

The Auditor-General
Audit Report No.18 2003–04
Performance Audit

The Australian Taxation Office's Use of AUSTRAC Data Follow-up Audit

Australian Taxation Office

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Canberra ACT
10 December 2003

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 *The Australian Taxation Office's Use of AUSTRAC Data Follow-up Audit*.

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



P. J. Barrett
Auditor-General

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

AUDITING FOR AUSTRALIA

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

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Abbreviations/Glossary

ALO	AUSTRAC Liaison Officer (ATO)
ANAO	Australian National Audit Office
ARC	AUSTRAC Research and Coordination Team (ATO)
ATO	Australian Taxation Office
AUSTRAC	Australian Transaction Reports and Analysis Centre
FTR	Financial Transaction Report
GST	Goods and Services Tax
ICTR	International Currency Transfer Report
IFTI	International Funds Transfer Instruction
LB&I	Large Business and International Business Line
MoU	Memorandum of Understanding
SCTR	Significant Cash Transaction Report
SNC	Serious Non-Compliance
SUSTR	Suspect Cash Transaction Report

Summary and Recommendations

Summary

Background

1. In 2002–03, the Australian Taxation Office (ATO) collected revenue of \$185 billion.¹ Self-assessment and a broad range of compliance strategies support collection of this revenue. The ATO relies upon risk management approaches and the integrity features built into the tax system to identify, cost effectively, instances where taxpayers fail to comply. The ATO's compliance strategies aim to optimise collections and instil confidence in the community that the taxation system is operating effectively.

2. The ATO uses financial transaction report (FTR) information provided by the Australian Transaction Reports and Analysis Centre (AUSTRAC) in its administration of the taxation system. FTR data is an important source of financial intelligence for the ATO. This data can be used by the ATO to:

- monitor money movements into and out of Australia;
- profile individuals, industries, occupations and geographical areas;
- identify potential high-risk transactions;
- identify and quantify compliance risks and develop compliance strategies; and
- assist in the selection of compliance cases for further investigation.

Audit approach

3. The Australian National Audit Office (ANAO) completed a performance audit of the ATO's use of AUSTRAC data in August 2000, titled *The Australian Taxation Office's Use of AUSTRAC Data*, Audit Report No.7 2000–01. It found that the ATO had used AUSTRAC data to achieve a significant improvement in the collection of taxation revenue. The ANAO considered that the ATO could build on this success by using AUSTRAC data more effectively at both the strategic and operational levels. The audit made six recommendations. The ATO agreed with all recommendations.

¹ Australian Taxation Office, *Annual Report 2002–03*, p. 43. This amount includes collections of \$30.7 billion for the Goods and Services Tax and \$21.6 billion for Excise and other indirect taxes.

4. The objective of this follow-up performance audit was to assess the ATO's progress in implementing the recommendations of Audit Report No.7 2000–01, *The Australian Taxation Office's Use of AUSTRAC Data*.

5. Follow-up performance audits are an important ANAO activity. They encourage agencies to act on audit recommendations and they provide feedback and assurance to the Parliament on actions taken by agencies.

Overall conclusion

6. The ANAO found that the ATO has implemented four of the recommendations and has made significant progress in implementing the other two. The ANAO considers that it is now timely for the ATO to finalise action on the recommendations that relate to its strategic partnership with AUSTRAC and the implementation of a cost effective performance management system. In particular, this would require the ATO to:

- develop a revised Memorandum of Understanding (MoU) between itself and AUSTRAC. This would improve the strategic partnership and governance arrangements between the two agencies; and
- implement a performance measurement framework that supports the effective monitoring and reporting of the ATO's use of AUSTRAC data. The framework would help improve the value and effective use of AUSTRAC data.

7. The ATO advised the ANAO, in October 2003, that the revised MoU is well advanced and it is planned to be in place by the end of the year. The performance measurement framework will form part of the MoU. Table 1 (page 12) summarises the ANAO's assessment of the ATO's progress in implementing the recommendations.

Summary of Agencies' responses

8. The ATO's comments on the proposed report are provided in full in the Appendix. In summary, the ATO agreed with the outcomes of the report. With regard to the development of a revised MoU and performance measurement framework, the ATO advised that further progress has been made since the

completion of the audit. A draft of the MoU, which includes an updated performance measurement framework, has been completed and is with the executive of both agencies for approval.

9. The proposed report was provided to AUSTRAC to clarify any matters of fact. AUSTRAC advised that in general it agreed with the report and considers that the relationship between itself and the ATO is now more effective.

