Canberra   ACT
3 March 2004

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in the Australian Taxation Office in accordance with the authority contained in the Auditor-General Act 1997. I present the report of this audit and the accompanying brochure. The report is titled *The Australian Taxation Office’s Collection and Management of Activity Statement Information*.

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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<tr>
<td>ABN</td>
<td>Australian Business Number</td>
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<tr>
<td>ANAO</td>
<td>Australian National Audit Office</td>
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<td>ANTS</td>
<td>A New Tax System</td>
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<td>ASE teams</td>
<td>Activity Statement Exception teams</td>
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<td>ATO</td>
<td>Australian Taxation Office</td>
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<td>ATPF</td>
<td>ATO Tax Practitioner Forum</td>
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<td>AWA</td>
<td>Automated Work Allocation system</td>
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<td>BAC</td>
<td>Business Approval Committee</td>
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<td>BAS</td>
<td>Business Activity Statement</td>
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<tr>
<td>Business rule</td>
<td>A rule with its basis in ATO policy or legislation that is applied to information provided by clients to establish the integrity of that information.</td>
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<td>CBS</td>
<td>Correct Business Systems</td>
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<tr>
<td>Change error</td>
<td>A type of <strong>system exception</strong>, where the business outcome is wrong because the system specification is wrong.</td>
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<tr>
<td>Client</td>
<td>A taxpayer with an activity statement related tax obligation.</td>
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<td>CAST</td>
<td>Complex Activity Statement Team</td>
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<td>CVC</td>
<td>Compliance Verification Centre</td>
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<td>Data capture exception</td>
<td>Refers to the data submitted by a taxpayer on an ATO approved form, using an ATO approved lodgement method that is not accurately replicated onto ATO IT systems. This results in data provided on an activity statement not being correctly captured by ATO systems.</td>
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<tr>
<td>Data exception</td>
<td>Generated when data provided by a taxpayer on an activity statement is incorrect and needs amending to process fully.</td>
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<td>eAS</td>
<td>Electronic Activity Statement system</td>
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<td>ECI</td>
<td>Electronic Commerce Interface</td>
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<tr>
<td>Acronym</td>
<td>Description</td>
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<td>ELS</td>
<td>Electronic Lodgement Service</td>
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<td>FBT</td>
<td>Fringe Benefits Tax</td>
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<td>FTE</td>
<td>Full Time Equivalent</td>
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<td>GST</td>
<td>Goods and Services Tax</td>
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<td>IAS</td>
<td>Instalment Activity Statement</td>
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<td>IPS</td>
<td>Instalment Processing System</td>
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<td>IT</td>
<td>Information Technology</td>
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<tr>
<td>LCT</td>
<td>Luxury Car Tax</td>
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<tr>
<td>P&amp;PP</td>
<td>Payment and Product Processing, a division within the ATO.</td>
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<tr>
<td>PAYG</td>
<td>Pay As You Go</td>
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<td>PAYGI system</td>
<td>Pay As You Go Instalments system</td>
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<td>PoI</td>
<td>Proof of Identity</td>
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<td>Production change</td>
<td>A change to an IT system where that system delivers according to system specifications but does not meet business needs.</td>
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<tr>
<td>Production error</td>
<td>An error that occurs when a system does not deliver expected results according to a system specification.</td>
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<tr>
<td>PSS</td>
<td>Production Systems Support, a division within the ATO.</td>
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<td>QA</td>
<td>Quality Assurance</td>
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<td>RRE</td>
<td>Risk Rating Engine</td>
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<tr>
<td>System exception</td>
<td>Generated where an IT system does not deliver expected results, or does not meet business needs.</td>
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<tr>
<td>System specification</td>
<td>The documentation that outlines how IT systems are supposed to operate, including how business rules are applied.</td>
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<td>Tax practitioner</td>
<td>Includes tax agents, and other professionals, working on tax matters for their clients.</td>
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<tr>
<td>TFN</td>
<td>Tax File Number</td>
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<tr>
<td>USD</td>
<td>Unicentre Service Desk</td>
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<tr>
<td>WET</td>
<td>Wine Equalisation Tax</td>
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Report No.33 2003–04
The Australian Taxation Office's Collection and Management of Activity Statement Information
Summary and Recommendations
Summary

Introduction

1. Activity statements are the Australian Taxation Office’s (ATO) approved forms that enable ATO clients with specific tax obligations to remit or calculate their taxes. The management of activity statements is an important aspect of Commonwealth revenue collection as approximately 65 per cent of revenue ($120 billion) collected by the ATO was received through activity statements in 2002–03. Collecting activity statement revenue poses a significant challenge to the ATO, as it processes approximately 15 million activity statements annually.1

2. Activity statements comprise the Business Activity Statement (BAS) and Instalment Activity Statement (IAS), which are used to report and/or remit multiple Commonwealth taxes.2 Clients are able to lodge their activity statements monthly, quarterly or annually depending on their income, Pay As You Go (PAYG) withholding obligations, and the reporting option nominated by the client and agreed to by the ATO.

3. The ATO introduced three principal Information Technology (IT) systems to process activity statements. These are the Instalment Processing System (IPS), Pay As You Go Instalments (PAYGI) system, and the Risk Rating Engine (RRE). Since their introduction, the ATO has made many significant changes to improve their efficiency and effectiveness, and to provide the additional functionality required by subsequent changes to policy and legislation.

Objective and scope

4. The objective of the audit was to assess the ATO’s collection and management of activity statement information. Specifically the audit sought to:

• report on the environment into which the activity statement collection and processing systems were introduced;

• identify taxpayer concerns with activity statement processing, and the measures the ATO has undertaken to address those concerns;

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1 ATO analysis of business and service line financial and performance information.
2 These specific tax obligations include: Goods and Services Tax (GST); Pay As You Go (PAYG); Fringe Benefits Tax (FBT); Wine Equalisation Tax (WET); Luxury Car Tax (LCT); and company instalment obligations.
• assess the systems, processes and controls used by the ATO to capture and process activity statement information;

• assess the mechanisms the ATO has in place to maintain, change and test activity statement IT systems, which bear on the integrity and security of activity statement information; and

• assess the management methodology used by the ATO to report and assess the performance of activity statement related systems and processes.

5. The focus of the audit was on activity statement data capture and activity statement processing activities.

Key findings

Background and context (Chapter 1)

6. The effective management of activity statement information is an important issue for the ATO. A failure of the systems, processes and controls used by the ATO to manage activity statement information could not only undermine the ATO’s reputation within the community, but also has the potential to impact significantly on tax revenue.

7. The introduction of A New Tax System (ANTS) legislation represented the single largest change to tax operations in the ATO’s history. The ATO recognised that activity statements, and its ability to process them, were critical to the effective implementation of this legislation.

8. Although the ATO had been considering the administrative implications of introducing ANTS since 1996, the exact form of ANTS legislation was not known until the final weeks preceding it taking effect. This meant that there was only a short period of time to change activity statement processing systems to reflect the ANTS legislative changes.

9. The ANAO recognises that effectively implementing highly complex activity statement processing systems to administer multiple taxes, in such a short period of time, is a significant achievement.

Client education and liaison (Chapter 2)

10. The ATO relies on its clients submitting activity statements that are completed correctly and on time, as this significantly reduces processing time and costs. Important aspects of ensuring that activity statement forms are completed correctly are that clients are educated effectively on their reporting obligations, and good relationships are established between clients and the ATO.
11. In the past, there has been a level of dissatisfaction amongst clients regarding aspects of the ATO’s administration of activity statements. Taxpayers’ concerns have included compliance costs, access to ATO running balance accounts, and the use of electronic lodgement facilities. We found that the ATO is investing significant resources to address these concerns and has made some progress in this regard. This is also evident from surveys conducted by the ATO and tax practitioner representative bodies, and in recent decreases in the number of complaints received by the ATO about activity statement related issues.\(^3\)

12. The ATO has introduced a number of initiatives to educate and inform clients of their tax obligations, and of ATO administrative practice and procedure, regarding activity statements. It is important that the ATO effectively coordinates these initiatives to direct correct information to relevant clients when they require it. The ATO has also recently introduced a Community Relationship Model to channel education material more effectively to clients. However, the success of this model will need to be determined through future evaluation.

**Activity statement data capture (Chapter 3)**

13. Activity statement data capture refers to the process of accurately replicating the data submitted by ATO clients in a standard electronic format that can be processed by ATO activity statement IT systems. Clients, or their tax agents, can lodge activity statements: electronically; using paper activity statements; or by using the telephone.\(^4\)

14. The ATO has an adequate control framework in place to capture activity statement information, with electronic systems, supported by manual controls, used to manage data capture workflow. However, there are a number of areas of this framework that could be enhanced for greater effectiveness.

15. Although the ATO has improved its processes for identifying and mitigating risks relating to activity statement data capture in 2003–04, we consider that a single, coordinated approach to risk management for data capture processes will be more efficient and provide more consistent

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\(^4\) From 1 October 2003, clients are only able to lodge activity statements with a 'nil' balance over the telephone.
results over time. The consideration of quality assurance (QA) mitigation strategies as part of this process would provide additional assurance.

16. The ATO has developed appropriate controls to provide assurance that data capture procedures documentation is sound. However, the consistency of this documentation between ATO offices, and the ongoing review of this documentation for currency, accuracy and completeness, could be improved.

17. Australia Post provides some of the activity statement pre-processing services for the ATO, including opening and sorting activity statements in readiness for processing by ATO staff. To provide increased assurance that these services are of high quality, Australia Post staff should be subject to the same QA processes as ATO staff.

