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Performance Audit

Administration of the Superannuation Co-contribution Scheme

Australian Taxation Office

Australian National Audit Office

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Australian National
Audit Office

Canberra ACT
18 May 2010

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*.

Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit and the accompanying brochure. The report is titled *Administration of the Superannuation Co-contribution Scheme.*

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

Yours sincerely

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

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For further information contact:

The Publications Manager
Australian National Audit Office
GPO Box 707
Canberra ACT 2601

Telephone: **(02) 6203 7505**
Fax: **(02) 6203 7519**
Email: **webmaster@anao.gov.au**

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Audit Team
Andrew Morris
David Lacy
William Na
David Crossley

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Abbreviations

AIS	ATO Integrated System
APRA	Australian Prudential Regulation Authority
ATOUCA	ATO Unit Cost Analysis
BSL	Business Service Line
CAS	Client Account Services
FTE	Full time equivalent
GIC	General Interest Charge
HOTSA	Health of the System Assessment
ICP	Integrated Core Processing
ICT	Information and communications technology
LRNA	Letter to request nomination of account
Member statement	Member Contribution Statement
PBS	Portfolio Budget Statements
PVA	Payment Variation Advice
SAF	Small APRA Fund
SAR	SMSF Annual Return
SMSF	Self-Managed Superannuation Fund
Tax return	Income Tax Return
TFN	Tax File Number
TRDB	Tax Return Data Base
TPALS	Tax Practitioner and Lodgment Strategy

Glossary

Administrator	A company whose role is the day-to-day administration of a superannuation fund or funds.
Co-contribution	A payment made under the *Superannuation (Government Co-contribution for Low Income Earners) Act 2003*.
Fund	For the purposes of this report, superannuation providers are referred to as funds. These include superannuation funds and also all other financial arrangements eligible to receive co-contribution payments.
Large APRA Fund	Funds that are regulated by APRA and have five or more members.
Member	A member is a person who has an account in a fund. A member may have more than one account in a fund or have accounts with multiple funds.
Member Contribution Statement	A Tax Office approved form that indicates the value and other details of a member's superannuation contributions.
Self-Managed Superannuation Fund Annual Return	A Tax Office approved form for use by SMSFs that includes the member's information as well as regulatory and Income Tax Return information such as income, deductions, and status information.
Self-Managed Super Fund	A superannuation fund with a maximum of four members arranged under superannuation law to give individuals more control of how their superannuation assets are invested. All members must either be a trustee or a director of a corporate trustee.
Small APRA Fund	A fund with a maximum of four members which is unable to comply with the definition of a SMSF. These funds have trustees approved by APRA and are subject to regulation by APRA.
Superannuation	A long-term saving arrangement that operates primarily to provide income for retirement.
Trustee	Person or entity accountable for fund operations.

Summary and Recommendations

Summary

Introduction

1. The role of the Australian Taxation Office (Tax Office) is to manage and shape taxation, excise and superannuation administrative systems that fund services for Australians, giving effect to social and economic policy. In fulfilling this role, the main task of the Tax Office is to administer legislation governing taxes, excise and superannuation.

2. Superannuation is a long-term savings arrangement that operates primarily to provide income for individuals in retirement. Superannuation involves employers, employees and the self-employed making contributions over a period of time to a superannuation provider. The superannuation provider holds the contributions in trust for the member and invests them to increase the value of assets. These assets are then used to provide benefits to members when they retire or suffer a serious disability, or to a member's family if the member dies.

3. Superannuation is a large and complex area of taxation administration. The Tax Office's superannuation administrative responsibilities cover a diverse range of clients, ranging from individual employees through to large superannuation companies.

4. The Superannuation Co-contribution Scheme (the Scheme) was established by the *Superannuation* (*Government Co-contribution for Low Income Earners) Act 2003* (Co-contribution Act). It is an initiative directed at increasing superannuation saving by low and middle income earners. Where a person is eligible and makes personal superannuation contributions, the Government will match their contributions with a superannuation co-contribution (co-contribution), subject to income limits.

5. To be eligible for a co-contribution, an individual must:

- make personal after-tax superannuation contributions by 30 June to a complying superannuation fund or retirement savings account and not claim a deduction for all of them;[1]
- have total income (that is assessable income plus reportable fringe benefits plus reportable employer superannuation contributions) less than the higher income threshold;[2]
- receive 10 per cent or more of total income from eligible employment;[3]
- be less than 71 years old at the end of the income year;
- not hold an eligible temporary resident visa at any time during the income year unless they are a New Zealand resident or holder of a prescribed visa; and
- lodge an income tax return for the relevant income year.

6. There have been substantial increases in both the value of co-contributions and number of beneficiaries of the Scheme since it was introduced.[4] In 2008–09, the Tax Office determined that some 1.4 million individuals were entitled to approximately $1.2 billion in co-contribution payments. These increases have been partly due to changes to the Scheme, including: raising the income thresholds and maximum co-contribution amount; the co-contribution double payment measure;[5] and Super Simplification reforms. Participation in the Scheme was around 15 per cent in 2008–09.[6]

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1 For the purposes of this report, superannuation providers are referred to as funds. These include superannuation funds and also all other financial arrangements eligible to receive co-contribution payments, including retirement savings accounts.

2 As part of Super Simplification reforms, from 1 July 2007 certain self-employed individuals became eligible for the co-contribution. From 1 July 2009, reportable employer superannuation contributions were included as part of total income when calculating co-contribution entitlement.

3 Also as part of Super Simplification reforms, from 1 July 2007 the employment income criteria were broadened to require 10 per cent or more of total income to be from eligible employment, running a business or a combination of both.

4 The 2004–05 income year was the first year entitlements were paid, and these were for contributions made in the 2003–04 income year.

5 The co-contribution rate was doubled for the 2005–06 income year, with a maximum co-contribution of $3000.

6 While around 1.4 million people eligible for a co-contribution in 2008–09, this represented only 15 per cent of the 9.2 million individuals that lodged tax returns and were under the higher income threshold for the Scheme in that year.

7. Co-contribution legislation is specifically designed so that individuals do not claim a co-contribution as they do most other tax concessions (such as deductions for personal contributions). Instead, the legislation places a responsibility on the Commissioner of Taxation to determine entitlement and make a payment to a nominated fund once he is satisfied that a co-contribution is payable.

8. Tax Office systems automatically determine entitlement on an annual basis using:

- income and deduction information provided by an individual for income tax purposes in their annual income tax return (tax return); and
- details of personal contributions, as reported by the taxpayer's superannuation fund(s) via the Member Contributions Statement (member statement) or Self-Managed Superannuation Fund annual return.

9. The implementation of Superannuation Simplification measures from July 2007 and deployment into the Tax Office's new Integrated Core Processing (ICP) information technology system from February 2009 considerably changed the design of the supporting system. However, the fundamental process for determining eligibility and entitlements remained unchanged.

Audit objective and scope

10. The objective of the audit was to assess the effectiveness of the Tax Office's administration of the Superannuation Co-contribution Scheme.

11. The audit reviewed five key areas: governance arrangements; information technology systems and controls; co-contribution processing; compliance approaches; and communication with clients.

12. The Australian National Audit Office (ANAO) conducted fieldwork in the Tax Office's Hobart, Adelaide, Parramatta, Canberra and Brisbane offices between June and November 2009. The ANAO also consulted a number of superannuation funds and industry organisations, seeking their views on elements of Tax Office administration of the co-contribution.[7]

[7] The ANAO interviewed representatives of four funds or administrators with a total of over 11 million members, one Self-Managed Superannuation Fund and three industry associations covering the majority of superannuation members.

Overall conclusion

13. As the Commissioner for Taxation determines eligibility and entitlement for a co-contribution without members making a claim, effective administration of the Scheme requires the Tax Office to compile accurate relevant data and promptly make co-contribution payments, with minimal involvement of members and funds. On a process basis, effective administration requires the Tax Office to:

- use automated systems to process the large volume of member statements and tax returns promptly and in accordance with legislation, supplemented by manual arrangements as necessary;
- conduct activities to promote compliance with Scheme requirements;
- communicate effectively with stakeholders to inform them of key aspects of the Scheme and resolve queries; and
- govern these activities in alignment with other Tax Office and Superannuation arrangements.

14. The Tax Office has effectively administered the Scheme, typically providing accurate and prompt payment of the co-contribution, and accordingly has received relatively few queries and complaints from members and funds. However, this is against a background of only around 15 per cent of potential recipients participating in the Scheme, and a significant number of large funds not providing member statements required by the Tax Office to calculate entitlements.

15. The Tax Office itself has rated the administration as sound and the risks generally as low. Greater pressures have been placed on administration since 2007, with the extension of the Scheme to the self-employed, and in 2009 with deployment into the ICP system. The Tax Office has focussed on meeting these challenges, returning to high levels of timely and accurate processing in the peak period of late 2009 after some delays associated with ICP deployment. However, due to the deployment of income tax to ICP, co-contribution payments were temporarily suspended after this peak processing period. Many of the opportunities for further improvement in the administration of the co-contribution involve the Tax Office implementing strategies it has developed but not yet sufficiently implemented.

16. In regard to supporting information technology (IT) systems, the design of the co-contribution components of the ICP system has generally been sound, building on functionality of the initial system. Data capture and verification processes continued to be effective, as were eligibility and entitlement processing components, except for known problems arising from instances of potential technical non-compliance with legislation. There is scope to increase the effectiveness of teams responsible for IT system support and maintenance by documenting end-to-end service delivery processes and defining roles and responsibilities of staff managing system changes.

17. The accuracy, completeness and timeliness of core processing underpin the efficient and effective administration of the Scheme. The Tax Office conducted this core processing effectively prior to the deployment into ICP, to the satisfaction of industry stakeholders contacted as part of the audit. While a number of problems were encountered with processing during the deployment into ICP between February and October 2009, reliable processing resumed in November 2009, enabling the Tax Office to manage peak co-contribution processing through to mid-January 2010. The Tax Office then suspended processing in January 2010 to provide for the planned deployment of income tax into ICP, and estimated 40 000 individuals would receive interest amounts because co-contribution payments had been delayed by more than 60 days.

18. The Tax Office generally has effectively mitigated known compliance risks and analysed potential risks. However, it needs to take further action to improve lodgment by key large APRA funds, as around 25 per cent of these funds did not lodge member statements in recent years. The extent of this non-lodgment raises the risk that significant numbers of individuals have not received a co-contribution to which they would otherwise be entitled. The Tax Office is addressing known problems arising from circumstances with the potential to result in overpayments and underpayments of co-contributions, albeit to a relatively small number of individuals. However, these problems had not begun to be effectively addressed until many years after they were first identified, and could have been avoided if the Tax Office had initially clearly informed the Department of the Treasury of data needs and associated compliance costs.

19. Fund and member representatives consistently advised the ANAO that the Tax Office has effective liaison activities through its relevant committees and working groups, and also has suitable contact mechanisms. The Tax Office website is the main source of co-contribution information for eligible taxpayers, and is comprehensive and generally clear. However, the relevant co-contribution pages could be better targeted to non-professional and younger audiences. In determining marketing and education strategies, the

Tax Office should not be complacent about the level of participation in the Scheme, and could better align these strategies with known co-contribution risks. There is scope for the Tax Office to better use information from client contact channels—particularly complaints and interpretative assistance and advice—to more effectively administer the co-contribution.

20. The Tax Office has a comprehensive framework for governing co-contributions. This framework incorporates organisational structures, planning, risk management and performance monitoring and is well integrated with the Tax Office's broader governance and superannuation arrangements. While the Co-contributions Product Team generally managed co-contribution risks effectively, there is scope for it to better link planning and risk mechanisms, improve liaison with some other relevant areas in the Tax Office and enhance internal measures of performance.

21. The ANAO made four recommendations that were aimed at strengthening the practical application of particular processes within robust frameworks for governance, IT systems, co-contribution compliance and communication with stakeholders.

Key findings by chapter

Governance arrangements (Chapter 2)

22. Two significant characteristics of the administration of co-contributions are the number of areas within the Tax Office with responsibility for some element of administration of the Scheme and the need for integration with other superannuation products that rely on information from member statements and tax returns. Given this context, the Tax Office has established an appropriate governance framework, which involves a range of operating, committee, reporting and consultation arrangements. There remains scope, however, to improve some interactions between the Co-contributions Product Team and other areas in the Tax Office—including Active Compliance, Communication and Marketing, and Interpretative Assistance.

23. The Tax Office had effectively aligned co-contribution planning at the strategic level. However, the next level of planning, covering operational and IT activities were not as well aligned. Further, while relevant co-contributions product and portfolio plans covered the main identified operational risks, there was no explicit reference of these risks, which are contained in the Superannuation Product Risk Register (ANAO Recommendation No. 1 addresses this issue).

24. There is a comprehensive system for identifying, prioritising and managing co-contribution risks. This system involves the Compliance Sub-plan Executive Committee, as well as the Superannuation Product Committee and Superannuation Risk Sub-committees, which bring together representatives from the Superannuation Business Line, Client Account Services and other areas involved in the delivery of the co-contribution.

25. The Tax Office uses a variety of forums to report on Co-contribution Scheme activities, including its annual report and prescribed quarterly and annual reports. Recent Commissioner of Taxation Annual Reports have reported appropriately against the agency's Portfolio Budget Statements in respect of co-contributions. Since the Scheme's inception, the Tax Office had also satisfied legislative requirements to provide the Minister with a co-contribution report, for presentation to the Parliament, after the end of each quarter and financial year. These reports were in the appropriate format, and following advice from the ANAO during the course of the audit, were published online in accordance with relevant guidelines.

26. There is also a comprehensive system of internal monitoring and reporting of the performance of co-contribution administration, which is typically integrated with other Superannuation and Tax Office wide activities.

Co-contribution information technology systems (Chapter 3)

27. The co-contribution system is one component of the Tax Office ICP system solution architecture. Deployed into the ICP system from February 2009, the co-contribution system is now part of an organisation-wide system designed to achieve greater efficiency and accuracy by processing all business transactions in a fully automated manner.

28. Virtually all data submitted by funds was being sent electronically, and after resolution of initial ICP implementation problems, supported prompt and reliable capture and input to Tax Office systems. Data matching and verification systems have also generally been well designed for the co-contribution, which has supported effective processing.

29. Two key areas associated with the operation and maintenance of the co-contribution systems are user access management and IT operations management. The audit identified a number of users involved in the administration of the co-contribution whose combination of roles provided them with access to conflicting duties in the IT system.

30. Between June and October 2009 the Tax Office implemented a major restructure of how it delivered IT services within the organisation. At the time of the audit there was some confusion by staff over their roles and responsibilities in the new structure and particularly the end-to-end process for change (ANAO Recommendation No. 2 addresses this issue).

Co-contribution processing (Chapter 4)

31. Core Tax Office administration of the Co-contribution Scheme involves Client Account Services (CAS) undertaking high volume and relatively low value transactional processing. For example, in 2007–08 CAS processed 16.1 million member statements and 12.7 million tax returns, resulting in 1.1 million co-contribution payments.

32. Co-contribution exceptions arise when an event occurring during processing prevents the Commissioner from making a determination, such as incorrect or missing data or a system error. The Tax Office has substantially reduced the number and impact of exceptions in recent years. As at 6 November 2009, only 0.2 per cent of all member statements for 2008–09 that contained personal contributions did not supply a tax file number, of which around one quarter (1027) were not matched. Further, the deployment of the ICP system contributed to a relatively low level of processing exceptions, which can be resolved through business-as-usual processes.

33. The ANAO did not make any recommendations relating to Co-contribution processing but found a number of areas where the Tax Office was actively addressing specific issues. In this respect, the ANAO encourages the Tax Office to continue with strategies to mitigate risks associated with:

- administration of Payment Variation Advice notices;[8]
- the timely payment of co-contributions where the Tax Office can not readily determine where to send the entitlement amount; and
- the extent of co-contribution debt at the individual level.[9]

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[8] Where a fund is not able to credit a co-contribution entitlement into the member's account within 28 days of payment, the fund is obliged to repay the entitlement by lodging a Payment Variation Advice notice.

[9] Individual debt arises where an individual's circumstances have changed, but the overpaid amount is not held by a super fund; either because it has been paid out to the individual as a benefit, or it was originally paid directly to the individual.

Compliance (Chapter 5)

34. Compliance by funds and members with their obligations under co-contribution legislation is critical for the effective administration of the Scheme. The main elements of the Tax Office's compliance arrangements for the co-contribution include:

- the co-contribution compliance framework;
- compliance activities for large funds,[10] smaller funds and members; and
- compliance activities for the application of co-contribution eligibility and entitlement rules.

35. As mentioned earlier, the Tax Office needs to take further action to improve lodgment of member statements by the 25 per cent of key large APRA funds that regularly do not lodge, to help ensure that all eligible individuals receive their co-contribution entitlements.

36. Other main compliance risks involve the accuracy and completeness of lodging member statements. The Tax Office is undertaking projects to determine the accuracy of data contained in member statements, and plans to take action accordingly. The major ongoing compliance activity is the annual program of accuracy and completeness audits, mainly of large APRA funds. These audits are soundly based, although, as reflected in Recommendation No. 3, areas that would benefit from improvement include: fund selection; the use of computerised data analysis; and communication between the Co-contribution Product Team and the Active Compliance audit team.

37. The Tax Office is appropriately conducting and reviewing Self-Managed Superannuation Funds lodgment compliance activities, in response to major changes stemming from the Super Simplification reforms. While there have not been any tax return lodgment activities specifically related to co-contributions, the Tax Office has undertaken a number of compliance projects which had considerable success in improving the accuracy of tax return lodgment for co-contribution purposes.

[10] The critical superannuation fund segment is large APRA funds, as they comprise around 98 per cent of all members. This category relates to large funds regulated by the Australian Prudential Regulation Authority.

38. In recent years the Tax Office has identified the potential for overpayments and underpayments arising from circumstances whereby the calculation of co-contributions through its IT systems did not fully comply with legislation.[11] The Tax Office obtained legal advice that indicated it had no legislative breaches in relation to potential overpayments of co-contributions. This position was reached because the legal opinion expressed the view that: overpayments made in good faith where the Tax Office did not knowingly make any individual overpayments at the time they were paid would not represent a breach of the Australian Constitution;[12] and the Tax Office had a period of grace (expected to be to around July 2010) to analyse and rectify existing errors. The ANAO will continue to monitor this issue as part of the 2009–10 financial statement audit of the Tax Office.

39. The Tax Office has taken extensive actions to address the potential for breaches, but key actions have not yet been completed and may have been avoided this risk if commenced earlier. The main lesson to be learned from the treatment of this issue is the benefit of the Tax Office working more closely with Treasury when drafting Bills for the implementation of Government policy. In this instance, the Tax Office should have initially more comprehensively assessed and clearly outlined its data needs and the associated compliance costs, so that Treasury could more fully understand the implications of proposed legislation, and advise government accordingly.

Communication with clients (Chapter 6)

40. Representatives of superannuation funds and industry organisations consistently commented that the Tax Office had effective liaison activities. They noted the Tax Office's increasing use of committees as a positive means of incorporating industry input. APRA funds were generally satisfied with relevant documentation and other written material provided by the Tax Office, the exception being in the deployment of ICP, where Tax Office systems initially did not accept data according to the specifications provided. Some of the Self-Managed Super Fund professionals interviewed by the ANAO advised

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[11] These instances have been categorised as alignment issues and incorrect business rules. Alignment issues arise where insufficient information is captured from individuals' income tax returns to enable calculations required to satisfy relevant co-contribution legislation and other tax law. Incorrect business rules arise where sufficient information is available from income tax returns, but the system rules are incorrectly written to meet legislative requirements.

[12] The Tax Office had not knowingly made any individual overpayments at the time of audit fieldwork.

that much of the information relating to the co-contribution is overly legalistic and jargon laden and not ideal for the co-contribution target audience. Funds were satisfied with mechanisms to contact the Tax Office.

41. The Tax Office considers it has conducted effective communication strategies for members. However, as discussed in paragraph 6, given that participation in the Scheme is around 15 per cent of potential recipients, the Tax Office should not be complacent about participation rates when determining marketing approaches and resourcing. Further, co-contribution participation rates rise with income levels and only a relatively small proportion of lower income individuals access the Scheme.[13] This illustrates the importance of the Tax Office tailoring education and marketing activities to lower income earners as well as different age cohorts.

42. The Tax Office's website is the primary means of conveying messages to fund members. The ANAO viewed the content and presentation of co-contribution web pages and found them to be comprehensive and clear. The audit tested the accuracy of the co-contribution calculator[14] and found two types of calculation error, which the Tax Office subsequently rectified. The ANAO suggests that Tax Office reconciles business rules applied in calculators with those in processing systems, to reduce the incidence of calculator errors.

43. Contact between members and the Tax Office about co-contribution issues are typically part of broader Tax Office processes and primarily include: phone calls to call centres; reviews of determinations and interpretative advice; and complaint resolution mechanisms. There is scope for the Co-contribution Product Team to better utilise information from these sources to support the effective administration of the co-contribution. Audit Recommendation No. 4 is designed to strengthen the Tax Office's use of this information.

[13] In 2006–07, the co-contribution take-up rate rose from only 2.6 per cent of individuals with total income of less than $6 000 to 25.7 per cent of taxpayers with total income of $50 000 to $55 000.

[14] This is a guidance tool to help individuals estimate their co-contribution payment. It does not have any impact on the actual calculation and payment of the co-contribution by the Tax Office.

Tax Office response

44. The Tax Office's summary response to the report is reproduced below.

I welcome the report and agree to the recommendations, as outlined in Appendix A to this letter. It is encouraging that changes already being implemented are consistent with the general tenor of the recommendations and suggested actions.

It was pleasing to see that overall, the ANAO found that the ATO has effectively administered the scheme, typically providing accurate and prompt payment of co-contributions, with relatively few queries and complaints.

We appreciate the recognition of the greater pressures placed on the administration of Co-contributions, with Super Simplification and the deployment of our new processing systems and your acknowledgement of the return to high levels of timely and accurate processing in the peak period of late 2009.

We note the suggested actions and learnings included in the report and they will be considered along with other organisational priorities.

Recommendations

Recommendation No. 1 **Para 2.24**	To strengthen the linkage between risk and planning processes, the ANAO recommends that the Tax Office explicitly reference co-contribution operational risks contained in the Superannuation Product Risk Register in relevant co-contribution product and/or portfolio plans. **Tax Office response**: *Agreed.*
Recommendation No. 2 **Para 3.47**	To support reliable and timely problem resolution and change management, the ANAO recommends that the Tax Office clarifies roles and responsibilities with staff in relation to the restructured enterprise solutions and technology (EST) service delivery model. In particular, the Tax Office should define and document end-to-end EST processes, roles and responsibilities for managing system changes in this restructured model. **Tax Office response**: *Agreed.*

Recommendation No. 3

Para 5.51

To refine approaches to auditing the accuracy and completeness of Member Contribution Statements provided by funds for co-contribution purposes, the ANAO recommends that the Tax Office:

(a) explicitly covers major Superannuation fund administrators and funds, and makes greater use of operational analytic techniques, when selecting funds for audit;

(b) places greater weighting on Computer Aided Verification analysis rather than auditing of member records on funds' systems; and

(c) enhances communication between the Co-contribution Product Team and the Active Compliance audit team regarding fund selection and the implications of audit findings.

Tax Office response: *Agreed.*

Recommendation No. 4

Para 6.68

To support effective co-contribution administration, the ANAO recommends that the Tax Office more fully uses information obtained from client contact channels, particularly concerning co-contribution complaints and interpretative assistance.

Tax Office response: *Agreed.*

Audit Findings and Conclusions

1. Introduction

This chapter provides an overview of the Tax Office's administration of the Superannuation Co-contribution Scheme and information on the conduct of the audit.

Superannuation and the Tax Office

1.1 The role of the Australian Taxation Office (Tax Office) is to manage and shape taxation, excise and superannuation administrative systems that fund services for Australians, giving effect to social and economic policy. In fulfilling this role, the main task of the Tax Office is to administer legislation governing taxes, excise and superannuation.[15]

1.2 Superannuation is a long-term savings arrangement that operates primarily to provide income for individuals in retirement. Superannuation involves employers, the self-employed and employees making contributions over a period of time to a superannuation provider. The superannuation provider holds the contributions in trust for the member and invests them to increase the value of assets. These assets are then used to provide benefits to members when they retire or suffer a serious disability, or to a member's family if the member dies.