Table 1

Summary of ATO's progress in implementing the recommendations of Audit Report No.7 2000-01

The Australian Taxation Office's Use of AUSTRAC Data

Rec. No.	Recommendations	ANAO's summary comments on progress	Para. No.
1	To improve the strategic partnership with AUSTRAC and maximise the use of AUSTRAC data as a source of strategic intelligence, the ANAO recommends that the ATO: (a) develop its ongoing strategic relationship with AUSTRAC at a senior level to routinely identify strategic priorities and required outcomes and to manage emerging issues and potential risks; and (b) consider including information relating to the use of AUSTRAC data within its existing corporate governance framework.	The ANAO found that the ATO has made significant progress in implementing this recommendation.	2.1 to 2.10
2	To ensure more relevant measures of performance, the ANAO recommends that the ATO review its current methods for quantifying the direct and indirect benefits of using AUSTRAC data.	The ANAO found that the ATO has implemented this recommendation.	2.11 to 2.15
3	The ANAO recommends that the ATO, in conjunction with AUSTRAC, develop and implement a cost effective performance management system to provide accurate and relevant feedback and thereby help to improve the value and effectiveness of AUSTRAC data.	The ANAO found that the ATO has made significant progress in implementing this recommendation.	2.16 to 2.18
4	To ensure the most effective use of AUSTRAC Liaison Officer resources and enhance the effective and efficient use of AUSTRAC data, the ANAO recommends the ATO review its current processes for profiling and actioning Suspect Transaction Reports and examine the opportunities for using AUSTRAC tools to identify patterns of suspect financial activity.	The ANAO found that the ATO has implemented this recommendation.	3.1 to 3.7

5	<p>To ensure that staff have an understanding of the potential benefit of using AUSTRAC data and are proficient in using the AUSTRAC database, the ANAO recommends that the ATO enhance its current AUSTRAC training program by:</p> <ul style="list-style-type: none"> (a) using, where appropriate, AUSTRAC staff in developing ATO training; (b) incorporating the potential benefits of using AUSTRAC data into introductory training courses for staff who, potentially, may use this data; and (c) developing an ATO-specific summary user's guide to assist AUSTRAC database users. 	The ANAO found that the ATO has implemented this recommendation.	3.8 to 3.15
6	<p>To ensure the ATO maximises its effective use of AUSTRAC data, the ANAO recommends that the ATO:</p> <ul style="list-style-type: none"> (a) review the current use of AUSTRAC data by business lines and explore further opportunities for using this data; and (b) monitor the use of the AUSTRAC database on an ongoing basis. 	The ANAO found that the ATO has implemented this recommendation.	3.16 to 3.20

Audit Findings and Conclusions

1. Background

This chapter provides background to the audit and identifies the audit objective, scope and methodology.

Introduction

1.1 In 2002–03, the Australian Taxation Office (ATO) collected revenue of \$185 billion.² Self-assessment and a broad range of compliance strategies support collection of this revenue. The ATO relies upon risk management approaches and the integrity features built into the tax system to identify, cost effectively, instances where taxpayers fail to comply. The ATO's compliance strategies aim to optimise collections and instil confidence in the community that the taxation system is operating effectively.

1.2 The ATO uses financial transaction report (FTR) information provided by the Australian Transaction Reports and Analysis Centre (AUSTRAC) in its administration of the taxation system. FTR data is an important source of financial intelligence for the ATO. This data can be used by the ATO to:

- monitor money movements into and out of Australia;
- profile individuals, industries, occupations and geographical areas;
- identify potential high-risk transactions;
- identify and quantify compliance risks and develop compliance strategies; and
- assist in the selection of compliance cases for further investigation.

AUSTRAC's role

1.3 AUSTRAC is a specialised financial intelligence unit and financial services industry regulatory agency. It was established under the provisions of the *Financial Transaction Reports Act 1988* (FTR Act 1988) to work with the financial, gambling and other defined cash dealer sectors, to collect, retain, compile, analyse and disseminate FTR information.

² Australian Taxation Office, *Annual Report 2002–03*, p. 43. This amount includes collections of \$30.7 billion for the Goods and Services Tax and \$21.6 billion for Excise and other indirect taxes.

1.4 AUSTRAC collects financial transaction reports from cash dealers,³ solicitors and the general public. Four types of information are reported to AUSTRAC:

- Significant Cash Transaction Reports (SCTRs) are provided by cash dealers and solicitors for domestic transactions involving \$10 000 cash or more;
- Suspect Transaction Reports (SUSTRs) are provided by cash dealers where they suspect tax evasion or a breach of Commonwealth, State or Territory law. SUSTRs are reported without the knowledge of the customer;
- International Funds Transfer Instruction (IFTIs) Reports originate from cash dealers where funds are telegraphically transferred or wired into or out of Australia. IFTIs may be purchased for any amount by cash or non-cash payment; and
- International Currency Transfer Reports (ICTRs) are required from individuals who physically transfer cash of \$10 000 (Australian or foreign equivalent) into or out of Australia. Relevant information is most commonly reported to Australian Customs officers at international arrival and departure lounges.

