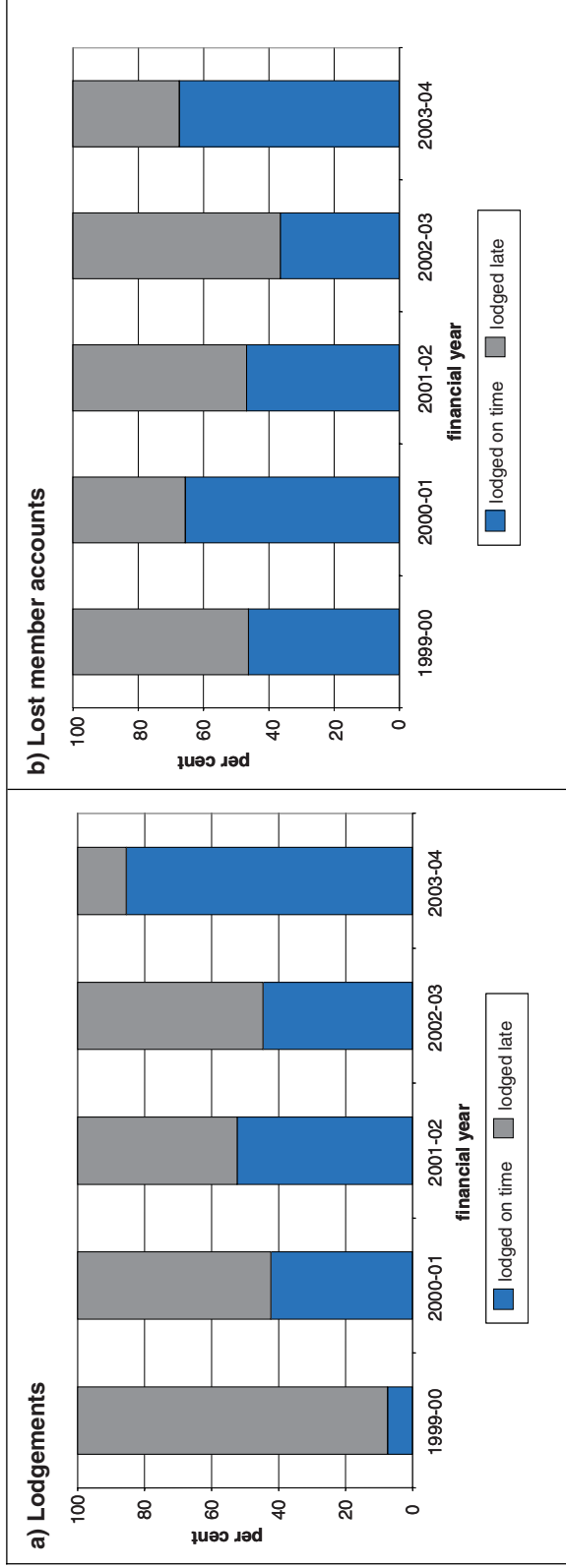
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<sup>73</sup> See paragraph 5.22 of ANAO report No. 39, 2004–05. *Op. Cit.*

six-month period to which it relates (unless the ATO have received a written request for an extension to lodge prior to this date). During the audit, the ANAO analysed data on lost member data lodgements to see how known providers were complying with this requirement.

**Figure 4.1**

**Timeliness of lost member data lodgements 1999–00 to 2003–04**



Source: ANAO analysis of ATO data.

**4.24** Figure 4.1 shows that, since 1999, there has been a marked improvement in the timeliness of lodgements, including the number of lost member accounts attached to each lodgement. The above analysis does not, however, account for the impact of lodgement extensions granted to providers.

**4.25** During the audit, the ANAO found that the LMR spreadsheet is currently used to record details of lodgement extensions. Any redevelopment of the LMR system, in line with our recommendation at paragraph 4.19, should also enable information on lodgement extensions to be recorded directly on the LMR system.

## Lost member data quality

**4.26** The quality of data lodged with key superannuation data reports (including lost member data reports) was recognised by the SBL in May 2005 as the second highest priority risk (behind lodgement compliance) in its superannuation product risk register. The quality of lost member data is imperative in fulfilling the objectives of the LMR — to re-unite members with their lost superannuation. It is also a major risk, as the opportunities to access the LMR have expanded, so has the focus on the accuracy of the data.<sup>74</sup>

**4.27** Largely due to the work undertaken by the SPP team, a number of concerns have emerged with the quality of data stored on the LMR. These include:

- a number of funds are not reporting found or transferred members, resulting in members remaining on the LMR when they are found or with another provider. This results in the duplication of member data;
- as at 30 June 2005, almost 540 000 of the lost member accounts (10 per cent) on the LMR had a nil balance<sup>75</sup>; and
- a number of providers lodge data with inaccurate name, TFN or contact details (particularly where the provider is part of a larger group of companies or a master trust).

**4.28** In recent years, members of the SPP team have worked with many larger providers to cleanse previously reported data. This is reflected in the

<sup>74</sup> Accessing the LMR is examined in detail in chapter 5.

<sup>75</sup> However, as noted in footnote 25 of chapter 1, the actual balance of a lost member's account is not a mandatory field for LMR reporting. A nil balance does not necessarily mean that the actual value of the account is zero.

fact that more than 330 000 lost member accounts have been deleted from the LMR in the past two financial years.

**4.29** Many of the data queries performed for the ANAO as part of the audit also provide an insight into the quality of the data stored on the LMR. For instance:

- over 314 000 lost member accounts do not have a date of birth reported for the member; and
- there is currently \$1 million worth of lost member accounts stored on the LMR that have a negative balance.

**4.30** The SBL had planned to partially address data quality concerns with the LMR as part of a small number of data-quality benchmarking activities with some of the larger providers during the 2004–05 financial year. However, these activities were put on hold as a result of the recent changes to the administration of superannuation within the ATO (see chapter 2). During the audit, the ATO advised that, in any case, a significant number of larger providers have confirmed that there are problems with the quality of data previously reported to the ATO.