1.3 Superannuation is a key policy to address Australia's ageing population. The Australian Government's retirement income policy is designed to encourage individuals to provide for an adequate standard of living in retirement, while ensuring all Australians have security and dignity at that time. This policy is built on three basic pillars:

- the Age Pension funded by Australian Government revenue;
- compulsory superannuation contributions by employers (currently at a minimum of nine per cent); and
- voluntary superannuation contributions made by employees and the self-employed, and other savings.

1.4 The Tax Office's superannuation administrative responsibilities cover a diverse range of clients, ranging from individual employees through to large superannuation companies. Although the Tax Office provides many services to

[15] Hon. Peter Dutton MP, Minister for Revenue and Assistant Treasurer, 18 January 2007, *Government's Statement of Expectations for the Australian Taxation Office*, p. 1.

these clients, the focus of its superannuation activity is on four main areas; employer contributions (the Superannuation Guarantee), Self-Managed Superannuation Funds, the Lost Members Register and Superannuation Co-contributions. Responsibility for the administration of these four areas rests with the Tax Office's Superannuation Business Line.[16]

Superannuation Co-contribution Scheme

1.5 The Superannuation Co-contribution Scheme (the Scheme) was established by the *Superannuation (Government Co-contribution for Low Income Earners) Act 2003* (Co-contribution Act). It is an initiative directed at increasing superannuation saving by low and middle income earners. Where a person is eligible and makes personal superannuation contributions, the Government will match their contributions with a superannuation co-contribution (co-contribution), subject to income limits.

1.6 The Scheme expands and replaces the tax rebate that was available to individuals making personal superannuation contributions. The Scheme was implemented on 1 July 2003, for the 2003–04 income year.

1.7 To be eligible for a co-contribution, an individual must:

- make personal after-tax superannuation contributions by 30 June to a complying superannuation fund or retirement savings account and not claim a deduction for all of them;[17]
- have total income (that is assessable income plus reportable fringe benefits plus reportable employer superannuation contributions) less than the higher income threshold (see Table 1.1);[18]
- receive 10 per cent or more of total income from eligible employment;[19]
- be less than 71 years old at the end of the income year;

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16 The Department of the Treasury has policy responsibility for the Superannuation Co-contribution Scheme, while the Tax Office administers the program on its behalf, including providing information and support for individuals and superannuation funds through marketing and education services.

17 For the purposes of this report, superannuation providers are referred to as funds. These include superannuation funds and also all other financial arrangements eligible to receive co-contribution payments, including retirement savings accounts.

18 From 1 July 2007, certain self-employed individuals became eligible and could reduce their total income by their allowable business deductions. From 1 July 2009, reportable employer superannuation contributions were included as part of total income when calculating co-contribution entitlement.

19 From 1 July 2007, the employment income criteria were broadened to require 10 per cent or more of total income to be from eligible employment, running a business or a combination of both.

- not hold an eligible temporary resident visa at any time during the income year unless they are a New Zealand resident or holder of a prescribed visa; and
- lodge an income tax return for the relevant income year.

1.8 Table 1.1 outlines the key rules for determining the co-contribution.

Table 1.1

Key rules for determining the co-contribution

Period	Lower income threshold	Higher income threshold	Co-contribution rate and maximum amount	Reduction for exceeding lower income threshold
1 July 2003 to 30 June 2004	$27 500	$40 000	$1 for every $1 up to a maximum co-contribution of $1 000 a year.	Reduces by 8c for every dollar earned over $27 500.
1 July 2004 to 30 June 2007	$28 000	$58 000	$1.50 for every $1 up to a maximum of $1 500 a year.[A]	Reduces by 5c for every dollar earned over $28 000.
1 July 2007 to 30 June 2008	$28 980	$58 980[B]	$1.50 for every $1 up to a maximum of $1 500 a year.	Reduces by 5c for every dollar earned over $28 980.
1 July 2008 to 30 June 2009	$30 342	$60 342	$1.50 for every $1 up to a maximum of $1 500 a year.	Reduces by 5c for every dollar earned over $30 342.
1 July 2009 to 30 June 2012	$31 920	$61 920	$1 for every $1 up to a maximum of $1 000 a year.	Reduces by 3.333c for every dollar earned over minimum threshold
1 July 2012 to 30 June 2014	Depends on index	Depends on index	$1.25 for every $1 up to a maximum of $1 250 a year.	Reduces by 4.167c for every dollar earned over minimum threshold
1 July 2014 onwards	Depends on index	Depends on index	$1.50 for every $1 up to a maximum of $1 500 a year.	Reduces by 5c for every dollar earned over minimum threshold.

Notes: (A) The co-contribution rate was doubled for the 2005–06 income year, with a maximum co-contribution of $3000.

(B) From the 2007–08 income year, the lower income threshold has been indexed each year in accordance with Average Weekly Ordinary Time Earnings (AWOTE) and the higher income threshold has been the lower threshold plus $30 000.

Source: Tax Office and 2009–10 Federal Budget, *Budget Paper No.2*, p. 391.

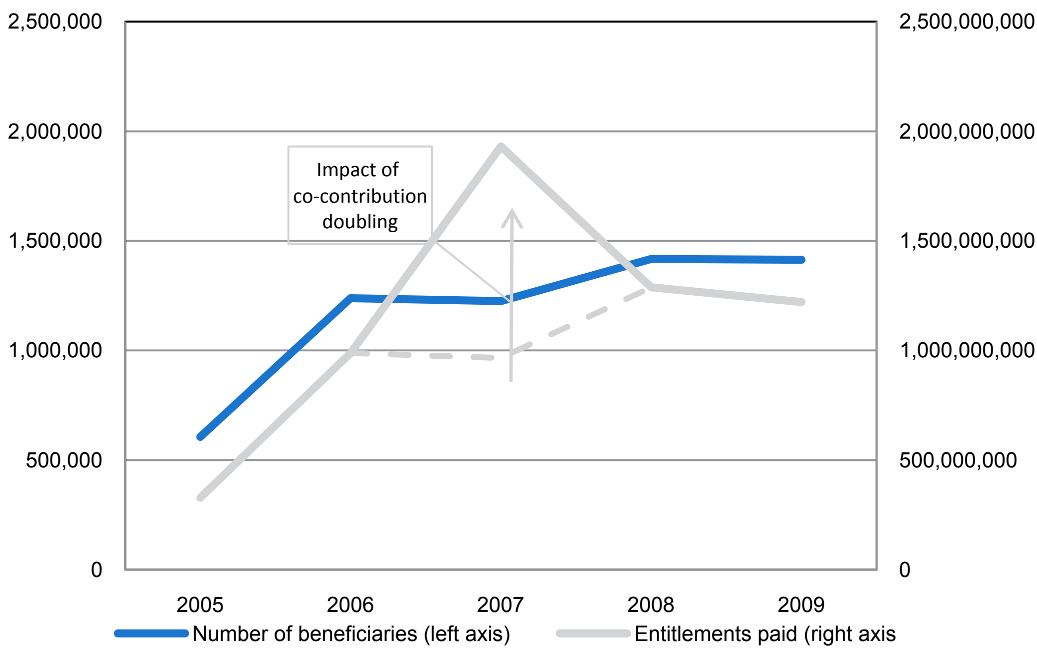
1.9 Since inception there have been significant changes to the Scheme, resulting in the availability of benefits to a greater range of individuals. As described in Appendix 2, these amendments include: raising the income thresholds and maximum co-contribution amount; Super Simplification reforms; the co-contribution double payment measure; reforms to income tests; and the temporary reduction of the co-contribution.

Participation in the Scheme

1.10 There have been substantial increases in both the total value of co-contribution entitlements assessed and the number of beneficiaries of the Scheme since it was introduced (see Figure 1.1).[20] For 2008–09, the Tax Office determined that 1.414 million individuals were entitled to $1.221 billion in co-contribution payments.

Figure 1.1

Participation in the Co-contribution Scheme



Source: Commissioner of Taxation Annual Reports and Portfolio Budget Statements.

[20] The 2004–05 income year was the first year entitlements were paid, and these were for contributions made in the 2003–04 income year.

1.11 The total value of co-contribution entitlements were steady in 2008–09, after falling by $643 million (33 per cent) in 2007–08 mainly because of the one-off doubling of the co-contribution in the previous year. Analysis has indicated the highest take up rate has been for middle income earners and not low income earners (see paragraph 6.51).[21]

Arrangements for administering co-contributions

1.12 Co-contributions legislation is specifically designed so that individuals do not have to claim a co-contribution via their annual income tax return (tax return) as they do for most other tax concessions (such as deductions for personal contributions). Instead the legislation places a responsibility on the Commissioner of Taxation to determine entitlement and make a payment to a nominated fund once he is satisfied that a co-contribution is payable.[22]

1.13 Tax Office systems automatically determine entitlement on an annual basis using:

- income and deduction information provided by an individual for income tax purposes in their tax return; and
- details of personal contributions, as reported by the taxpayer's superannuation fund(s) via the Member Contributions Statement (member statement)[23] or Self-Managed Superannuation Fund annual return.

1.14 Figure 1.2 outlines key arrangements underpinning the payment of co-contributions. Of key importance is receipt by the Tax Office of both the tax return and member statement, as the process for determining eligibility and making a payment cannot begin if either of these pieces of information is not received.

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21 According to the Australian Prudential Regulation Authority (APRA), total estimated superannuation assets were valued at $1.08 trillion at 30 June 2009. Tax Office information indicates there was $117.8 billion in superannuation contributions by Australians in the 2008 income year, of which $69.4 billion was from employers and $48.4 billion from members.

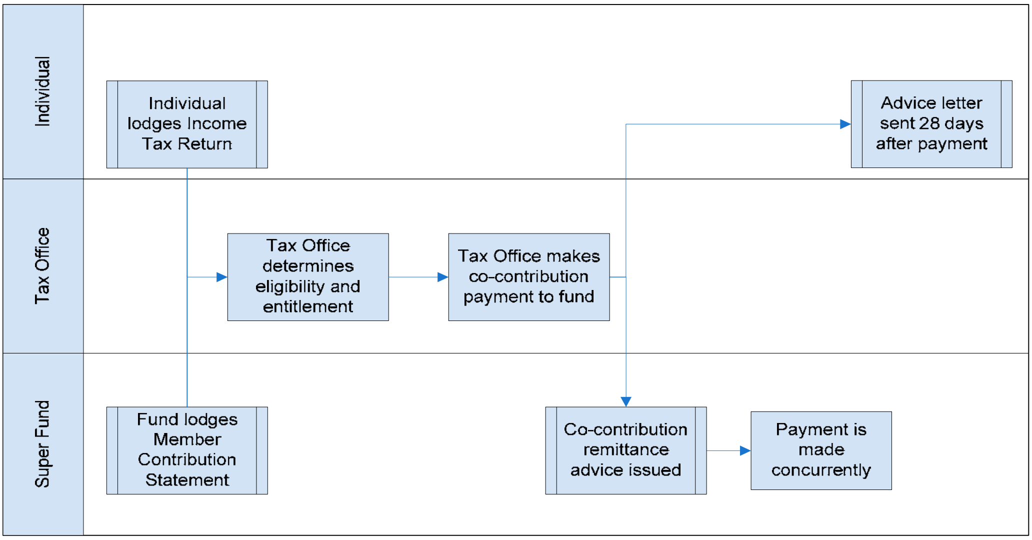
22 The Explanatory Memorandum (Regulatory Impact Statement) that accompanied the 2003 Bill to introduce the Co-contribution Scheme explains that this approach was taken by Government to avoid putting a compliance burden upon low income earners, as the option that required the individual to make a claim in their annual tax return would have done.

23 The member statement for APRA regulated funds is due on 31 October following the end of the income year. However Self-Managed Superannuation Funds are eligible to lodge at a later date—15 May the following year, with the exception of first year Self-Managed Superannuation Funds that are required to lodge by 28 February the following year.

1.15 Once eligibility is established, entitlements are calculated and, in most cases, paid into individuals' superannuation accounts in the next monthly co-contributions payment run. Approximately 28 days after a payment run, the Tax Office sends a letter to the member advising them of the payment.[24] Issuing this letter to eligible individuals is an administrative decision, not a legislative requirement.

Figure 1.2

Key arrangements for paying co-contributions



Source: Australian National Audit Office (ANAO) analysis of Tax Office information.

1.16 Implementation of Superannuation Simplification measures from July 2007, and deployment into the Tax Office's Integrated Core Processing (ICP) information technology system from February 2009, considerably changed the design of the supporting system. However, the fundamental process for determining eligibility and entitlements remained unchanged.

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[24] The 28 day time-frame between payments being remitted to funds and letters being sent to individuals is to enable funds that cannot credit a co-contribution to a member's account to return the payment and provide a Payment Variation Advice notice to the Tax Office. This then signals the Tax Office to send a letter and a fund nomination form to the individual, giving them the ability to nominate an alternative destination superannuation account for their co-contribution payment. The Tax Office does not plan to send these letters to individuals in the 2009–10 income year.

Relevant ANAO and other reports

1.17 This audit was the fifth in a series of ANAO reports on the Tax Office's superannuation responsibilities. The preceding audits were:

- Audit Report No.13 2007–08, *The Australian Taxation Office's Approach to Managing Self Managed Superannuation Fund Compliance Risks*;
- Audit Report No.52 2006–07, *The Australian Taxation Office's Approach to Regulating and Registering Self Managed Superannuation Funds*;
- Audit Report No.17 2005–06, *Administration of the Superannuation Lost Members Register*; and
- Audit Report No.39 2004–05, *The Australian Taxation Office's Administration of the Superannuation Contributions Surcharge*.

1.18 In April 2007, the Tax Office completed an internal audit report on co-contributions.[25] The report concluded that controls and procedures for the co-contribution system were satisfactory. Nevertheless, the audit made seven recommendations to improve administration of the Scheme, all of which have been reported by the appropriate business owner as having been implemented or otherwise adequately addressed.

1.19 In March 2006, the Commonwealth Ombudsman reported on the *Administration of the Superannuation Co-contribution Scheme* in relation to the administration of complaints. The review concluded that there were no systemic issues with the Tax Office's administration of co-contribution complaints.

[25] Internal Tax Office document, *Super Co-contributions, Final Report, Internal Audit*, 17 April 2007.

Audit approach

Audit objective

1.20 The objective of the audit was to assess the effectiveness of the Tax Office's administration of the Superannuation Co-contribution Scheme.

1.21 The audit considered five key areas:

- governance arrangements relating to the administration of the Co-contribution Scheme;
- information technology systems and controls underpinning the administration of the Co-contribution Scheme;
- processing of co-contribution entitlements;
- compliance approaches, including risk-based approaches supporting compliance by funds; and
- communication of key elements and requirements of the Scheme to funds and individuals.

Scope

1.22 As well as focussing on the Tax Office's administration of the co-contribution, the audit provided the ANAO an opportunity to assess how lessons learned from the administration of the Superannuation Surcharge have been incorporated into the design and operation of the co-contribution administrative arrangements.

1.23 The audit did not focus on the initial implementation of the Scheme or the effect it has had on retirement savings. The ANAO also did not focus on the Tax Office's processes for handling complaints about the co-contribution as the Taxation Ombudsman has already issued a report on this topic. The ANAO did, however, examine how the findings of that report have been incorporated into the design and administration of the Co-contribution Scheme.

Methodology

1.24 The ANAO conducted fieldwork in the Tax Office's Hobart, Adelaide, Parramatta, Canberra and Brisbane offices between June and November 2009. This included a review of relevant co-contribution documents as well as interviews with key staff.

1.25 The audit team also conducted analysis of the systems, processes and controls the Tax Office uses to administer the Co-contribution Scheme.

1.26 The ANAO consulted a range of superannuation funds and superannuation industry organisations, seeking their views on elements of Tax Office administration of the Co-contribution Scheme.[26]

1.27 The audit was conducted in accordance with auditing standards at a cost to the ANAO of approximately $290 000. The ANAO engaged Allanson Consulting Pty Ltd to provide statistical analysis and general assistance to the audit.

Acknowledgements

1.28 The ANAO appreciates the contribution of Tax Office officers, superannuation industry representatives and relevant Australian Government organisations that assisted in the conduct of the audit.

Audit structure

1.29 The structure of the chapters reflects the areas of audit focus outlined in paragraph 1.21. In particular, they examine the extent to which the Tax Office had effective approaches for administering the Co-contribution Scheme in relation to:

- governance (Chapter 2);
- information technology systems (Chapter 3);
- processing (Chapter 4);
- compliance (Chapter 5); and
- communication with clients (Chapter 6).

[26] The ANAO interviewed representatives of four funds or administrators with a total of over 11 million members, one Self-Managed Superannuation Fund (SMSF) and three industry associations covering the majority of superannuation members.

2. Governance Arrangements

This chapter examines governance arrangements underpinning the Tax Office's administration of the Co-contribution Scheme.

Introduction

2.1 Governance refers to the processes by which organisations are directed, controlled and held to account. It encompasses authority, accountability, stewardship, leadership, direction and control exercised in the organisation. Public sector governance is explained in the ANAO Better Practice Guide, *Public Sector Governance*.[27]

2.2 To assess the effectiveness of the Tax Office's governance arrangements supporting the administration of the Superannuation Co-contribution Scheme, the ANAO examined four key issues:

- organisational arrangements for administering the co-contribution;
- planning processes;
- risk management approaches; and
- performance monitoring and reporting.

Organisational arrangements

2.3 The Tax Office is a large organisation, with an annual budget of $3.1 billion and expected average staffing level of 21 720 in 2009–10.[28] It had a presence at over 75 locations across Australia at June 2009.

2.4 To assist in managing the Tax Office, the Commissioner has adopted an integrated planning and management model. This model is framed around the ATO Plan and six associated sub-plans, and applied to planning arrangements, the operation of executive committees and organisational management structures. Business and service lines are the delivery arms of the relevant sub-plans.

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27 ANAO Better Practice Guide, *Public Sector Governance*, Volume 1, p. 6.

28 Tax Office, *Corporate Plan 2009–10*, p. 1.

2.5 High-level arrangements for administering superannuation in the Tax Office centre on the Compliance Sub-plan and Superannuation Business Line. For governance and operating purposes, the Superannuation Business Line is divided into segments and further into functional units or product teams.

2.6 Responsibility for administering co-contributions is held by the Co-contributions and Excess Contributions Tax Product Team (Co-contributions Product Team) within the Technical Leadership and Individuals Segment. This team is led by a Director in Hobart, Tasmania and contains seven staff who have some responsibility for administering co-contributions. The main activities of these staff are:

- managing compliance risks;
- monitoring and reporting the health of the administration of co-contributions;
- providing product expertise and advice within the Tax Office and to other relevant bodies; and
- coordinating the accuracy and compliance strategy for co-contributions.

2.7 While management arrangements in the Superannuation Business Line provide a strong focus on the strategic management of co-contributions, operational aspects are administered through the Operations and Enterprise Solutions and Technology (EST) sub-plans to draw on their experience and expertise in dealing with these aspects of the superannuation operation.

2.8 A feature of the administration of co-contributions is the number of areas within the Tax Office with responsibility for some element of its administration, and that consequently most tasks are undertaken by units other than the Co-contributions Product Team, as outlined in Figure 2.1.

2.9 Another significant characteristic of the administration of co-contributions is the need for integration with other superannuation products that rely on information from member statements and tax returns, particularly the First Home Saver Account, Excess Contributions Tax, Superannuation Surcharge, and Super Guarantee. Changes in legislation, risks and associated work profiles of these products have resulted in a number of alterations to the structure of the product team responsible for co-contributions since the Scheme's inception in 2003–04.

Figure 2.1

Principal areas of the Tax Office administering co-contributions

Area	Role
COMPLIANCE SUB-PLAN:	
Superannuation Business Line	
Co-contributions Product Team	Responsible for risk analysis and intelligence regarding co-contributions, including developing risk mitigation strategies, producing the statutory quarterly and annual reports to Parliament and managing general co-contribution issues.
Interpretative Assistance	Respond to co-contribution reviews of decision and other written correspondence cases.
Superannuation Marketing and Education	Develop and undertake a range of marketing and education activities for the co-contribution product.
Active Compliance Capability Area	
Superannuation Active Compliance	Conduct audits and reviews of superannuation funds including self-managed superannuation funds (SMSFs) using a combination of phone, desk and field activities.
Tax Practitioner and Lodgment Strategy Business Line	
Lodgment Compliance	Monitor member statements and SMSF Annual Report lodgments.
OPERATIONS SUB-PLAN	
Operations Business Line	
Client Account Services	Issue co-contribution payments to funds and direct payments to individuals, process fund nominations and Payment Variation Advices, maintain system correspondence, recover overpayments and maintain system data.
Client Contact (telephony)	Provides frontline services to the community and tax practitioners, including self-help telephone services.
ENTERPRISE SOLUTIONS AND TECHNOLOGY SUB-PLAN: ICT Business Line	
ICT	Provide expertise in ICT systems infrastructure and architecture including application delivery, business solutions and business processing support.

Source: ANAO analysis of Tax Office information.

2.10 To manage the co-contributions product across the many functional units involved in its administration, the Tax Office has established a range of operating, committee, reporting and consultation arrangements.

2.11 Both the Individuals Segment, for the Co-contributions Product Team, and Client Account Services (CAS), for the Operations Business Line, are represented on the Super Risk Sub-Committee, and provide information to the Super Product Committee. Administrative processes are monitored by the Co-contributions Product Team in the Superannuation Business Line, particularly as part of the monthly co-contribution product reporting and product risk diagnostics (see Figures 2.4 and 2.3 respectively). These are key mechanisms to inform the Co-contributions Product Team of administrative risks and enable it to work with both CAS and ICT to help ensure those two areas have action plans or appropriate mitigation strategies in place.

2.12 While these and other processes are in place to facilitate appropriate communications between areas responsible for the various elements of co-contribution administration, Tax Office staff advised that the nature of personal relationships and quality of interactions were at least equally as important. The ANAO noted that many of the key officers involved in the administration of co-contributions had considerable experience in the Tax Office, with extensive working networks and a willingness to involve relevant staff from other areas as required.

2.13 Overall, the ANAO considers that the framework in place for the administration of co-contributions is appropriate, given the range of different activities involved and the level of overlap with other superannuation products.

2.14 As noted in subsequent sections of these chapters, there remains scope, however, to improve interactions between the Co-contributions Product Team and some other areas in the Tax Office (including Active Compliance, Superannuation Communication and Marketing, Interpretative Assistance and Client Contact).

Planning processes

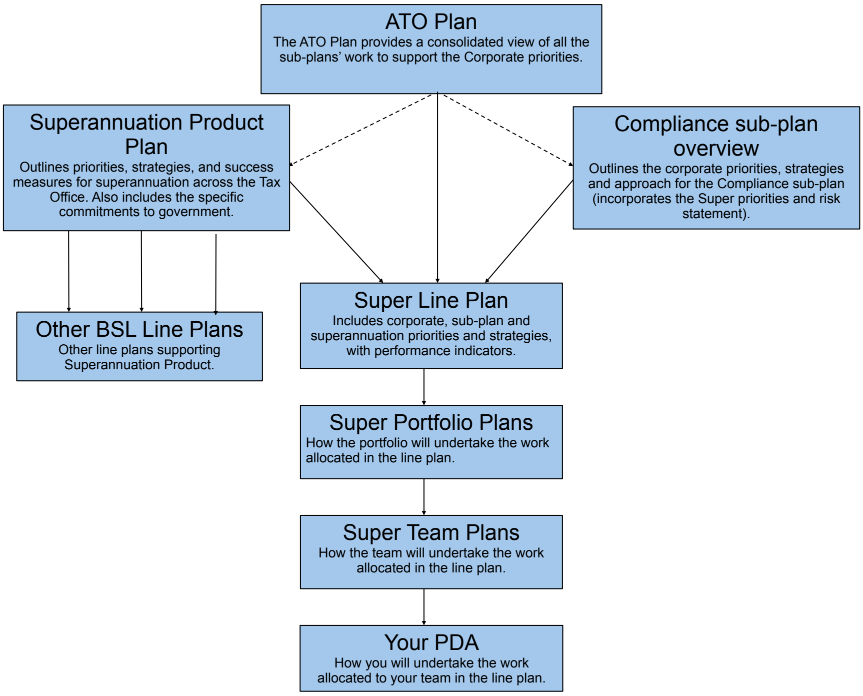
2.15 A sound organisational planning framework is an essential element of effective governance. The Tax Office's high-level planning documents set the overall direction for the organisation. Of particular importance are the *Strategic Statement*,[29] *Corporate Plan*,[30] *Outcome and Program Framework*[31] and *ATO Plan*.[32]

[29] The Strategic Statement provides direction and a framework for the Tax Office's activities over a three-year period.

Figure 2.2 outlines the key elements of the planning framework for co-contributions.