1.5 Under memoranda of understanding AUSTRAC provides the ATO, Australian Government, State and Territory law enforcement, revenue and security agencies with access to FTR data. The ATO uses on-line facilities to access the AUSTRAC system. This gives the ATO the ability to view information reported to AUSTRAC; complete a range of searches; and download data for further analysis. This information assists the ATO to prevent and detect non-compliance and criminal activity, such as tax evasion and fraud. AUSTRAC also provides a range of other off-line financial intelligence services to the ATO, including data matching alerts and customised analytical downloads.

ATO's AUSTRAC Research and Coordination Team

1.6 In July 2003, the ATO established a new Business Line, Serious-Non Compliance (SNC), to draw together a number of areas within the ATO responsible for dealing with non-compliant behaviour. The ATO's AUSTRAC Research and Coordination Team (ARC), which is responsible for AUSTRAC liaison and promoting use of the AUSTRAC system in the ATO, is now part of the SNC Business Line.

³ Cash dealers are defined in Section 3 of the FTR Act 1988.

1.7 The ARC consists of a National Manager, Senior AUSTRAC Liaison Officer, Administrative Officer and seven AUSTRAC Liaison Officers (ALOs). The ALOs are based at five sites around Australia.⁴ These officers provide support and training to users of the system, feedback to the ARC and AUSTRAC, and assist in integrating AUSTRAC information with the ATO's compliance activities.

Previous audit coverage

1.8 The Australian National Audit Office (ANAO) completed a performance audit of the ATO's use of AUSTRAC data in August 2000, titled *The Australian Taxation Office's Use of AUSTRAC Data*, Audit Report No.7 2000–01. It found that the ATO had used AUSTRAC data to achieve a significant improvement in the collection of taxation revenue. The ANAO considered that the ATO could build on this success by using AUSTRAC data more effectively at both the strategic and operational levels. The audit made six recommendations. The ATO agreed with all recommendations.

Audit objective and methodology

1.9 The objective of this follow-up performance audit was to assess the ATO's progress in implementing the recommendations of Audit Report No.7 2000–01, *The Australian Taxation Office's Use of AUSTRAC Data*.

1.10 The audit was undertaken using a combination of quantitative analysis, documentation reviews and interviews with agency officers from both the ATO and AUSTRAC. AUSTRAC was consulted about how the ATO uses FTR data as a source of intelligence information to support effective taxation administration.

1.11 Follow-up performance audits are an important ANAO activity. They encourage agencies to act on audit recommendations and they provide feedback and assurance to the Parliament on actions taken by agencies.

1.12 The audit was undertaken in conformance with ANAO auditing standards and cost \$96 576.

⁴ The ATO has AUSTRAC Liaison Officers in Adelaide, Brisbane, Melbourne, Sydney and Perth.

Report structure

1.13 This report has three parts. Part one outlines the background to the audit and identifies the audit objective and methodology. Parts two and three relate to the ATO's progress in implementing the six recommendations of the previous audit. The recommendations have been grouped into two themes, 'governance arrangements', which includes recommendations one, two and three; and 'the ATO's use of FTR data' covering recommendations four, five and six.

2. Governance Arrangements

This chapter presents the ANAO's findings against recommendations one, two and three of the previous audit. Those recommendations related to governance including the ATO's relationship with AUSTRAC and measuring and reporting performance.

Recommendation No. 1

To improve the strategic partnership with AUSTRAC and maximise the use of AUSTRAC data as a source of strategic intelligence, the ANAO recommends that the ATO:

- (a) develop its ongoing strategic relationship with AUSTRAC at a senior level to routinely identify strategic priorities and required outcomes and to manage emerging issues and potential risks; and
- (b) consider including information relating to the use of AUSTRAC data within its existing corporate governance framework.

ATO's response

The ATO will look at enhancing its ongoing strategic relationship with AUSTRAC. The ATO has commenced reviewing the type of information that will be reported within its corporate governance framework.

ANAO's assessment of progress to date

The ANAO found that the ATO has made significant progress in implementing this recommendation.

The ANAO considers that the ATO now needs to finalise a revised MoU to better support effective governance of its strategic relationship with AUSTRAC.

Developing a strategic relationship with AUSTRAC

2.1 The previous ANAO audit recommended that the ATO develop its strategic relationship with AUSTRAC. To this end, in 2001, the ATO and AUSTRAC participated in a number of high-level meetings aimed at strengthening their strategic relationship and resolving significant issues. The ANAO found that the meetings focused on a range of topics, such as developing a revised MoU and performance measures, and implementing the ANAO audit recommendations. These meetings also provided AUSTRAC with the opportunity to promote the value of FTR data to the ATO. The ANAO was advised that the ATO and AUSTRAC have continued to meet on a regular basis with quarterly meetings scheduled between senior ATO and AUSTRAC staff.