**4.31** It is essential that the SBL work in conjunction with the registration area of the Operations business line to improve the quality of lost member data. In this respect, the ATO advised that as part of the gap assessment undertaken during the LMR transition (see paragraph 2.11) a risk assessment was undertaken in relation to the quality of data stored on the LMR. This has also confirmed that the quality of data stored on the LMR is a severe risk. The ATO was in the process of developing proposed mitigation strategies, at the time of the audit, for review and approval by the SAC.

**4.32** More generally, in an effort to improve the quality of data received across the superannuation product set, the SBL has indicated its intention to promote the implementation of cooperative compliance agreements with providers to ensure correct and complete reporting.<sup>76</sup> In addition, the SBL plans to develop a better practice guide to assist providers in meeting their reporting obligations.<sup>77</sup>

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<sup>76</sup> The Cooperative Compliance Model (CCM) is an adaptation of the ATO's Compliance Model, and promotes the use of tailored responses to different taxpayers based on their compliance risk profile and compliance history. For further information about the CCM, refer to *Cooperative Compliance—Working With Large Business in the New Tax System*, available from the ATO's website, <<http://www.ato.gov.au>>

<sup>77</sup> The ATO advised that this is likely to be similar to the joint ANAO/ATO BPG on GST administration released in May 2003.

**4.33** The ANAO supports both of these initiatives, as providers have a vested interest in providing high quality data to the ATO, for, as noted in paragraph 2.16 of chapter 2, they indirectly contribute towards funding the operation of the LMR through the payment of financial sector levies.

**4.34** The ANAO also considers that the SBL may improve the quality of data stored on the LMR by taking advantage of opportunities for lost member data matching.

## Opportunities for lost member data matching

**4.35** The use of data matching to enhance compliance outcomes has grown in prominence within the ATO during recent years. The ATO established a Data Matching Steering Committee in 2003–04 to coordinate all ATO data matching activities and ensure these reflect a holistic ATO approach.<sup>78</sup> During the audit, the ANAO considered how data matching might be used to improve the quality of data stored on the LMR and to encourage better compliance by providers. The ANAO focussed on the following two areas:

- matching lost member data with other ATO superannuation data; and
- matching lost member data to improve the reporting of unclaimed superannuation.

### Matching lost member data with other ATO superannuation data

**4.36** Apart from lost member data, the ATO also receives a range of superannuation data from providers, including information on a member's ongoing superannuation contributions and final benefit payments. As noted in paragraph 3.8 of chapter 3, compared to other superannuation data, there are limited mandatory data fields included in the current LMR reporting specifications. In some instances, mandatory data supplied with other superannuation data may prove useful to the ATO's administration of the LMR.

**4.37** Missing lost member data fields are an impediment to improving the overall quality of data stored on the LMR. The ANAO considers there would be benefit in establishing a robust internal data-matching program within the SBL, which aims to improve the quality of data stored on the LMR, by

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<sup>78</sup> Further information on the role of the Data Matching Steering Committee can be found from page 34 of ANAO report No. 47 2004–05, *Australian Taxation Office Tax File Number Integrity*.

comparing lost member data with that reported as part of other superannuation data sets received by the ATO.

## Recommendation No.5

**4.38** The ANAO recommends that, to improve the quality of data stored on the Lost Members Register, the ATO implement a systematic approach to matching lost member data with other superannuation data sets received from superannuation providers.

### *ATO response*

**4.39** Agreed. An on-going program of data matching is currently under way against the entire LMR data set, with the initial focus on those accounts that don't have a derived Tax File Number.

**4.40** The ATO agrees that there is scope to expand the data matching routines that support the LMR. While matching the LMR data with other superannuation data sets would provide some additional information, our immediate priority is to focus on finding who accounts belong to. It is more effective to match against other ATO identity data than against data provided by superannuation providers.

## Data matching to improve unclaimed superannuation reporting

**4.41** As noted in chapter 1, where a lost member reaches 65 years of age, or has died, their superannuation monies become payable. These are deemed to be unclaimed superannuation. A provider that holds unclaimed superannuation must transfer the entire amount to the state or territory revenue office in which its headquarters is located. The LMR contains information on both lost and unclaimed superannuation, reported to the ATO by providers.

**4.42** The LMR legislation enables the Commissioner to share information stored on the LMR with state and territory holders of unclaimed superannuation monies.<sup>79</sup> The ANAO noted one instance where the ATO had provided an office of state revenue with lost member information. As at 30 June 2005, there were significant discrepancies between the information providers had reported to the ATO as 'transferred unclaimed' and the proportion of lost member accounts that, based on the member's date of birth,

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<sup>79</sup> Refer to S.20 and S.24 of *the Act*.



prima facie meet the definition of unclaimed superannuation. This is illustrated in the following table.

**Table 4.1**

**Unclaimed superannuation reported to the ATO compared to potentially unclaimed superannuation as at 30 June 2005**

Location	Reported to the ATO as 'transferred unclaimed' superannuation accounts		Potentially unclaimed superannuation accounts based on the lost member's age reported to the ATO	
	No. of Accounts	\$ (Million)	No. of Accounts	\$ (Million)
ACT	28	0.06	434	1.80
NSW	616	0.97	11 390	66.60
NT	30	0.02	435	0.80
QLD	260	1.60	10 295	31.20
SA	107	0.13	4 023	10.00
TAS	21	0.04	548	3.40
VIC	498	0.80	7 184	43.70
WA	99	0.18	2 857	12.30
Overseas	10	0.45	476	3.70
Unknown	332	0.79	35 365	41.20
<b>Total</b>	<b>2 001</b>	<b>5.08</b>	<b>73 007</b>	<b>214.70</b>

Source: ANAO analysis of ATO data

**4.43** Table 4.1 shows that, based on data stored on the LMR, as at 30 June 2005, less than 3 per cent of more than 73 000 potentially unclaimed superannuation accounts had actually been reported to the ATO as 'transferred unclaimed'. The reported accounts represent only 2 per cent of more than \$214 million in potentially unclaimed superannuation. The SBL recognised LMR unclaimed superannuation discrepancies as a risk in its 2004–05 LMR compliance delivery plan, however, at the time of audit fieldwork, little had been done to better understand the reasons behind these differences.