Figure 2.2

Key elements of the planning framework[A] for co-contributions



Note: (A) ATO is Australian Taxation Office, BSL is Business Service Line, PDA is Personal Development Agreement.

Source: Internal Tax Office document *How our plans interrelate*.

2.16 To determine whether planning for the administration of the Co-contribution Scheme adequately addressed strategic and operational risks to support the achievement of program objectives, the ANAO analysed whether the Tax Office's planning approaches were cohesive and measureable.

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30 Collectively the Tax Office's six sub-plans form the *ATO Corporate Plan*. The Tax Office's sub-plans articulate the strategies, priorities, risks and performance measures it uses to manage performance in relation to outcomes to be achieved and outputs to be produced.

31 The Outcome and Program Framework builds on the Outcomes and Outputs framework introduced in 1999, and, as stated in the internal Tax Office document *Achieving our outcome – Applying our program framework*, is the 'building block of how the Tax Office delivers services and benefits to government and the community and provides a tangible link between government decisions, Tax Office strategies and the impacts of those actions.' The introduction of program reporting in the Tax Office aims to strengthen changes made to its outcome statement as part of the Government's Operation Sunlight reforms.

32 The *ATO Plan* provides a consolidated view of all the sub-plans' work to support corporate priorities.

Cohesion of co-contribution planning

2.17 To be cohesive, planning approaches for co-contributions need to be integrated with other relevant Tax Office plans, and identify and address key priorities, including by incorporating risk management processes and mitigation strategies relating to co-contributions.

Integration with relevant Tax Office plans

2.18 Superannuation co-contribution plans in recent years[33] have formed an integrated line management approach, consistent with the hierarchy outlined in paragraph 2.15 and Figure 2.2.

2.19 In particular, there was clear alignment between recent Superannuation Line Development Plans, Superannuation Product Plans (including co-contributions), co-contributions portfolio plans,[34] team plans for the Co-contributions Product Team, and personal development agreements. These plans were also suitably aligned at the higher levels—to the Strategic Statement, annual Corporate Plan and Tax Office Outcome and Program framework. Compliance capabilities were linked directly to Outputs and Sub-Outputs.

2.20 Superannuation Line Development Plans and Product Plans clearly specified roles and responsibilities relating to aspects of the administration of co-contributions within the Superannuation Business Line. These plans also identified key internal partners, and their main roles, including CAS and ICT. However, there was very little detail in either of these types of plans about the activities that CAS or ICT would provide regarding co-contributions.[35] Similarly, there was no explicit coverage of co-contributions in the *Client Account Services Line Delivery Plan 2008–09*. Further, no specific product or portfolio plans were developed for the Superannuation, Excise and FBT team within CAS that undertakes processing for co-contributions because of the extensive changes to operations relating to the implementation of Super

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[33] Particularly plans for 2007–08 and 2008–09. Not all relevant plans for 2009–10 were available for testing at the time of audit fieldwork.

[34] For example, for financial year 2008–09 planning, this plan was labeled the *Funds Segment Co-contributions Plan 2008–09*.

[35] For example the *Superannuation Line Delivery Plan 2008–09* described the role of key partners including CAS and ICT (p. 11), and the co-contributions section of the *Superannuation Product Plan 2008–09* (p. 19) briefly mentioned delivery activities for CAS, Client Contact and Debt.

Simplification and Change Program Release 3.3. There was, however, extensive planning documentation relating to these two projects.

2.21 To ensure that there is sufficient coverage of the key relationships between co-contributions and CAS in key planning documents, the ANAO suggests that the Tax Office reviews the appropriateness of the coverage of these relationships in relevant Superannuation and CAS planning documents in future years.

Addressing key priorities including those identified by risk management

2.22 Recent Superannuation Line Delivery Plans and relevant co-contribution product, portfolio and team plans have established and addressed key priorities for the administration of co-contributions.

2.23 Superannuation Line Delivery Plans have explicitly addressed co-contribution risks at the strategic level, which are those contained in the Strategic Risk Register.[36] While relevant co-contribution product and portfolio plans have covered the main identified operational risks, there has not been an explicit link to these risks, which are contained in the Superannuation Product Risk Register.

Recommendation No.1

2.24 To strengthen the linkage between risk and planning processes, the ANAO recommends that the Tax Office explicitly reference co-contribution operational risks contained in the Superannuation Product Risk Register in relevant co-contribution product and/or portfolio plans.

Tax Office response

2.25 *Agreed.* Future co-contribution product and/or portfolio plans will explicitly reference co-contribution risks contained in the Superannuation Product Risk Register.

Performance measures specified in co-contribution plans

2.26 Good planning processes include a succinct set of performance measures that indicate whether or not stated objectives and deliverables are being met. These measures preferably include targets and are explicitly reported against, usually at the conclusion of the financial year. These measures can be supplemented by qualitative commentary.

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[36] As explained in Figure 2.3, the Strategic Risk Register includes all risks considered sufficiently significant to warrant monitoring by the Tax Office Executive, Sub-Plan Executives and/or the Chief Knowledge Officer.

2.27 In contrast, the *Superannuation Line Delivery Plan 2008–09* contained over 100 separate performance indicators or success measures. This represented a relatively large number of measures, which were not reported against in a way that would enable clear judgment of overall performance. In this latter regard, the *Superannuation 2006–07 Line Delivery Plan* included a section explicitly reporting results of performance against the 2005–06 plan for each corporate capability. To increase transparency, the ANAO suggests that the Tax Office reinstates reporting of previous year performance for Superannuation Line Delivery Plans in the future.

2.28 To improve the specification of performance measures in relevant co-contributions planning documents, the ANAO suggests that the Tax Office reconciles key measures reported in the main internal and external performance monitoring reports, with those contained in the planning documents. The Tax Office would then be better placed to gauge which measures to include in those planning documents and to focus on for ongoing reporting.

Co-contribution risk management

2.29 *Practice Statement PS CM 2003/02* sets out the Tax Office's framework for risk and issue management, including the outcomes and outputs sought, corporate requirements and roles and responsibilities. In accordance with PS CM 2003/02, the Superannuation Business Line has a responsibility for the identification, assessment and treatment of both internal and external risks that threaten the effective and efficient delivery of various products within its responsibility.

2.30 This section examines the Superannuation Business Line's risk management strategy and activities in relation to co-contributions, as an integral component of an effective governance framework. Chapters 3 to 6 of this report discuss the Tax Office's approach to co-contribution risk management for specific activities (IT systems, processing, compliance approaches, and communication with clients, respectively).

Co-contribution risk management framework and its application

2.31 Risk is managed at many levels in any organisation. In the Tax Office this is broken down into three levels of detail: at the corporate level where 'enterprise' risks are managed; at the level of sub-plans, business service lines and capability areas where 'operating' level risks are dealt with; and at the team and individual level where 'tactical' level risks are identified and managed.

2.32 Figure 2.3 outlines the main approaches to managing co-contribution risks in the Tax Office, at these three levels. It shows that there is a comprehensive system for identifying, prioritising and managing these risks. This system involves the Compliance Sub-plan Executive Committee, as well as the Superannuation Product Committee and Superannuation Risk Sub-committees, which bring together representatives from the Superannuation Business Line, CAS and other areas involved in the delivery of the co-contribution.

Figure 2.3

Key elements of co-contribution risk management

Element	Purpose	Management arrangements
Enterprise level:		
Strategic Risk Register	Includes all risks considered sufficiently significant to warrant monitoring at the enterprise level.	Considered quarterly by the Tax Office Executive, Sub-Plan Executives and/or the Chief Knowledge Officer.
Health of the System Assessments (HOTSA)	Assess health of the administration of major products, and outline strategies to mitigate strategic risks.	Superannuation Risk Sub-committee prepares the Superannuation HOTSA for product committee endorsement and submission to the Compliance Strategy Meeting.
Operating level:		
Super Product Risk Register, including co-contribution risks	Holds information on strategic risks as well as product specific risks. Monitors risk status at a business line level.	Considered by the Super Risk Sub-committee, Super Product Committee, and Compliance Support and Capability.
Super Product Diagnostic, including for co-contributions	Assesses the overall health of superannuation products at certain points in time, highlighting known and emerging risks.	Completed annually and presented to the Super Risk Sub-committee in February/March. This is followed by the product review in August.
Tactical level:		
Activities by relevant teams	Manage risks associated with specific events or activities such as financial transactions and audits.	Managed by individuals or teams as part of their day-to-day activities, for example members of the Co-contributions Product Team.

Source: ANAO analysis of Tax Office information.

2.33 As at October 2009, one co-contribution risk was on the Strategic Risk Register, being an enterprise level risk rated high or severe.[37] This risk, together with an additional ten risks, comprised the 11 risks related to co-contributions on the Superannuation Product Risk Register.

2.34 Risks on the Strategic and Superannuation Product Risks Registers were fairly stable from 2007 to early 2009, mainly related to the lodgment by superannuation funds of complete and accurate member statements, and the lodgment by individuals of complete and accurate income tax returns.

2.35 Reflecting this environment, the February 2009 *Co-contribution Diagnostic* found that the health of the system was basically sound and the risk rating low. This continued the trend from prior years of low risk ratings for the administration of co-contributions. However, the diagnostic snapshot in September 2009 rated the health of the product as deteriorating from green to amber,[38] because a number of significant challenges had 'impacted our ability to deliver the programmed mitigation strategies'.[39] The most significant impact was the implementation of Integrated Core Processing for co-contributions, with other issues including the co-contribution system misalignment project,[40] and anecdotal evidence of widespread problems with fund reporting.

2.36 While these risks are covered in later chapters, the approach to addressing them through the established risk management framework has been sound. Using the existing risk management calendar according to agreed roles and responsibilities, superannuation executives (and where necessary other senior Tax Office executives) have been aware of the main co-contribution risks and associated mitigation strategies. In addition, the number and composition of co-contribution risks on the Strategic and Superannuation Product Risk Registers appears well based, with information coming from a variety of sources for consideration by the appropriate committees.

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37 This risk related to the lodgement of member statements by funds.

38 A green rating means the health of the system is basically sound. An amber rating means the system (or an element of it) is not fully healthy and requires active monitoring, additional attention and some priority.

39 Internal Tax Office document, September 2009 *Co-contributions—Diagnostic Review*, p. 1.

40 This refers to a mis-alignment of the co-contributions law and how it was being administered (see Chapter 5).

2.37 Overall, the ANAO concluded that there is a robust governance system in place to identify and manage risks through appropriate forums. There is scope however to improve some elements of the application of risk processes to co-contributions, including:

- improving the explicit linkages in key planning documents of risks contained in the Superannuation Product Risk Register (see paragraph 2.23);
- better monitoring the effectiveness of existing risk mitigation strategies, by tracking key performance measures over time, including targets where possible (see paragraph 2.57); and
- better understanding and analysing trends and behavioural patterns in order to design effective mitigation strategies in relation to co-contributions (see paragraphs 5.13 to 5.15).

Performance monitoring and reporting

2.38 Performance monitoring and reporting underpins sound management and governance. Ongoing and regular monitoring and reporting of performance supports agencies to manage programs and meet external accountabilities to the Government and the Parliament. In this regard, the Tax Office has emphasised the importance of using 'meaningful and robust performance indicators to signal to the public and government the relative success of a program in meeting its objectives'.[41] Further, the timely collection, and regular analysis and reporting of relevant performance information assists in more effective decisions about the ongoing resourcing and impact of Co-contribution Scheme compliance activities.

2.39 The ANAO examined external and internal reporting of Co-contribution Scheme performance.

[41] Tax Office internal document, *Achieving our outcome: Applying our program framework in 2009-10*, p. 5.

External reporting of performance

2.40 External reporting through annual reports is a key mechanism by which agencies are accountable through the Government to the Parliament for the efficiency, effectiveness and economy with which they manage the resources they administer.[42] Internal reporting ideally provides the basis for accurate and timely external reporting.

2.41 The Tax Office utilises a variety of forums to report on Co-contribution Scheme activities including its annual report, prescribed quarterly and annual reports, media releases and the Internet.

Commissioner of Taxation annual reporting

2.42 Reporting in annual reports largely comprises the presentation of actual results against the specific performance standards for the outcomes and outputs set out in an agency's Portfolio Budget Statements and Portfolio Additional Estimates Statements.[43]

2.43 The ANAO found that recent Commissioner of Taxation Annual Reports have reported appropriately against the agency's Portfolio Budget Statements in respect of co-contributions.

2.44 The ANAO notes that the *Portfolio Budget Statements 2009–10* for the Treasury Portfolio (2009–10 PBS) increased the coverage of the Co-contribution Scheme compared to previous years. For the first time, that year's PBS included the Co-contribution Scheme as a separate program,[44] with associated funding, deliverables and key performance indicators.

2.45 Consistent with reporting in previous years, the deliverables included the number of individuals eligible for co-contributions and the value of co-contributions determined. The 2009–10 PBS added a third deliverable 'the percentage of co-contribution claims paid to superannuation funds within service standards'. The Commissioner of Taxation Annual Report 2009–10 is

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42 ANAO Better Practice Guide, 2004, *Annual Performance Reporting*, p. v.

43 There can also be requirements for annual reporting in specific legislation. However, this was not the case for the Superannuation Co-contribution Scheme, as the *Superannuation (Government Co-contribution for Low Income Earners) Act 2003* did not require any reporting about the Scheme in Commissioner of Taxation Annual Reports.

44 *Australian Taxation Office Budget Statements*, p. 220. The Co-contribution Scheme is Program 1.12, and relates to Output 1.1.4 'Compliance assurance and support for transfers and regulation of superannuation funds', as part of Output Group 1.1 'Australian Taxation Office'.

the appropriate document to present information regarding each of these deliverables.

2.46 A further deliverable for the Tax Office to consider including in future Portfolio Budget Statements is the 'median value of personal superannuation contributions of those receiving a co-contribution'. This measure would supplement reporting about the number and value of co-contribution payments, and together with the other measures would provide useful information against the overall objective of the Scheme—to increase superannuation saving by low and middle income earners.

Reporting to Parliament as required by the Act

2.47 Section 54 of the *Superannuation (Government Co-contribution for Low Income Earners) Act 2003* (Co-contribution Act) requires the Commissioner to provide the Minister with a report, for presentation to the Parliament, after the end of each quarter and financial year. Section 54 of the Act, and Regulation 21A of the *Superannuation (Government Co-contribution for Low Income Earners) Regulations 2004 (*Co-contribution Regulations) prescribe the nature of this quarterly and annual reporting.

2.48 The ANAO assessed the level of compliance with these reporting requirements since the commencement of the Scheme in July 2003 to the June 2009 quarter. This testing confirmed that, in accordance with legislative requirements, Parliament had been presented with:

- each of the five required financial year reports up to the 2008–09 financial year; and
- each of the 19 required quarterly reports to Quarter 4, 2008–09.[45]

[45] The first quarterly report was prepared in Quarter 2 2004–05 and covered the initial co-contribution payments, relating to the 2003–04 income year.

2.49 There are requirements for entities to publish electronic versions of tabled documents.[46] Given this requirement, the ANAO checked whether all co-contribution financial year and quarterly reports had been made available on the Tax Office's website <www.ato.gov.au>.

2.50 This testing revealed that each of the five Annual Co-contribution Parliamentary Reports that had been presented to Parliament were available online on the Tax Office website.

2.51 Initial testing in October 2009 revealed that none of the quarterly Co-contribution Parliamentary Reports were available online, either via the Tax Office website or through other sources such as publications.gov.au or the Parliament of Australia website. Following advice from the ANAO, the Tax Office subsequently published all quarterly reports online, together with the financial year reports.

2.52 The audit also examined whether these reports were in the prescribed format. The ANAO found that the annual reporting format satisfies the requirements of s54 of the Co-contribution Act and s21 of the Co-contribution Regulations. Similarly, the quarterly reports were in the required format.

Internal performance monitoring and reporting

2.53 Monitoring and reporting Co-contribution Scheme performance includes those activities and documents outlined in Figure 2.4.

[46] In April 2000 the Government released *Government Online—The Commonwealth Government's Strategy* which contained the Online Information Service Obligations (OISOs). Among the OISOs was the requirement that government entities publish online all documents presented to the Parliament. The 2006 *e-Government Strategy, Responsive Government: A New Service Agenda* sought to increase government entities' use of the internet to deliver programs and services. In line with this policy, the then Department of Finance and Administration, launched in May 2007 the Australian Government Web Publishing Guide (WPG). The WPG superseded the OISOs and advised entities on web publishing, and it reinforced the requirement to publish online all documents presented to the Parliament.

Figure 2.4

Major elements of internal performance monitoring and reporting of co-contribution operations

Report	Sent to	Frequency	Intent
Heartbeat	Superannuation Executive	Weekly	Real time identification of high profile incidents, emerging issues, project updates, releases and milestones achieved within Superannuation.
Line Delivery	Superannuation Executive	Monthly	Performance against commitments and targets, including Compliance Commitments, Superannuation Line Delivery Plan, Compliance Challenges, the Taxpayers' Charter standards, External Scrutineer Recommendations and Expenditure.
Superannuation Product	Superannuation Product Committee	Monthly	High level, whole of Tax Office view of management of superannuation sub-products.
Tax Office Executive	Tax Office Executive Committee	Monthly	High-level snapshot on progress, issues and delivery against commitments to the Tax Office Executive Members and National Program Manager.
Compliance Exceptions	Superannuation Executive	Monthly	Real time identification of high profile incidents, emerging issues, project updates, releases and milestones achieved within Superannuation.
Policy Information Forum	Policy Information Forum	Monthly	Provides assurance on project readiness to the Tax Office Corporate Executives on new policy and administrative projects.
Other	Various	Various	Certificates of Assurance and the Financial Assurance Questionnaires. Ministerial requests, Senate Estimates Briefs, Questions on Notice and Question Time Briefs. Managers' Assurance Program. Monitoring the Superannuation Business Line performance in the Tax Office Integrity Framework.

Source: ANAO examination of Tax Office performance monitoring and reporting documents.

2.54 Co-contribution Scheme administration is only one component of overall Superannuation administration. As such, input into core quarterly and monthly governance reporting mechanisms is typically integrated with other Superannuation and Tax Office wide activities.

2.55 In this regard, monthly Superannuation executive team meetings focus on line management and the line delivery report, including for co-contributions. The line delivery report details performance against the line delivery plan, with a focus on key commitments, including responses to external and internal scrutineer recommendations, and line financial position. Significant performance issues are escalated via the fortnightly issues report and monthly Compliance Exceptions Report. Weekly Heartbeat Report and executive team meetings focus on major current issues and exceptions.

2.56 The ANAO notes the following positive aspects of this approach with respect to reporting:

- a clear and consistent reporting framework, with an articulated methodology, has been developed at the strategic level;
- reporting at the operational level has covered the main priorities and risks in a timely way;
- the impact of the Co-contribution Scheme is closely monitored, particularly in reports to the Minister, and in satisfying the Parliamentary reporting requirements; and
- in addition to ongoing diagnostic and snapshots and the HOTSA process, there have been a number of comprehensive reviews of co-contribution administration since inception that has provided strong self awareness regarding the health of the system and opportunities for improvement.[47]

2.57 While this approach has delivered timely and useful information about the administration and uptake of the Scheme, our analysis of co-contribution reporting processes showed that there is scope to:

- develop a more succinct set of key performance indicators, explicitly addressing co-contribution risks and major priorities;[48]
- better integrate measures contained in key reporting documents to those in relevant co-contribution planning documents (as discussed in paragraph 2.28);

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47 For example, reviews in 2006 and 2007 focussed on operations and information technology processing issues, including risks and opportunities for improvement.

48 ICP will be the reporting capability tool allowing the Tax Office to monitor and report on co-contributions performance. However, due to some issues around its implementation, the requisite reporting functionality for co-contributions has not been fully deployed. To improve this reporting functionality, performance benchmarks for co-contributions have been added as an item to the Individual's Segment prioritised list of information technology changes for 2009–10.

- develop compliance effectiveness measures to enable the Tax Office to monitor and measure any change in client behaviour for key compliance activities;[49] and
- monitor key service standards relating to the administration of co-contributions.

Cost efficiency

2.58 The Tax Office is accountable for the funding it receives and responsible for using those funds efficiently. In 2004 the Superannuation Business Line adopted the ATO Unit Cost Analysis (ATOUCA) system to measure output costs both for planning and reporting purposes.

2.59 The total cost of administering the Co-contribution Scheme in 2007–08 was $30.1 million. Major areas of expenditure were processing accounts, marketing and communication, and client contact (see Table 2.1).

Table 2.1

Costs of administering co-contributions in 2007–08

Business Service Line	Budget ($m)	Actual ($m)	Variance ($m)
Processing accounts	25.5	11.2	14.2
Marketing and communication	7.8	6.0	1.9
Client contact	5.5	5.4	0.1
Compliance risk identification	2.9	1.6	1.3
IT systems – design and build	2.8	2.6	0.2
Registration	2.2	1.0	1.3
Interpretative assistance	1.2	1.2	0.0
Other	1.8	1.1	0.7
Total	49.8	30.1	19.7

Source: Information provided by the Tax Office.

[49] The Tax Office is in the process of developing Compliance Effectiveness Measures for risks relating to the accuracy and completeness of reporting by APRA Funds. This covers a number of Superannuation products, including co-contributions. It is intended that these effectiveness measures will align with mitigation strategies employed by the product teams to ensure that funds lodge accurate and complete data. For the co-contribution, this reporting covers accurate member information, contribution details, as well as ensuring that funds have accounted for all their members in their member statement.

2.60 Compared to the budget of $49.8 million, there was an underspend of $19.7 million (40 per cent) by the Tax Office in 2007–08 to administer the co-contribution. This is a significant variation and indicates scope for improvements to budget practices, particularly regarding co-contribution processing by CAS.

2.61 In this regard, the *2008 Super HOTSA* (p. 14) stated 'further work is needed to evaluate the accuracy of full-time equivalent staff (FTE) attribution against the strategic costing framework reporting.' To address this issue, the ATOUCA team in the Superannuation Business Line has developed a number of product-specific work types which form the basis of monthly reports and the Finance and Integrity areas are also working with business lines to improve the reliability and confidence of their reporting.

Compliance costs

Funds

2.62 A fund's primary co-contribution obligation is to lodge a member statement or SMSF Annual Return with accurate personal contributions data (and a Payment Variation Advice when required) in a timely manner. Reporting problems generate errors and reverse workflows which result in a cost to the fund to rectify/re-report, although the introduction of new member statement reporting methods is expected to improve reporting by funds.

2.63 A common view of superannuation industry representatives contacted as part of the audit was that compliance costs were usually at a reasonable level but have been higher recently, largely due to the deployment of the Integrated Core Processing (ICP) information technology system and the more legalistic approach being adopted by the Tax Office. These representatives acknowledged that the Tax Office was aware of the costs and disruption to funds of changing IT systems, yet proceeded to make more changes than the funds considered necessary.

Individuals

2.64 The design of co-contributions is such that eligible individuals need not lodge any sort of application in order to have their entitlements automatically paid to their superannuation accounts. This means that minimal compliance costs are imposed upon eligible individuals.[50]

[50] This is also true of the self-employed, although the self-employed now have an opportunity to claim a deduction for personal contributions and/or be in receipt of a co-contribution. This decision may require some level of financial advice, which could come at a cost to the individual.

3. Co-contribution Information Technology Systems

This chapter examines information technology (IT) systems, processes and controls used to capture, match and process data relevant to the co-contribution.

Introduction

3.1 In order to meet business objectives, effective and efficient IT systems are necessary to support business operations. This requires the co-contribution IT system (co-contribution system) to be built and maintained to meet specified functional requirements and operational standards, including the need for accurate and efficient data capture, transaction processing, record maintenance and business reporting.

3.2 Any malfunction of the IT system or inefficient processing will increase the risk of delayed assessment of large numbers of co-contribution transactions, and may also produce large numbers of incorrect co-contribution payments and exceptions. Rectification of large numbers of errors and exceptions is expensive and time consuming.

3.3 As IT systems become more sophisticated, they increasingly replace human operations in various business activities, and sometimes in critical activities such as the application of sophisticated business rules. This has given rise to the importance of ensuring effective controls over IT systems' correctness and reliability.

3.4 To assess the adequacy of the co-contribution system, the audit examined the system solution design for the correct implementation of business requirements, and evaluated procedures and controls for ongoing system operation and maintenance.

Co-contribution system design

3.5 The original co-contribution system was implemented in July 2003 as an independent IT application to support the Tax Office's business processes to comply with relevant legislative requirements. After the initial implementation of the system, the Tax Office commenced its planned upgrade of the IT framework (known as the Change Program), transforming the various IT systems dedicated to specific taxes or support of individual business administration to an organisation-wide system.