**Activity statement processing (Chapter 4)**

18. Activity statement processing refers to the manual and electronic processes the ATO uses to provide assurance that the information contained on activity statements complies with tax legislation, as well as with ATO administrative policy and practice. Overall, we found that the ATO’s manual procedures and controls provide adequate assurance that activity statement information is processed effectively.

19. Data exceptions occur when an electronic or manual process detects incorrect information contained on an activity statement. Activity Statement Exception (ASE) teams are responsible for correcting data exceptions relating to IPS and the PAYGI system. The ATO has strong controls in place to assist ASE teams to correct data exceptions. However, a number of enhancements could be made to improve the efficiency and effectiveness of ASE teams. These include:

- using a single, consistent approach to identify activity statement processing risks, including consideration of QA processes and controls;
- improving the currency, accuracy and completeness of activity statement processing procedures and education documentation; and
- examining options for a more efficient, automated, work allocation system for ASE teams.

20. Compliance Verification Centres (CVCs) are responsible for correcting data exceptions relating specifically to the Goods and Services Tax. Generally, the controls the CVC teams have in place are sound. However, there are aspects of the ATO’s management of its CVC procedures and education documentation that could be enhanced.
21. The effective management of procedures and training documentation across all activity statement data capture and processing areas can be improved to provide increased assurance that it is relevant, current, complete and secure. Similar enhancements should also be considered for IT specifications documentation. The ANAO considers that the ATO should develop a nationally consistent policy to manage and secure this, and other applicable documentation.

**Systems change management processes (Chapter 5)**

22. To provide assurance that activity statement related systems operate as intended, the ATO needs robust processes to implement and monitor changes to these systems. If the ATO does not have these processes in place, it will be unable to provide adequate assurance that business rules are applied to activity statement information correctly, and that activity statement information is being processed efficiently.

23. A critical element in managing change to ATO IT systems is the creation and maintenance of IT technical documentation (or IT specifications). IT specifications should include an up to date description of all aspects of the system, including hardware, software and data. Although IT specifications documentation for the RRE is well managed and tightly controlled, the consistency and security of PAYGI system specifications require improvement.

24. Historically, the ATO’s management of changes to IPS has been less than adequate, with IPS specifications being incomplete at the time of the audit. The ATO is undertaking measures to compile a new set of IPS specifications, and will need to implement controls to maintain their ongoing currency and completeness.

25. The ATO uses three separate systems to manage system exceptions workflow. This means that many processes are duplicated, and system exceptions do not include clearly defined audit trails. To provide increased assurance that system exceptions are managed efficiently and effectively, the ATO should develop a standardised approach to manage system exceptions, and examine the costs and benefits of developing a single system to manage them efficiently.

26. The ATO classifies the most critical system exceptions as Priority 1 (P1) cases. The system the ATO uses to manage P1 cases does not have the capacity, or the controls necessary, to ensure the integrity of the information required to manage P1 cases effectively. The ATO needs to develop a system capable of managing P1 cases effectively. That would
provide a high level of assurance that all project documentation relating to P1 cases is kept securely.

27. System testing provides assurance that all changes to IT systems operate as intended before they are released into a ‘live’ production environment. We found that an integrated testing methodology is not applied consistently to all system changes.

Aspects of governance (Chapter 6)

28. Activity statement data capture and processing activities are managed by a number of ATO business and service lines, and divisions. A robust governance framework is required to provide assurance that activity statement related activities are coordinated and managed effectively. An essential element of a robust governance framework is that corporate objectives and planning documentation are fully aligned and mutually supportive.

29. The ATO has significantly improved its planning framework for 2003–04, compared with that of the previous year. However, some inconsistencies remain between higher-level strategic plans and lower-level operational plans with regard to the management of activity statements. The ATO has a number of risk assessment processes that identify and assess activity statement related risks. These risk assessments are developed independently from one another. To provide assurance that a coordinated and comprehensive approach is undertaken when assessing risks, the ATO should aim to ensure that activity statement risk assessment processes identify and pay regard to risks identified in other activity statement risk processes.

30. The ATO’s Certificate of Compliance for the Payment of Public Money (Certificate of Compliance) is used to provide assurance to the ATO’s Chief Finance Officer that all refunds are correct following processing by ATO business systems. A key aspect of the Certificate of Compliance process is that activity statement related controls are monitored and reported on regularly by ATO staff. The ATO last undertook a risk assessment to identify controls that are critical to the Certificate of Compliance process in 2000. Since that time, activity statement systems and controls have changed significantly. To be fully effective, the Certificate of Compliance should include a process to assess control risks associated with activity statement and other systems on a regular basis.

Overall conclusion

31. Collecting and processing activity statement information is a high-profile, challenging and complex area of tax administration. If not
managed well, it has the potential to not only undermine community confidence in ATO administration, but also to impact adversely on revenue collections.

32. There has been community criticism of the ATO’s management of activity statements. The ATO has devoted significant resources to addressing these concerns, and has made progress in this area. This is evident in the results of independent surveys, as well as in the decrease in the number of complaints the ATO has received about activity statements over the last 12 months.\(^5\)

33. Although there is still progress to be made in implementing ‘ideal’ activity statement systems, we found that current systems, processes and controls provide a sound basis for the efficient and effective administration of activity statements. That said, we consider there are a number of areas that could be improved to enhance administrative practices relating to activity statements, for example, that the ATO:

- implement nationally consistent policies, systems and processes to manage and secure procedures, training and system specifications documentation;
- assess the costs and benefits of implementing automated systems for managing activity statement data exceptions and system exceptions;
- compile and maintain specifications for activity statement related systems, and introduce robust controls to maintain the currency and completeness of these specifications;
- apply a consistent and integrated system testing methodology for changes made to activity statement systems; and
- develop and implement a comprehensive and coordinated approach to risk management and planning at the strategic and operational levels.

34. We made nine recommendations aimed at strengthening the ATO’s documentation, risk management and planning practices. The ATO agreed with all recommendations, one with qualification.

Summary of ATO’s response

35. The ATO notes that the Australian National Audit Office concludes that the ‘current systems, processes and controls provide a sound basis for

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the efficient and effective administration of activity statements’. The ATO believes that this conclusion reflects well on the ATO staff involved in managing a complex process.

36. The ATO agrees that implementing the activity statements processing systems to give effect to the A New Tax System legislation was a significant and important achievement. Since implementing these systems the ATO has worked with the community to continue to refine and improve them. The ATO acknowledges that these systems can continue to be improved and recognises the recommendations made by the ANAO assist in that aim.

37. Overall the recommendations are supported, except to the extent outlined in Recommendation Number 9. The ATO’s full response is reproduced in Appendix 1 to this report.
Recommendations

Set out below are the ANAO’s recommendations aimed at improving the administrative practices of the ATO relating to the collection and management of activity statement information. Report paragraph references and abbreviated ATO responses are also included. More detailed responses are shown in the body of the report. The ANAO considers that the ATO should give priority to Recommendations 3, 4, 5, 6 and 7.

Recommendation No.1 Para 3.59

The ANAO recommends that, to provide increased assurance that the activity statement pre-processing services provided by Australia Post staff are of high quality, the ATO subject Australia Post staff to a quality assurance process at least equal to that required of ATO pre-processing staff.

ATO Response: Agreed.

Recommendation No.2 Para 4.33

The ANAO recommends that the ATO evaluate the costs and benefits of introducing a more efficient automated work allocation system to improve the provision of timely and secure data exceptions information to Activity Statement Exception teams.

ATO Response: Agreed.

Recommendation No.3 Para 4.45

To provide adequate assurance that all procedures, training, and IT specifications documentation is relevant, current and complete, the ANAO recommends that the ATO:

- examine and assess all existing policies, systems and processes used throughout the ATO to manage and secure documentation, in order to identify better practice;
- develop and implement a nationally consistent policy, and robust controls, for the management and security of this documentation; and
- implement, and adhere to, a program of periodic reviews of this documentation.

ATO Response: Agreed.
Recommendation No.4  Para 5.26
The ANAO recommends that, to provide adequate assurance that activity statement related systems are operating efficiently and effectively, as intended, the ATO:

- compile a complete set of baseline specifications for the Instalment Processing System (IPS); and
- introduce a robust system of controls to maintain the currency and completeness of the IPS baseline and change specifications.

ATO Response: Agreed.

Recommendation No.5  Para 5.41
To provide adequate assurance that system exceptions are managed efficiently and effectively, the ANAO recommends that the ATO:

- develop and implement a standardised approach to identify, record and prioritise activity statement related system exceptions; and
- assess the costs and benefits of developing a single national system exceptions management system.

ATO Response: Agreed.

Recommendation No.6  Para 5.53
To provide adequate assurance that project management resources are effectively attributed to the highest risk critical system exceptions, the ANAO recommends that the ATO:

- develop a system capable of managing system change projects effectively, with robust controls to provide data integrity; and
- ensure that accurate, logical and comprehensive project documentation is maintained, and available, for each project.

ATO Response: Agreed.
Recommendation No.7  
Para 5.66  

To provide adequate assurance that changes to activity statement systems operate as intended, the ANAO recommends that the ATO:

- apply consistent integrated system testing methodology to all system changes; and

- as part of its overall testing program, allocate appropriate resources to undertake regression testing to assess the effectiveness of activity statement systems.

ATO Response: Agreed.

Recommendation No.8  
Para 6.17  

To provide a consistent and integrated approach to planning and reporting, the ANAO recommends that the ATO clearly link the priorities, outcomes and risks in its planning documentation identified at the strategic level to its lower-level plans.

ATO Response: Agreed.