**4.44** The ANAO considers there is scope for the ATO to improve its understanding of the above discrepancies through regularly sharing information with state or territory revenue offices. This would also enable state or territory revenue offices to better treat possible compliance risks where a provider may have failed to transfer unclaimed superannuation to it in a timely manner. In addition, the ATO would benefit by being able to identify providers that have not correctly notified it when a transfer has occurred.

## **Recommendation No.6**

**4.45** The ANAO recommends that, to improve the reporting of unclaimed superannuation monies by providers, and the quality of data stored on the Lost Members Register, the ATO establish comprehensive data sharing arrangements with all state and territory holders of unclaimed superannuation. This will also allow holders to properly address potential compliance risks relating to the transfer of unclaimed superannuation.

### *ATO response*

**4.46** Agreed. The ATO acknowledges that the legislation provides for the sharing of data on the LMR with the state and territory holders of unclaimed monies. This has been done in the past on request from a specific state.

**4.47** The ATO will explore the feasibility of providing each state and territory on an annual basis a dataset containing a list of accounts which we believe meet the criteria to be unclaimed. This will allow the states and territories to pursue any compliance obligations of funds should they chose to.

## 5. Accessing the LMR

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*This chapter examines the ATO's approach to making the LMR accessible to members and providers. It considers how the ATO promotes awareness of the LMR and the use of the SuperMatch and SuperSeeker access tools.*

### Introduction

**5.1** As noted in paragraph 1.10 of chapter 1, the primary aim of the LMR is to reunite people (members) with their lost superannuation. As such, how the ATO enables and promotes access to the LMR is an essential feature of its administration of the register.

**5.2** Apart from the quality of data stored on the LMR (see chapter 4), effective LMR access relies on both members and their providers being aware the LMR exists, and on the ATO offering appropriate tools to search for any lost superannuation.

**5.3** In assessing how the ATO enables access to the LMR, the ANAO examined:

- how the ATO promotes awareness of the LMR;
- the use of SuperMatch by providers; and
- the use of SuperSeeker by members.

### Promoting awareness of the LMR

**5.4** For the LMR to succeed in reuniting members with their lost superannuation, it is important that the ATO implement appropriate strategies to improve awareness of the tools available to search for lost superannuation. The case for improved awareness has increased given the environment created by the introduction of Superannuation Choice on 1 July 2005.<sup>80</sup>

**5.5** During the audit, the ANAO examined the two major strategies adopted by the ATO to improve member awareness of the LMR since it was introduced. These included the:

- Lost Members Week; and

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<sup>80</sup> See paragraph 1.25 of chapter 1 for more information.

- Letters Project.

## **Lost Members Week**

**5.6** In October 2002, the ATO partnered with industry groups<sup>81</sup> to run 'Lost Members Week' (LMW), which aimed to promote LMR awareness to members and encourage them to 'trace and consolidate' their lost superannuation. The ATO set up a number of information booths in shopping centres across Australia where the general public could directly access the LMR using the ATO's mobile computing platform.

**5.7** LMW received over 69 000 enquiries, which resulted in over \$44.5 million worth of lost superannuation being found by 31 July 2003. Some stakeholders interviewed by the ANAO during the audit indicated a desire for the ATO to continue with industry partnerships such as the LMW to promote the LMR. The ANAO found, however, that following LMW the ATO opted for a different approach to promoting awareness of the LMR.

## **Letters Project**

**5.8** As noted in paragraph 2.26 of chapter 2, the 2004 Budget provided specific funding of more than \$10 million to the ATO to undertake a Letters Project. The project aims to increase awareness of the LMR and SuperSeeker amongst members and to motivate people to reclaim their lost superannuation accounts. It is planned to be a three-year project, with the ATO to send letters to three million members concerning their lost superannuation accounts stored on the LMR.

**5.9** The ATO designed its approach to the project during late 2004, and began issuing letters in February 2005. The ANAO notes that:

- the business case developed for the project considered a number of potential options before settling on the chosen approach to issuing the letters;
- the initial batches of letters are only being sent to members with multiple lost accounts;
- letters list possible matches by provider and explain how the member can address their lost status — either by updating the provider with their contact details or by transferring their benefits;

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<sup>81</sup> The main group involved was the Conference of Major Superannuation Funds. In addition, Lost Members Week had the support of a number of superannuation providers and industry organisations.

- concerns with the quality of lost member data<sup>82</sup> mean that project staff must manually check mail-out lists for accuracy;
- letters are sent to the member's residential address.<sup>83</sup> Lost member accounts without a matched TFN are excluded from the scope of the project as the ATO cannot derive a residential address from the Storage and access (STAC) database for these members;
- a detailed communications strategy was developed to support the objectives of the project<sup>84</sup>; and
- a post implementation review was conducted in June 2005, focussing on what had worked well in the project thus far and opportunities for improvement in the future.

**5.10** The ATO has identified measures of success to enable it to track its performance against key outcomes of the project. Table 5.1 below outlines the ATO's progress to date in this regard.

**Table 5.1**

**Measures of success for Letters Project**

Outcome	Measure of success	Result
Increased awareness in community of lost superannuation.	Meet annual targets for number of letters sent to individuals (eg. 500 000 letters sent by June 2005).	Sent 500 000 letters by 5 June 2005
Members that receive letters resolve their lost status.	40 per cent of members that receive letters are reunited with their superannuation and removed from the LMR. <sup>85</sup>	Too early to say. Should become apparent from October 2005, when providers report next round of lost member data.
Letters reach intended recipients.	Less than 15 per cent of letters returned unclaimed.	As at 30 June 2005, 8.6 per cent of letters sent were returned unclaimed.