3.6 In line with the new platform, the co-contribution system was redesigned and then implemented as part of the incremental release of the Tax Office ICP project in February 2009. A key design principle was to achieve greater efficiency and accuracy by processing all business transactions, both financial and non-financial, in a fully automated manner.

3.7 The stability and reliability of the co-contribution system process rely heavily on the interoperability between multiple IT components residing within the ICP platform. There is an increased risk that any changes to other IT components may impair co-contribution system processing. In this regard, paragraphs 4.27 to 4.28 in Chapter 4 address a suspension of co-contribution system processing due to the deployment of the ICP income tax system.

Key co-contribution system processes

3.8 The co-contribution system contains multiple IT components that reside on different technology platforms. In order to support an automatic end-to-end business process, these IT components should collectively implement the required business rules.

3.9 To determine the extent to which the Tax Office applies key business rules for co-contributions, the ANAO assessed the five processing steps that comprise the end-to-end co-contribution business transaction process, as outlined in Figure 3.1.[51]

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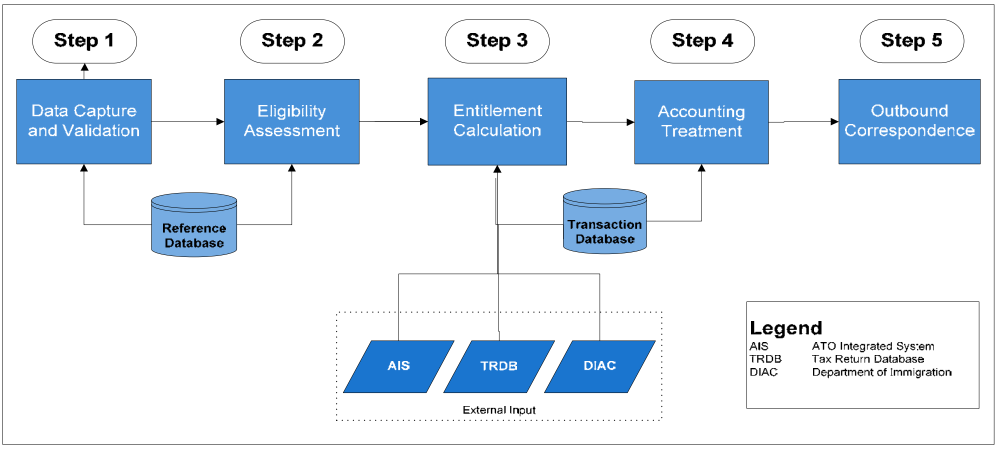
51 The following sections report audit findings for each of these five steps except for Step 4. In this regard, the ANAO reviewed the programming code of certain sections of the Accounting Treatment module and found no issues requiring remedial action by the Tax Office.

Figure 3.1

Co-contribution system processes



Source: ANAO analysis of Tax Office system documentation.

Data capture and validation

3.10 Co-contribution data capture and validation refers to the process the Tax Office uses to accurately capture incoming co-contribution data from member statements submitted by super funds and matched to tax return data.

Data capture

3.11 To encourage the timely and accurate provision of high quality co-contribution information from super funds and individuals, the Tax Office maintains two lodgment options—electronic and paper formats.

3.12 Electronic lodgment, which clients are encouraged to use, is the Tax Office's preferred option for a number of reasons, but particularly as it improves input data quality. There are two methods of electronic data submission—the Electronic Lodgment Service (ELS) and the Electronic Commerce Interface (ECI). ELS utilises the Tax Office external facing portal and is an inexpensive and flexible avenue for Self-Managed Super Funds, while the ECI specifically caters for larger funds that need to submit extensive amounts of information in bulk.

3.13 The vast majority of submissions are now electronic, and the trend is continuing. For example, lodgments over the opening months of the 2010 year (relating to the 2008–09 financial year) showed that approximately 90 per cent of funds lodged electronically using ELS and ECI. This electronic lodgement covered over 95 per cent of member statements relating to individuals.

3.14 Funds and related industry stakeholders advised that lodgment mechanisms, based on electronic methods, generally worked well. The prime instance where this was not the case was due to the deployment of co-contribution systems into ICP from late February 2009, whereby quite substantial problems emerged but were resolved reasonably promptly.

3.15 The ANAO found that Tax Office systems used to capture data provided by funds were well designed, albeit that some further modifications may be required as ICP functionality continues to evolve.

Data validation and matching

3.16 After incoming co-contribution data reaches the Tax Office IT environment, all data is transformed into electronic 'forms' for further processing. Data validation and data matching processes are implemented to provide key data quality control over incoming data for all downstream system processes. These validation and matching processes are performed according to pre-defined business rules built into the validation and matching application. The outcomes from these processes determine if the forms are fit for use—that is if the information is complete, validated and meets the Tax Office's minimum criteria.

3.17 Those forms deemed fit for use are posted as transaction records to client accounts. Others are marked as either cancelled or suspended. Cancelled forms are sent back to clients for additional information or for correction of errors. Suspended forms, for example forms that failed to pass validation, require manual actioning prior to further processing. This allows Tax Office staff at the operational level to review any supporting documents and make appropriate treatment decisions.

3.18 The Tax Office advised that data validation and data matching rules can be adjusted. Within the Tax Office this is referred to as the tolerance level. The higher the tolerance level, the less strict is the application of business rules in checking against incoming data results, which results in fewer rejections but potentially larger exceptions occurring in transaction processing.

3.19 The Tax Office may adjust the tolerance level during peak processing periods by lowering it; for example, just before the submission due date when a large amount of data inputs are expected, to avoid a large number of client data submission rejections.

3.20 However, this may create extra workloads at subsequent processing stages where necessary business rules will need to be applied to identify, suspend, correct or even remove data with illegal formats from being processed, in order to avoid incorrect co-contribution processing output, and to rectify problematic client data accepted at the earlier processing stages.

3.21 The ANAO considers that data matching and verification systems have generally been well designed for the co-contribution, which has supported effective processing. In the latter regard, Chapter 4 reports relatively high levels of data integrity, with low levels of member records without valid tax file numbers (TFNs) and few ICP exceptions, but with largely appropriate processes to address those that do arise.

Eligibility assessment and entitlement calculation

3.22 ICP modules perform the majority of business rules, such as transaction manipulation, calculation and client accounting, to serve a variety of business functionalities. Several programming modules within ICP were specifically built to assess eligibility for the co-contribution and calculate the entitlement.

3.23 Chapter 5 examines these issues in detail and reports that three of the six rules influencing eligibility and entitlement were being applied appropriately but there were some problems surrounding the application of the other three rules—involving income calculations, obtaining at least 10 per cent of income from eligible employment, and residency.

Outbound correspondence

3.24 While not required to do so by legislation, the Tax Office has previously sent notices via an outbound correspondence process, in either electronic or paper format, to funds and individuals providing information relating to co-contribution transactions.[52]

3.25 The outbound correspondence process is triggered by specific indicators, or flags, set for each business transaction record in various processing steps of the co-contribution system. The type of indicators and their different values determine the predefined templates to be used and the type of correspondence to be produced. Additional information needed to produce the final output correspondence is sourced from relevant transaction elements.

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[52] Types of correspondence include: Remittance and Recovery Notices, Superannuation Notices to Individuals, Statements of Account for Individuals, Direct Payment Notices, Outcome of Lodgement Reports and No-TFN Notices. As discussed in Chapter 4, the Tax Office will not be issuing Co-contribution Payment Notification letters to members in 2009–10.

3.26 During fieldwork, Tax Office technical teams advised that some business rules were vague, lacked detailed analysis and relied heavily on high-level assumptions. Some data patterns and process relationships only became apparent at the technical implementation stage, which in some cases resulted in a complete redesign of the original approach.[53]

3.27 The Tax Office also advised that this type of development cycle was repeated for other IT system modules throughout ICP implementation. As a result, delays in releases and urgent fixes after deployment were common.

Co-contribution system operations and maintenance

3.28 Management of IT system operations refers to processes and procedures used by an organisation to maintain and monitor the reliability and availability of its IT systems in supporting the initiation, recording, processing and reporting of business information. Deficiencies in this area potentially affect the integrity of an organisation's business operations.

3.29 The audit reviewed two key areas associated with the operation and maintenance of the co-contribution systems:

- user access management; and
- IT operations management.

User access management

3.30 User access management is a critical process to enable appropriate access to information and system functions to prevent unauthorised use, disclosure, modification, damage or loss of business data.

3.31 The Tax Office's approach to user access administration involves delegating responsibility for allocating and maintaining appropriate user access to each business service line. In accordance with an organisation-wide user access control framework, each line manager is responsible for determining staff members' access to IT system functions, based on their job requirements.

[53] The complexities of some business scenarios were overlooked during the early stages of system development, such as defining business requirements—an example being the determination of client correspondent destination. In order to achieve the desired output, the technical team needed to develop extra program coding, in addition to the original design, to traverse complex logics born from the large amount of data permutations.

3.32 In addition, an Access Assurance Framework Team is responsible for maintaining ICP enterprise system access policies and procedures. User access to Tax Office legacy systems is administrated by each individual Workplace Access Administrator following a predefined Divisional User Access Matrix. A user's access to the ICP User Interface functionality is governed by the risk matrix endorsed by the Tax Office Security Committee as part of the corporate user access control framework.

3.33 Ensuring the risk matrix is up-to-date and aligned to existing job functions requires a strong ongoing review and analysis process. Any misalignment of job function may result in granting excessive accesses that potentially can lead to an abuse of system facilities and unauthorised manipulation of business transactions.

3.34 For four consecutive months from July to October 2009, the Tax Office's monthly Integrity Indicator Report revealed a number of users involved in the administration of the co-contribution whose combination of roles provided them with access to conflicting duties in the IT system. With this type of access, the ability to perform activities that should be mutually exclusive, such as client detail maintenance and financial transaction processing, were possible. While around 30 Superannuation staff had conflicting access roles, due to additional administrative arrangements, individual staff would not have the opportunity to exercise both access roles.

3.35 To ensure staff members have appropriate user access to the co-contribution system, to prevent unauthorised system transactions and minimise system operation errors, the ANAO suggests that the Tax Office strengthen current approaches to reviewing and updating the user access matrix in the Superannuation Business Service Line, with an emphasis on eliminating conflicting user access.

3.36 The Tax Office advised that it has substantially reduced the number of staff within the Superannuation Business Service Line who have conflicting access roles, and acknowledged that Superannuation base roles will need to be reviewed to ensure there is no possibility of abuse of system facilities and unauthorised manipulation of business transactions.[54]

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54 A further control implemented since the Co-contribution was migrated to ICP is that all access to co-contributions is required to be authorised by managers, who have to certify that access complies with relevant guidelines as part of the approval process.

IT operations management—monitoring and reporting

3.37 Operational monitoring and reporting at the system process level is essential to providing a reliable and consistent service to business processes. It addresses issues, including system problems and incidents, facing users in day-to-day business operations. Failure of monitoring and reporting controls will delay the identification and resolution of any operational problems and thus impair the effectiveness of co-contribution business processes.

3.38 The audit reviewed the Tax Office's management of problems and incidents and its change management processes that impact on co-contribution systems operation and technical support.

3.39 Between June and October 2009 the Tax Office implemented a major restructure of how it delivered IT services within the organisation. This restructure involved moving to a single point for Tax Office business areas to access concerning their IT related discretionary and legislative changes (EST Front Door[55]); reorganisation of incident and problem management (Customer Liaison and Services Support[56]); and aligning applications resources along a business capability approach. The focus of the restructure was to provide a more streamlined and open process for business to identify and prioritise changes within the constraints of limited EST resources.

3.40 Under the restructured service delivery model, business initiatives are channeled into four categories; policy, changes, problems and service (maintenance). The Application Service Management Team coordinates tasks including locating responsible teams to achieve the best possible resolution. This change of business engagement model requires a progressive implementation of defined roles and responsibilities in logging, monitoring and resolving system faults and user initiated change requests.

3.41 The problem and incident management process and change management process are two key components underpinning this service model. Infra, an incident and request logging tool, is used to record and track all issues raised by users, together with related information.

3.42 The Tax Office provided a complete list of Infra incidents for the co-contribution system since its production release. The list shows that a large

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55 EST is an acronym for Enterprise Solutions and Technology.

56 Incident Management and Application Service Management: problem and change management.

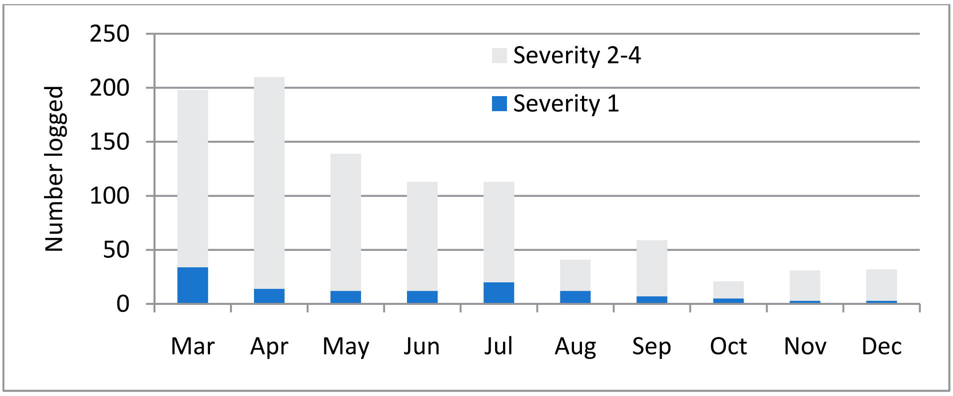
number of Infra incidents were raised and rated as high severity or 'Severity 1'. This situation was due in part to the complexity of implementing the ICP system, and the number of legislative changes immediately following the implementation of the co-contribution component.

3.43 The ANAO observed that since the inception of the EST Front Door framework there has been a marked decline in high severity incidents. Consequently there has been an improvement in the stability of co-contribution processing in ICP.

3.44 Figure 3.2 provides a monthly breakdown of the number of Infra requests related to the co-contribution for each month from March to December 2009, categorised by Severity 1 and all other severity requests.

Figure 3.2

Frequency of Infra co-contribution requests, March to December 2009



Source: Data provided by the Tax Office.

3.45 This service delivery model creates a situation of multiple teams—geographically and technically dispersed—working seamlessly in resolving business operational support issues. This requires defined processes and procedures being in place to allocate team accountability and assist operational communication.

3.46 The ANAO found that although the new EST structure was implemented between June to October 2009, there was a lack of detailed procedures and process guidelines to assist staff to understand their roles and responsibilities. Rather, day-to-day support tasks being performed depended on individual staff skills and established personal contacts. As a result, at the time of the audit there was some confusion by staff over their roles and responsibilities in the new structure and particularly the end-to-end process for change.

Recommendation No.2

3.47 To support reliable and timely problem resolution and change management, the ANAO recommends that the Tax Office clarifies roles and responsibilities with staff in relation to the restructured enterprise solutions and technology (EST) service delivery model. In particular, the Tax Office should define and document end-to-end EST processes, roles and responsibilities for managing system changes in this restructured model.

Tax Office response

3.48 *Agreed. This recommendation has been implemented.* At a high level, end-to-end EST processes, roles and responsibilities for managing system changes have been defined and documented. Work is underway to build more detailed documentation which will be published on the intranet.

4. Co-contribution Processing

This chapter examines the adequacy of key elements of co-contribution processing.

Introduction

4.1 The core of Tax Office administration of the Co-contribution Scheme involves Client Account Services (CAS) processing information taken from the many member statements and tax returns lodged each year. While the newly deployed ICP system has automated most key processing requirements, there remains considerable work to manage these processes, as well as undertake separate related automated processes, or necessary manual processes, in CAS and elsewhere throughout the Tax Office.

4.2 Given its importance, the accuracy, completeness and timeliness of the core processing underpins the efficient and effective administration of the Co-contribution Scheme by the Tax Office.

4.3 To assess the effectiveness of key elements of co-contribution processing, the audit examined:

- the profile of co-contribution processing;
- co-contribution exceptions;
- timeliness of core processing;
- distribution of payments;
- Payment Variation Advice processes; and
- debt management.

Profile of co-contribution processing

4.4 As discussed in Chapter 1, the Co-contribution Act requires co-contribution entitlements to be determined for an individual following the lodgment of the individual's tax return, and the receipt of at least one member statement from a fund.

4.5 Given this legislative framework, the Co-contribution Scheme involves high volume and low value transactional processing—a large number of tax returns and member statements being matched for a relatively small number of people gaining entitlement (see Table 4.1). For example, in 2007–08, 12.7 million tax returns and 16.1 million member statements were processed, of which 2.9 million contained a personal contribution, and 1.1 million received a co-contribution (representing only nine and seven per cent of tax returns and member statements processed, respectively).

Table 4.1

Number of tax returns, member statements, personal contributions and co-contributions, income years 2003–04 to 2007–08 (million)

Processing characteristic /Income year	2003–04	2004–05	2005–06	2006–07	2007–08
Member statements processed	12.6	13.8	14.0	14.4	16.1
Member statements with TFN	12.0	13.0	13.3	13.8	15.5
Tax returns processed	11.6	11.9	12.1	12.3	12.7
Tax returns under threshold	7.1	9.2	9.1	9.0	9.2
Tax returns under threshold with member statement lodged	4.7	6.6	6.6	6.6	7.0
Member statements with personal contributions	1.6	2.6	2.7	2.9	2.9
Member statements under threshold with personal contributions	NA	1.5	1.5	1.6	1.6
Co-contribution payments	0.7	1.3	1.3	1.3	1.1

Notes: Under threshold refers to being under the maximum co-contribution eligibility income threshold.
NA – not applicable as a reliable estimation.

Source: Data provided by the Tax Office.

4.6 It is also notable that in the 2007–08 income year there were 9.2 million tax returns with income under the co-contribution threshold but only 7.0 million under the threshold with a member statement and matched TFN, meaning that 2.2 million individuals each year were either without a member statement or did not have a TFN that was matched to an existing member statement.

4.7 Around 587 000 of these individuals did not have a TFN to match to the member statement, which is an issue for co-contribution processing, and is discussed below as an element of co-contribution exceptions. The lack of a member statement mainly relates to those individuals not required to have a member statement lodged on their behalf, either because they were receiving a pension, were otherwise over 70 years old or were earning insufficient income to warrant employers making a Superannuation Guarantee payment.

Co-contribution exceptions

4.8 Co-contribution exceptions arise when an event occurring during processing prevents the Commissioner from making a determination. Not managing co-contributions exceptions effectively can result in large backlogs of incomplete work, as well as poor performance against the intended objectives of the Scheme.

4.9 Although there is not a specific definition of what an 'exception' is, for the purpose of this report, co-contributions exceptions have been divided into two categories:

- identity matching exceptions. These arise when a member statement cannot be matched to a member's tax return before it is processed by the ICP system (see Figure 1.2). Such circumstances may arise when a member does not provide correct or complete information to the fund, or the fund does not forward correct information to the Tax Office; and
- information technology system processing exceptions. These arise when an event occurring during processing (within the ICP system) prevents the Commissioner from making an assessment, or indicates that the Commissioner should review an assessment at a later time.

Identity matching exceptions

4.10 When a TFN is not reported, the Tax Office will try to derive it by matching the member to an entry in the TFN database. If the TFN is matched to a reasonable level, then the member statement is processed. If the TFN is not matched to a reasonable level, then the member statement is suspended awaiting more information to enable a match. Obtaining a member's TFN is therefore critical to the calculation of the co-contribution. Without a TFN, the Tax Office is not able to match a member statement record to an applicable tax return to calculate the co-contribution.

4.11 The ANAO audit of the Superannuation Surcharge noted that there were large numbers of member statement records that could not be matched to tax returns because a TFN had not been quoted. For example, in 2002–03, TFNs were quoted in only 73 per cent of member statements provided, and even after Tax Office matching activities, 10 per cent of all member statements (1.3 million records) remained unmatched to tax returns for that year.[57]

4.12 As a part of Super Simplification reforms, legislative changes were introduced to prevent, restrict and penalise the making of contributions to funds that do not hold member TFNs. As a result of these changes, and a number of efforts to improve the inclusion of TFNs on member statements leading up to the implementation of Super Simplification, disclosure of TFNs improved substantially. For example, as at 6 November 2009, 95 per cent of all member statements lodged in 2008–09 contained a TFN.

4.13 While member statements separately report both employer and personal contributions, administration of the Co-contribution Scheme is only concerned with personal contributions, as they are a key eligibility requirement. In this regard, the rate of quotation of TFNs is high (see Table 4.2).

Table 4.2

Quotation of TFNs on member statements recording personal contributions, 2006–07 to 2008–09 income years

	2006–07		2007–08		2008–09	
	No.	%	No.	%	No.	%
TFNs supplied	**2 824 339**	**98.4**	**2 825 271**	**99.5**	**1 931 406**	**99.8**
Matched	2 822 817	98.3	2 822 792	99.4	1 930 541	99.8
Not matched	1 522	0.1	2 479	0.1	865	0.0
No TFN supplied	**46 130**	**1.6**	**17 000**	**0.6**	**4 042**	**0.2**
Matched	38 375	1.3	14 110	0.5	3 015	0.2
Not Matched	7 755	0.3	2 890	0.1	1 027	0.1
Total member statements lodged with personal contributions	**2 870 469**	**100.0**	**2 839 271**	**100.0**	**1 935 448**	**100.0**

Source: Data provided by the Tax Office.[58]

57 ANAO Audit Report No. 39, 2004–05, *The Australian Taxation Office's Administration of the Superannuation Contributions Surcharge*, p. 101.

58 There are some discrepancies between the data used for graphs throughout the report. These discrepancies mainly relate to timing differences (that is, when data was obtained from Tax Office IT systems) and the system from which the data was extracted.

4.14 As at 6 November 2009, only 0.2 per cent of all member statements for 2008–09 that contained personal contributions did not supply a TFN, of which around one quarter (1027) were not matched. This continued an improvement in the supply of TFNs over the previous two years.

4.15 The Tax Office considers that these numbers are manageable from a co-contribution administration perspective but notes that residual issues remain. The Tax Office advised that:[59]

> No-TFN remains an issue towards which significant resources must be invested. More work is required to understand to what extent the no-TFN is a compliance issue. Do funds fail to report TFNs despite holding them or do they accept personal contributions despite not holding a TFN?

4.16 One of the main activities undertaken by the Tax Office to further improve the supply of TFNs, and better understand whether funds not reporting TFNs actually held them, has been to write to those funds that had not supplied TFNs for members making personal contributions. These letters note that Super Simplification reforms require funds not to accept contributions without a TFN, and so ask for an explanation as to the reasons for this possible discrepancy.

4.17 The Tax Office monitors the supply of TFNs and the magnitude of non-matched TFNs each year. This monitoring has identified the trends discussed earlier—of a strong increase in the quotation of TFNs, in total, and for those member statements that report personal contributions. While this monitoring is critical to the formulation of strategies to improve the quotation of TFNs, a project to estimate the total number and value of unmatched TFNs across years would provide further information to guide such strategies for the co-contribution.

ICP exceptions

4.18 It is to be expected that any IT system that processes large quantities of data from multiple sources will generate exceptions as part of day-to-day processing activity. However, a well designed IT system, underpinned by sound manual processes and controls, will minimise the number of exceptions that occur, as well as provide an environment conducive to efficiently addressing unavoidable exceptions.

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[59] Tax Office initial written advice to ANAO regarding the audit.

4.19 The deployment of the ICP system has contributed to a relatively low level of processing exceptions. As at 7 December 2009, there were 2 310 suspended fund forms and an associated 22 149 member forms. Most of the suspended fund forms (87 per cent) were because the supplier of the fund member statement form was not known with sufficient certainty in the system and manual action was required to establish the client link.

4.20 Most ICP suspensions are relatively straightforward to resolve, and the Tax Office has a number of processes and procedures to address these in a timely manner.

Timeliness of co-contribution processing

4.21 Co-contribution payments to funds and individuals are normally made once a month (in the third week) as part of batch processing by the Tax Office.[60] These payments must be made within 60 days of receiving all relevant information required to make a determination of entitlement and payee, or interest is payable by the Tax Office.[61]

4.22 The extent of interest paid provides a gauge of timely payment. As indicated by the incidence of interest payments, the Tax Office has been able to remit most co-contribution payments on-time. Since inception to 30 June 2009 there were 424 143 interest payments, which comprised around seven per cent of the total number of co-contribution payments made (5.9 million separate payments). The value of interest paid was $4.2 million, averaging $9.95 per instance of late payment over that period.