Recommendation No.9  
Para 6.40  

In order to develop a comprehensive and consistent approach to risk assessment, the ANAO recommends that the ATO:

- when undertaking risk assessments that affect activity statement data capture and related processing activities, identify and pay regard to all other activity statement risks identified in other activity statement risk assessment processes;

- conduct regularly a risk assessment of controls affecting the payment of public monies as part of the Certificate of Compliance process; and

- provide the appropriate ATO fraud control risk documentation to staff responsible for completing activity statement related risk assessments.

ATO Response: Agreed with qualification.
Audit Findings and Conclusions
1. Background and Context

This chapter establishes the background to the audit, provides an overview of the introduction of A New Tax System and its impact on activity statement processing, and sets out the audit approach, objective and methodology.

Background

Australian Taxation Office

1.1 The Australian Taxation Office (ATO) is responsible for effectively managing and shaping systems that support and fund services for Australians, and give effect to social and economic policy through the tax system. It is the principal agency responsible for the administration of Australian tax law, including the collection of tax and excise revenue. During 2002–03, it collected $185 billion in revenue and, to fulfil its obligations, received an appropriation of $2.15 billion.6

1.2 As at 30 June 2003, 21,718 staff were employed by the ATO.7 The ATO advised that, of these staff, 1,058 full-time equivalent (FTE) staff undertook activity statement processing activities. More than half of these FTE staff are employed on a non-ongoing basis to meet the peaks associated with activity statement processing activities.

Activity statements

1.3 Activity statements are ATO approved forms8 that enable ATO clients9 with specific tax obligations to calculate and/or remit their taxes. In 2002–03, approximately $120 billion in tax revenue was collected through 15 million lodged, and processed, activity statements.10 The cost of processing activity statements was approximately $112 million.11

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7 ibid. p.221.
8 An ‘Approved Form’ is defined under the *Taxation Administration Act 1953* Schedule 1, s.388-52.
9 ‘Client’ is an ATO colloquialism for an individual, trust, company, partnership or unincorporated association. For the purposes of this audit, the term ‘client’ refers to a taxpayer with an activity statement related tax obligation.
10 ATO analysis of business and service line financial and performance information.
11 This figure comprises the direct and indirect costs of the image capture, activity statement exceptions and payment capture areas of the ATO’s Operations service line. It also includes the relevant direct and indirect costs relevant to the GST business line.
1.4 Activity statements are classified into two main categories:

- Business Activity Statement (BAS) – a single form\(^{12}\) used by all relevant clients to report and remit their obligations for Goods and Services Tax (GST), Pay As You Go (PAYG), Fringe Benefits Tax (FBT), Wine Equalisation Tax (WET), and Luxury Car Tax (LCT); and

- Instalment Activity Statement (IAS) – a single form\(^{13}\) used by those clients not required to register for GST\(^{14}\), but who have PAYG, FBT and deferred company instalment (COIN) obligations.\(^{15}\)

1.5 Clients lodge activity statements either monthly, quarterly or annually, depending on their income\(^{16}\), PAYG withholding obligations, and the reporting option nominated by the client and agreed to by the ATO.\(^{17}\)

1.6 The ATO processes both BAS and IAS forms using the same systems, processes and controls. In 2002–03, approximately 65 per cent of all activity statements lodged and processed by the ATO were BAS forms; 35 per cent were IAS forms.\(^{18}\)

**Significance of activity statements**

1.7 The ATO advised that activity statements are a key element of the new tax system. The significance of activity statements for revenue collection is also evident in the following processing statistics for 2002–03:

- over 2.3 million clients required activity statements\(^{19}\);
- over 15 million activity statements were processed;
- approximately 65 per cent of total tax revenue was collected through activity statements; and

\(^{12}\) Although clients only need to complete one BAS each reporting period, the ATO currently produces nine separate BAS forms, which are tailored to individual client reporting requirements.

\(^{13}\) Although clients need complete only one IAS each reporting period, the ATO currently produces five separate IAS forms, which are tailored to individual client reporting requirements.

\(^{14}\) That is, clients that do not have a GST, WET, or LCT obligation.

\(^{15}\) See Appendix 2 for a full list of BAS and IAS forms.


\(^{18}\) ATO analysis of business and service line financial and performance information.

\(^{19}\) This figure includes clients with an Australian Business Number (ABN) with a GST role only.
• clients claimed approximately $25 billion in refunds using activity statements.\textsuperscript{20}

1.8 The systems, processes and controls used by the ATO to manage activity statements are critical to the efficient and effective collection and processing of activity statement information. A failure of any one of these elements could not only undermine the ATO’s reputation within the community, but also has the potential to adversely impact on tax revenue.\textsuperscript{21}

**History of activity statements**

1.9 The introduction of the new tax system represented the single largest change to tax operations in the ATO’s history. With regard to this change, the ATO recognised that activity statements were the ‘key to the New Tax System and the ability to process Activity Statements is a mission critical activity for the ATO’.\textsuperscript{22}

1.10 There were several events preceding the introduction of activity statements that had a significant impact on the design and operation of activity statement processing systems. The timeline in Figure 1.1 provides an overview of significant events that have occurred since the ATO started investigating administrative options for alternative tax systems in 1996.

\textsuperscript{20} ATO analysis of business and service line financial and performance information.

\textsuperscript{21} Refer to para 1.3 above.

\textsuperscript{22} ATO 2000, *ATO Production Management Capability Modelling and Simulation*. 3 November 2000, p.3.
Figure 1.1
Events impacting on the ATO’s administration of activity statements

1996
ATO investigated administrative options for alternative tax systems

1996
Prime Minister announced changes to ANTS following discussions with Democrats

August 1998
Treasurer released the Government’s tax reform policy (ANTS)

November 1999
registration for ABN and GST commenced and draft BAS released

December 1999
first ANTS package passed in Parliament

May 1999
ANTS legislation takes effect

October 2000
Treasurer announced:
• determination of taxes, fees and charges not subject to GST;
• new GST accounting methods for small retailers; and
• new tests to simplify GST compliance for small business providing incidental financial services

June 2000
key ANTS legislation relating to deductibility of payments passed

June 2001
BAS simplification measures introduced

June 2002
new Simplified Tax System (STS) for small business commenced

June 2003
Making it easier to comply program released

ANAO depiction of relevant media and other public documents.

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1.11 Although many factors affected the implementation of activity statement systems, the following had a significant impact on the development of current activity statement processing systems:

- in 1996, the Government indicated that it wanted to investigate options for reforming the Australian tax system. In that year, the ATO began to examine the administrative implications of the introduction of a new tax system;


- in late 1999, significant amendments to ANTS legislation were made. These amendments included a range of GST exempt items, and the reporting of multiple taxes on a single form. The ATO advised that the amendments increased the GST reporting population from approximately 1.5 million to 3.5 million clients;

- in expectation of the passage of the new tax legislation on 1 July 2000, the ATO advised that it prepared new systems capable of processing activity statements. During that time, and right up until 30 June 2000, changes were made to ANTS legislation and related policy that required modifications to activity statement processing systems;

- on 1 July 2000, activity statements were introduced. The ATO noted that, in order to accommodate the ongoing changes being made to ANTS legislation and related policy, it had to adapt existing systems, and utilise legacy systems, to process activity statements effectively; and

- in February 2001, the ATO introduced measures to simplify activity statements, following concerns from the business community about the complexity of the BAS. The changes resulting from BAS simplification measures included ‘…significant systems and forms redesign, and a need to inform the community of their options under the new arrangements’.

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23 Commonly known as A New Tax System (ANTS).
24 Legacy systems are IT systems that are made redundant or outdated.
1.12 Two factors impeded the ATO’s capacity to implement ‘ideal’ activity statement data capture and processing systems. These were the number and scope of changes made to ANTS policy and legislation, and the limited time the ATO had to implement revised administrative arrangements resulting from these changes. To implement a highly complex system to administer multiple taxes, in such a short period of time, was a significant achievement.

**End-to-end process for activity statements**

1.13 There are a number of functions that comprise end-to-end activity statement processing. The ANAO has identified six functions that we consider form the end-to-end activity statement process:

- client registration\(^{26}\);
- activity statement generation\(^{27}\);
- activity statement data capture\(^{28}\);
- activity statement processing;
- assessment determination\(^{29}\); and
- debt recovery and non-lodgement.

1.14 We examined two functions, that is, activity statement data capture and activity statement processing. These functions were selected as they:

- cover the main ATO systems, processes and controls that are used to capture and process large numbers of activity statements, and large amounts of tax revenue; and
- complement a series of performance audits already undertaken by the ANAO on aspects of the new tax system (see para 1.20).

1.15 Activity statement data capture and activity statement processing include numerous systems, processes and controls. Figure 1.2 provides an overview of the systems related to these two functions.

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\(^{26}\) Includes the registration of clients for an ABN and for GST.

\(^{27}\) Includes the systems, processes and controls used to identify the type of activity statement required by registered clients, and the mechanisms to deliver activity statements to them.

\(^{28}\) The process of capturing activity statement information electronically, or capturing and translating paper-based activity statement information in an electronic form.

\(^{29}\) Includes the systems, processes and controls to confirm the assessment of a client’s overall tax position.
Support and maintain ATO systems

- ATO exception escalation process;
- Exception management systems (USD, Solve); and
- System change management.

ANAO representation of the ATO activity statement process.
1.16 We explain activity statement data capture and processing systems, processes and controls in more detail in Appendices 6, 8, 10 and 12.

**ATO management of activity statements**

1.17 A restructure of the ATO in 2001–02 had a significant impact on its administration of activity statements. A single service line, ATO Operations, took over the majority of activities associated with ensuring the day-to-day operation of the activity statement systems. The structure of the ATO, and the lines responsible for aspects of activity statements processing, are shown in Figure 1.3.