Source: ANAO depiction of ATO information

<sup>82</sup> The quality of lost member data is discussed from paragraph 4.26 of chapter 4.

<sup>83</sup> These addresses are from the ATO's Storage and Access (STAC) database, which contains residential addresses, obtained by the ATO from a member's Income Tax Returns. Where a member does not have a residential address on the STAC database (i.e. their Tax agent's address is the only address sent to the ATO) they are excluded from the project.

<sup>84</sup> The strategy also aims to remind providers of their LMR obligations and the potential implications of the campaign.

<sup>85</sup> The ATO advised that the 40 per cent target is an internal estimate made prior to the commencement of the mail out. The appropriateness of this target is being evaluated against the pilot mail out conducted in 2004–05.

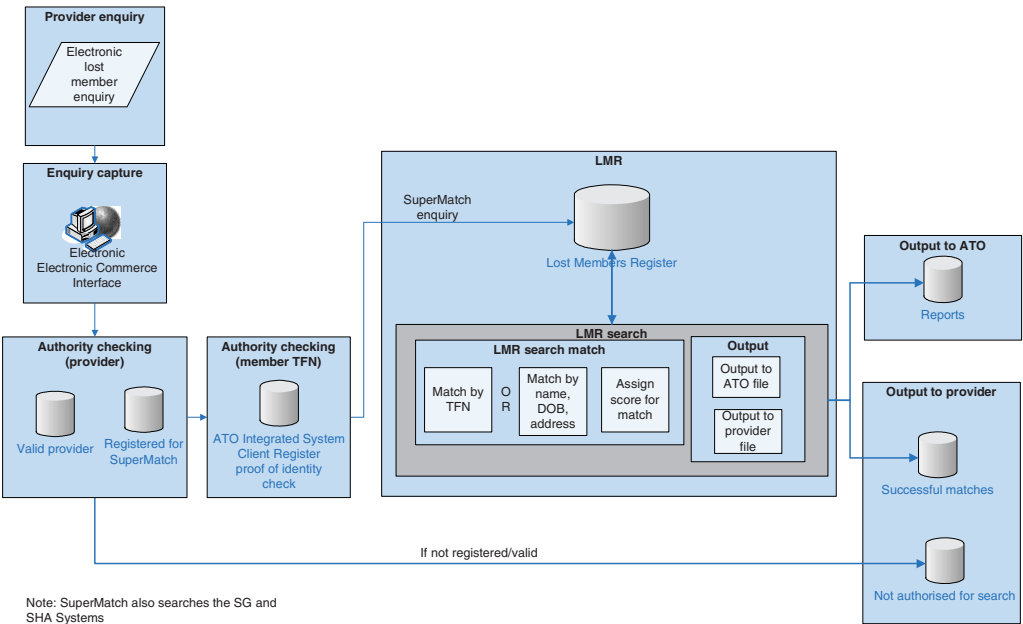
5.11 At present, it is difficult to directly tell whether 40 per cent of the members receiving letters have been reunited with their lost superannuation. However, this will become more evident after the next reporting deadline of 31 October 2005. Given the amount of funding received by the ATO for the project, it is also important that the ATO take stock at this time of how the project is delivering overall against its key outcomes.

Use of SuperMatch by providers

5.12 The ATO introduced SuperMatch in 2001 to enable providers to search for lost superannuation on behalf of their members. This is achieved by matching their members’ details against those stored on the LMR. Figure 5.1 outlines how SuperMatch accesses the LMR.

Figure 5.1

SuperMatch (provider access)



Source: ANAO analysis of ATO systems

5.13 To use SuperMatch, providers must:

- have a digital certificate (to enable data transmission via the ATO’s electronic commerce interface); and

- have ATO authorisation (by having signed a formal agreement to abide by the ATO's conditions of use).<sup>86</sup> Key aspects of these conditions include obtaining member authority to be included in a SuperMatch exercise, and agreeing to treat all information received from the ATO confidentially.

**5.14** To request a SuperMatch exercise, a provider will input a file containing a batch of member records. For authorised providers, SuperMatch will first attempt to perform a match by TFN. If no TFN has been provided for the member, SuperMatch will still attempt to find a match, based the member's name and DOB information. At the completion of a SuperMatch exercise, the ATO transmits the account number, name of provider and contact details for any matches. Providers can then seek their members' permission to consolidate any lost accounts with their existing benefit.

**5.15** The ANAO examined the use of SuperMatch since it was introduced in 2001. This included:

- how many providers use SuperMatch; and
- the proportion of SuperMatch exercises that achieve a match against the LMR.

## **Analysis of SuperMatch users**

**5.16** As noted above, the ability to undertake a SuperMatch exercise is restricted to authorised providers. The ATO maintain control over provider access via the 'SuperOnline' system. SuperOnline is also supported by an authorisation spreadsheet that lists all entities (providers and suppliers) that have attempted to use SuperMatch (including those entities that have failed to return a signed SuperMatch agreement to the ATO and are therefore unauthorised). Since 2001, approximately 570 entities have been authorised to use SuperMatch.

**5.17** The ATO also has a spreadsheet recording details of all SuperMatch exercises performed. The SuperMatch spreadsheet includes detail on:

- the number of member data records input for each SuperMatch exercise; and

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<sup>86</sup> A copy of the agreement is available at <http://www.ato.gov.au/superprofessionals/content.asp?doc=/content/27275.htm>

- the number of matches (based on either TFN or name) against the LMR, SHA or SG.

**5.18** Since the inception of SuperMatch, only 38 entities<sup>87</sup> (less than 7 per cent of all authorised users) have performed a SuperMatch exercise. Of these, only 19 entities (less than 4 per cent of all authorised users) use SuperMatch regularly.<sup>88</sup> However, more than 24 million member records have been sent to the ATO for SuperMatch exercises during this time.