2.2 The ANAO noted that AUSTRAC has also liaised directly with senior ATO officers responsible for addressing compliance risks in a number of areas and spoke at a SNC conference, held in May 2001. AUSTRAC has also addressed and participated in a number of ATO Executive and strategic meetings. These activities have helped both agencies understand their respective responsibilities and how FTR data could be better used by the ATO at both strategic and operational levels.

2.3 AUSTRAC and the ATO signed a Memorandum of Understanding (MoU) in 1998. The MoU underpins their ongoing relationship and establishes a supporting framework for their cross-portfolio cooperation. It principally relates to how the ATO uses FTR data.

2.4 The ANAO found that strategic issues such as the development of agreed performance measures and implementation of a revised MoU have been ongoing since completion of the previous audit in August 2000. The ANAO further found that these matters were unresolved at the time of fieldwork for this audit. The ATO advised that it views the MoU as a formality and has focused on developing an effective working relationship with AUSTRAC. In October 2003, the ATO further advised that the MoU is now well advanced. It is planned that the revised MoU will be in place by the end of 2003.

2.5 The ANAO considers that finalising the MoU will support good governance; formalise arrangements for interagency cooperation and reporting; and clarify the responsibilities of each agency in several key areas. These include:

- conditions of access to and use of FTR data, including data matching;
- training and support;
- performance measurement; and
- evaluation, feedback, and liaison.

Using AUSTRAC data as a source of intelligence

2.6 FTR data is a useful source of intelligence information for the ATO. The ATO uses the AUSTRAC system and FTR data at both the macro⁵ and operational⁶ levels; but the data is used most frequently at the operational level to support compliance activity.

⁵ Use of FTR data at the macro level relates to the high level aggregated analysis of patterns and/or trends and includes analysis of International Fund Transfer Instructions and industry and occupation analysis.

⁶ The ATO uses FTR data at an operational level to profile individual clients prior to the commencement of compliance activity. This may also involve the limited profiling of Suspect Transaction Reports.

2.7 The ANAO found that use of FTR data has increased since the completion of the previous audit. There has been an increase in both the number and complexity of searches.⁷ This greater use corresponds with the ATO's heightened focus on compliance activity as foreshadowed in its Compliance Programs for 2002–03 and 2003–04. The ANAO was advised that, with the formation of the SNC Business Line in July 2003, emphasis will continue to be given to maximising the benefits of using FTR data across the ATO.

Governance reporting

2.8 The ANAO reviewed the ATO's internal reporting relating to the use of the AUSTRAC system and FTR data. The ARC reports a broad range of information to the SNC Executive on a monthly and quarterly basis. The quality of the information improved in late 2002 when definitional issues around the collection and reporting of this information were clarified. Information reported includes the number of users trained, cases profiled, and debt raised.

2.9 The ANAO considers that, although a broad range of information is reported to the SNC Executive, in graphical form, it would be useful for the ARC to also provide a summary of risks, emerging issues and a brief commentary on the data reported. This should help the ATO to better integrate the results of analysis into risk management processes, including those involved in its compliance and fraud control plans. The ATO advised that information on risk activities will be included in future monthly reports.

2.10 A key role of the ATO's Audit Committee is to monitor the implementation of audit recommendations and consider the broader impact of them on the ATO. Accordingly, the ANAO reviewed information that had been reported to the ATO Audit Committee. The ATO's Internal Audit Branch has redesigned and/or improved its recommendations database and processes for the collection of this information three times since September 2001. Business lines are now required to report on the current status of recommendations and the completion date for the implementation of all recommendations. The ANAO found that, in relation to the previous ANAO audit, limited information was reported to the ATO's Audit Committee between November 2001 and November 2002. Updates are now provided quarterly to the Audit Committee.

⁷ The ATO stated in its 2001–02 Annual Report that AUSTRAC searches conducted by its compliance areas rose by over 20 per cent and that there was also an increase in the number of awareness and training sessions delivered to ATO officers.

Recommendation No. 2

To ensure more relevant measures of performance, the ANAO recommends that the ATO review its current methods for quantifying the direct and indirect benefits of using AUSTRAC data.

ATO's response

The ATO will review the method for quantifying direct and indirect AUSTRAC results. The ATO agrees with the ANAO that cost effectiveness and practicality will be a major consideration.

The ATO also agrees that the current measurement serves little strategic purpose and would prefer to focus on developing a range of qualitative measures that better reflect the indirect benefits to tax administration.

ANAO's assessment of progress to date

The ANAO found that the ATO has implemented this recommendation.

The ATO has considered options for the collection of data regarding the direct benefits of using FTR data and the methodology for quantifying indirect benefits.