**Figure 1.3**

**ATO business and service lines relevant to the audit**

![Diagram of ATO business and service lines](image)

ANAO representation of ATO material.\(^{30}\)

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\(^{30}\) Figure 1.3 represents the ATO structure at the time of the audit.
Audit objective and methodology

Audit objective

1.18 The objective of the audit was to assess the ATO’s collection and management of activity statement information. Specifically, the audit sought to:

• report on the environment into which the activity statement collection and processing systems were introduced;

• identify taxpayer concerns with activity statement processing and the measures the ATO has undertaken to address those concerns;

• assess the systems, processes and controls used by the ATO to capture and process activity statement information;

• assess the mechanisms the ATO has in place to maintain, change and test activity statement Information Technology (IT) systems, which bear on the integrity and security of activity statement information; and

• assess the management methodology used by the ATO to report and assess the performance of activity statement related systems and processes.

1.19 We have reported separately against each of these areas. Figure 1.4 depicts the structure of the audit report.
Figure 1.4
Audit report structure
Audit methodology

1.20 This audit is one of a series of performance audits into aspects of the new tax system. Other audits already completed in this series are:

- Audit Report No.55, 2002–03, Goods and Services Tax Fraud Prevention and Control, June 2003; and

1.21 Audit fieldwork was conducted from May 2003 to August 2003. In addition to the review of documentation, which included relevant overseas material, we undertook qualitative and quantitative analysis of ATO information from a number of ATO business and service lines, including ATO Operations and GST. Interviews with key ATO staff from these business and service lines, were also conducted.\(^3\)

1.22 Interviews were also conducted with other stakeholders with an interest in activity statement administration. These included representatives of tax and accounting professional bodies\(^2\), and the Commonwealth Ombudsman’s Office\(^3\).

1.23 We also undertook testing of a number of ATO activity statement related IT systems. This testing required the analysis of data from the following systems: Risk Rating Engine (RRE), Unicentre Service Desk (USD), SOLVE, and the PAYG Income Tax Instalment (PAYGI) Helpdesk database. Some of this information was also obtained through the ATO Data Warehouse. These systems are discussed further in Chapters 4 and 5.

1.24 The ANAO considered practices in relevant overseas jurisdictions (that is, the United Kingdom, Canada, New Zealand and Singapore) to determine if there was comparative practice in relation to the collection and management of activity statement information. The results of our analysis can be found in Appendix 3.

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\(^3\) The ANAO visited the ATO National Office in Canberra, as well as ATO offices in Penrith, Cheltenham, Albury and Waymouth.

\(^2\) We interviewed representatives from the Institute of Chartered Accountants Australia (ICAA), Australian Society of Certified Practising Accountants (ASCPA), National Institute of Accountants (NIA) and the National Tax and Accountant Association (NTAA).

\(^3\) The Special Tax Adviser assists the Taxation Ombudsman to investigate complaints about the ATO, including complaints from tax practitioners as well as from individual taxpayers.
1.25 The audit was conducted in accordance with auditing standards at a cost of $447 000.

Acknowledgements

1.26 The ANAO recognises, and is grateful for, the contribution of ATO officers (particularly those officers in Payment and Product Processing (P&PP)), tax practitioner representative organisations and of the Commonwealth Ombudsman’s Office, who assisted in the conduct of this audit.
2. Client Education and Liaison

This chapter provides an overview of the clients who lodge activity statements, and the impacts education, information dissemination, and liaison mechanisms have on the provision of timely and high quality activity statement information. We also discuss stakeholder views of the ATO’s administration of activity statements.

Introduction

2.1 In order to effectively process activity statements, the ATO relies on its clients submitting forms that are completed correctly and on time. Activity statements that are completed correctly minimise the time and resources used by the ATO to make sure that activity statement information is suitable for ATO systems to process, and that the information provided is correct.

2.2 An important aspect in assisting ATO clients to complete their activity statements correctly, is that they are adequately informed about their activity statement reporting obligations. Inadequate or poor education can not only lead to increased activity statement processing times and costs for the ATO, but also has the potential to increase non-compliance as clients may become frustrated with administrative arrangements that have not been clearly explained.

2.3 Underpinning an effective education strategy should be a sound client liaison framework, to allow clients to voice their concerns about activity statement administration, and be involved in consultation and resolution processes to address those concerns. Only through the utilisation of information from an effective liaison framework can ATO education resources be appropriately targeted.

ATO clients and tax practitioners

2.4 Although many clients\(^\text{34}\) deal directly with the ATO on activity statement issues, the majority of clients use tax practitioners\(^\text{35}\) to complete and lodge their activity statements.

\(^{34}\) ‘Client’ is defined in Chapter 1.

\(^{35}\) For the purpose of this audit, the term ‘tax practitioner’ includes tax agents and other professionals working on tax matters for their clients. ANAO Audit Report No.19, 2002–2003, The Australian Taxation Office’s Management of its Relationship with Tax Practitioners, p.37.
2.5 In 2002–03, there were more than 24,000 registered tax agents, who assisted in the lodgement of approximately 8.3 million activity statements. This is about 55 per cent of all activity statements lodged for 2002–03.

2.6 In addition to providing expert services to their clients, tax practitioners also provide feedback to the ATO regarding the effectiveness of activity statement administration. This feedback is valued highly by the ATO, as it assists in determining (amongst other things) client education requirements, as well as providing a means of assessing ATO performance in relation to the delivery of tax products and services.

2.7 To obtain an overview of the types of issues raised by tax practitioners with the ATO, we sought the views and research of a number of tax practitioner representative organisations. The ANAO notes that a large number of tax practitioners belong to one or more of these representative organisations. On this basis, we consider that the views of the tax practitioner representative organisations we interviewed provide a good indication of prevalent tax practitioner views on the ATO’s administration of activity statements.

**Monitoring client perceptions**

2.8 The ATO is aware that community perceptions of its management of activity statements play an important role in clients’ willingness to comply with tax obligations. To monitor these perceptions, the ATO undertakes independent market research on a regular basis. Such research has shown that the ATO’s relationship with clients has improved since August 2002. For example, in a survey conducted in August 2003, 65 per cent of businesses rated as ‘good’ the ATO’s performance on informing businesses about their tax obligations under the new tax system. There has been an improvement of eight percentage points in this area on

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37 ATO Data Warehouse statistics.
39 Tax practitioner representative organisations interviewed for the audit were the Institute of Chartered Accountants Australia (ICAA), Australian Society of Certified Practising Accountants (ASCPA), National Institute of Accountants (NIA) and the National Tax and Accountant Association (NTAA).
40 This includes submitting correctly completed activity statements.
the rating from the previous year. These findings are supported by research undertaken by tax practitioner representative organisations.

2.9 Although the ATO notes that its relationship with tax practitioners has improved since the introduction of the new tax system, a level of dissatisfaction remains. A recent ATO research project reported that 38 per cent of tax agents are dissatisfied, and 22 per cent are neutral, about their overall relationship with the ATO. These figures are supported by tax practitioner research, which reveals that 37 per cent of small businesses continue to experience difficulty with the BAS, and 62 per cent resent the time needed to comply with tax obligations. Survey results, and the feedback provided by practitioner representative organisations, reveal that there are three main areas of concern for clients. These are set out below:

- **Compliance costs**, which include:
  - activity statement form complexity;
  - tax complexity;
  - time/resource burden;
  - Proof Of Identity (PoI); and
  - cash flow.

- **ATO running balance client accounts** and the format of the accounts, including:
  - complexity;
  - accessibility;
  - accuracy; and
  - currency.

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45 PoI allows tax practitioners to deal with the ATO on all their client’s tax needs. Tax practitioners advised that a new working group has recently been established by the ATO to address this issue, the Authority Issues Working Group.

46 Tax practitioners advised that cash flow issues relate, in particular, to delays in processing refunds in those cases where the ATO requires additional information to continue processing but does not notify the practitioner until they contact the ATO for an update on the refund.

47 Running Account Balance issues are currently being addressed in changes to the Tax Agent Portal, an ATO initiative being developed as an interactive service between the ATO and tax professionals. The Tax Agent Portal is discussed at para 2.33.
Electronic lodgement. As the Electronic Commerce Interface (ECI)\textsuperscript{48} has been seen as difficult to use, many taxpayers continue to use paper forms. This issue is discussed further in Chapter 3.

2.10 The ANAO notes that the ATO and tax practitioners are working towards resolving issues of concern. We consider that some of the ATO programs and initiatives discussed below would assist in developing further a positive relationship between the ATO and tax practitioners.

**Provision of client education**

2.11 As part of its education program, the ATO has an obligation to provide a wide range of material to support tax practitioners and other clients, particularly in relation to aspects of tax administration. However, this is tempered by the obligation of clients to assume responsibility for their own financial management practices, and for tax practitioners to proactively seek to maintain and build knowledge of current tax issues.

2.12 At present, the ATO provides a considerable amount of information, utilising a number of different delivery mechanisms\textsuperscript{49}, including:

- media campaigns;
- the ATO website;
- ATO call centres;
- consultative forums;
- *A Fax from Tax* facility;
- the Free Email Update Service;
- quarterly Tax Agent Newsletters;
- Taxpayer Alerts;
- weekly eLink bulletins;
- biannual Tax Practitioner Satellite Seminars and handouts;
- other seminars and visits;

\textsuperscript{48} ECI provides for the secure exchange of digitally signed and encrypted files and messages between the ATO and its clients. It is discussed in detail in Chapter 3 (para 3.9).