4.23 In the past, the majority of interest was paid as a result of the delays experienced in peak processing period from November through to January due to the large volumes of member statement data received by 31 October (see Figure 4.1).

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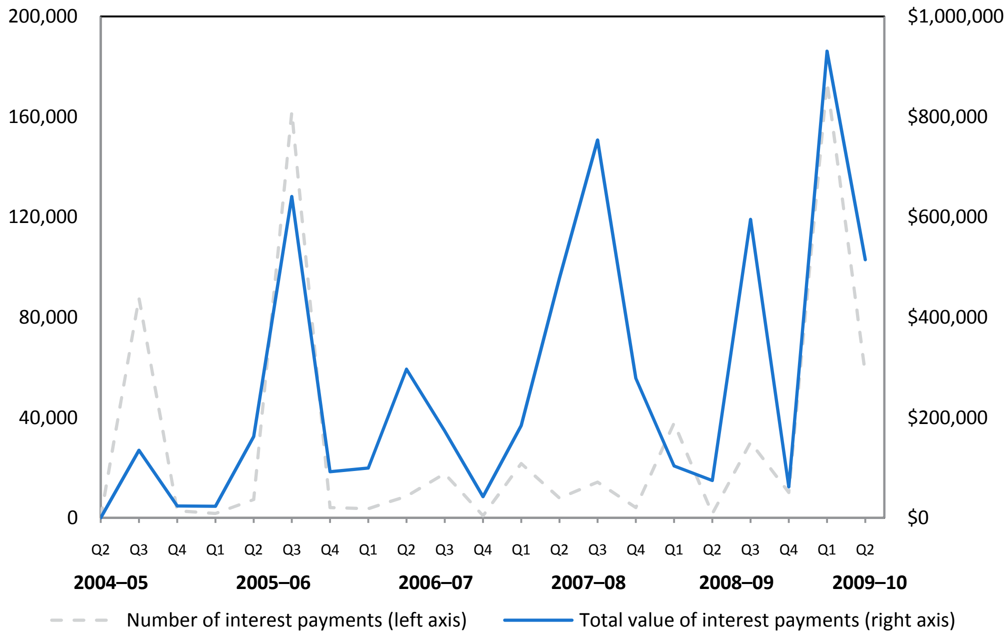
60 The annual payment of an individual' co-contribution is typically made in one payment, in the month the relevant member statement and tax return are processed by the Tax Office.

61 Interest is calculated from the sixtieth day until the refund is released.

Figure 4.1

Number of interest payments for late processing of co-contribution entitlements



Source: Information provided by the Tax Office.

4.24 The timeliness of payments has generally improved in recent years, with interest payments only being made in relation to around three per cent of all co-contributions from 1 July 2008 to 30 June 2009.[62]

Impact on timeliness of deploying ICP

4.25 As previously stated, the Tax Office deployed new information technology systems for co-contributions in February 2009. In line with a plan to minimise the impact on individuals and funds, the bulk of 2007–08 lodgments (15 million) were processed by legacy systems with the remaining lodgments scheduled to be processed in ICP from June 2009 onwards. However, a number of processing errors further delayed the payment of many co-contribution entitlements until September 2009, requiring additional interest payments to be

[62] The relatively large amount of interest paid in Quarter 3 2007–08 was the outcome of a strategy to reduce the number of member statement exceptions that had accumulated from prior years and were preventing payments to some clients (see paragraph 4.12).

made.[63] These factors resulted in a considerable increase in consequential interest payments in the first two quarters of 2009–10, as shown in Figure 4.1.

4.26 The Tax Office then returned to high levels of timely and accurate processing in the peak processing period from October 2009 to January 2010, with over 90 per cent of entitlements for the 2008–09 income year paid up to and including January 2010.

4.27 The Tax Office suspended processing again in January 2010 to provide for the planned deployment of income tax into ICP. Planned resumption of co-contribution processing was delayed from March until late April due to the priority afforded to settling-in of the income tax product This delayed the payment of over 100 000 co-contribution entitlements. As at early May 2010, around 40 000 of these entitlements would be over 60 days old, resulting in credit interest accruing at some $200 000 per month from April 2010 for these cases.[64] This new income tax system required some co-contribution computer fixes made in 2009 to be re-implemented and precluded income tax data from being immediately available for co-contribution processing.

4.28 The ANAO recognises the emphasis the Tax Office placed on addressing peak processing volumes following the deployment of ICP and the success of associated strategies in avoiding any backlogs of co-contribution processing in peak co-contribution processing periods in late 2009. The further suspension of co-contribution payments from January 2010 until planned resumption in May 2010 related to the interoperability of various IT components within ICP. When planning and implementing future IT system changes, there would be benefit in the Tax Office re-examining the priorities of products relying on the integrated system and taking a risk-based approach to analysing and preparing for potential impacts.

Calculating interest

4.29 To satisfy section 12 of the Co-contribution Act, interest must be paid to recipients of any delayed co-contribution remittance.

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63 An estimated $299 million involving some 325 000 members had not been paid by 30 June 2009.

64 It was not possible to accurately determine the total amount of credit interest payable until processing resumed.

4.30 According to a Tax Office review completed in September 2009:[65]

> The calculation of interest remains an area of concern for co-contributions; however ICP system design should minimise the instances of incorrect interest being applied once the new system is implemented.

4.31 However, the deployment of ICP did not resolve all problems, with 'many factors contributing to incorrect interest or no interest being applied to payments that are entitled to interest'.[66] These factors included: incorrect capture of key dates; errors in ICP interest calculation formulae; and rounding rules incorrectly applied. A project was instigated and managed by CAS to address the problems identified with calculating interest, and is due for completion in June 2010.

4.32 The Tax Office is also working to fix an error where credit interest is being overpaid for clients who have been slow to provide a valid destination for co-contribution amounts. Another project being considered as part of the EST Front Door process is to automatically adjust credit interest via ICP. As an example, if an original entitlement of $1 500 is paid late attracting $10 in credit interest, and that entitlement is subsequently reduced, there is no automatic adjustment of the credit interest. This functionality is not currently available.

4.33 It is important that the Tax Office effectively implements these projects, and takes other actions as necessary, to remedy known errors in the payments of interest and make appropriate adjustments to individuals' co-contribution amounts.

Distributing payments

4.34 The Tax Office uses a payee determination process to identify the recipient of a co-contribution payment. The payment is either to a superannuation fund or an individual. When there is no valid destination[67] and fund details are required to enable a payment to be made, the Tax Office will withhold payment and send a 'Letter to Request Nomination of Account' (LRNA).

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65 Internal Tax Office document *Tier 3 Project Outline: Super—Credit Interest Remediation*, September 2009, p. 2.

66 Internal Tax Office document *Appendices—Co-contributions Product Diagnostic*, February 2009, p. 6.

67 This often involves a fund either returning a payment or indicating an inability to accept the payment. It can also result from a lack of information from an individual.

4.35 After two LRNAs have been sent to the client asking for the client to nominate a fund and no valid fund nomination is found then the amounts will be transferred to the Superannuation Holding Accounts Special Account.[68]

4.36 In this context, the ANAO examined the Tax Office's management of:

- unpaid co-contribution entitlements; and
- their transfer to the Superannuation Holding Accounts Special Account.

Unpaid co-contribution entitlements

4.37 An internal audit on co-contributions issued in April 2007 identified one of two major outstanding issues as 'the large number of determined but not yet paid co-contributions which reside on the database'.[69] The report assessed data as at February 2006, which identified 67 318 instances of determined but not yet paid entitlements to a value of over $45 million.

4.38 As at 23 November 2009, there were 68 591 unpaid co-contribution entitlements to a total value of over $60 million. This represents an increase in the number and value of unpaid entitlements compared to three years previous, being in the order of one per cent of the $5 billion in co-contribution entitlements paid to that date.

4.39 The bulk of unpaid co-contribution entitlements typically relate to cases where information has been received within the previous six months. For example, available data showed that almost $40 million of the $75 million in unpaid co-contribution entitlements at 30 March 2009 were in this category.

4.40 To reduce the amount of overall unpaid entitlements and address the volume of aged credit balances, CAS developed and implemented a credit balance strategy. The strategy was implemented between March and September 2008, and used information held by the Tax Office and, where required, contact with members to establish fund destination details and reduce the volume of credit balances in preparation for the deployment into ICP. In late November 2009, the Tax Office piloted a new strategy for dealing

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[68] After 10 years in SHASA a letter will be sent informing the taxpayer the money is to be moved to consolidated revenue.

[69] Internal Tax Office document, *Super Co-contributions, Final Report, Internal Audit*, 17 April 2007, p. 6.

with credit balances, again involving phone contact with members but also accepting fund nominations over the phone rather than only in paper form.

4.41 The level of co-contribution credit balances reduced considerably after the completion of the initial credit balances strategy—by 33 582 cases valued at over $31 million. A similar level was achieved in October 2009 prior to an approximate doubling in the peak processing period towards the end of November 2009.[70]

4.42 Given these fluctuating but nonetheless considerable numbers and values of co-contribution credit balances, the ANAO suggests that the Tax Office continues to actively address this issue, including through the current pilot strategy.

4.43 Supermatch is an interface that allows for the searching of superannuation entitlements such as Superannuation Guarantee amounts held by the Tax Office. A link to Supermatch is not available for co-contributions so when funds search for lost superannuation entitlements for their members, they are not made aware that unpaid co-contributions exist. The initial design of Supermatch within ICP did not allow for the search of co-contribution amounts. While this has been flagged as a future change request, no timeframes have been decided.

4.44 To assist in engaging funds to help minimise aged credit balances, the ANAO suggests that the Tax Office works towards providing functionality in Supermatch to search for unpaid co-contributions, and continues to implement other elements of the credit balance strategy.

Superannuation Holding Accounts Special Account

4.45 Administration has been strengthened through functionality in ICP that has enabled the transfer to the Superannuation Holding Accounts Special Account of co-contribution entitlements of those individuals who do not respond to both LRNAs.

[70] For example, the co-contribution credit balance was 35 069 members with $32 684 834 in undistributed co-contributions on 18 August 2009, growing to 68 591 members with $60 719 166 in undistributed co-contributions on 23 November 2009.

Payment Variation Advice processes

4.46 Where a fund is not able to credit a co-contribution entitlement into the member's account within 28 days of payment, the fund is obliged to repay the entitlement to the Commonwealth. The Superannuation Payment Variation Advice (PVA) is the mechanism by which the fund returns credit remittances which have not been credited to a member's account (a remittance PVA), or informs the Commissioner why they cannot repay part or all of a remittance requested in a recovery notice (a recovery PVA).

4.47 There has been substantial PVA activity since the inception of the scheme, with 10 per cent of co-contribution entitlements returned by funds to the Tax Office via the PVA process over the 2005 to 2008 income years.[71] This PVA activity affected more than 450 000 co-contribution payments over that period.

4.48 Apart from risks associated with the accuracy of member statements that impact on the incidence of PVA, three risks related to the PVA process are contained in the Super Product Risk Register, one of which is also in the Strategic Risk Register. These risks relate to lodgment, accuracy and completeness of PVA notices.

PVA lodgment

4.49 In relation to risks associated with funds lodging a member statement, the Superannuation Product Risk Register states that 'funds may fail to lodge, or fail to lodge on time, a PVA, so individuals may fail to receive a co-contribution or have it delayed'. The ANAO examined how the Tax Office managed these lodgment risks.

Failure to lodge PVA

4.50 Prior to November 2008, the Tax Office could have been alerted to non-lodgment of PVA through taxpayers receiving the co-contribution payment notification letter, discovering that their fund had not received the entitlement and contacting the Tax Office. However, the Tax Office has not generated the payment notification letter since November 2008, precluding this opportunity to identify non-lodgment of PVA. These letters were stopped due to letter

[71] Internal Tax Office document, *Intelligence Assessment, Risk associated with the Co-contribution PVA Process*, 26 May 2009, p. 5.

template corruption issues. The Tax Office will not be issuing these letters for the remainder of the 2009–10 income year.

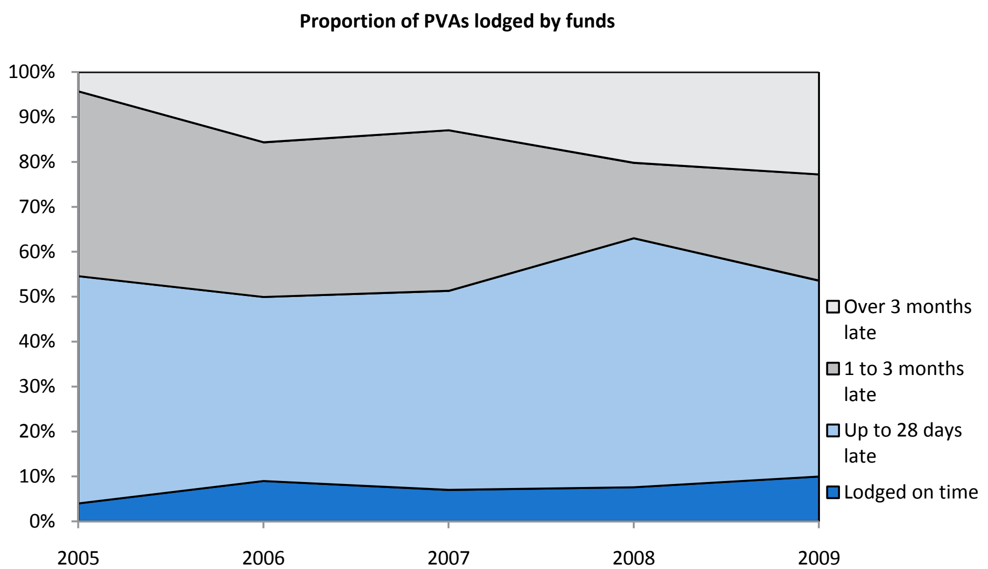
4.51 While there is no legislative requirement for the Tax Office to inform individuals that a payment has been made, there are compliance benefits from doing so and it also provides a record of the financial benefits delivered to Australians. The ANAO suggests that the Tax Office has regard to the compliance and record-keeping benefits of issuing these letters when considering their reinstatement.[72]

Failure to lodge PVA on time

4.52 There have been significant delays in the lodgment of PVA by funds. While legislation requires lodgment within 28 days of the amount being paid, only six per cent of funds met this requirement over the period 1 July 2004 to 31 December 2008 (see Figure 4.2). Over this period, 49 per cent of PVAs were lodged up to 28 days late and 45 per cent lodged more than 28 days late.

Figure 4.2

Timeliness of PVA lodgment by funds, 1 July 2004 to 31 December 2008



Source: Internal Tax Office document, *Intelligence Assessment, Risk associated with the Co-contribution PVA Process*, 26 May 2009.

[72] The Superannuation Product Risk Register includes the risk that 'individuals fail to understand how a co-contribution is paid'. Notifying individuals that payment has been made would mitigate this risk.

4.53 A PVA Intelligence Assessment approved in May 2009 reported that this 'very low rate of on time lodgment of PVAs is a cause for concern',[73] and that these statistics 'indicate that the Tax Office needs to do more to promote and enforce timely PVA lodgment with funds'.[74]

PVA accuracy and completeness

4.54 The PVA accuracy and completeness risk on the Superannuation Product Risk Register relates to the risks of funds lodging incomplete or inaccurate key data reports, thus adversely affecting the Tax Office's ability to effectively administer the superannuation system.

4.55 In addressing this risk, accuracy and completeness fund audits undertaken by the Tax Office have found instances of inaccurate data reporting, evidence of delays in funds' processing PVAs, and failure of funds to send the PVA payment with the PVA to the Tax Office.[75]

4.56 The Tax Office aims to undertake further audits into PVA accuracy and completeness in 2009–10 to obtain more detailed intelligence on what aspects of the PVA process funds find the most difficult. At the same time, the Tax Office intends to ask funds what it can do to assist them to meet their PVA obligations.

Tax Office mitigation of PVA risks

4.57 To mitigate all PVA risks, the Tax Office completed an Intelligence Assessment in May 2009, which made nine recommendations to: better understand the causes of problems with PVA (particularly late lodging); improve Tax Office processes; improve education for funds; and consider legislative amendments.

4.58 The ANAO considers that the implementation of these recommendations will enhance PVA processes and support improvements in the timely and accurate lodgment of PVA by funds. As of December 2009, the

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[73] Internal Tax Office document, *Intelligence Assessment, Risk associated with the Co-contribution PVA Process*, 26 May 2009, p. 7. The document went on to note that 'anecdotal evidence indicates that the primary reason is that funds find the PVA process administratively burdensome, as the PVA process usually involves multiple members with different co-contribution amounts spanning several years.'

[74] ibid., p. 20.

[75] Outcomes of Active Compliance, Large APRA Accuracy and Completeness Audits 2006–07 and 2007–08.

Tax Office had partially implemented most of these recommendations, but still had considerable work to complete the overall implementation strategy. Importantly, the Tax Office was yet to gain a full understanding of the reasons why the majority of funds are lodging PVA outside legislative timeframes, including the extent to which Tax Office processes or systems contribute to the problem.

4.59 To support the timely and accurate submission of PVA by funds, the ANAO suggests that the Tax Office implements the recommendations from the internal PVA Intelligence Assessment, and takes necessary consequential action to improve relevant Tax Office processes and educate funds accordingly.

Managing co-contribution debt

4.60 There are three main classifications of co-contribution debt:

- remittance debt: which arises where a fund receives a co-contribution it cannot accept, returns a remittance PVA but neglects to return the full amount of the co-contribution payment;[76]
- recovery debt: which arises where an individual's circumstances (that is, details on either their tax return or member statement) change resulting in a lower co-contribution entitlement, and the fund fails to either repay the overpaid amount or lodge a PVA outlining why it cannot repay the amount;[77] and
- individual debt: which arises where an individual's circumstances have changed, but the overpaid amount is not held by a super fund; either because it has been paid out to the individual as a benefit, or it was originally paid directly to the individual.

4.61 The level of debt is low relative to the magnitude of co-contribution payments (see Table 4.3). To put it in perspective, total co-contribution debt of $14.4 million as at 7 October 2009 was only 0.3 per cent of the total payments of around $5 billion since the scheme's inception to that date. As such, the

[76] Remittance debt also arises where a remittance PVA is lodged but the payment has not been processed, or the payment has been credited to an incorrect head of revenue.

[77] Debit balances on the Co-contributions Recovery Account can also arise where a General Interest Charge amount has accrued on the account.

amount (and age) of co-contribution debt has not been a significant administrative issue.

Table 4.3
Co-contribution debt levels as at 7 October 2009

Type of debt	Volume (No.)	Value ($m)
Remittance	181	4.2
Recovery	1 033	2.8
Individual	26 461	7.4
Total	27 675	14.4

Source: Tax Office internal document, *Reducing individual co-contributions debt*, 9 June 2009.

Debt at the individual level

4.62 The major category of co-contribution debt is at the individual level. As of 7 October 2009, the amount of individual co-contribution debt was approximately $7.4 million, having increased rapidly from around $1 million in August 2008.[78]

4.63 A key legislative constraint on the collection of individual co-contribution debts is that the Tax Office can only actively seek recovery of these debts where the original payment was made directly to the individual, not via a superannuation fund.

4.64 The only method used to date to recover individual co-contribution debts has been to offset them against future co-contribution entitlements, as this is the only method legally available to the Tax Office to recover debts which were originally paid to a superannuation fund. This process is undertaken manually—that is, outside the ICP system.

4.65 This method has not proven to have been effective in managing individual debt, mainly because the circumstances whereby individuals incur a co-contribution debt mean they rarely continue to participate in the co-contribution system in the future (for example, because they make no further personal contributions).

[78] Tax Office internal document, *Reducing individual co-contributions debt*, 9 June 2009, p. 15.

4.66 To address the escalation in individual debt, a strategy was developed to commence recovery or write-off action of individual debt. This strategy involved options for:

- requesting legislative change to allow active recovery action regardless of how the co-contribution was paid to the individual;
- non-pursuit in the case of debts older than two years or very small new debts (possibly less than $50); and
- demand letters for cases where the co-contribution was paid directly to the individual.[79]

4.67 As at December 2009, this strategy had not been implemented, partly because of issues relating to the deployment of ICP. The ANAO suggests the Tax Office implements the strategy to address co-contribution individual debt as soon as practicable.

Calculating the General Interest Charge

4.68 Late return of a remittance or recovery amount by a fund is subject to a GIC after 35 days.

4.69 In the period 2005 to 2009, 4780 funds were charged slightly over $1 million in GIC for late return of remittance or recovery payments (see Table 4.4).[80]

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[79] The use of demand letters is dependant on ICP providing the functionality to distinguish whether the original payment was made directly to the individual, not via a fund. As at 7 December 2009, ICP did not have such functionality, and there was no approved plan to include it in the future. As such, active recovery actions of debt at the individual level would remain unwarranted given the cost of recovery relative to the size of these debts (average value is about $300).

[80] The timeseries data is not consistent resulting in a large increase in measured instances of the application of GIC in 2009. This is because ICP applies the GIC to each member account, not just one aggregated for the funds, which was the case prior to July 2009. In addition, if the amount of GIC applied is below the threshold it is automatically remitted, then each 'child form' will have an additional GIC transaction.

Table 4.4

Imposition of General Interest Charge, 2005 to 2009

Year	Funds (No.)	Transactions (No.)	Value ($)
2005	200	957	10 067
2006	714	4 687	67 912
2007	878	12 801	204 427
2008	1 149	14 944	255 922
2009	1 839	171 520	495 051
Total	4 780	204 909	1 033 379

Source: Data provided by the Tax Office.

4.70 The Tax Office tested the accuracy of calculating the GIC within ICP for co-contributions and Fringe Benefit Tax accounts. This validation testing involved separately calculating the GIC for selected accounts and comparing these to ICP calculations. While GIC validation is significantly more difficult for co-contributions than Fringe Benefit Tax, only 14 co-contribution accounts were subject to GIC validation. The ANAO suggests that the Tax Office assesses the adequacy of this testing and accordingly conducts further validation as part of the ICP production phase.

5. Compliance

This chapter examines the Tax Office's approaches to managing co-contribution compliance activity. It addresses the Tax Office's integration of this activity into the superannuation compliance framework, and also assesses the methodology the Tax Office uses to assess and treat risks associated with co-contribution compliance.

Introduction

5.1 Compliance by funds and members with their obligations under co-contribution legislation is critical for the effective administration of the Scheme. Failure by funds and members to provide high quality information to the Tax Office decreases the likelihood that the Tax Office will be able to remit correct and timely co-contribution entitlements for all members.

5.2 Co-contribution compliance refers to the timely and accurate provision by funds and members of all information required to enable the Tax Office to calculate the co-contribution. Tax Office approved forms are central to the provision of co-contribution information—particularly member statements and tax returns.

5.3 The nature of the Co-contribution Scheme presents different challenges for compliance activities than many other Tax Office activities. In particular, its nature means a lesser emphasis on active compliance and a greater emphasis on education and marketing to encourage participation in the Scheme.

5.4 Given the context of providing assurance that funds and members are complying with their co-contribution obligations, it remains critical that the Tax Office has a logical, comprehensive and integrated compliance framework, based around efforts to ensure member statements are timely and accurate.

5.5 To assess the Tax Office's approach to managing co-contributions compliance, the ANAO focused on five main areas:

- the co-contribution compliance framework;
- compliance activities for large APRA funds;
- compliance activities for smaller funds;
- compliance activities for members; and
- compliance activities surrounding the application of key co-contribution eligibility and entitlement rules.

Co-contribution compliance framework

5.6 The Tax Office has an operating objective to optimise voluntary compliance and make payments under the law in a way that builds community confidence.[81] At the highest level, the Tax Office addresses non-compliance through the Compliance Program, which sets out the Tax Office's view of compliance risks posed by some taxpayers and how the Tax Office plans to address those risks in the coming year.

5.7 Compliance risks for the co-contribution have been included in Compliance Programs,[82] with the Tax Office predominantly managing these risks through Superannuation Business Line planning arrangements. As indicated in Chapter 2, co-contribution compliance risks are addressed in annual Superannuation Line Delivery Plans, Superannuation Product and Portfolio Plans, and partially in Co-contribution Product Team Plans. Planning is undertaken according to the Outcome and Program Framework, and typically reported by Sub-Output, with compliance mainly covered under Sub-Output 4.5 (superannuation compliance risk identification) and Sub-Output 4.4 (superannuation active compliance).

5.8 Superannuation compliance risks are also addressed through the risk management framework. As also discussed in Chapter 2, this includes: the Compliance Sub-plan Executive Committee, Superannuation Product Committee and Superannuation Risk Sub-committees; Strategic and Superannuation Product registers; HOTSA and product diagnostic processes; and activities undertaken by the Co-contribution Product Team and Superannuation Active Compliance unit.