**5.19** The ANAO's analysis of the SuperMatch usage spreadsheet during the audit also revealed two instances where unauthorised entities had actually been able to conduct a SuperMatch exercise since 2001. Such access represents a breakdown in the authority checking process for providers (see Figure 5.1).

**5.20** The ATO advised that as a result of the ANAO analysis, gaps within administrative policy and procedure for SuperMatch exercises were identified and have been corrected. System deficiencies that resulted in the above unauthorised access were also identified and have been addressed.

### **The effectiveness of SuperMatch exercises**

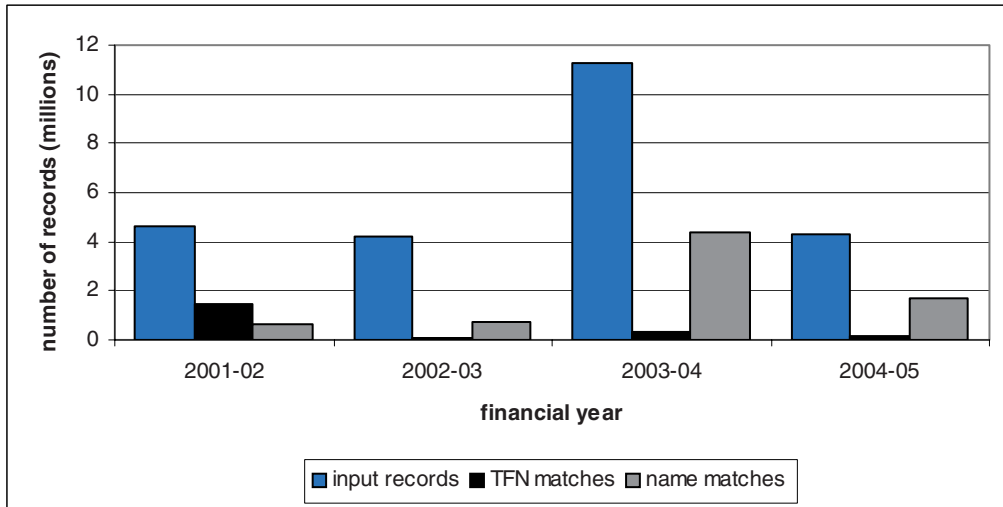
**5.21** The ANAO notes that the ATO captures sufficient data in its SuperMatch spreadsheets to enable measurement of the effectiveness of SuperMatch exercises (see paragraph 5.17 above). The ANAO analysed this data in relation to the type of matches obtained against the LMR.

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<sup>87</sup> The ANAO notes that the majority of SuperMatch users are suppliers (often acting on behalf of a number of providers).

<sup>88</sup> For the purposes of this audit, 'regularly' means 10 or more times since the inception of SuperMatch in 2001.



**Figure 5.2****Effectiveness of LMR SuperMatch exercises 2001–02 to 2004–05**

Source: ANAO analysis of ATO information

**5.22** Figure 5.2 indicates that the majority of matches against the LMR resulting from SuperMatch exercises have been based on name matching, as opposed to TFN matching. The ANAO found that, for the more than 24 million member records input for SuperMatch exercises, over seven million (30 per cent) have achieved a name based match, and over two million (9 per cent) have achieved a TFN based match.<sup>89</sup> Although, it is also clear that since 2001–02, most of the matches against the LMR resulting from SuperMatch exercises have been name based.

**5.23** The number of member records input by entities for SuperMatch exercises fell by more than 60 per cent during the 2004–05 financial year. During this time, the ATO also reported poor processing times for SuperMatch exercises.<sup>90</sup> The system previously had the capacity to accept, and match overnight, millions of records. Performance is now down to approximately 40 000 records per night, creating additional cost and inconvenience to users and the ATO.

**5.24** This erosion in performance for SuperMatch is partly a result of changes made to IT support systems, but can also be attributed to the fact that

<sup>89</sup> This is consistent with the TFN quotation levels for lost member data reported to the ATO (see paragraph 3.11 of chapter 3).

<sup>90</sup> This was also confirmed as part of the ANAO's discussions with a number of stakeholders during the audit.

most matches are name based. The ATO advised that name based matches take a significantly longer time to process than TFN based matching. As noted in paragraph 3.12 of chapter 3, more than 80 per cent of accounts on the LMR have had their TFN verified or derived from the ATO's identity matching process. Slow processing times limit the ATO's ability to promote the use of SuperMatch.

**5.25** The ANAO considers that the ATO may be able to significantly improve the processing times for SuperMatch exercises by also identity matching SuperMatch input records before they are matched against the LMR. This would enable a greater proportion of TFN based matches.<sup>91</sup>

## **Recommendation No.7**

**5.26** The ANAO recommends that to improve the timeliness of SuperMatch exercises, the ATO identity match all SuperMatch input records before matching these against details stored on the LMR.

### *ATO response*

**5.27** Agreed. The ATO agrees that this approach would achieve efficiencies. However, this would involve system redevelopment work and will not be implemented (refer to Appendix 1).