\textsuperscript{49} This is in addition to the original educational role undertaken by the ATO to introduce activity statements prior to the new tax system, and activity statement instruction manuals. The ATO currently has included a wide variety of sources, some of which cater for clients who prefer not to use technology to receive information.
• Tax Practitioner Broadcasts; and
• the Tax Agent Portal.

2.13 Some tax practitioner representative organisations advised that their members receive a large amount, and range, of information from the ATO, some of which may not be relevant to them. Also, tax practitioners can receive the same, or similar, material from multiple sources (outlined above), indicating that there is the potential for them to become overloaded with information.\textsuperscript{50} For this reason, it is important that the ATO undertakes a coordinated approach to the preparation and distribution of tax information to its clients.

2.14 We note that, as part of its Community Relationship Model, the ATO has developed a useful framework to ‘channel’ information to clients more effectively. Important aspects of this model are that clients receive: high quality handling of issues and enquiries; simple, concise and relevant information when they need it; and information on the best compliance strategy.\textsuperscript{51}

2.15 The ATO introduced the Interaction Management program in August 2003 as part of the tangible implementation of the Community Relationship Model. This initiative allows tax practitioners to specify where they would like various types of tax correspondence to be sent. For example, tax practitioners may elect to receive their clients’ activity statements, and have tax education material forwarded directly to their clients.

2.16 We note that, once all aspects of the relationship model have been fully articulated, and the Interaction Management program has been fully tested and its effectiveness proven, the ATO should have a solid platform for delivering effectively targeted education and other activity statement related material to clients.

**Maintenance of liaison arrangements and mechanisms**

2.17 The ATO has various liaison arrangements in place to provide tax practitioner bodies with the opportunity to contribute to discussions, and raise concerns about the ATO’s administration of tax issues. These liaison arrangements include a framework of liaison groups, forums and working

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\textsuperscript{50} ‘Information overload’ is the term used by tax practitioners to describe the large amount of information received from the ATO.

parties, which are designed to address higher-level strategic and policy issues, including lower-level operational matters.

2.18 The ANAO examined the operation of the liaison framework as part of its performance audit into the ATO’s relationship with tax practitioners.52 For this reason, we focused only on the group, forum and working groups/parties that discuss activity statement related issues regularly. These are the: National Tax Liaison Group (NTLG); ATO Tax Practitioner Forum (ATPF); Accounting Working Group (AWG); and Lodgement Working Party (LWP).53

Operation of relevant groups, forums and working parties

2.19 The current liaison framework provides tax practitioners with the opportunity to contribute to the development of ATO administrative policy, and to raise issues about this policy in an open and accountable environment. Although the majority of comments made by tax practitioner representative organisations have been positive with respect to the liaison framework, we note that some broader concerns have been raised about the:

• operation of groups, forums and working parties in reporting the progress of, and resolving, specific issues raised by members;
• time taken to change ATO administrative practices;
• coordination of groups, forums and working parties in resolving specific issues;
• ATO’s role in developing tax policy, including the segregation of responsibilities between the ATO and Treasury; and
• use of ‘tax agents as tax collectors,’ particularly in relation to increased tax agent compliance costs following the introduction of the new tax system.

2.20 In view of these concerns, the ANAO considers that the framework is an effective mechanism for members to raise their clients’ concerns with the ATO at various levels. However, we note that there are ways to improve the operation of the liaison framework, for example, by better coordinating the activities of the various groups, forums and working parties to achieve specific outcomes. The ATO has shown progress in this regard with the construction of an ATPF Issues Log to centralise and coordinate issues arising from the various working parties.

53 See Appendix 4 for a full description of the group, forum and working group/parties.
Complaints and feedback

2.21 In addition to the liaison framework, the ATO also has multiple IT systems to record client complaints regarding ATO administrative practice. The ATO’s Complex Activity Statement Team (CAST) maintains a complaints handling system used to record activity statement related complaints.

2.22 CAST was established after the new tax system was introduced, to resolve difficult activity statement related issues. It is primarily responsible for resolving client problems relating to activity statement generation, processing and refunds. As part of its role, CAST is also responsible for gathering, analysing and reporting activity statement complaints information.

2.23 In 2001–02, CAST received 8 000 activity statement related complaints from clients.\(^\text{54}\) This was reduced significantly in 2002–03 to 4030 complaints. Figure 2.1 illustrates the type of activity statement related issues that comprise the complaints figures for these years.\(^\text{55}\)

**Figure 2.1**
Issues of complaint and feedback by ATO clients for 2001–02 and 2002–03 relating to activity statements

![Complaints Figure]

ANAO analysis of ATO complaints statistics.

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\(^{54}\) CAST complaints statistics.

\(^{55}\) Note that one ‘complaint’ may contain more than one issue.
2.24 As shown in Figure 2.1, there was a reduction in the majority of activity statement complaints across all major complaint types between 2001–02 and 2002–03. The largest decrease in activity statement complaint types was experienced in the ‘Other Issues’ category, where there was a decrease of 1,868 complaints (or 41 per cent) between 2001–02 and 2002–03.

2.25 Activity statement related advice provided by ATO staff to clients has been, and remains, the most common type of complaint (in 2001–02 and 2002–03). Figure 2.1 shows that this issue also resulted in a proportionately large decrease in the number of complaints received between 2001–02 and 2002–03, which amounted to a reduction of 750 complaints (or approximately 40 per cent). This may indicate an improvement in the quality of activity statement related advice provided by the ATO to clients.

2.26 Although CAST has been operating since mid-2001, and activity statement related complaints data is compiled and reported monthly, this data is not currently used in assessing the effectiveness of activity statement administrative practices. Nor is it used when determining the effectiveness of ATO educational material and strategies. The ANAO considers that the analysis of activity statement complaints data for these purposes could enhance the ATO’s assessment of activity statement administrative practices and education material.

Taxation Ombudsman

2.27 The Taxation Ombudsman’s role in relation to the ATO is to deal with complaints impartially and effectively; to investigate complaints where appropriate; to seek fair outcomes, appropriate outcomes, appropriate remedies; and to more generally promote improved administration. If taxpayers are not satisfied with ATO complaints

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57 Note that ‘Other issues’ includes: refund only, refund mitigating factors, sundry posting, payment transfers, stored refund, AQs (action quality service – refund waiting to be checked for release), DCOL issues (debt and lodgement issues—usually PAYE and PBS), account reconciliation, DRIO (delayed refund interest offset), GIC remit (general interest charge), extension granted, CSA/DSS indicators, PAYGITI elect, system error (three per cent of issues raised), phone delays, held HOBG DIC, ITI and FBT, BRS change/amendment, compensation GST reporting, consolidations, and 5B (credit claim in PAYG).

58 The ATO’s analysis of its business information is discussed in more detail in Chapter 6 (paras 6.57–6.64).

59 Commonwealth and Taxation Ombudsman, July 2003. Own motion investigation into Australian Taxation Office (ATO) complaint handling, p.3.
handling processes, they can register their complaints concerning ATO administrative issues with the Taxation Ombudsman.60

2.28 Since 1999, the Taxation Ombudsman has investigated the ATO’s complaints handling arrangements, including its procedures and systems. These investigations found that the ATO has ‘10 or more’ individual complaints handling systems. The ANAO notes that not all of these systems record complaints consistently, nor is the information they contain comparable. We note that, for example, the complaints statistics collected by CAST cannot be compared directly with the complaints statistics collected for the ATO as a whole.

2.29 In July 2003, the Taxation Ombudsman released a report into ATO complaint handling61, which recommended that a more consistent complaints recording system could go some way to addressing issues of consistency and accuracy in recording complaints.62 The ANAO supports this recommendation, and considers that, although the CAST complaints management system compiles, manages and reports useful data, a rationalised ATO complaints system could improve the efficiency and effectiveness of this process. As well, it could provide additional information on the impact activity statement related complaints have on the ATO as a whole.

Implementation of initiatives to address specific client problems

2.30 The ATO has undertaken to develop a program63 to improve the client administrative experience, and summarises that goal in its Community Relationship Model.64 The model represents the continuous cycle of: committing to, and understanding, the customer65; determining and delivering the ‘right experience’ for the customer; and then measuring outcomes and developing sustainable approaches to continue the positive relationship. The current major initiatives being implemented by the ATO include:

60 The Taxation Ombudsman has the discretion not to investigate administrative matters where the complainant has not yet complained to the agency in question. In these circumstances, the Taxation Ombudsman will refer the client to the ATO.

61 Commonwealth and Taxation Ombudsman, July 2003. ibid.

62 ibid, Recommendation 3, p.16.

63 ATO, July 2003, Making it easier to comply: the easier, cheaper, more personalised program.


65 The ATO uses the terms ‘customer’ and ‘client’ interchangeably.
• the Relationship Manager model.66 This model is being progressively implemented from July 2003;

• improved telephone services, including:
  – the introduction of numbers for the exclusive use of tax agents;
  – the expansion of services available;
  – the introduction of Fast Key Codes (FKC)67; and
  – streamlined PoI arrangements;

• administrative changes to the lodgement program that aim to reduce lodgements by approximately 700,000 per annum68; and

• enhancements to the Tax Agent Portal.

2.31 By implementing these initiatives69 the ATO aims to:
• reduce administrative irritants;
• make business transactions easier70;
• research the integration of services and systems into tax agent practice management and financial systems;
• facilitate the development of tools to ease the transition from business record-keeping to tax requirements71; and

• identify how the ATO can ease the record-keeping burden by better using information naturally collected by business to meet tax obligations.72

66 The Tax Agent Relationship Management (TARM) concept developed from tax agent input into the ATO’s Listening to the Community initiative. It is a specific service for tax agent practices with 100 or more clients. The program addresses tax agents’ desire to develop a more personalised relationship with the ATO.