5.9 Notwithstanding some opportunities for improvement outlined in paragraph 2.37, arrangements for managing co-contribution compliance risks are well integrated into broader Tax Office compliance management processes, and provide a framework for identifying, monitoring and mitigating risks.

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81 Tax Office *2006-10 Strategic Statement*, [accessed on 12 March 2010] at <http://www.ato.gov.au/content/downloads/ARL_77317_Strategic_Statement_booklet.pdf> [accessed 11 May 2010].

82 For example, accuracy and completeness audits have been included in the Compliance Program for the last three years in the Large Business and Small to Medium Enterprise segments.

Co-contribution compliance risk management

5.10 While co-contribution risks can be identified and treated via a range of different administrative units within the Tax Office, the Co-contribution Product Team has overall responsibility for managing co-contribution risks. In particular, the Co-contribution Product Team is responsible for:

- identifying co-contribution risks;
- analysing potential risks;
- recommending mitigation strategies;
- contributing to planning, risk and performance monitoring processes particularly updating risk registers, HOTSA, the Co-contribution Diagnostic and Co-contribution performance reports; and
- developing the active compliance audit strategy.

5.11 The Individuals Segment within the Superannuation Business Line recognised the need to enhance relevant Superannuation risk management functions, and early in 2009 established a Risk and Intelligence Team, rather than continuing to have this function dispersed throughout various Superannuation product teams. The main objective of establishing the Risk and Intelligence Team was to help ensure sufficient strategic focus on co-contribution and other Superannuation risks.

5.12 The ANAO considers that the formation of the Risk and Intelligence Team has strengthened the capacity of the Tax Office to manage co-contribution risks, including their identification, analysis and mitigation.

Identifying and analysing co-contribution compliance risks

5.13 The Tax Office has undertaken a number of recent projects analysing potential co-contribution compliance risks, such as ineligible minors receiving co-contribution payments. As mentioned above, the establishment of the Risk and Intelligence Team has strengthened the Tax Office's capacity to undertake such analysis.

5.14 At the time of audit fieldwork, the Risk and Intelligence Team had primarily been involved in analysing and developing mitigation strategies for potential risks in response to information provided by other areas in the Tax Office. However, the assessment of risks associated with the co-contribution PVA process involved the interrogation of various systems and other data to identify and address PVA risk. As discussed in Chapter 4, this was useful analysis, and the Tax Office is in the process of addressing the associated recommendations.

5.15 The ANAO considers that there is scope for the Risk and Intelligence Team, and other areas of the Tax Office, to more extensively use Tax Office databases to identify potential co-contribution risks.

Mitigating known co-contribution compliance risks

5.16 Effective administration of the Scheme is predicated on timely and accurate data from third party superannuation fund reports and individual income taxpayers. In this regard, data integrity continues to be an issue, particularly for funds lodging incomplete or inaccurate member contribution data. This affects a member's receipt of a co-contribution by providing an eligible member with an incorrect co-contribution amount or providing an ineligible member with a co-contribution.

5.17 The Tax Office has managed the integrity of member statement data by including co-contributions in the accuracy and completeness audits of APRA funds, and conducting other compliance activities, as outlined in Figure 5.1.

5.18 The Tax Office has continued to monitor and refine its approaches, and seeks to raise the profile and accountability of trustees in relation to their contributions reporting obligations, as well as taking enforcement action if required.

5.19 Much of the current compliance activity involves the Tax Office gaining a better understanding of funds' procedures and information technology systems, and how these procedures and systems impact on the timely and complete lodgment of member statements, as well as the quality of relevant data contained in member statements.

Figure 5.1

Main compliance activities for the co-contribution

Activity
Continue to analyse and understand the overall levels of compliance risk (excluding lodgment risk) in relation to co-contributions and design risk mitigation strategies and effectiveness measures to manage identified risks.
Continue to analyse and understand the overall levels of risk associated with non-lodgment, late lodgment and incorrect/incomplete lodgment in relation to co-contributions and design risk mitigation strategies and effectiveness measures to manage identified risks.
Accuracy and Completeness Strategy—conduct audits on the APRA licensed fund and SAF populations to verify the accuracy and completeness of member statements.
Extension of the co-contribution to the self-employed—review co-contribution payments to the self-employed by contacting funds to verify the entitlement.
Reportable fringe benefits (RFB) compliance work—follow up on taxpayers who have received co-contributions but have not included the correct RFB amount in their tax return.
Not claiming deduction for contribution and receiving a co-contribution—82AAT deductions review to confirm that taxpayers who claim the personal superannuation deduction are providing a notice to the fund.

Source: *Superannuation Product Plan 2008–09*, pp. 19–20.

Superannuation market segments

5.20 In developing co-contribution compliance strategies, the Tax Office examines risks associated with the main superannuation market segments: APRA funds; small APRA funds (SAFs); Self-Managed Superannuation Funds (SMSFs); and members.[83]

5.21 The critical superannuation fund segment is large APRA funds, as they comprise around 98 per cent of all members. As outlined in Table 5.1, large APRA funds can be disaggregated between key funds, such as industry and retail funds, that have the bulk of members, and other funds, such as eligible rollover funds, that have fewer members, many of whom are not actively providing contributions.

[83] Members are taxpayers who have a superannuation account with a fund and are obliged to submit a tax return.

Table 5.1

Characteristics of Superannuation funds[A]

Type of fund	Members		Funds	
	No.	%	No.	%
Key large APRA funds[B]	31 252 000	97.64	441	0.11
Small APRA Funds	8 000	0.02	4 255	1.04
Self Managed Super Funds	746 000	2.33	405 714	98.85
Retirement Savings Accounts			8	0.00
Total	32 006 000	100.00	410 418	100.00

Notes: (A) Member data as at June 2008 (revised 10 June 2009). Fund data as at 30 November 2009.

(B) Total number of funds is 2 566 if including all non-SAF APRA Funds (corporate, industry, public sector and retail funds and other fund types: eligible rollover funds, non-public offer funds, pooled superannuation trusts and approved deposit funds).

Source: Data supplied by the Tax Office.

5.22 While there are many more SMSFs than APRA funds, SMSFs have a maximum of four members per fund, and so have many fewer members in total as a segment.

5.23 Compliance risk profiles differ between the fund segments. However, the primacy of large APRA funds, in terms of share of members, is a major reason for the Tax Office focussing compliance activities on that segment.

Compliance activities for large APRA funds

5.24 As discussed previously, there are two main risks associated with the integrity of information supplied by large APRA funds for co-contribution purposes, involving:

- member statement lodgment; and
- member statement accuracy and completeness.

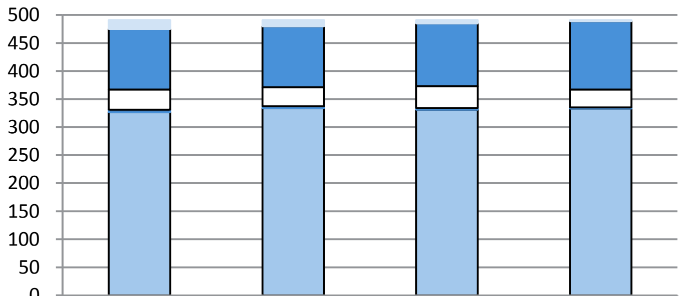
Member statement lodgment by large APRA funds

5.25 The ANAO examined Tax Office data about large APRA fund lodgment characteristics, and associated lodgment compliance processes, to determine the effectiveness of the Tax Office to encourage lodgment.

5.26 There are two main elements to the appropriate lodgment of member statements—that these funds do lodge if required, and lodge on a timely basis. Figure 5.2 shows that lodgment compliance of member statements by key large APRA funds is moderate, with non-lodgment by 23 and 25 per cent of these funds in 2006–07 and 2007–08, respectively. There is a risk that the extent of non-lodgment by these funds has caused significant numbers of individuals not to receive a co-contribution to which they would otherwise be entitled.

Figure 5.2

Lodgment of member statements by key large APRA funds, 2004–05 to 2007–08



	2004-05	2005-06	2006-07	2007-08
No obligation to lodge	16	11	6	2
MCS not lodged	108	109	112	122
MCS lodged more then 27 days late	36	34	39	32
MCS lodged 8 to 27 days late	4	3	3	2
MCS lodged on time	327	334	331	333

Source: Data supplied by the Tax Office.

5.27 Figure 5.2 also shows that those large APRA funds lodging member statements usually do so in a timely way.

5.28 The Tax Office's Tax Practitioner and Lodgment Strategy (TPALS) is responsible for compliance activity to promote the timely lodgment by funds of member statements and tax returns. This activity mainly involves sending demand letters to funds that fail to lodge a tax return and member statement as well as those that lodge a tax return showing taxable contributions but fail to lodge at least one member statement.

5.29 The last mail out of letters requesting funds to lodge overdue member statements was in November 2008. This mailout was sent to large APRA funds (as well as many small funds). A similar mail out is planned in 2010, depending on ICP functionality. Analysis is still underway to track the long term behaviour of those funds who failed to lodge after demand letters were issued or court activity was undertaken.

5.30 TPALS also performs compliance activities to resolve high-risk cases referred by the Superannuation Business Line. For example, in mid-December 2009, TPALS had planned to contact large APRA funds identified as poor compliers. Due to ICP implementation and other priorities, this work will not commence until July 2010.[84]

5.31 The ANAO suggests that the Tax Office directly contacts all key large APRA funds that have not lodged member statements in recent years and takes appropriate steps to enforce lodgement. It is also important that the Tax Office similarly identifies and follows up with the other large APRA funds with outstanding lodgment.

Accuracy and completeness of large APRA funds' member statements

5.32 To address risks associated with the lodgment of incomplete or inaccurate member data by funds, the Tax Office has adopted mitigation strategies involving both education and compliance. A key element of these approaches has been a program of active compliance audits, mainly of large APRA funds that receive co-contribution payments to distribute to members.

5.33 The Tax Office has received conflicting information regarding the general accuracy of data contained in member statements, including 'anecdotal evidence, which has not been reflected in recent accuracy and completeness audit findings, of widespread problems with fund reporting'.[85]

5.34 To evidence and mitigate fund reporting issues, the Tax Office has taken a number of actions, including to establish a member statement Protocol Document to better clarify reporting obligations, undertake a diagnostic review of member statement 'pain points', and refocus accuracy and completeness audit strategies for 2009–10 (see paragraph 5.37).

5.35 The Tax Office considers that without a prominent compliance presence, it runs the risk of accepting an increased level of incorrect or incomplete data or both. As part of the Super Simplification program of work, funding was provided for compliance activities over five years from 2005–06. However, there is no ongoing funding for this work.

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84 TPALS had also worked with CAS and the Superannuation Business Line to improve the integrity of fund data, with approximately 2000 inactive APRA funds removed from the system in October 2009.

85 Internal Tax Office document, *Co-contributions Diagnostic Review*, September 2009, p. 1.

Accuracy and completeness fund audits

5.36 Co-contribution accuracy and completeness fund audits typically examine six data issues. The accuracy component examines fund, member, personal contribution, payment variation and co-contribution information. The completeness component compares the number of members in the fund with the number receiving a co-contribution.

5.37 The number of co-contribution accuracy and completeness fund audits conducted has risen from two on their introduction in 2005–06 to 29 audits in 2009–10.[86] The Tax Office has also redesigned audit processes for inclusion in the 2009–10 accuracy and completeness program to better understand the environment and influence risk mitigation strategies. The program has separate audits of member statements, payment variation advices and rollover benefits statements.

5.38 In the past, accuracy and completeness fund audits typically have had moderate findings. For example, in 2007–08, two funds (12 per cent) had a non-compliant finding returned against at least one audit issue, and the remaining 14 funds (88 per cent) were found to be compliant across all audit issues.[87]

5.39 The Co-contribution Product Team is responsible for audit strategy and fund selection, while the audits are conducted by Active Compliance teams in Sydney and Melbourne.

Fund selection for accuracy and completeness audits

5.40 The Tax Office has identified that selecting cases for audit activity has proven a challenge, as it is difficult to identify which funds are making mistakes until the fund's records are sighted during the audits.[88]

5.41 Nevertheless, the methodology for selecting funds to be included in the annual co-contribution audit program has become more sophisticated in recent years. For the 2008–09 income year, cases were selected by using a limited risk-based, cross business line approach. For the 2009–10 year, the Tax Office

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[86] Super Simplification reforms provided specific funding for active compliance activities on funds. This compliance activity aimed to cover 20 per cent of large APRA funds, 5 per cent of small APRA funds and 3 per cent of SMSF. This funding expires in 2010–11.

[87] Internal Tax Office document, *Co-contributions Diagnostic*, February 2009, p. 16.

[88] ibid., p. 22.

intends to refine selection techniques by improving feedback loops from Active Compliance.[89]

5.42 Fund selection processes have not explicitly aimed to cover the fund administrators and larger standalone funds in a representative manner over time. It is important to include these organisations, for both compliance and education purposes, and to potentially enter into compliance agreements with the larger fund administrators and funds.

5.43 There is also an opportunity for the Tax Office to make greater use of operational analytic techniques in selecting which funds are to be included in the annual co-contribution audit sample. Given the relatively small number of administrators (and funds) the Tax Office interacts with, it could be advantageous to use operational analytic techniques on selected factors to more effectively identify higher risk funds for audit work. These factors could include, but are not limited to, the contribution levels, amendment activity, TFN activity and previous lodgment or data issues. This would then allow for more focused compliance efforts allowing the Tax Office to improve voluntary compliance by funds in a cost effective manner.

Conducting accuracy and completeness audits

5.44 Co-contribution accuracy and completeness audits are conducted according to well defined audit processes, underpinned by the requirements of the *Taxpayers' Charter* to keep funds appropriately informed at key stages. These processes include: audit planning; fund notification; fieldwork for evidence collection; analysis and draft reporting; negotiation of evidence and interpretation with the audited fund; and final reporting.

5.45 The ANAO considers the framework and core processes for these audits to be sound.

5.46 Since 1 July 2008, the Tax Office has been using a computerised data analysis tool, known as Computer Aided Verification (CAV), to analyse data and conduct trend analysis on the accuracy and completeness of member statement lodgment when conducting audits. This analysis typically involves testing TFNs, contributions, amendments and duplicate member records. The redesign of the Tax Office's accuracy and completeness audit program in the

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[89] ibid., p. 22.

2009–10 year is anticipated to result in the extension of CAV use to other compliance risks such as PVA lodgment.

5.47 In many instances, CAV analysis provided more useful information about key elements of fund compliance than the detailed audit checking, which typically covered the details listed in paragraph 5.36 for around 70 fund members.

5.48 Following discussions with the ANAO as part of audit fieldwork, the Tax Office implemented procedural changes to require:

- the testing methodology workbook[90] to be attached to the Client Relationship Management program (*Siebel*) case so that others viewing the case can follow the testing logic and results; and
- documented processes or links to explain the methodology when the member record sample size is decreased or increased by auditors for a fund audit.

5.49 Each month the Active Compliance team provides a summary outlining major findings to the Co-contribution Product Team. The Co-contribution Product Team can also request findings for individual audits.

5.50 In early 2009, members of the Co-contribution Product Team accompanied an Active Compliance Team on a fund PVA audit. This process assisted the Co-contribution Product Team to develop a better understanding of fund operations including relevant IT system issues that should be considered when developing the audit strategy. It also highlighted the potential benefits from greater communication between members of the two teams (which was also noted in paragraph 5.41 regarding fund selection).

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90 This workbook covers member records to be audited and results of the testing.

Recommendation No.3

5.51 To refine approaches to auditing the accuracy and completeness of Member Contribution Statements provided by funds for co-contribution purposes, the ANAO recommends that the Tax Office:

a) explicitly covers major Superannuation fund administrators and funds, and makes greater use of operational analytic techniques, when selecting funds for audit;

b) places greater weighting, and associated resourcing, on Computer Aided Verification analysis rather than auditing of member records on funds' systems; and

c) enhances communication between the Co-contribution Product Team and the Active Compliance audit team regarding fund selection and the implications of audit findings.

Tax Office response: *Agreed*.

Compliance activities for smaller funds

5.52 As outlined in Table 5.1, a number of smaller funds also lodge information required for co-contribution processing for their members. These are mainly Small APRA funds and SMSFs.

Small APRA funds

5.53 Small APRA funds (SAFs) are APRA regulated superannuation funds with a maximum of four members and managed by an Approved Trustee.[91] As at 30 November 2009 there were 4255 SAFs with around 8000 members.

5.54 SAF lodgment issues are treated in a similar way to Large APRA funds by TPALS.

5.55 In 2007–08, 300 audits of SAFs by Active Compliance all resulted in findings indicating a high level of fund compliance. As a consequence, Tax Office compliance resources can be redirected to higher priorities.

[91] An Approved Trustee is an independent corporate trustee that has met capital, solvency and other regulatory requirements.

Self-Managed Superannuation Funds

5.56 As outlined in Table 5.1, as at 30 November 2009 there were 405 714 SMSFs with around 746 000 members in total. Although the Tax Office has a range of regulatory responsibilities for SMSFs, this audit focused on SMSF co-contribution compliance activities.

5.57 Similar to other fund segments, the main risks for co-contribution administration involve: failure to lodge, or lodge on time, a tax return and SMSF Annual Return (SAR);[92] and lodging incomplete, inaccurate, or purposely fraudulent member statements in their SAR.[93]

5.58 The number of SMSFs has been increasing rapidly in recent years, requiring the Tax Office to have a sound strategy, and appropriate education and liaison mechanisms in place, to support SMSFs to meet their regulatory obligations.

SMSF lodgment compliance

5.59 Changes associated with Super Simplification reforms required SMSFs to provide member contributions data for all members each year in their annual return. These reforms also aimed to make the penalty regime around member contribution lodgment more explicit to funds and easier to administer.

5.60 As intended, these reforms supported higher levels of timely SAR lodgment, as outlined in Figure 5.3. For example, in the 2007–08 income year, 85 per cent of SMSFs lodged SARs, the vast majority before the due date of 15 May 2009 (28 February 2009 for first year lodgers).

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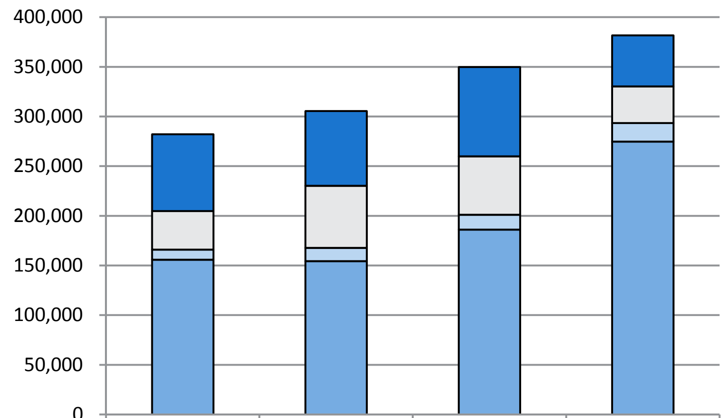
92 From 2007–08, the Income Tax and Regulatory Return and the member statement reports for SMSFs were replaced with the SMSF Annual Report (SAR), which requires reporting of superannuation contributions, even for members who didn't make a contribution.

93 While these two types of risks are similar between different fund segments, they have different implications and require specific mitigations strategies. There is also the risk that SMSFs fail to lodge or fail to lodge on time a PVA notice.

Figure 5.3

SMSF Annual Return lodgment[A]



	2004-05	2005-06	2006-07	2007-08
MCS not lodged	77,403	75,257	89,961	51,373
MCS lodged more then 27 days late	38,848	62,472	58,829	37,020
MCS lodged up to 27 days late	10,151	13,341	14,955	18,719
MCS lodged on time	155,729	154,426	186,062	274,632

Note: (A) Member statement includes SAR for 2007–08.

Source: Data supplied by the Tax Office.

5.61 To further support the timely lodgment of SARs, TPALS carries out SMSF lodgment activities similar to those for APRA funds, as discussed in paragraph 5.29. On the basis of this ongoing compliance activity, and improved fund behaviour, the Tax Office has an objective that 94 per cent of all 2009 SARs are lodged by December 2010.

5.62 All funds that have been prosecuted for non-lodgment of the member statement were SMSFs, predominantly because the trustees did not understand the reporting requirements. In 2008–09, there were 302 court outcomes against trustees of SMSFs, with penalties of $242 669.

5.63 The ANAO considers that the Tax Office is appropriately conducting and reviewing compliance activities relating to SMSF lodgment, in response to major changes stemming from the Super Simplification reforms.

Incomplete or inaccurate SAR

5.64 A risk identified by the Tax Office is the reporting of inaccurate information in the SAR, whether by mistake or for purposely fraudulent activities.

5.65 While the Tax Office conducts audits of SMSFs as part of the Active Compliance program, these audits have not included questions specifically related to the co-contribution since the 2007–08 income year. According to the *Co-contributions Diagnostic* (February 2009, p. 16) 'this is recognised as a gap in our mitigation for this risk.'

5.66 The Tax Office advised that it does not plan to include questions specifically related to the co-contribution in SMSF audits, as the risk is considered low, and there are high risk focus areas elsewhere.

Compliance activities for fund members

5.67 As discussed in Chapter 1, a key requirement of eligibility for a co-contribution is the lodgment of a member's tax return. The data derived from the tax return for co-contribution purposes includes taxable income, percentage of eligible employment income, deduction of contributions and reportable fringe benefits.

5.68 A co-contribution will not be paid if an income earner who has made personal contributions, and who would otherwise meet the eligibility criteria, fails to lodge a tax return for the relevant year. This risk is included on the Superannuation Risk Register. Another identified risk is the lodgment of incomplete or inaccurate tax return leading to overpayment.

Tax return lodgment compliance

5.69 Possible implications for co-contribution entitlement due to the non-lodgment of tax returns are outlined in Table 5.2. This table shows that the Tax Office estimated that non-lodgment of tax returns has delayed or precluded a co-contribution entitlement to 141 862 members with a value of over $122 million.

Table 5.2

Impact of non-lodgment of tax returns on co-contribution entitlements, 2003–04 to 2006–07 income years

Member statement lodged with personal contribution and tax return not lodged:	2003–04	2004–05	2005–06	2006–07	Total
Total number of individuals	76 369	84 150	102 973	154 378	**417 870**
TFNs matched	75 107	83 031	101 912	151 682	**411 732**
Potential number of co-contribution entitlements by using income from payment summaries	22 516	36 004	23 933	60 409	**141 862**
Estimated value of co-contribution entitlements using income from payment summaries as total income	$10.3m	$25.4m	$36.1m	$50.8m	**$122.7m**

Source: Internal Tax Office document, *Non-lodgment of individual tax returns by individuals otherwise entitled to a co-contribution* and additional information provided by the Tax Office.

5.70 Tax return lodgment enforcement is primarily managed by TPALS for income tax purposes, and a penalty regime exists to deter late lodgers. Despite the impact on co-contribution payments outlined in Table 5.2, there have not been any enforcement activities directed specifically at tax return lodgment activities for the purposes of administering the Co-contribution Scheme.

5.71 A risk assessment conducted by the Co-contribution Product Team proposed five recommendations to mitigate tax return lodgment risks, including that:[94]

- TPALS risk profiling includes individuals with potential co-contribution entitlements;
- the Co-contributions Product Team prepare a business case for TPALS to conduct a sample lodgment compliance project for individuals potentially eligible for a co-contribution who have failed to lodge a tax return; and
- non-lodgment advice is updated to remind individuals that if they are entitled to a co-contribution they must lodge a tax return to receive the entitlement.

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[94] Internal Tax Office document, *Non-lodgment of individual tax returns by individuals otherwise entitled to a co-contribution*, p. 5.

5.72 The Tax Office advised that these recommendations have not been implemented because the report outlining the risk assessment is a draft working paper that has not been endorsed at the executive level.

5.73 While acknowledging that the risk assessment has not been endorsed, the ANAO suggests that the Tax Office further considers the merits of these recommendations, in light of the updated analysis reported in Table 5.2. There is also scope for the Co-contributions Product Team to liaise with Micro Enterprise and Individuals to provide more targeted messages which highlight the effect of non-lodgment on co-contribution payments.

Incomplete or inaccurate tax returns

5.74 The Tax Office has undertaken a number of compliance projects to improve the accuracy of tax returns for co-contribution purposes. The two main subjects of these projects have been the disclosure of reportable fringe benefits and claims of personal superannuation contributions as a tax deduction.