Data collection and direct benefits

2.11 The ATO measures the direct benefits⁸ of using FTR data where its use has resulted in an adjustment to the amount of taxation payable. The ANAO found that the ATO has implemented manual processes to support the reporting of direct benefits. This requires the ATOs to contact individual users to obtain an estimate of adjustments made over the financial year. Given this method of data collection, it is difficult for the ATO to obtain accurate data to support the reporting of this outcome.

2.12 The ATO advised that, to improve data collection and reporting, the ATO has approached a number of business lines to record AUSTRAC results in their systems. The ATO further advised that collecting this data will also be considered in future systems development. The ANAO noted that the new ATO fraud investigations case management system (known as ASIS) will include mandatory data fields to capture this information for fraud related cases.⁹

⁸ Direct benefits are measured in terms of additional revenue. This relates largely to where an assessment has been raised and additional tax and/or penalties is payable. This assessment must be either wholly or in part attributable to the use of FTR data.

⁹ Further information about the ASIS case management system and data collection requirements can be found in Audit Report No. 55 of 2002-2003, *Goods and Services Tax Fraud Prevention and Control*.

Measuring indirect benefits

2.13 At the time of the previous audit, the ATO was reporting the indirect benefits¹⁰ of using FTR data as 40 per cent of the direct benefits. In response to recommendation number two of the previous audit, the ATO reviewed its methodology for calculating indirect benefits and discontinued using this approach. It also considered other methods of measuring indirect benefits, with limited success.

2.14 The ATO advised that it no longer attempts to formally measure and/or quantify the indirect benefits of using the AUSTRAC system and FTR data. However, information about the indirect benefits of using the system and data is routinely reported to the ARC and included in the ATO's internal newsletter, *AUSTRACKING*. This information generally relates to successful cases where the use of FTR data has assisted in targeting non-compliance. Similar information is reported to AUSTRAC on a periodic basis.

2.15 The ANAO considers that, given the difficulty in measuring the indirect benefits of using FTR data, the ATO's approach to collecting and reporting indirect benefits arising from use of the data is suitable for the purpose. AUSTRAC advised that this information provides appropriate feedback on the value and effectiveness of FTR data.

Recommendation No. 3

The ANAO recommends that the ATO, in conjunction with AUSTRAC, develop and implement a cost effective performance management system to provide accurate and relevant feedback and thereby help to improve the value and effectiveness of AUSTRAC data.

ATO's response

The ATO will approach AUSTRAC to establish a joint review to develop and implement a cost-effective performance management system.

ANAO's assessment of progress to date

The ANAO found that the ATO has made significant progress in implementing this recommendation.

The ATO has considered several performance measures relating to the use of FTR data. The ANAO considers that the ATO now needs to finalise these measures so that its performance management system provides timely and accurate feedback. The revised MoU between the ATO and AUSTRAC should include the agreed performance measures.

¹⁰ Indirect benefits would include such measures as improved taxpayer compliance and FTR data assisting the ATO to focus on high-risk areas.

Performance measurement framework

2.16 The ANAO considers that an agreed performance measurement framework should reflect the intent of the MoU between the ATO and AUSTRAC and include quantitative and qualitative measures of performance. The ANAO recognises that using qualitative performance measures is not easy, but considers that they can provide useful feedback to both agencies on the effective use of the AUSTRAC system and FTR data. These could be indirect measures of performance relating to the use of the system to identify systemic issues and/or to target non-compliance in the taxation system.

2.17 The ANAO found that the ATO and AUSTRAC are working towards developing a set of agreed performance measures. They focus on quantifiable activity, such as the number of users who have access to the AUSTRAC system, and the number of meetings held between the ATO and AUSTRAC. The proposed framework also includes measures relating to assessing service standards and the direct benefits of using FTR data. The ATO advised that the measures, once agreed, will be included as a Schedule to the revised MoU.

2.18 The ANAO noted that the direct measures are largely focused on measuring activity at the operational level. However, there is increasing attention being given to measuring strategic outcomes. The ANAO recognises that measuring outcomes at this level is difficult, but considers that the ATO's strategic measures could be expanded. Reporting of this information by business line and/or activity would enable the ATO to build on its current anecdotal reporting by ATO risk areas and project leaders. This would also assist in identifying areas where use of the system and FTR data could be enhanced.

3. The ATO's Use of FTR Data

This chapter presents the ANAO's findings against recommendations four, five and six of the previous audit. These recommendations related to the ATO's use of FTR data, training and user support and the monitoring of system and data usage.

Recommendation No. 4

To ensure the most effective use of AUSTRAC Liaison Officer resources and enhance the effective and efficient use of AUSTRAC data, the ANAO recommends the ATO review its current processes for profiling and actioning Suspect Transaction Reports and examine the opportunities for using AUSTRAC tools to identify patterns of suspect financial activity.

ATO's response

The ATO will review its current processes for profiling and actioning Suspect Transaction Reports and examine opportunities for using AUSTRAC tools. Any revised process will be balanced within resource constraints.