67 Fast Key Codes (FKC) are combinations of numbers for menu options to allow tax practitioners to key ahead without needing to listen to the full menu. This service commenced in December 2002. A number of the FKCs relate specifically to activity statements and enable callers to receive assistance with: completing activity statements for business clients; completing activity statements for personal clients; revising an activity statement; or responding to an ATO request to contact Activity Statement Exceptions. ATO, 2002, Tax Agent Phone Services.

68 This set of initiatives is in response to a report from the Lodgement Working Party. Refer to Appendix 4 for an overview of ATPF working parties.

69 Including the overall Making it easier to comply: the easier, cheaper and more personalised program.

70 For example, removing the need to make unnecessary transactions.

71 For example, integrating accounting software packages.


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2.32 Although currently in their early stages, these initiatives represent active steps to address client concerns, including the issues surrounding client compliance costs. The ANAO notes that the overall effectiveness of the initiatives will need to be comprehensively assessed (once data is available) to determine the effect they have on both client compliance and their perceptions of the ATO.

**Tax Agent Portal**

2.33 An important step in improving the relationship between tax practitioners and the ATO, and the processing of activity statements in the future, will be the full implementation of the Tax Agent Portal. The portal allows tax agents to perform the following activities online:

- view records of client details, including clients’ registration details;
- view client account details, including clients’ current account balances and transaction records;
- request refunds and transfers, access online lodgement deferral forms, and access reports on clients’ activities;
- utilise messaging facilities that allow enquiries to be submitted, and answers to be received\(^{73}\);
- personalise the portal, for example, by bookmarking the most frequently used ATO and external web sites, for quick future access; and
- access a comments and suggestions facility within the portal to provide feedback on how the service may be improved.

2.34 Over the next two years the ATO intends to increase the number of portal functions, including allowing tax agents to lodge and track the progress of activity statements through the ATO processing systems in ‘real time’.\(^{74}\) Initial feedback from tax practitioners using the portal has been very positive, particularly with the expectation that new and improved services will be introduced.

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73 The response by the ATO can comprise a combination of verbal and electronic messaging depending on the complexity of the response. ATO officers also consider issues of security before responding electronically.

74 ‘Real time’ refers to live data. This means that tax practitioners will be able to view the current status of any of their clients’ activity statements at any particular time.
2.35 The ANAO notes that the portal is likely to be a positive development in the processing of activity statements in the future, as it is likely to encourage timely lodgement, reduce the number of queries by tax agents about activity statement related matters, and improve the quality and accuracy of activity statement information. We note that issues of security will be of paramount concern to the ATO, particularly as ‘real time’ access to ATO systems is introduced. The ANAO plans to take an active interest in the controls associated with the portal as part of its ANAO Financial Statements Audit program.

75 Note that eAS, which uses the portal to collate and process activity statement information, is discussed in Chapter 3.
3. Activity Statement Data Capture

This chapter examines the systems, processes and controls used to capture activity statement data and prepare it for processing. Specifically, we examine the ATO’s capacity to accurately capture activity statement data sent by clients electronically, as well as the processes the ATO uses to capture information contained on paper activity statements and convert it to electronic data for processing.

Introduction

3.1 The accurate capture of activity statement data is critical to the efficient and effective processing of activity statements. If data is not captured correctly initially, additional downstream work will be generated, and data capture exceptions will have to be identified and rectified during activity statement processing.76

3.2 This additional downstream work impacts negatively on the time taken to process activity statements, as well as the amount of manual and IT resources required to rectify the exception. There is also an increased risk that the ATO will approve an incorrect assessment of a client’s liability or refund, if activity statement processing systems do not detect the data capture exception.

Activity statement data capture defined

3.3 Activity statement data capture refers to the process of accurately replicating the data submitted by ATO clients, in a standard electronic format that can be processed by ATO IT processing systems.77 It does not refer to the process of making sure that information contained on activity statements is consistent with the information contained in ATO client account databases78, or meets business rules.79

3.4 To make the process of activity statement lodgement as accessible to clients as possible, the ATO maintains several activity statement

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76 For the purposes of this audit, a data capture exception refers to a situation where the data submitted by a taxpayer on an ATO approved form, using an approved lodgement method, is not being accurately replicated into a form that can be used by ATO IT systems.

77 Although this chapter focuses specifically on activity statements, the data capture systems and processes examined are also used for other ATO approved forms, such as income tax statements, and for general correspondence.

78 ATO client account databases are used by the ATO to store client tax transaction information and client registration information (e.g. name and address, TFN, ABN). This information is used to assess client liabilities or refunds.

79 For the purposes of this audit, a business rule is a rule with its basis in ATO policy or legislation that is applied to information provided by clients to establish the integrity of that information.
lodgement options to suit client requirements. These options can be classified broadly into three categories:

- electronic lodgement;
- telephone lodgement; and
- paper lodgement.

3.5 Each category requires distinct systems, processes and controls to capture activity statement data. The ANAO notes that maintaining multiple lodgement options can be costly, particularly for paper and telephone lodgement. However, we also recognise the importance of the ATO providing taxpayers with a broad range of lodgement methods to encourage compliance.

**Electronic lodgement**

3.6 During 2002–03, approximately 3.45 million activity statements were lodged with the ATO electronically. To encourage clients to lodge electronically, the ATO offers a number of electronic lodgement options. Client preferences for the two main electronic lodgement options available in 2002–03 are illustrated in Figure 3.1.

**Figure 3.1**

Client lodgement preferences for all activity statements lodged electronically in 2002–03

Source: ATO Data Warehouse.

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80 Appendix 5 provides a high-level overview of electronic lodgement systems.

81 Refers to the paper activity statements sent out by the ATO to its clients monthly, quarterly or yearly. See Appendix 6 for a full description of this process.

82 ATO Data Warehouse analysis.
3.7 These electronic lodgement options, and a future electronic lodgement option (eAS), are discussed below.

**Electronic Lodgement Service (ELS)**

3.8 ELS is an e-commerce system that allows the secure exchange of electronic transactions between registered tax practitioners and the ATO. It comprises software, which is incorporated within ‘off the shelf’ software packages, and is used to connect to ATO IT systems via a modem. Despite the availability of other electronic lodgement options, 2.9 million of all electronic lodgements during 2002–03 were made using ELS.

**Electronic Commerce Interface (ECI)**

3.9 ECI provides for the secure exchange of digitally signed and encrypted files and messages between the ATO and its clients. However, unlike ELS, ECI software is developed by the ATO and distributed directly to its clients, via a CD-ROM or the ATO website. During 2002–03, 16 per cent (or 543 000) of all electronic activity statements were lodged using ECI. To date, mainly larger ATO clients, and clients that do not use ‘off the shelf’ accounting software, employ this electronic lodgement option.

**eAS (Electronic Activity Statement)**

3.10 The eAS system is currently undergoing pilot studies, with only a small number of tax practitioners able to use it. Unlike the other two electronic lodgement options, eAS does not require resident software on the client’s computer, as clients are able to access the eAS using their Internet web-browser software. The main benefit of eAS to the ATO is that ATO systems do not have to support outdated software, as eAS

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83 E-commerce refers to the conduct of business communication and transactions over networks and through computers.

84 Tax practitioners must register with the ATO to use ELS (registration is free). Once the registration form is completed, the ATO issues the tax practitioner with a unique identifier. Tax practitioners must quote the unique identifier each time they use ELS.

85 ELS software is incorporated into software developed by private sector software manufacturers. These manufacturers must obtain ATO approval prior to releasing their software with ELS capability.

86 ATO Data Warehouse statistics.

87 The ATO has developed Public Key Infrastructure (PKI) technology to assign a unique electronic identity to an authorised individual within a business entity. This electronic identity is assigned to a digital certificate, which is used every time a client uses the ECI.

88 ATO Data Warehouse statistics.

89 The ANAO Financial Statement Audit program is currently investigating the security arrangements associated with eAS and the Tax Agent Portal.

90 The ATO must support old versions of ELS and ECI software.
software is resident on ATO systems and not on clients’ computers. By June 2004, the ATO envisages running eAS in a ‘real time’ environment. This would allow clients to lodge their returns and receive an almost instantaneous update of their ATO client account, unlike the other electronic lodgement systems that update client accounts in batches on a daily basis.

Advantages of electronic lodgement

3.11 The lodgement of electronic activity statements offers ATO clients advantages, including:

- an immediate receipt of returns, or notification of those returns not received by the ATO;
- 24 hour/365 days a year access to the ATO;
- faster processing turn-around time; and
- access to a range of electronic reports from ATO business systems.

3.12 Three significant advantages for the ATO in receiving activity statements electronically are:

- cost – an activity statement received electronically costs approximately 13 per cent less to process than a paper activity statement;
- time – the average time taken to process an electronically lodged activity statement is at least two days less than for a paper activity statement; and
- accurate data – for 2002–03, electronically lodged activity statements had a three per cent data capture exception rate in comparison to the 13 per cent exception rate for paper activity statements.

3.13 Despite the advantages to both the ATO and its clients, the client take-up of electronic lodgement facilities has been slow since the introduction of the new tax system. Figure 3.2 illustrates client activity statement lodgement preferences for 2002–03.

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91 A ‘real time’ environment allows the user to update their tax and personal information immediately, rather than during a batch run.