5.75 A person's total income for co-contribution purposes includes their reportable fringe benefit amount, and if a person omits this amount from their tax return they may receive a co-contribution they were not entitled to or an overpayment. A compliance project identifying the omission of reportable fringe benefits raised over $4.5 million in additional tax revenue for the 2007–08 income year. These reviews have noted that a legislative change would be required to allow the Tax Office to apply penalties for individuals failing to include reportable fringe benefits amounts in a tax return.

5.76 The extension of co-contributions to the self-employed has provided a risk that if a self-employed person fails to lodge a section 82AAT notice[95] he or she could incorrectly receive both a tax deduction and a co-contribution payment. A verification exercise identified 948 individuals sourced from 98 funds who incorrectly claimed a tax deduction, valued at over $12.1 million.[96]

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95 An 82AAT notice is completed when taxpayers wish to claim deductions for member contributions to their superannuation. This is only available to certain income earners such as the self-employed.

96 Internal Tax Office document, *Appendices—Co-contributions Product Diagnostic, Appendices to accompany the Co-contributions product diagnostic for the 2008–09 financial year*.

5.77 The ANAO considers that the Tax Office has implemented appropriate strategies to address the main risks of incomplete or inaccurate tax returns from a co-contribution perspective.

Compliance testing of key business rules

5.78 It is important that the Tax Office develops and applies business rules consistent with legislation so that individuals receive appropriate entitlements under the law. This involves risk identification, analysis and mitigation activities that include testing compliance with co-contribution legislative requirements. This work is co-ordinated by the Co-contribution Product Team.

5.79 To determine the extent to which the Tax Office applies key business rules for co-contributions, the ANAO tested the application of the six rules influencing eligibility and entitlement that were outlined in paragraph 1.7. In short, these rules required that the member:

- make personal after-tax superannuation contributions by 30 June to a complying superannuation fund or retirement savings account;
- have total income less than the higher income threshold;
- receive 10 per cent or more of total income from eligible employment;
- be less than 71 years old at the end of the income year;
- not hold an eligible temporary resident visa at any time during the income year; and
- lodge an income tax return for the relevant income year.

5.80 Table 5.3 summarises the findings of ANAO testing of the appropriateness of the Tax Office's application of business rules for co-contributions. It shows that three of the six rules were being applied appropriately but found there were some problems surrounding the application of the other three rules.

Table 5.3

Appropriateness of the application of co-contribution business rules

Business rule	No problem	Comment
Complying payment	✔	Appropriately selects personal contributions, excludes certain payments and includes eligible funds.
Income calculation	x	Alignment issue and some incorrect system coding.
Eligible employment	x	Similar alignment problems for determining income from eligible employment.
Age	✔	Applies date of birth appropriately.
Residency	x	Correctly processes information from the Department of Immigration and Citizenship but that data needs review.
Lodged tax return	✔	ICP will not allow entitlement unless a tax return is lodged for the relevant income year.

Source: ANAO.

5.81 The following sections discuss the application of those rules where there were some problems with their accurate application, or other related issues influencing co-contribution processing. These problems involved income calculations, obtaining at least 10 per cent of income from eligible employment, and residency.

Calculating income and the 10 per cent eligibility test

5.82 In recent years the Tax Office has become aware of a number of circumstances where the calculation of income and the 10 per cent eligibility test[97] do not fully satisfy the requirements of co-contribution legislation and other tax law. As outlined in Figure 5.4, these circumstances have been categorised as:

- alignment issues: where insufficient information is captured from individuals' income tax returns to enable calculations required to satisfy relevant co-contribution legislation and other tax law; and
- incorrect business rules: where sufficient information is available from income tax returns, but system rules are incorrectly written to meet legislative requirements.

[97] The 10 per cent eligibility test refers to whether 10 per cent or more of an individual's total income was from eligible employment.

Figure 5.4

Problems with co-contribution business rules affecting calculation of income and 10 per cent test regarding income from eligible employment

Issue	Rule affected	Comment
Alignment issues		
Rental properties	Calculating income	Insufficient information on tax return to establish whether a partnership exists. Tax Office has assumed all rental properties are partnerships and so considers net income, rather than gross in the case of sole ownership. Entitlements are potentially overpaid, estimated in the order of $20 million for 2007–08.
Distributions from partnerships	Calculating income	The tax return only shows net partnership distribution, but not profits and losses for each separate partnership. It is therefore not possible to identify and exclude each partnership loss, as is required, which is another source of potential overpayment.
Other Tax partnerships, especially bank accounts	Calculating income	A similar concept to that outlined above applies. However, in this case there are potential underpayments as the Tax Office has assumed all bank accounts are solely held so have applied gross income, not netted off bank charges as should occur for tax partnerships.
Treating all partnership income as business income	10% test	The Tax Office has considered all partnership income (including $0) to be business income for the purposes of the 10 per cent eligible employment test. This potentially deems some members eligible who aren't eligible and so leads to overpayments estimated as up to $10 million for 2007–08.
Problems with business rules		
Opening and closing stock	Calculating income	Incorrect treatment of opening and closing stock for the self-employed has resulted in potential overstatement of income and underpayment of co-contributions. An IT solution was implemented in early 2010.

Source: ANAO analysis of Tax Office information.

5.83 The Tax Office has obtained legal advice that stated it had no legislative breaches in relation to potential overpayments of co-contributions in 2008–09 or prior years. This position was reached because the legal opinion expressed the view that:

- overpayments made in good faith where the Tax Office did not knowingly make any individual overpayments at the time they were paid would not represent a breach of the Australian Constitution;[98] and
- the Tax Office had a period of grace (expected to be to around July 2010) to analyse and rectify existing errors.

5.84 The ANAO will continue to monitor this matter and discuss potential compliance risks with the Tax Office as part of the 2009–10 financial statement audit.

5.85 The Tax Office first identified the non-alignment issue at the time the co-contributions system was implemented in 2003, and raised the matter with the Department of the Treasury (Treasury). However, no change to the proposed law was made.[99] The extent of the non-alignment issue increased in 2007 with the extension of co-contributions to the self-employed.[100] Tax Office concerns had again been raised with Treasury, however the relevant Bill was introduced into Parliament unchanged in December 2006. In light of past legal advice, the Tax Office continued with previous arrangements, and implemented the extension to the self-employed on the basis of using certain assumptions in processing.

5.86 The non-alignment issue was again raised with Treasury in April 2008. Recognising that law change was not certain, a decision was made to seek further legal advice from the Australian Government Solicitor.

5.87 In response to that advice, in November 2008, the Tax Office established a major project to manage the non-alignment issues through to completion. The project identified the preferred solution as a change in the law and the Tax Office is continuing to work with Treasury to build the case for presentation to Government. As a contingency, changes to the income tax

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98 In this regard, the Tax Office had not identified any co-contribution overpayments during the 2008–09 or earlier financial years which were considered to be breaches of Section 83 of the Constitution at the time they were paid. Section 83 states that 'no money shall be drawn from the Treasury of the Commonwealth except under appropriation made by law'.

99 In light of Government expectations that the system would be implemented in a manner requiring no application or other intervention by individuals, the Tax Office proceeded on the basis of using certain assumptions in processing. These assumptions can lead to incorrect calculations, but achieve an accurate outcome in most cases. Internal legal advice supported this approach.

100 The extension of co-contributions to the self-employed was implemented within an environment that included a requirement that it be calculated by the Tax Office, and an expectation that simpler super not be a cause of additional compliance cost for individuals.

return are being designed for implementation for the 2010 income year. Strategies are also being developed to address both underpayments and overpayments made in prior years.

5.88 Extensive actions have been taken by the Tax Office to address problems with the calculation of income and the 10 per cent eligibility test, in order to satisfy the requirements of co-contribution legislation, avoid financial audit findings of breaches of the Constitution and so mitigate reputational risks.

5.89 However, the issue had not begun to be effectively addressed until many years after it was first identified as a potential problem. Much of the impetus for this action was the exacerbated effect of extending the co-contributions to the self-employed. The main lesson to be learned from this issue is the benefit of the Tax Office working more closely with Treasury when drafting Bills for the implementation of Government policy. In this instance, the Tax Office should have initially more comprehensively assessed and clearly outlined data needs and associated compliance costs, so that Treasury could more fully understand the implications of proposed legislation, and advise government accordingly.

5.90 To support the calculation of income and the 10 per cent eligibility test according to the requirements of co-contribution legislation and other tax law, the Tax Office needs to:

- implement current projects relating to rental properties, distributions from partnerships, and determining which elements of partnership income are business income; and
- progress strategies to address whether the treatment of income from bank accounts needs to be revised in light of the consideration of partnership arrangements.

5.91 There would also be benefit in the Tax Office conducting research to identify other IT coding issues, such as that affecting opening and closing stock, which may not align with legislation, and mitigate risks accordingly.

Residency

5.92 To assist in administering the client residency test rule, the co-contribution system sources data input directly from the Department of Immigration and Citizenship (DIAC). Acquiring client residency information is governed by the Memorandum of Understanding (MOU) between the Tax

Office and DIAC. The Tax Office has little control over the accuracy and timeliness of the DIAC input data.

5.93 The Tax Office has identified a number of issues that have arisen while undertaking identity matching between data held by DIAC and data held by the Tax Office. An issue involving records received by the Tax Office for permanent residents rather than eligible temporary residents illustrated data reliability issues.[101] A factor that contributed to this was the use of historical data across a number of systems.

5.94 The Tax Office expects the quality of data to improve in the future given that only more recent data will be used. The Tax Office and DIAC have also set up a working group to identify and implement any ongoing improvements that can be made to the quality of data that is being used.

5.95 The ANAO encourages the Tax Office to use this working group to escalate discussions with DIAC about the quality of data on residential status, with a view to better understanding any associated problems and what impact they may have on determining eligibility for the co-contribution. The Tax Office would then be well placed to manage risks to the co-contribution associated with this data.

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[101] The issues primarily related to multiple records held by DIAC for a single individual. However other issues arose due to the two agencies holding records provided at different times which contained different values for key pieces of information such as address.

6. Communication with Clients

This chapter examines the Tax Office's approach to assisting funds and members by communicating with them about key elements of the Co-contribution Scheme.

Introduction

6.1 To effectively administer the Co-contribution Scheme it is necessary that the Tax Office communicates with stakeholders to ensure they are aware of relevant elements of the Scheme.

6.2 The key communication requirement for funds concerns knowledge of the processes for submitting member statements. In this regard it is important that they are consulted about, and informed of, changes to Tax Office information technology systems and other administrative arrangements that impact on the submission of member statements.[102]

6.3 Key communication issues for members concern their awareness of the Co-contribution Scheme, particularly eligibility and entitlement provisions, so that they can participate in the Scheme on an informed basis. Co-contribution communication activities are based on the concepts of higher awareness, understanding and uptake of co-contribution by eligible members.

6.4 The Tax Office considers that it has effective communication with stakeholders regarding the Co-contribution Scheme. For example, the *Co-contributions Diagnostic*, February 2009, rated the health of the element 'clients understand their obligations' as sound.

6.5 To assess the adequacy of the Tax Office's communication with stakeholders regarding the Co-contribution Scheme, the ANAO separately examined activities for funds and members, considering three main topics: liaison; provision of information; and direct contact. Tax Office communication with employers regarding employee superannuation reporting obligations related to the co-contribution was also briefly examined.

[102] In the case of SMSFs, this requires the provision of Annual Returns.

Communication with funds

Liaison with funds

6.6 The Tax Office meets with various external stakeholders, including the superannuation industry, finance practitioners and other Government agencies, through a number of committees and working groups. These committees provide a forum for stakeholders to provide input into the administration of superannuation by the Tax Office. They cover all superannuation products and discuss a wide variety of issues, including those relating to the Co-contribution Scheme (see Figure 6.1).

Figure 6.1

Liaison groups of the Superannuation Business Line

Group	Members	Role
Superannuation Consultative Committee (SCC)	Accountants, administrators and fund industry, employers, trustees, government and legal representatives	Holds relatively high-level discussions on administration of superannuation.
SCC Education and Communication Sub-committee	Funds, accountants and finance practitioners	Discussion of Tax Office communication projects while allowing stakeholders to inform of there own activities.
Superannuation Funds Working Group (SFWG)	25 funds and 1 fund association	Discussion of significant superannuation administration issues.
Superannuation Technical Sub-committee of the National Tax Liaison Group (SILG)	Accountants, administrators and fund industry, employers, trustees, government and legal representatives	Discussion of technical issues arising in relation to superannuation matters.
Software Developers' Consultative Group	32 developers and 1 association	Communication between software developers and the Tax Office.

Source: ANAO examination of Tax Office documents.

6.7 The ANAO contacted a number of superannuation funds and superannuation industry organisations, seeking their views on elements of Tax Office administration of the co-contribution. These representatives consistently commented that the Tax Office had effective liaison activities. They noted the Tax Office's increasing use of these committees as a positive means of implementing changes by incorporating industry input.

Providing information to funds

6.8 The provision of information to funds regarding the co-contribution primarily involves:

- instructional material for fund IT teams specifying technical data requirements for transferring member statement data to and from the Tax Office;
- interpretative assistance and advice; and
- information for SMSFs.

Instructional material to support electronic transfer of member statement data by funds

6.9 APRA funds are generally well aware of the implications of the Co-contribution Scheme for their administration. The key documentation they require of the Tax Office is the technical specifications for transferring member statement data electronically.

6.10 Funds advised the ANAO that the technical specifications for electronic transfer of member statement information are generally accurate and clear. The exception has been in the deployment of ICP, where Tax Office systems initially did not accept data according to the specifications provided. For example, the Tax Office advised that some fields were optional, when they were actually mandatory, and there was unclear explanation of the ICP processing framework. These problems were largely rectified within a few months following liaison with funds.

6.11 As discussed in paragraph 5.34, the member statement protocol document aims to assist funds to provide more accurate information on member statements. The Tax Office website is also a useful source of information for funds, with technical specifications available in the software developers section.[103]

Interpretative assistance and advice

6.12 Interpretative assistance and advice is the basis for explaining and clarifying the Tax Office's interpretation of the law and providing taxpayers with more certainty about the implications of their activities.

[103] The address of the software developers section of the Tax Office website is: <http://softwaredevelopers.ato.gov.au> [accessed on 3 December 2009].

6.13 There has been little coverage of co-contributions through the Tax Office's interpretative assistance and advice mechanisms. For example, the Tax Office's legal database included only one record—*ATOID 2007/195*.[104]

6.14 The lack of coverage of co-contributions in interpretative assistance and advice mechanisms is largely because taxpayers (funds and individuals) have not sought such information.

SMSFs

6.15 With the strong growth in the number of SMSFs, there is an increasing requirement for education programs to help ensure that trustees are aware of their rights and obligations, and administrators provide appropriate information about personal contributions to the Tax Office.

6.16 The main methods used by the Tax Office to inform SMSFs of co-contribution issues are through a quarterly newsletter, and a small number of SMSF-specific documents (also available on the Tax Office website).[105]

6.17 Some of the SMSF professionals interviewed by the ANAO advised that much of the information relating to the co-contribution is overly legalistic and jargon laden and not ideal for the co-contribution target audience. The ANAO suggests the Tax Office provides co-contribution information in a more informal and conversational tone to better reach non-professional and younger audiences.

6.18 The SMSF audience is represented on the Superannuation committees by direct membership or via industry associations. Consistent with the views of APRA funds, these stakeholders advised they were satisfied with liaison arrangements in place between SMSFs and the Tax Office.[106]

[104] An ATOID is a summary of a decision on an interpretative issue and is indicative of the Commissioner's view on the interpretation of the law on that particular issue. ATOID 2007/195 relates to whether a beneficiary's share of the net income of a trust estate that carries on a business is included in the beneficiary's total income from carrying on a business for the purposes of sub-paragraph 6(1)(b)(ii) of the Co-contribution Act.

[105] Documents published by the Tax office relating to SMSFs include: *Thinking about self-managed super* (NAT 72579); *Setting up a self-managed super fund* (NAT 71923); *Running a self-managed super fund* (NAT 11032); *How your self-managed super fund is regulated* (NAT 71454); and *Winding up a self-managed super fund* (NAT 8107).

[106] In addition, SMSF auditors have access to the SCC Approved Auditors Working Group, which is a forum to discuss relevant issues, including the co-contribution.

Facilitating contact with funds

6.19 APRA funds are able to contact the Tax Office's Client Relationship Team via email with any query relating to co-contributions. The Client Relationship Team member then forwards the query to the most appropriate area in the Tax Office for further action. Fund representatives advised that this arrangement has been working effectively.

6.20 SMSFs and SAFs do not have access to the Client Relationship Team, and instead need to identify the appropriate Tax Office contact via the Tax Office website. ANAO interviews with funds revealed no significant issues with this process.

Communication with members

Liaison with members

6.21 Members are represented on Superannuation Liaison Groups by intermediaries they sometimes rely on, such as accountants, lawyers and trustees (as outlined in Figure 6.1).

6.22 Beyond these groups and individuals, there are no direct member representatives. As the co-contribution was established to require minimal activity by members, and the incidence of complaints is low (see paragraph 6.66), there is little evidence of a need for direct member representation on Superannuation Liaison Groups to advocate aspects of the administration of the co-contribution.

Providing information for members—marketing and education

6.23 Co-contribution communication strategies for members have primarily involved earlier mass media marketing campaigns to raise awareness of the Scheme and its major reforms, and the ongoing provision of targeted information for different age cohorts to improve understanding of the Scheme and increase participation by members (see Figure 6.2).

Figure 6.2

Main strategies for marketing the co-contribution to members

Approach	Date	Description
Initial co-contribution campaign	2004 & 2005	Mass media campaign, including television and radio, based on a piggy bank icon. There was also direct mailing of material explaining the co-contribution and a comprehensive public relations program including a website links program.
Better Super campaign	May 2007	Second and final mass media campaign to promote Super Simplification reforms, including the extension of the co-contribution to the self-employed.
Tax Office website	Ongoing	Detailed description of the Scheme, at <http://www.ato.gov.au/individuals/content.asp?doc=/Content/42616.htm>.
Super co-contribution – Saving for your Future brochure	2004 to 2009	Document outlining the main eligibility and entitlements provisions of the Scheme. Available in hard copy and online, utilised piggy bank icon, 12 pages long.
Other	Ongoing	Includes contributing articles to relevant media publications and having a Tax Office presence at superannuation events.

Source: ANAO examination of Tax Office marketing approaches.

Co-contribution marketing campaigns

6.24 As outlined in Figure 6.2, there have been two major mass media campaigns for the co-contribution—the first to raise awareness at its inception and the second to promote relevant Super Simplification reforms.

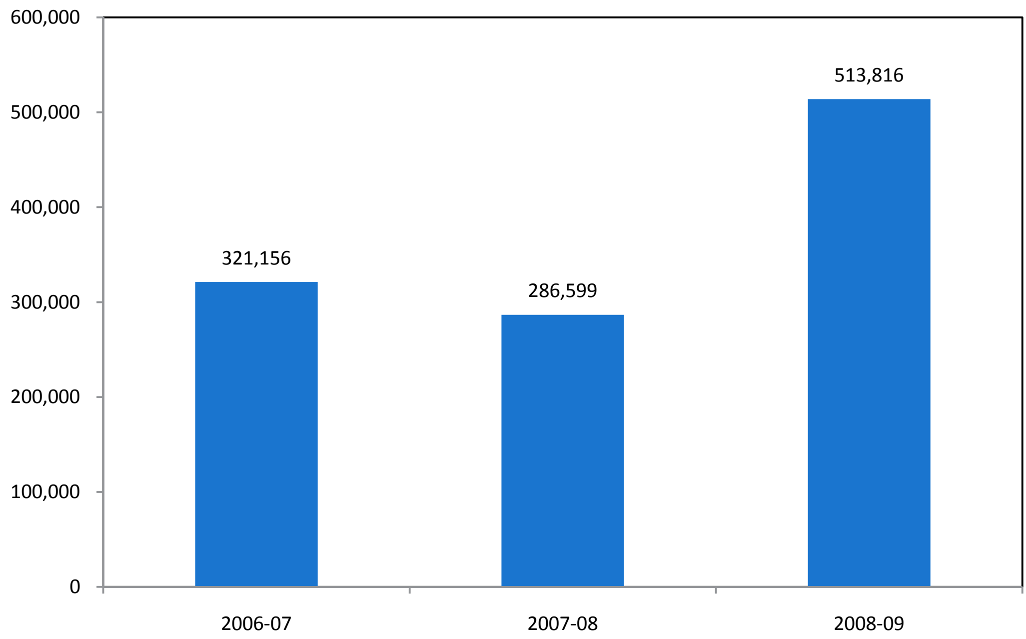
6.25 The Tax Office engaged consultants to assess the success of the first co-contribution marketing campaign in raising awareness and understanding of the Scheme. This campaign was undertaken in two phases, and the post-marketing research indicated the campaign achieved increased overall awareness from 29 per cent at the commencement of the first phase to 80 per cent at the completion of the second phase in July 2005.

Co-contribution pages on Tax Office website

6.26 The Tax Office's website is the primary means of conveying messages to fund members. Co-contribution pages and documents continue to be popular destinations. As indicated in Figure 6.3, these pages had over 500 000 hits[107] in 2008–09, which placed them in the top three website hits of all Superannuation.[108]

Figure 6.3

Co-contribution website hits, 2006–07 to 2008–09



Source: ANAO analysis of Tax Office data.

6.27 The ANAO viewed the content and presentation of the co-contribution web pages and found them to be comprehensive and clear, providing useful explanation of the main elements of the Scheme to the public. The ANAO notes that the following analysis by the Tax Office of its superannuation pages is relevant to the co-contributions pages:[109]

> The ATO's web-based products and communication strategies are highly regarded by the vast majority of front end users, although there is criticism of the search facility and navigation of the ATO's website.

107 Hits refers to the number of times a website is viewed.

108 Internal Tax Office document, *SPR Communication & Marketing – Individuals pathway page statistics trends – top eight*.

109 Internal Tax Office document, *2008 Superannuation Revenue Product HOTSA*, p. 17.

6.28 It is important that the navigation and search facilities for co-contribution pages are addressed as part of broader approaches to improve the Tax Office website.

Co-contribution calculator

6.29 A key element of the co-contribution web pages is a co-contribution calculator. This is a tool to help individuals and the self-employed estimate their co-contribution entitlement and eligibility, based on taxpayer information entered about their income and personal super contributions.

6.30 As at 3 December 2009, the calculator covered each income year from 2003–04 to 2008–09. At that date, the calculator was in the process of being updated to include the new rates and thresholds for 2009–10.

6.31 The ANAO tested the accuracy of the co-contribution calculator in assessing the value of the co-contribution against a limited range of eligibility and income parameters. This testing revealed two types of calculation error:

- reporting a co-contribution of $1500 in all instances where the 'amount of personal contributions × 1.50' equalled 'the maximum co-contribution amount' (as per Section 10 of the Co-contribution Act), rather than reporting the correct value in instances where these two calculations produced an equal co-contribution value;[110] and
- not assigning the minimum co-contribution of $20, as specified in Section 11 of the Co-contribution Act, but instead reporting the actual calculated value if it were lower than $20.

6.32 The ANAO advised the Tax Office of these errors in July and August 2009, respectively. The Tax Office subsequently rectified both errors.

6.33 With regard the first error, the Tax Office advised the ANAO that the likely number of instances where this error would occur was very low, and emphasised that a caveat was published with the calculator stating that is was

[110] For example, a member satisfying all eligibility requirements with a $500 personal contribution would have a potential co-contribution entitlement of $750 under the 1.5 times contribution component of the entitlement formula (that is, $500 x $1.5) for the 2008–09 income year. If he or she had entered an income of $15 342 into the co-contribution calculator for the same year, this would also indicate a potential Co-contribution entitlement of $750 under the maximum co-contribution formula (that is, $1500 – {($15 342 – $30 342) x 0.05}). Legislation requires the selection of the lower amount from these two formulas, and as they are identical the co-contribution would be $750. However, the co-contribution calculator erroneously reported a $1500 co-contribution entitlement.

an estimate only. The Tax Office verified that this error did not occur with processing in legacy and ICP systems.

6.34 To reduce the incidence of errors with taxation calculators, the ANAO suggests that the Tax Office reconciles them with the business rules applied in processing systems, which are typically subject to more detailed testing.

6.35 In this regard, the Tax Office subsequently conducted a significant review to ensure the calculator was working correctly. This activity involved extensive consultation between the Co-contribution Product Team and Complex Technical Unit, and resulted in a rewrite of the Calculator specifications and changes to the screen layout and order. The Co-contribution Product Team is working with the build team to develop testing scenarios.