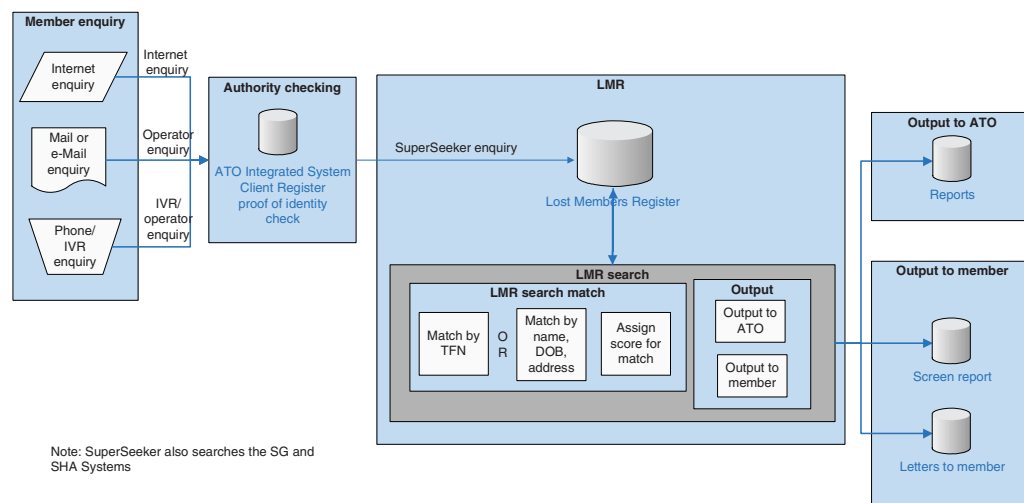
**5.28** To assist the timeliness of SuperMatch exercises, The ATO will continue to identity match all records already on the LMR against other ATO data and will ensure this process continues as further records are added.

## **Use of SuperSeeker by members**

**5.29** The ATO introduced SuperSeeker in 2003 to enable members to directly access details stored on the LMR. Figure 5.3 outlines how SuperSeeker accesses the LMR.

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<sup>91</sup> The ATO would be able to maintain the integrity of its derived TFN details, by removing these from any output files subsequently sent to an entity.

**Figure 5.3****SuperSeeker (member access)**

Source: ANAO analysis of ATO systems

**5.30** To use SuperSeeker members need to meet Proof of Identity (POI) requirements by entering their personal details (generally their TFN and date of birth) into the SuperSeeker interface. SuperSeeker then searches the LMR based on the details provided, and where these match with any lost member accounts, it provides the member with details of a ‘possible match’.<sup>92</sup> The onus is then on the member to contact the provider to be re-united<sup>93</sup> with their superannuation.

**5.31** The ATO enables members to use SuperSeeker via the internet or the telephone. The ANAO examined member usage of each option.

### *Internet SuperSeeker*

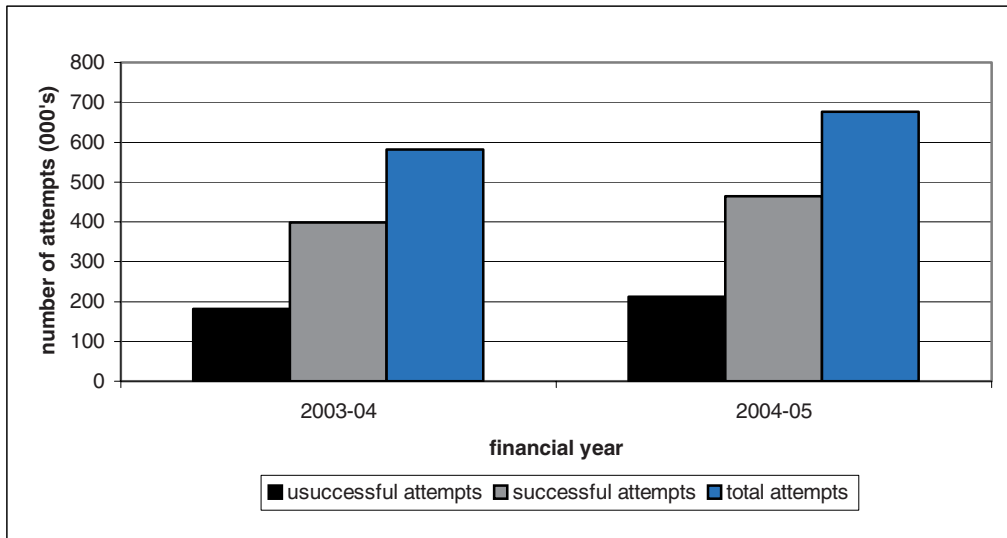
**5.32** Internet SuperSeeker was developed in 2003 and enables members to search for their lost superannuation online. Since July 2003 the ATO has measured the number of attempts made to use the internet SuperSeeker. This is shown in Figure 5.4.

<sup>92</sup> This is because the lost member account details stored on the LMR are based on what a provider has reported to the ATO. As noted in chapter 4, it is possible that the data stored on the LMR is out of date at the time of the member’s search, as the provider has failed to notify the ATO where the member has been found or their benefit has been transferred.

<sup>93</sup> The member may choose to either update their contact details with the provider or consolidate their lost superannuation with another superannuation account.

**Figure 5.4**

**Attempts to use internet SuperSeeker 2003–04 to 2004–05**



Source: ANAO analysis of ATO information

**5.33** As at 30 June 2005, of the more than 1.2 million attempts to use the internet SuperSeeker in the past two years, approximately 860 000 attempts (or 69 per cent) were successful in terms of gaining access (in that the member was able to verify their identity).

**5.34** The ANAO notes that the above analysis only indicates where a member has been granted access to use internet SuperSeeker, it does not allow the ATO to:

- determine if a member's enquiry was successful in obtaining a match; or
- identify whether this match was against details stored on the LMR (as opposed to Superannuation Holding Accounts Reserve [SHA] Special Account or Superannuation Guarantee [SG]).

**5.35** Without such information the ATO is unable to understand how effective SuperSeeker is in re-uniting members with their lost superannuation.

*Telephone SuperSeeker*

**5.36** A fully automated SuperSeeker telephone service was introduced by the ATO in December 2004 to provide members with the same opportunities to access the LMR that exist for those able to use the internet. The ATO hopes that this will also reduce the strain caused to the superannuation Contact Centre by

large volumes of LMR related enquiries (which often result from sporadic media coverage).

**5.37** The telephone SuperSeeker is available 24 hours a day, seven days a week. Callers use the telephone keypad to satisfy POI requirements by entering their TFN and date of birth information. A search is then conducted of the LMR (as well as SG and SHA) providing callers with details of possible matches.