92 ATO analysis of Data Warehouse information for all activity statements lodged and processed during 2002–03.
Figure 3.2
Client lodgement preferences for all activity statements lodged in 2002–03

<table>
<thead>
<tr>
<th>Lodgement</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telephone</td>
<td>9%</td>
</tr>
<tr>
<td>Paper</td>
<td>68%</td>
</tr>
<tr>
<td>Electronic</td>
<td>23%</td>
</tr>
</tbody>
</table>

Source: ATO Data Warehouse statistics.

3.14 Initially, the ATO estimated that clients would lodge between 70 and 80 per cent of all activity statements electronically.93 However, following the introduction of activity statements in July 2000 (see Chapter 1), the ATO advised that activity statement electronic lodgement rates were as low as 10 per cent of the total number of activity statements lodged. Although current statistics show that the electronic lodgement of activity statement has risen to 23 per cent in 2002–0394, this remains well below initial estimations.95

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93 The ATO based this estimate on the percentage of income tax statements lodged electronically.
94 ATO Data Warehouse statistics.
95 Tax practitioner representative organisations advised that many tax practitioners have not moved to utilise electronic lodgement because of perceived difficulties in using it (see para 2.9). The ANAO also recognises that the cost of computer equipment required to run lodgement software, and the time it takes to learn how to use that software, may also impact on tax practitioners’ willingness to use electronic ATO lodgement facilities. The ATO advised that it is examining strategies to address the issues raised by some tax practitioners who have not embraced activity statement lodgement technology.
**Electronic activity statements lodgement controls**

3.15 Unlike paper activity statement capture, the ATO is able to maintain control over the electronic activity statement information it receives from taxpayers. All activity statement information lodged through ECI, ELS and eAS is subjected to an initial layer of controls known as validation rules. These validation rules, which are built into ECI and ELS software (located on client computers), and eAS software (located on ATO IT systems), confirm that information critical to the activity statement being processed is provided correctly.

**ANAO comment on electronic lodgement**

3.16 The ANAO examined the validation rules associated with electronic data capture at a high level. Given the exception rate associated with electronic data capture, the comparatively short time taken to validate large volumes of activity statement information, and the low cost of capturing activity statements electronically, electronic data lodgement represents the best option (in terms of cost effectiveness and accuracy) for the ATO regarding the collection of activity statement information.

3.17 The ATO has undertaken promotional campaigns with tax practitioner groups, produced comprehensive education material, and provided other incentives (such as lodgement extensions) to encourage client use of electronic lodgement options. These promotional campaigns, combined with future advances in technology such as eAS and the introduction of the Tax Agent Portal, should encourage increased client use of electronic lodgement.

3.18 The ANAO considers that the ATO should provide a range of electronic options for clients to lodge their activity statements, as long as it provides additional avenues of access for clients, or provides new or additional functionality. However, the cost of maintaining these systems, all of which perform similar functions (particularly ECI and ELS) must also be considered. We note that the ATO is reviewing its electronic lodgement systems as part of a broader IT change management program. If this program achieves its intended results, the ATO should attain the correct balance between the cost of maintaining multiple IT lodgement systems and the diversity of lodgement mechanisms required by clients.

**Telephone lodgement**

3.19 Telephone lodgement refers to the process that allows clients to provide activity statement information directly to ATO staff over the
telephone. To lodge an activity statement by telephone, clients must provide their Document Identification Number (DIN), TFN and ABN, to specialist ATO telephone staff located within Activity Statement Exception (ASE) teams. These staff type the information provided by the client, directly into activity statement processing systems.

3.20 A key risk associated with telephone lodgement is proving the identity of clients. ASE staff follow strict PoI procedures to establish a client’s identity. Comprehensive quality assurance (QA) processes are also used to provide assurance that staff are adhering to these procedures.

3.21 During 2002–03, 1.32 million activity statements were lodged over the telephone. According to the ATO, this was a higher usage rate than originally anticipated. The ATO advised that this method of lodgement is costly as every lodgement requires manual intervention. It also advised that, after October 2003, it would accept only nil balance activity statement lodgements over the telephone.

**Paper lodgement**

3.22 The ATO generates and distributes paper activity statements to its clients on a monthly, quarterly or yearly basis, depending on individual client circumstances. These activity statements are completed and returned to the ATO by mail, or delivered directly to an ATO regional office by hand, for processing. Paper activity statements completed and returned to the ATO in this way are considered paper activity statement lodgements. In 2002–03, 10.32 million paper activity statement lodgements were received by the ATO.

3.23 Unlike for electronic lodgements, the ATO has little control over the quality of information provided by its clients on paper activity statements, or whether clients follow instructions when completing paper activity statements. As a result, there is an increased risk that exceptions will occur when converting the information contained on paper activity statements into an electronic format.

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97 Clients use a specific ATO service number (13 72 26) to lodge their activity statement this way.

98 DINs are located on the top of activity statements and are used to track all activity statements issued and received by the ATO electronically, by telephone or on paper.

99 See Chapter 4 for a full description of ASE team responsibilities and functions.

100 ATO Data Warehouse statistics.

101 The ATO advised that its telephone lodgement facility has been scaled back because of issues concerning PoI, and the repudiation of information entered by ATO staff on lodgements, by clients.

102 ATO Data Warehouse statistics.
3.24 To mitigate this risk, the ATO uses sophisticated IT software, supported by numerous manual processes, to provide assurance that the information contained on paper activity statements is captured accurately. Although the paper lodgement system has numerous processes and controls (see Appendix 6 for a full description), these can be divided into three main functions:

- pre-processing;
- imaging; and
- key edit and entry.

3.25 The ATO has two sites, Penrith and Albury, where these functions are performed. The procedures and processes used at both of these sites were examined as part of the audit.

Pre-processing

3.26 Pre-processing refers to the process of determining the suitability of paper activity statements for imaging (described below), and preparing them for the imaging process. In broad terms, pre-processing involves:

- receiving, opening, counting and sorting activity statement related mail;
- sorting and counting activity statement related mail pre-opened by Australia Post;
- manually checking activity statements to determine suitability for imaging;
- reviewing and repairing activity statements that are not suitable for imaging, or sending activity statements to key entry (see below) for manual input; and
- grouping activity statements into batches and preparing the batches for imaging.

3.27 The individual procedures associated with pre-processing are not complex. However, the number of paper activity statement lodgements, coupled with multiple activity statement forms, and the variable quality

103 Refer to Appendix 6 for a more detailed overview of pre-processing.
104 All activity statement mail received at the Albury and Penrith sites is opened automatically using high-speed mail opening machines.
105 Paper activity statements not returned to the ATO address specified on the activity statement may be forwarded to another ATO address. This mail is opened, sorted and provided to pre-processing separately from other activity statements sent to the correct address.
106 See Appendix 2 for a complete list of the different types of activity statement forms.
of information provided by ATO clients, means that the ATO must use sophisticated machinery supported by numerous manual processes to manage workflow. A full description of pre-processing and image capture automated and manual systems and controls is provided in Appendix 6.

Pre-processing workflow controls

3.28 There are two risks that have an impact on, and direct, the type and form of pre-processing controls. These risks are:

- that activity statements, cheques (or cash) or other relevant material are misplaced, discarded or stolen when letters are opened and sorted; and
- that mistakes on client activity statements are not detected during pre-processing, and lead to further downstream work, or remain undetected.

3.29 Although the ATO has allocated significant staff and IT resources to pre-processing, it would be prohibitively costly to provide absolute assurance that all data capture exceptions are identified and rectified. The ANAO considers that the current combination of manual and automated controls provides for an adequate controls framework. A description of these controls can be found in Appendix 6.

Imaging

3.30 The image capture process is used to convert the handwritten information contained on paper activity statements, which have undergone pre-processing, to an electronic format for processing. This process involves:

- ‘capturing’ the image of the activity statement. The ATO uses high-speed scanning machines to take an image (picture) of activity statements, which is then stored on ATO computer servers; and
- converting the scanned image into data. The ATO uses sophisticated Optical Character Recognition (OCR) software to

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107 Either by pre-processing staff, or other ATO staff with the expertise necessary to rectify the problem.

108 As noted above, if an exception is not detected during data capture, there is a high probability it will be detected during processing. See Chapter 4.

109 For the purposes of this audit, a scanned image refers to a digital image composed of pixels arranged in a rectangular array with a certain height and width.

110 The ATO’s high-speed scanners are capable of scanning 4 000 A4 single or double sided forms per hour (or 2 000 A3 forms).
convert the image (picture) into data. This process is described further in Appendix 6.

Imaging workflow controls

3.31 The ATO uses a combination of manual and automated controls to provide assurance that all paper activity statements are either imaged correctly, or sent to key edit (see below) for manual entry. The manual controls include documented procedures and activity statement reconciliation procedures, both of which are supported by QA processes. The automated processes rely on OCR technology to identify errors.

3.32 Although not foolproof, overall the ANAO considers the data quality controls applied by OCR technology and supported by relevant manual processes, provide an acceptable level of assurance that the information contained on suitable activity statements is converted accurately into data files suitable for processing. We note, however, that these controls could be enhanced with improved QA practices (discussed below). A list of the imaging controls and how they operate is found in Appendix 6.

Key entry and edit

3.33 Key entry is the manual process used to convert the information contained on activity statements that cannot be imaged into electronic data suitable for further processing. This process allows a key entry operator to key (type) the information contained on an activity statement directly into the system.

3.34 Key editing is the manual process that allows ATO key edit staff to examine an activity statement image, and the data produced by OCR engines, and make manual corrections to that data. This includes deciphering handwriting not able to be interpreted by OCR machines.

3.35 Key entry staff do not interpret the meaning of the information on the activity statement. Rather their role is to accurately replicate the information from the activity statement to ATO systems. Key edit staff, however, do have a minor role in checking the validity of the information contained on the activity statement that is similar to the validation checks carried out on electronic lodgements.