ANAO's assessment of progress to date

The ANAO found that the ATO has implemented this recommendation.

The ATO could strengthen its analysis of patterns and trends. This would assist it in developing data queries and/or data analysis tools, which could aid in identifying non-compliant behaviour.

ATO's approach to managing SUSTRs

3.1 The ANAO noted that the ATO reviews all SUSTRs. It also profiles SUSTRs over a particular threshold value and/or SUSTRs of specific interest. The ATO advised that the threshold value was selected based on a risk management approach.¹¹

3.2 After completing a basic profile of selected SUSTRs, they are referred to the Tax Evasion Referral Centre or the Small to Medium Enterprise case selection teams. A summary of the SUSTRs profiled is also forwarded to the ALOs in each region for review and dissemination. Similarly, this information is sent to kdNet,¹² the Fraud Intelligence Unit and the Goods and Services Tax (GST) Strategic Risk Management Unit. The ANAO was advised that this information is not supplied for any specific intelligence purposes, but is forwarded to these areas to help them better understand taxpayer behavior. The ANAO was further advised that the ATO is reviewing its current approach to managing SUSTRs.

¹¹ At that time, the ATO was focusing on small business clients and the threshold value identified a manageable number of reports.

¹² kdNet is part of the Small Business Line and is responsible for maintaining the ATO's Corporate Risk Register and providing an intelligence, risk and knowledge management capability.

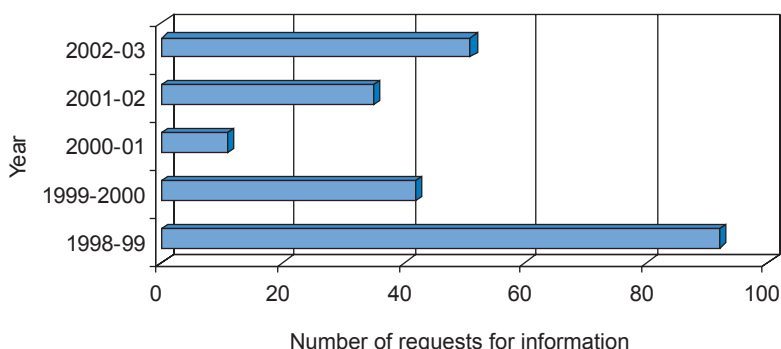
ATO's use of AUSTRAC data and trend analysis

3.3 The ANAO found that use of FTR data varies across the ATO. For example, the Large Business and International (LB&I) Business Line uses the data at the macro level to analyse international funds transfers. The GST Business Line largely uses the data at an operational level to profile individual clients before the start of review or audit activity. The ATO advised that the GST Business Line also uses AUSTRAC data as part of its case selection process and that it has worked with AUSTRAC to develop an exception report for SCTRs, based on industry codes.

3.4 To confirm the ATO's usage of the data, the ANAO consulted AUSTRAC regarding the number and complexity of requests for information it had received from the ATO. AUSTRAC advised that requests for information were fairly strong in 1998–99 but reduced significantly with the introduction of the GST. AUSTRAC further advised that the ATO's use of FTR data has increased in the last two years. The agency considers that further opportunities exist to enhance use of this data. Requests for information are now increasing, as has the complexity of these requests. Figure 3.1 represents requests for information received by AUSTRAC from the ATO for the period 1998–99 to 2002–03.

Figure 3.1

Requests for information received by AUSTRAC from the ATO

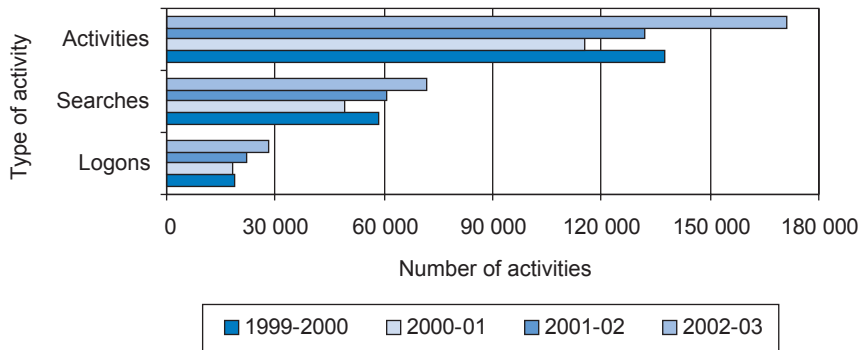


Source: AUSTRAC

3.5 Figure 3.2 presents the number of searches and traversals¹³ completed by ATO staff between 1999–2000 and 2002–03. Use of the AUSTRAC system has generally increased since 1999–2000.

¹³ A traversal (or traversing) is a process that enables users to look at pieces of information that are linked in some way to items already identified in a list. For example, users can compare a range of information to a list of names and addresses to identify all information linked to an individual and/or address.