**5.38** Where a caller has difficulty in satisfying POI requirements (or the possible match relates to SG or SHA) they are transferred to an operator from the superannuation Contact Centre.<sup>94</sup> The ATO advised that during its first six months of operation the telephone SuperSeeker service received 41 086 enquiries. Of these, 9 637 (or 23 per cent) were drop-outs — meaning that they were transferred for resolution by an operator or the member hung up.

**5.39** As is the case for the internet SuperSeeker, the ATO do not measure how many telephone SuperSeeker enquires result in a match, and whether this is against the LMR, SG or SHA. It is also unclear, from the statistics recorded, the proportion of telephone SuperSeeker enquiries that satisfy POI requirements. Consequently, it is also difficult to gauge the effectiveness of SuperSeeker access by members.

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<sup>94</sup> Members are also able to enquire about their lost superannuation by directly calling the superannuation Contact Centre. Operators may search the LMR on the member's behalf, provided the member satisfies the relevant POI. The ATO advised that, during 2004–05, there were 107 569 LMR-related calls to the superannuation Contact Centre.

## Recommendation No.8

5.40 The ANAO recommends that to measure the effectiveness of SuperSeeker access by members, the ATO measure and report on the proportion of SuperSeeker enquiries that result in a match with ATO records. This should also differentiate matches that relate to the Lost Members Register, as opposed to the Superannuation Guarantee system or the Superannuation Holding Accounts Reserve.

### *ATO response*

5.41 Agreed. The ATO agrees that this approach would achieve efficiencies. However, this would involve system redevelopment work and will not be implemented (refer to Appendix 1).

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Ian McPhee  
Auditor-General

Canberra ACT  
29 November 2005

# Appendix





## Appendix 1: Agency response



Mr Ian McPhee  
Auditor-General  
Australian National Audit Office  
19 National Circuit  
Barton ACT 2600

Dear Mr McPhee

Thank you for your letter of 29 September 2005, from Executive Director Peter White, and for the opportunity to provide comments on the proposed audit report on the Australian Taxation Office's administration of the Superannuation Lost Members Register.

We are pleased that the ANAO report concluded that the ATO has established systems and controls in place to capture lost member data received from providers, and implemented strategies to promote awareness of the Lost Members Register. The Tax Office's administration process for the Lost Members Register is designed to ensure that the register is well maintained and easily accessible to individuals. We are making use of its capacity to match with other information sources to improve data integrity, and continue to improve systems and processes. In addition, we are undertaking a major campaign to inform and educate 'lost' superannuation contributors about their entitlements. The campaign aims to increase awareness of the Lost Members Register and SuperSeeker, and to motivate individuals to reclaim their lost superannuation accounts.

The Tax Office welcomes the acknowledgement by the ANAO of the recent initiatives taken to strengthen the integration of the Superannuation business line and Operations at the senior management level, and that steps have been taken to establish a more robust planning and governance framework.

The Tax Office generally agrees with the recommendations contained in the report, but has qualified its agreement to one recommendation. However, to the extent recommendations propose system enhancements to the LMR they cannot be implemented in the way proposed. For the next 3 years the Tax Office's system resources are fully committed on implementing new policy, the Change Program and superannuation systems rebuild (which at this stage only includes minor changes to the LMR), along with maintaining existing systems and undertaking urgent remediation work. The design team undertaking the rebuild has been asked to evaluate the recommendations in terms of the overall priority for the superannuation rebuild. The full text of the tax Office's response to the report's recommendations is at Appendix B.

Should you wish to discuss this matter further please contact Cheryl-Lea Field on (02) 6216 2368.

Thank you for the constructive and co-operative approach to this review. I would like to commend to you the work of Ben Sladic, Janna Gilbert and Lesa Craswell, who were committed and thorough in their dealings with Tax Office representatives throughout the course of this audit.

Yours sincerely

JENNIE GRANGER  
Second Commissioner, Compliance  
28 October 2005

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### **ANAO Superannuation Lost Members Register**

#### **Summary**

The Tax Office's administration process for the Lost Members Register is designed to ensure that the register is well maintained and easily accessible to individuals. The Tax Office has included in its design a significant investment in compliance strategies to ensure the information provided by the funds is timely and complete. The Tax Office is making use of its capacity to match with other information sources to improve data integrity, and continues to improve systems and processes. In addition, the Tax Office is undertaking a major campaign to inform and educate 'lost' superannuation contributors about their entitlements. The campaign aims to increase awareness of the Lost Members Register and SuperSeeker, and to motivate individuals to reclaim their lost superannuation accounts.

The Tax Office welcomes the acknowledgement by the ANAO of the recent initiatives taken to strengthen the integration of the Superannuation business line and Operations at the senior management level, and that steps have been taken to establish a more robust planning and governance framework.

The Tax Office generally agrees with the recommendations contained in the report, but has qualified its agreement to one recommendation. However, to the extent recommendations propose system enhancements to the LMR they cannot be implemented in this way. For the next 3 years the Tax Office's system resources are fully committed on implementing new policy, the Change Program and superannuation systems rebuild (which at this stage only includes minor changes to the LMR), along with maintaining existing systems and undertaking urgent remediation work. The design team undertaking the rebuild has been asked to evaluate the recommendations in terms of the overall priority for the superannuation rebuild. The full text of the tax Office's response to the report's recommendations is at Appendix B.