Super co-contribution – Saving for your Future *brochure*

6.36 Building on the success of the 'piggy bank' icon used in the initial co-contribution marketing campaign, in 2006 the Tax Office released the brochure *Super Co-contribution – Saving for your Future,* which used that same icon on the cover, and explained key elements of the Scheme to members.

6.37 This document proved initially popular, with over one million hard copy versions distributed in 2006–07. However, with the cessation of the marketing campaign in 2007, this distribution declined dramatically to approximately 50 000 and 30 000 copies in the following two years. In 2009, the Tax Office decided to withdraw this publication from circulation, in response to the decrease in demand.

6.38 With the withdrawal of this brochure, there are now no dedicated co-contribution documents available for members. For information about the co-contribution, members are now primarily reliant on the Tax Office website. As discussed in paragraph 6.27, website information about the co-contribution is comprehensive and clear, and covers the information in the brochure.

6.39 However, as is discussed later in this chapter (paragraphs 6.46 to 6.52), the Tax Office should not be complacent about the level of participation in the Scheme by members. If future research suggests scope for greater marketing and education to improve participation, the Tax Office may need to consider reinstating the brochure, or its equivalent, for use in associated marketing and education campaigns.

Overall marketing and education approaches

6.40 As part of its overall marketing and education strategies for the co-contribution, the Tax Office also undertakes a range of other co-contribution communication activities each year, often in conjunction with other Superannuation products. Figure 6.4 outlines some of these other activities undertaken in 2008–09.

Figure 6.4

Other co-contribution marketing and communication activities, 2008–09

Description
• Co-contributions content updated in the '*Reportable fringe benefits – facts for employees'* guide – NAT 2836.
• Extension of co-contributions to the self-employed radio script prepared for SBS radio.
• Co-contributions content provided to the Building and Construction industry forum for circulation to industry group members and industry publications.
• Several co-contributions articles published in Workplace Education News.

Source: Internal Tax Office document *Appendices—Co-contributions Product Diagnostic*, February 2009.

6.41 When determining the overall co-contribution communication strategies it is important that the Tax Office appropriately addresses known risks and Government priorities.

6.42 The ANAO considers that the major communication and marketing activities, relating to the implementation of the Scheme in 2004 and Super Simplification reforms in 2007, as well as the relevant content of the Tax Office website, has generally addressed key risks and/or appropriately reflected Government priorities.

6.43 However, there is scope to better align overall co-contribution communication processes with known co-contribution risks. A Tax Office intelligence report approved in April 2008 contained five recommendations to better market co-contributions to the self-employed. These included:[111]

- Recommendation 2: That the product team works towards improving links between communications strategies and co-contribution risk management processes; and

[111] Internal Tax Office document. *Intelligence Scan, Marketing co-contributions to the self-employed*, 28 April 2008, p. 4.

- Recommendation 3: That the product team, in conjunction with Communication and Marketing, review communications strategies and make changes to address product risk.

6.44 Although these recommendations have not been specifically acted upon, the Co-contribution Product Team advised that it reviews communication strategies for each risk as part of regular risk reviews.[112]

6.45 The Co-contribution Product Team has also held discussions with key internal stakeholders such as Communication and Marketing, Client Contact, TPALS and CAS. A forum has been established and will meet regularly to share intelligence and progress strategies relating to coverage, connection with the various demographic groups and to help ensure alignment between law and administration. The ANAO supports the operation of this forum, as it potentially improves links between communications strategies and co-contribution risk management processes.

Awareness of and participation in the Scheme by members

6.46 A key influence on the Tax Office's overall marketing and education strategies for the co-contribution is the level of awareness of and participation in the Scheme by eligible members.

6.47 As discussed in paragraph 6.25, the Tax Office monitored awareness of the co-contribution by the Australian public as part of post-marketing research for the initial co-contribution marketing campaign in 2004–05. This research indicated that the level of awareness was quite high, reported as 80 per cent in July 2005. However, there was variable awareness, understanding and interest by different age cohorts, for example older workers closer to retirement have higher awareness.[113]

6.48 There has also been research into public awareness and understanding of the co-contribution by superannuation industry groups. A survey by the Association of Superannuation Funds of Australia Limited (ASFA) in November 2008 reported a 76 per cent awareness of the scheme.[114] Research by

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112 The Co-contribution Product Team also reviews web content and publications, for example completing a comprehensive review of the main co-contributions web document in December 2009.

113 The July 2005 tracking study found those who knew most about the scheme were those in the 55 and over age group and lowest overall awareness in the under 25 group.

114 ASFA, *Annual Superannuation Survey 2008*, slide 29.

The Australian Institute of Superannuation Trustees (AIST) in April 2008 also found that 76 per cent of respondents were aware of the Scheme.[115]

6.49 Rather than explicitly monitoring awareness and understanding of the Scheme on an ongoing basis,[116] and incurring associated costs, the Tax Office has primarily relied on monitoring participation in the Scheme, as represented by the total number of individuals receiving a co-contribution. In this regard, the Tax Office considers participation to be high, for example stating that 'co-contribution processes and communication products continue to be effective as is evident by the total number of individuals receiving a co-contribution'.[117]

6.50 While there have typically been around 1.3 million people receiving a co-contribution in each income year since 2004–05, this has represented less than 15 per cent of the approximately nine million individuals that have lodged tax returns and been under the higher income threshold for the Scheme in those years (see Table 4.1). While many factors influence participation in the Scheme, these figures suggest there is scope for greater participation by members, and that the Tax Office should not be complacent about participation levels, particularly when used as a determinant of marketing approaches and associated resourcing.

6.51 Figure 6.5 shows that co-contribution participation rates rise with income and that a relatively small proportion of lower income individuals access the co-contribution. In 2006–07, the co-contribution participation rate rose from only 2.6 per cent of individuals with total income of less than $6 000 to 25.7 per cent of taxpayers with total income of $50 000 to $55 000. This illustrates the importance of the Tax Office tailoring education and marketing activities to lower income earners as well as different age cohorts.

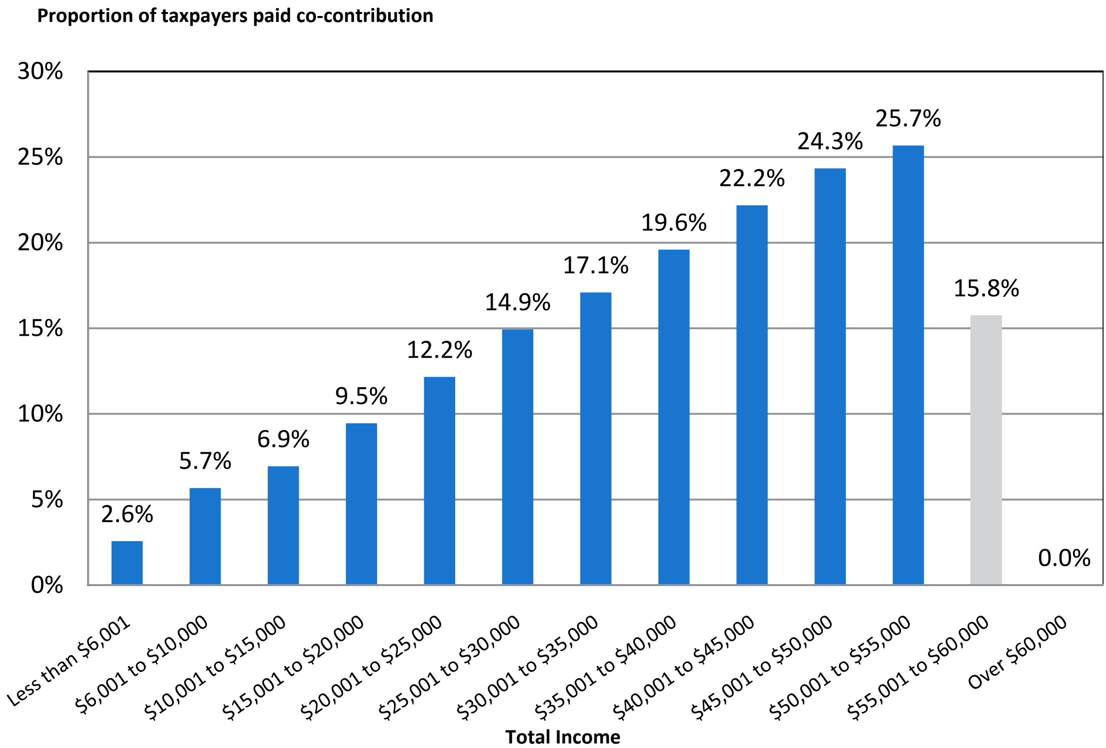
115 AIST, *Co-contribution Report*, April 2008, p. 9.

116 The annual Community Perceptions Survey asks some questions about awareness of Superannuation products but not explicitly the co-contribution.

117 Internal Tax Office document *Appendices—Co-contributions Product Diagnostic*, February 2009, p. 10.

Figure 6.5

Co-contribution participation rates, 2006–07



Notes: (A) In 2006–07, the higher income threshold for the co-contribution was $58 000. Consequently, around half of the taxpayers in the $55 001 to $60 000 cohort were not eligible for the co-contribution.

(B) Total income for co-contribution purposes.

Source: ANAO analysis of ATO data.

6.52 The ANAO also notes there is an opportunity for the Tax Office to use research into the co-contribution undertaken by industry organisations, such as the reports undertaken by ASFA and AIST referred to in paragraph 6.48.

Facilitating contact with members

6.53 Contact between members and the Tax Office about co-contribution issues are typically part of broader Tax Office processes and primarily include:

- phone calls to call centres;
- review and interpretative advice; and
- complaint resolution mechanisms.

6.54 In addition, members can visit a Tax Office shopfront[118] to obtain publications and talk to Tax Office staff, although there is little specific information on the Co-contribution Scheme at these sites. It is also possible to email the Tax Office to obtain general information about the Co-contribution Scheme. In many instances members communicate with funds to clarify co-contribution issues.

Call centres

6.55 The most common way of contacting the Tax Office is by phone, with an average of 7495 enquiries concerning the Scheme each month from January 2008 to September 2009. As such, the number of phone calls represented around seven per cent of the number of members recieving a co-contribution over that period. These calls were mainly about payments, eligibility and fund nomination.

6.56 While there is not an ongoing mechanism to provide the Co-contribution Product Team with an overview of these calls, the Customer Service and Solutions Team does provide intelligence to the Co-contribution Product Team and other relevant areas of the Tax Office when there appears to be a need to improve systems or practices. There were over 50 instances of such intelligence being provided from January to September 2009, much of it resulting from deployment into ICP.

6.57 The ANAO considers that there is an effective flow of intelligence from the Customer Service and Solutions Team to the Co-contribution Product Team and other relevant areas of the Tax Office. There would be merit in the Co-contribution Product Team also recieving regular summary reports on the frequency and nature of co-contribution calls to Call Centres.

Review and interpretative advice

6.58 If a member disagrees with the Commissioner's determination of the eligibility for or amount of co-contribution entitlement, he or she can submit a written request for a review. The Tax Office will respond in writing, providing a decision and associated reasoning.[119] The Superannuation Interpretative Assistance Team also provides interpretative advice and responds to

[118] There are 20 Tax Office shopfronts Australia wide.

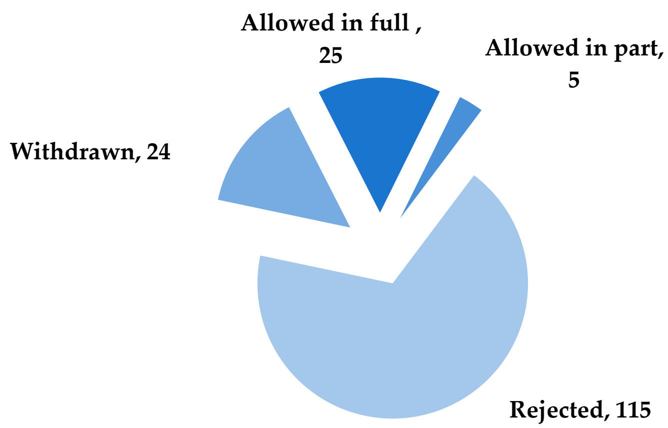
[119] The response by the Tax Office also outlines further review and complaint rights and opportunities to receive additional explanation and advice.

correspondence requesting general guidance about the application of co-contribution law to members.

6.59 Relatively few co-contribution reviews are sought. As outlined in Figure 6.6, there were 169 such reviews in 2008–09, 24 of which were withdrawn. Only 25 of the prevailing 145 reviews were allowed in full and another five in part. This low level (21 per cent) of allowed reviews suggests initial accurate determination of the co-contribution.

Figure 6.6

Co-contribution reviews, 2008–09



Source: ANAO analysis of Tax Office data.

6.60 There were many more requests for written advice than reviews of co-contributions determinations, with 790 requests for advice in 2008–09. Of these, 489 were requests for interpretative advice, 299 were general correspondence and 2 were 'phone a friend'.[120]

6.61 Many of the reviews and requests for advice are routine. For example, the top five guidance requests in 2008–09 related to: payment delays; clarification of eligibility; salary sacrifice implications for the co-contribution; differences from expected amounts; and fund destination for the co-contribution payment.

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[120] 'Phone a friend' refers to general advice provided by the interpretative assistance area in response to a request from another business area dealing with a client where a technical issue has arisen that requires general advice to be provided to the client and it is appropriate to provide this via telephone.

6.62 In contrast, some reviews and requests for advice reveal complex issues that are not well known to staff administering the co-contribution. In these instances, it is important that members of the Co-contribution Product Team liase effectively with staff from the Superannuation Interpretative Assistance Team. Tax Office staff advised there was scope to improve the nature and timeliness of such liaison and support.

Complaint resolution mechanisms

6.63 The Tax Office has a comprehensive complaint management framework, as outlined in Practice Statement PS CM 2005/08. This statement details the complaints processes and relates to complaints lodged by taxpayers and their representatives.

6.64 The Commonwealth Ombudsman undertook an investigation into the administration of the co-contribution, based on complaints made to him. A report into this investigation published in March 2006 concluded that:[121]

> Our review of complaints relating to Super co-contribution has not disclosed any major concerns with, or systemic problems within, the ATO's administration of the Superannuation Co-contribution Scheme.

6.65 While the Tax Office has various approaches to responding to complaints, the most comprehensive recording has been for those higher level complaints captured on the Technical Decision Making System Complaints recording database. The ANAO sought to interrogate this database, to understand the volume and nature of typical co-contribution complaints. Unfortunately, problems with classifications meant that the data was not suitable to be usefully analysed at an aggregate level. In September 2009, the Tax Office commenced recording complaints through its Client Relationship Management program, and considers this has the potential to improve the recording and analysis of complaints.

6.66 The Tax Office has undertaken some analysis of complaints, for example identifying 34 co-contribution complaints out of a total 701 superannuation complaints in 2007–08. The ANAO also viewed more detailed analysis of co-contribution complaints by the Tax Office,[122] particularly an

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[121] Commonwealth Ombudsman, *Australian Taxation Office, Administration of the Superannuation Co-contribution Scheme*, March 2006, p. 13.

[122] Tax Office Internal Document, *Superannuation Co-contribution – Complaints Review*, unapproved.

assessment of actual complaints from October 2006 to May 2007 to identify trends and priority issues to be addressed to improve administration.

6.67 This was a useful analysis, and helped deliver on the Tax Office's intent to use complaints to improve client service and Tax Office products. However, there was no evidence of the Tax Office continuing to examine co-contribution complaints to this level of detail on an ongoing basis.

Recommendation No.4

6.68 To support effective co-contribution administration, the ANAO recommends that the Tax Office more fully uses information obtained from client contact channels, particularly concerning co-contribution complaints and interpretative assistance.

Tax Office response

6.69 *Agreed. This recommendation has been implemented.* The product team has established a monthly meeting between key co-contribution stakeholders to facilitate a more co-ordinated approach to the overall administration of co-contributions within the Tax Office. The purpose of this forum is to:

- share intelligence to allow for better use of information, including from complaints and advice work, in decision making processes, planning, communications, and strategy setting in the administration of the product; and
- progress strategies relating to coverage, connection with the youth audience, etc. and alignment between law and administration.

6.70 Ongoing use of the processes will be reflected in relevant co-contribution product and/or portfolio plans.

Communication with employers

6.71 There are no specific legislative obligations for employers in relation to the co-contribution. However they are key indirect stakeholders, acting in an intermediary role on behalf of their employees. For example they can:

- collect personal superannuation contributions directly from employees' after-tax pay and deposit them into funds; and
- report superannuation contributions to funds as either personal or employer contributions, and provide employee TFNs for funds to

include in member statement reporting, which allows the co-contribution to be determined and paid.

6.72 In a report on an investigation into the administration of the co-contribution, the Commonwealth Ombudsman commented that there is value in the Tax Office 'actively engaging with employers and reminding them of the importance of their role within the system'.[123]

6.73 As part of audit fieldwork, the ANAO sought information about any such activity. The Tax Office advised that it has undertaken communication and education activities to remind employers of their obligation at law to pass an employee's TFN to funds if they are given it. However, the Tax Office has not undertaken any specific communication or education projects aimed at data requirements or reporting quality between employers and funds. The Tax Office considers these matters to be between funds and employers.

6.74 While accepting this relationship between funds and employers, the ANAO considers there is likely to be additional benefit for the integrity of the administration of the Co-contribution Scheme if the Tax Office were to more actively engage with employers about reporting quality. The Tax Office should consider the potential of such activity as it progresses existing work with funds to improve member statement data quality, for example through the member statement protocol document.

Ian McPhee | Canberra ACT

Auditor-General | 18 May 2010

[123] Commonwealth Ombudsman, *Australian Taxation Office, Administration of the Superannuation Co-contribution Scheme*, March 2006, p. 12.

Appendices

Appendix 1: Tax Office Response to Audit

Australian Government
Australian Taxation Office

SECOND COMMISSIONER OF TAXATION

Mr David Crossley
Executive Director
Performance Audit Services Group
GPO Box 707
CANBERRA ACT 2601

Dear ~~Mr Crossley~~ David,

Performance Audit: The Tax Office's Administration of the Superannuation Co-contribution Scheme.

Thank you for the opportunity to review and provide comments on the Australian National Audit Office report and recommendations on the ATO's administration of the Superannuation Co-contribution Scheme.

I welcome the report and agree to the recommendations, as outlined in Appendix A to this letter. It is encouraging that changes already being implemented are consistent with the general tenor of the recommendations and suggested actions.

It was pleasing to see that overall, the ANAO found that the ATO has effectively administered the scheme, typically providing accurate and prompt payment of Co-contributions, with relatively few queries and complaints.

We appreciate the recognition of the greater pressures placed on the administration of Co-contributions, with Super Simplification and the deployment of our new processing systems and your acknowledgement of the return to high levels of timely and accurate processing in the peak period of late 2009.

We note the suggested actions and learnings included in the report and they will be considered along with other organisational priorities.

I would like to take this opportunity to thank your Audit Team – Andrew Morris and David Lacy – for the constructive and collaborative way in which this audit was conducted.

Yours sincerely

Bruce Quigley
Second Commissioner
12 May 2010

PO BOX 900 CIVIC SQUARE ACT 2608 AUSTRALIA
ADDRESS

+61 (0)2 6216 1111
TELEPHONE

+61 (0)2 6216 2743
FACSIMILE

The Tax Office accepts the four recommendations and provides the following comments.

Recommendation No 1

To strengthen the linkage between risk and planning processes, the ANAO recommends that the Tax Office explicitly reference co-contribution operational risks contained in the Superannuation Product Risk Register to relevant co-contribution product and/or portfolio plans.

Tax Office response: *Agreed.*

Future co-contribution product and/or portfolio plans will explicitly reference co-contribution risks contained in the Superannuation Product Risk Register.

Recommendation No 2

To support reliable and timely problem resolution and change management, the ANAO recommends that the Tax Office clarifies roles and responsibilities with staff in relation to the restructured enterprise solutions and technology (EST) service delivery model. In particular, the Tax Office should define and document end-to-end EST processes, roles and responsibilities for managing system changes in this restructured model.

Tax Office response: *Agreed. This recommendation has been implemented.*

At a high level, end-to-end EST processes, roles and responsibilities for managing system changes have been defined and documented. Work is underway to build more detailed documentation which will be published on the intranet.

Recommendation No 3

To refine approaches to auditing the accuracy and completeness of Member Contribution Statements provided by funds for co-contribution purposes, the ANAO recommends that the Tax Office:

(a) explicitly covers major Superannuation fund administrators and funds, and makes greater use of operational analytic techniques, when selecting funds for audit;

(b) places greater weighting on Computer Aided Verification analysis rather than auditing of member records on funds' systems; and

(c) enhances communication between the Co-contribution Product Team and the Active Compliance audit team regarding fund selection and the implications of audit findings.

Tax Office response: *Agreed.*

Recommendation No 4

To support effective co-contribution administration, the ANAO recommends that the Tax Office more fully uses information obtained from client contact channels, particularly concerning co-contribution complaints and interpretative assistance.

Tax Office response: *Agreed. This recommendation has been implemented.*

The product team has established a monthly meeting between key co-contribution stakeholders to facilitate a more co-ordinated approach to the overall administration of co-contributions within the Tax Office. The purpose of this forum is to:

- share intelligence to allow for better use of information, including from complaints and advice work, in decision making processes, planning, communications, and strategy setting in the administration of the product; and
- progress strategies relating to coverage, connection with the youth audience, etc. and alignment between law and administration.

Ongoing use of the processes will be reflected in relevant co-contribution product and/or portfolio plans.

Appendix 2: Summary of Co-contribution Scheme introduction and subsequent changes

Change and date of effect	Nature of change
Previous Rebate for Personal Super Contributions before 1 July 2003	• Maximum rebate of $100 (10 per cent of contributions up to $1,000). • Eligible income levels below $27 000 full rebate—tapers off up to $31 000.
Introduction of Co-contribution Scheme from 1 July 2003	• Matching $1.00 for each dollar of eligible personal contributions up to a maximum co-contribution of $1 000 • Eligible income levels, below $27 500 full matching, tapers off up to $40 000 • At least 10 per cent of income from eligible employment.
Improvements to co-contribution legislation effective from 1 July 2004	• Matching $1.50 for each dollar of eligible personal contributions up to $1,000. • Eligible income levels, below $28 000 full matching, tapering off up to $58 000. • Co-contributions and deductions for super contributions are mutually exclusive. • Maximum co-contribution $1 500.

Super Simplification reforms effective from 1 July 2007	• Initiative extended to cover the self-employed (at least 10 per cent of income must be from eligible employment, carrying on a business, or both).
	• Funds will not be able to accept personal contributions without a member Tax File Number.
	• Individuals may be eligible for co-contributions and a deduction for super contributions if eligibility criteria are met.
	• Business income is reduced by business expenses.
	• Fund reporting consolidated and improved, including a uniform non-compliance penalty framework.
	• Co-contribution income thresholds for the 2007–08 year were:
	  ○ Lower income threshold—$28 980
	  ○ Higher income threshold—$58 980.
	• Additional co-contributions payment:
	  ○ The co-contribution for the 2005–06 year only was doubled (maximum Co-contribution of $3000)
	  ○ This measure was intended by the then government to provide an extra boost to the retirement savings of individuals who had already qualified in the year
	  ○ As a result of the measure, entitlements totalling $939 million were determined in respect of 1.16 million beneficiaries
	  ○ Majority of payments were made by 30 June 2007.

Income threshold changes from 1 July 2008	• Co-contributions income thresholds for the 2008–09 year are: ○ Lower income threshold—$30 342 ○ Higher income threshold—$60 342.
Further changes effective from 1 July 2009	• Income test for the co-contribution was broadened to account for amounts salary sacrificed to a super fund (as contained in the *Tax Laws Amendment (2008 Measures No 1) Bill 2009*). From 2009–10, reportable employer super contributions to be included in the co-contribution income test. • The Government will temporarily reduce the matching rate and maximum co-contribution that is payable on an individual's eligible personal concessional superannuation contributions. Under this measure, the matching rate will be: ○ 100 per cent for 2009–10, 2010–11 and 2011–12 ○ 125 per cent for 20l2–13 and 2013–14 ○ 150 per cent from 2014–15 onwards. • Definition of 'eligible temporary resident visa' in subsection 6(1) paragraph (f) of the *Superannuation (Government Co-contribution for Low Income Earners) Act 2003* was replaced as a result the temporary residents' unclaimed superannuation measure on the 26th March 2009. This change impacts who is an eligible person for the co-contribution and applies to the 2009–10 and later income years only.

Source: Tax Office Draft Supplementary Budget Estimates—October 2009.

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