Figure 3.2
User statistics from 1999–2000 to 2002–03



Source: AUSTRAC

Notes: Activities include complex searches such as traversals.

3.6 The ANAO considers that, although there is an increasing use of FTR data by the ATO, it could complete further systematic analysis and monitoring of patterns and/or trends. This would support the development of data queries and/or data analysis tools to identify non-complaint behaviour. The ATO advised that it is expected that, as the AUSTRAC system is more widely used across the ATO and understanding of the system is more widespread, there will be an increase in its use for analytical purposes.

3.7 The ANAO found that information about cases is regularly reported to the ARC. However, this does not consistently include detailed information on how the system and/or data was used to identify or quantify the extent of non-compliant behaviour. The ANAO noted a number of examples where the information reported and published in *AUSTRACKING* described the processes involved and provided useful guidance to other users. The ANAO considers that it would be sound practice for the ATO to consistently collect and disseminate such information.

Recommendation No. 5

To ensure that staff have an understanding of the potential benefit of using AUSTRAC data and are proficient in using the AUSTRAC database, the ANAO recommends that the ATO enhance its current AUSTRAC training program by:

- (a) using, where appropriate, AUSTRAC staff in developing ATO training;
- (b) incorporating the potential benefits of using AUSTRAC data into introductory training courses for staff who, potentially, may use this data; and
- (c) developing an ATO-specific summary users' guide to assist AUSTRAC database users.

ATO's response

The MOU identifies the ATO as the responsible agency for delivering training to ATO officers but does not limit involvement by AUSTRAC officers. The ATO will explore greater involvement by AUSTRAC in development and delivery of ATO training.

AUSTRAC introductory information will be incorporated into ATO new starter packages. The ATO will develop an ATO specific summary user guide for TES2000 usage.

ANAO's assessment of progress to date

The ANAO found that the ATO has implemented this recommendation.

To ensure that the AUSTRAC training programs continue to meet changing users needs, the ATO should monitor its user training for consistency; involve AUSTRAC, as appropriate, in training development; and implement follow-up post-course evaluation processes.

User training

3.8 The ANAO found that the ATO has training programs in place that support the use of the AUSTRAC system. These programs address three levels: basic, intermediate and advanced. All users are trained in the use of the system to the required level, based on their individual requirements. The programs are delivered regionally by the ALOs. The ATO has also developed a self-paced learning program to meet the needs of users in regional areas.

3.9 The ANAO noted that the ATO has used AUSTRAC training material and the experience of individual ALOs in developing the programs. The ANAO further noted that a number of different training programs have been developed for each level of training. Although, these programs cover similar information, they have not been standardised across the ATO. Each ALO maintains his/her own training material.

3.10 The ANAO found that there has been little consultation between AUSTRAC and the ATO in developing the ATO's training programs. However, the ATO has on-line access to the AUSTRAC training material and advised that it has incorporated this material into its training programs. Nevertheless, the ANAO considers that the ATO could discuss its training requirements with AUSTRAC more extensively and seek comment on course content. The ATO advised that it will continue to regularly discuss training course content with AUSTRAC.

3.11 The ANAO considers that the ATO should consider standardising the content of its training packages. This could occur following a review and consolidation of all available training material. These packages could then be centrally maintained and updated for all ALOs. This process would support greater communication and sharing of experience between the ALOs. The ATO advised that the core of all training programs will be standardised to ensure better practice approaches are used by the ALOs. However, the ATO also considers that it is important to note that different parts of the ATO use the AUSTRAC system for different reasons. In order to meet the different needs of users, there is also a need to tailor training packages.

Evaluating training

3.12 The ANAO noted that the ATO has an evaluation process for all AUSTRAC system training. Participants routinely complete a course evaluation sheet at the end of each training program. Analysis of these forms has assisted the ARC in implementing remedial action where required. However, the ANAO suggests that the ATO give consideration to a more comprehensive evaluation of its training programs and develop mechanisms for post-course evaluation. For example, assessing the effectiveness of training some months after delivery would assist the ATO in customising its training programs to meet the needs of its users. However, the agency should continue to do so on a regular basis. It is important that the courses remain current, relevant and actively engage the participants.

Awareness of the AUSTRAC system's capabilities

3.13 Recommendation five of the previous audit suggested that the ATO incorporate the potential benefits of using AUSTRAC data into introductory training courses for staff who, potentially, may use the data. The ATO advised that the availability and benefits of using FTR data is generally not discussed in ATO induction courses. The exception highlighted was the GST Business Line, which has an extensive induction program. The ATO considers that promoting the benefits of using the AUSTRAC system and FTR data at induction courses is not successful in increasing its profile. The ANAO was advised that this type of information was inappropriate at the induction stage.