## Responses to ANAO Recommendations – Superannuation Lost Members Register Audit 2005

<b>No.1 Para 2.32</b>	<p>The ANAO recommends that, to improve the transparency and accountability of the financial sector levy, the ATO:</p> <ul style="list-style-type: none"> <li>• revisit the existing model used to estimate LMR costs with a view to implementing a robust methodology for determining LMR costs; and</li> <li>• provide relevant information to the Australian Prudential Regulation Authority to allow it to report on the ATO's cost in administering the LMR as part of the disclosure requirements under the Government's cost recovery policy.</li> </ul>	<p><b>ATO Response: Agreed</b></p> <p>The Tax Office accepts this recommendation and acknowledges the need to be able to more explicitly cost the operation of the Lost Members Register (LMR). To this end, costing for the LMR from 2005-06 will be undertaken corporately in ATO Finance and in accordance with the Tax Office's overall costing regime.</p> <p>Further the Tax Office intends to include requirements for annual reporting of LMR costs in an updated Memorandum of Understanding between the Tax Office and APRA. This recognises that APRA is the administrator of the Financial Sector Levy.</p>
<b>No.2 Para 3.17</b>	<p>The ANAO recommends that, to improve the efficiency and effectiveness of the lost member data capture and identity-matching process, the ATO identity-match all lost member accounts prior to their inclusion on the Lost Members Register.</p>	<p><b>ATO Response: Agreed</b></p> <p>The Tax Office agrees that the recommended approach to identity match accounts prior to loading them onto the LMR would be more efficient. However, this would involve system redevelopment work and will not be implemented (refer to Appendix A).</p> <p>To improve the quality of the LMR data the Tax Office has commenced identity matching of all records already on the LMR against other Tax Office data and will ensure this process continues as further</p>

Responses to ANAO Recommendations - Superannuation LMR

Audit in Confidence

27/10/2005

## Appendix B

		records are added.
<b>No.3 Para 3.24</b>	<p>The ANAO recommends that, to provide adequate assurance that the LMR is operating as intended and in accordance with the LMR legislation, the ATO:</p> <ul style="list-style-type: none"> <li>• compile a complete set of baseline specifications to document the LMR system; and</li> <li>• introduce a robust system of controls to maintain the currency and completeness of the LMR baseline specifications.</li> </ul>	<p><b>ATO Response: Agree with qualification</b></p> <p>Robust controls have been implemented to ensure that any changes to the LMR are documented and current specifications are updated.</p> <p>The ATO acknowledges that specification documentation supporting this application is deficient. However, it would not be cost effective to go back and develop baseline specifications.</p>
<b>No.4 Para 4.19</b>	<p>The ANAO recommends that to properly manage the completeness of lost member data lodgements, the Superannuation Business Line improve the functionality of the LMR system to record relevant compliance information not presently captured. Importantly, this should enable it to:</p> <ul style="list-style-type: none"> <li>• obtain a comprehensive understanding of the number of providers that transfer their lost members to eligible rollover funds; and</li> <li>• maintain an up to date listing of non lodgement advices (NLAs). In this regard, the ANAO considers the ATO should give consideration to making NLAs mandatory (as permitted by s.23 (1)(e) of the LMR legislation).</li> </ul>	<p><b>ATO Response: Agree</b></p> <p>The Tax Office acknowledges that the capture of compliance information directly on the LMR would assist in improving its functionality. However, this would involve system redevelopment work and will not be implemented (refer to Appendix A).</p> <p>The Tax Office will achieve a similar compliance outcome by continuing to improve its lodgment compliance activity and using systems such as the Data Warehouse to capture relevant compliance information.</p> <p>While preliminary analysis indicates that the cost to both the Tax Office and industry (particularly small APRA funds) outweighs any benefit of making NLAs mandatory, we will develop a formal position through the Superannuation Risk Committee.</p>

## Appendix B

<p><b>No.5 Para 4.35</b></p>	<p>The ANAO recommends that, to improve the quality of data stored on the Lost Members Register, the Superannuation Business Line implement a systematic approach to matching lost member data with other superannuation data sets received from superannuation providers.</p>	<p><b>ATO Response: Agree</b></p> <p>An on-going program of data matching is currently under way against the entire LMR data set, with the initial focus on those accounts that don't have a derived Tax File Number.</p> <p>The Tax Office agrees that there is scope to expand the data matching routines that support the LMR. While matching the LMR data with other superannuation data sets would provide some additional information, our immediate priority is to focus on finding who accounts belong to. It is more effective to match against other Tax Office identity data than against data provided by superannuation providers.</p>
<p><b>No.6 Para 4.40</b></p>	<p>The ANAO recommends that, to improve the reporting of unclaimed superannuation monies by providers, and the quality of data stored on the Lost Members Register, the ATO establish comprehensive data sharing arrangements with all state and territory holders of unclaimed superannuation. This will also allow holders to properly address potential compliance risks relating to the transfer of unclaimed superannuation.</p>	<p><b>ATO Response: Agree</b></p> <p>The Tax Office acknowledges that the legislation provides for the sharing of data on the LMR with the state and territory holders of unclaimed monies. This has been done in the past on request from a specific state.</p> <p>The Tax Office will explore the feasibility of providing each state and territory on an annual basis a dataset containing a list of accounts which we believe meet the criteria to be unclaimed. This will allow the states and territories to pursue any compliance obligations of funds should they chose to.</p>
<p><b>No.7 Para</b></p>	<p>The ANAO recommends that to improve the timeliness of SuperMatch exercises, the ATO identity match all SuperMatch</p>	<p><b>ATO Response: Agree</b></p>

Responses to ANAO Recommendations - Superannuation LMR

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5.27	input records before matching these against details stored on the LMR.	<p>The Tax Office agrees that this approach would achieve efficiencies. However, this would involve system redevelopment work and will not be implemented (refer to Appendix A).</p> <p>To assist the timeliness of SuperMatch exercises, The Tax Office will continue to identify match all records already on the LMR against other Tax Office data and will ensure this process continues as further records are added.</p>
No.8 Para 5.39	The ANAO recommends that to measure the effectiveness of SuperSeeker access by members, the ATO measure and report on the proportion of SuperSeeker enquiries that result in a match with ATO records. This should also differentiate matches that relate to the Lost Members Register, as opposed to the Superannuation Guarantee system or the Superannuation Holding Accounts Reserve.	<p><b>ATO Response: Agree</b></p> <p>The Tax Office agrees that this approach would achieve efficiencies. However, this would involve system redevelopment work and will not be implemented (refer to Appendix A).</p>

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