3.14 The ANAO noted that the ATO is shifting its focus from help and education to active compliance and that the number of AUSTRAC system users and system use has increased.¹⁴ Accordingly, the ATO does not foresee the need to promote the benefits of using the AUSTRAC system and FTR data at this time. The ANAO considers that the ATO should continue to monitor use and promote the benefits of using the AUSTRAC system and FTR data on an as required basis.

AUSTRAC system user guide

3.15 To ensure users are proficient in using the AUSTRAC system, recommendation five of the previous audit suggested that the ATO develop a summary users' guide. The ANAO found that the ATO has developed a comprehensive self-instruction tool that supports a self-paced training program. The document has a dual purpose; it acts as a user manual and fulfils a training requirement. A number of supplementary flow diagrams that summarise the searching and traversal processes have also been developed. The ANAO considers that the documents are a useful user-reference guide.

¹⁴ The number of users who can access the AUSTRAC system has increased from 800 to 1200. This has been agreed with AUSTRAC through amendment to Schedule 1 of the MoU.

Recommendation No. 6

To ensure the ATO maximises its effective use of AUSTRAC data, the ANAO recommends that the ATO:

- (a) review the current use of AUSTRAC data by business lines and explore further opportunities for using this data; and
- (b) monitor the use of the AUSTRAC database on an ongoing basis.

ATO's response

The ATO will review the current use of AUSTRAC data by business lines and explore further opportunities for using this data. Any further opportunities for the use of AUSTRAC data will need to be balanced within resource constraints. The ATO will monitor the use of the AUSTRAC database on a quarterly basis.

ANAO's assessment of progress to date

The ANAO found that the ATO has implemented this recommendation.

Monitoring of system usage by business line is now undertaken with this information reported to the SNC Executive and GST Compliance Executive Group through the SNC Executive.

Reviewing and monitoring the use of the AUSTRAC system

3.16 The ATO advised that collecting user statistics by business line requires a significant commitment of resources, if user profiles within the system are to remain current. The ATO reviewed all user profiles in early 2003. This has improved the reporting of system usage by business line. From this data, the ATO has identified that the Small Business Line is the largest user of the system, followed by the GST Business Line. Growth in the use of the system by the GST Business Line is linked to the increase in the number of users.

3.17 Figure 3.2 detailed the number of logons, searches and other use of the system by ATO staff. The number of searches compared to the number of other activities, which includes traversals, highlights the level of use of the system by the ATO. In 2002–03, for every logon, users averaged approximately three searches and six other activities.


3.18 User statistics are now available by business line. This information is routinely reported to the SNC Executive. However, the ANAO was unable to identify whether this information is being used by the ATO to improve usage of the system. For example, the data could be monitored to identify areas within the ATO where additional user training in completing complex searches and/or using macro analysis tools may be required. The ATO advised that it regularly monitors this aspect. However, over the last 15 months, the main priority has

been on training new users. In that time, over 600 new users have been registered on the AUSTRAC system. As the number of new users stabilises, more emphasis will be placed on user practices.

3.19 The ATO advised that it has not actively promoted the benefits of using the AUSTRAC system in the last 12 months, because the number of users has grown substantially. However, the ANAO considers that a growth in users does not correspond to the effective use of the AUSTRAC system and FTR data. The ANAO further considers that the ATO should give more attention to completing detailed analysis of system usage to identify areas where remedial action, such as additional user training, is required.

3.20 The ANAO found that the benefits of using the system are regularly reported to the ARC and this information is included in *AUSTRACKING* the ATO's quarterly AUSTRAC users' newsletter. The ANAO considers that the ATO should be able to identify, through consultation with its users, better practice techniques used in analysing FTR data. This information could then be used to inform the ongoing development of the ATO's training programs. The ATO advised that, as user numbers are stabilising, it is now placing a greater emphasis on user practices.

Canberra ACT
10 December 2003



P. J. Barrett
Auditor-General

Appendix

Appendix

Agency response

The Australian Taxation Office agrees with the outcomes of the paper and in particular the two main areas suggested for priority. These are:

- developing a revised MoU between itself and AUSTRAC. This will improve the strategic partnership and governance arrangements between the two agencies; and
- implementing a performance measurement framework that supports the effective monitoring and reporting of the ATO's use of AUSTRAC data. The framework will help improve the value and effective use of AUSTRAC data.

Since the completion of the audit the ATO is pleased to advise that further progress has been made in regard to both of these priority areas.

A draft of the MoU, which includes an updated performance measurement framework, has been completed and is with the executive of both agencies for approval.

The performance measurement framework included in the MoU is based on monitoring and reporting on:

- what AUSTRAC data is used for throughout the ATO;
- direct results from the use of AUSTRAC data; and
- how the results were achieved.

It is expected that this measurement framework will improve the value and use of AUSTRAC data at both the operational and strategic levels within the Australian Taxation Office.

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