3.36 If key entry or edit staff are unable to replicate or understand activity statement information, the activity statement is forwarded to

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111 Numbers, characters, images, or other methods of recording, in a form that can be assessed by a computer, stored and processed there, or transmitted on a digital channel. Computers nearly always represent data in binary code.

112 See Appendix 7 for a list of examples that preclude activity statements from image capture.
Activity Statement Exception (ASE) teams\textsuperscript{113}, where staff contact the client to clarify and rectify any discrepant information.

\textit{Key entry and edit workflow controls}

3.37 The risks associated with key entry and edit centre on ATO staff misinterpreting information contained on activity statements, and making errors when keying or correcting activity statement data. The ANAO considers that the control framework established by the ATO for key entry and edit provides an acceptable level of assurance that key entry and edit exceptions are identified and rectified prior to processing. A list and description of key entry and edit workflow controls are found in Appendix 6.

\textbf{Aspects of paper activity statement management practice}

3.38 Although the ATO has a framework in place to control data capture workflow, there are a number of aspects relating to its management practices that have an impact on this control framework. These aspects are:

\begin{itemize}
  \item quality assurance;
  \item management of procedures documentation;
  \item staff skilling; and
  \item contract management (Australia Post and scanning machines).
\end{itemize}

3.39 Each of these aspects is discussed below.

\textbf{Quality assurance}

3.40 The high-risk nature of data capture activities (discussed above)\textsuperscript{114}, means that the ATO must employ a comprehensive QA program in order to gain assurance that critical data capture controls are operating effectively. Although it would be ideal to have a QA program that reviewed and assessed all data capture controls comprehensively and equally, it would not be efficient or effective to do so. QA activity should be targeted at the most critical controls to provide the highest level of assurance possible with the minimum number of resources diverted from operational duties.

\textsuperscript{113} ASE teams are discussed further in Chapter 4.

\textsuperscript{114} In addition to the ANAO’s assessment of data capture risk, the ATO identified image capture as a high fraud risk. The ATO’s fraud control plan is discussed further in Chapter 6.
3.41 During 2003, the ATO’s P&PP division introduced a national QA process to provide an added level of assurance that critical data capture and other controls and processes are operating effectively. Since February 2003, the results of this process have been reported regularly through monthly P&PP Executive Reports.\footnote{The purpose of these reports is discussed in Chapter 6.} While recognising that QA is only one method to evaluate the effectiveness of data capture processes and controls, the ANAO does not consider that the QA information provided in these reports provides a high level of assurance that data capture controls are operating effectively. As part of the Financial Statement Audit program, the ANAO noted that:

…a range of QA practices have been developed. As reported previously, inconsistencies were identified in certain processing areas in relation to sample sizes and selection processes, analysis of errors and acceptable error rates, and corrective action to be taken.\footnote{ANAO Financial Statement Audit 2002–03, ATO Interim Audit Report, p.24.}

3.42 The ATO acknowledged and agreed with the ANAO that ‘QA processes, particularly within the P&PP area should be immediately reviewed’.\footnote{loc.cit.}

3.43 To address the inconsistencies, the ATO devised a Quality Management (QM) strategy\footnote{The ATO’s Quality Management strategy focuses on combining intelligence, policy and procedures and quality assurance mechanisms to improve the overall quality and coordination of Operations Service Line activities.} aimed at strengthening QA practices throughout P&PP. As part of this strategy, the ATO developed and implemented polices for selecting samples of activity statements for QA purposes, and has made progress on improving QA staff training, and targeting QA resources effectively.

3.44 To target QA resources effectively, the ATO conducted a series of risk assessment workshops to identify risks that could be mitigated using QA strategies. A number of the risks identified at these workshops will be subject to QA audits.\footnote{A QA audit refers to the process of undertaking QA activities on a particular process or system on a non-ongoing basis.} The ATO advised that, once the QA audits are completed, it will assess whether some or all risks subjected to the QA audits require ongoing monitoring.

3.45 Although the focus of the risk assessment workshops was on QA, some risks requiring alternative mitigation strategies were also identified. These risks formed the basis for several additional risk assessments being undertaken by teams within P&PP at the time of the audit.
3.46 In the past, the ATO has not always used a systematic approach to identify and mitigate risks at the team level. We note that the ATO is making progress in this area in 2003–04. However, the ANAO considers using a single, coordinated risk assessment approach at the team level could be more efficient, and provide for more consistent results. A coordinated and consistent approach to identifying and mitigating risks is particularly important given the large number of other risk assessment processes currently used by the Operations Service Line (this is discussed further in Chapter 6).

3.47 The issues concerning risk assessment and QA processes are also relevant to activity statement processing activities. These are discussed in Chapter 4.

Management of procedures documentation

3.48 Data capture procedures documentation is critical to the effective capture of data from paper activity statements. Without up to date and clear procedures documentation, it is probable that properly considered and formulated procedures, will not be followed, and data capture processes will be slowed, or data capture exceptions will occur.

3.49 There are a number of factors that place additional importance on having current and clear procedures documentation. These are outlined below.

- The number of non-ongoing staff. The ATO employs approximately 1,058 Full Time Equivalent (FTE) staff who work during lodgement peak periods (e.g. quarterly and yearly lodgement cycles). Between cycles, procedures documentation may change. As a result, staff need to be able to access up to date procedures documentation, not only to refresh their knowledge of data capture procedures, but also to become familiar with new procedures introduced during their absence.

- Pre-processing, image capture, and key entry and edit staff do not have access to the ATO computer network. Consequently, all procedures documentation for these staff is kept in paper folders on each desk. Any change to data capture procedures means that each folder must be updated with new procedures sheets.

- The number of procedures. Although the procedures for pre-processing, image capture, and key entry and edit staff are not

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120 See Figure 6.1 for an overview of the management structure the ATO uses to manage activity statements.
complex, there are many of them. However, for the ATO to commit to comprehensively review all procedures on a continual basis would not be practicable.\textsuperscript{121}

\textit{Data capture procedures change management}

3.50 The ANAO considers that there are controls in place for data capture procedures to provide assurance that new procedures, and changes to existing procedures, are adequately documented and stored in a secure, centralised environment. However, the ATO should implement uniform pre-processing, imaging and key entry and edit procedures, where possible, for greater effectiveness.

3.51 The ANAO notes that the ATO does not undertake a systematic, methodical review of procedures documentation on a regular basis. We consider that, given the risks and associated consequences of incomplete or out-of-date procedures documentation, the ATO should periodically review the procedures documentation contained in paper files.

3.52 Issues surrounding the effective management of procedures, training and IT specifications\textsuperscript{122} documentation affect a number of other areas within this report. These are discussed as part of Recommendation No.3 of this report (see para 4.45).

\textbf{Staff skilling}

3.53 The amount of training provided to pre-processing, imaging and key edit staff varies based on the type of work undertaken. For example, pre-processing staff undergo half a day of training, whereas imaging and key entry and edit staff undertake from one to three days of training to learn how to use specific IT systems and complex machinery.

3.54 Although the work undertaken by many data capture staff is not complex, a consistent and documented approach to staff training is needed in data capture to provide increased assurance that all staff are fully apprised of procedures, their roles and responsibilities. Also, training documentation should be actively managed and located in a central location where it can be accessed by relevant data capture staff when required.

3.55 The ANAO notes that, although the ATO has some training material for data capture staff, the currency, and comprehensiveness of

\textsuperscript{121} The ATO advised that it has a rolling review program to review all data capture procedures over time.

\textsuperscript{122} IT specifications are discussed in Chapter 5.

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this documentation could be improved. The ATO advised that it is in the process of reviewing this material.

**Contract for the provision of mail services**

3.56 In September 2002, the ATO entered into a contract with Australia Post for the provision of mail room services. As part of this service, Australia Post is responsible for some basic pre-processing responsibilities\(^{123}\), such as opening activity statement letters, and sorting activity statement forms.\(^{124}\) It is also responsible for collecting and sorting payments associated with these activity statements.\(^{125}\)

3.57 The ATO advised that it has several controls in place to provide assurance that the delivery services by Australia Post are of a high quality. These controls include: strict procedures documentation; performance standards (specified in the ATO-Australia Post contract); and ATO site representatives to monitor and review Australia Post staff, and their adherence to procedure.

3.58 The ANAO notes that the ATO’s contract with Australia Post is broader than the provision of activity statement pre-processing services. Consequently, QA and performance monitoring is not solely focused on the delivery of activity statement pre-processing services. However, we consider that the pre-processing services provided by Australia Post are similar to ATO pre-processing activities. For this reason, relevant Australia Post staff should undergo similar QA processes to ATO staff, as part of an integrated data capture QA process.\(^{126}\)

\(^{123}\) The ATO estimates that only a small proportion of the total number of activity statements lodged, are pre-processed by Australia Post.

\(^{124}\) As noted above, paper activity statements can be returned to the address specified on the ATO forms. However, clients also send activity statements to other ATO addresses, or remit activity statements by hand to ATO regional offices. Some of the pre-processing activities for these activity statements are completed by Australia Post staff.

\(^{125}\) Includes cheques, cash, money orders etc.

\(^{126}\) This takes into consideration the recommendations made about QA above.
Recommendation No.1

3.59 The ANAO recommends that, to provide increased assurance that the activity statement pre-processing services provided by Australia Post staff are of high quality, the ATO subject Australia Post staff to a quality assurance process at least equal to that required of ATO pre-processing staff.

ATO Response

3.60 Agreed. To the extent that the Pre-Processing function in relation to activity statement mail is replicated in Australia Post and the ATO, the ATO undertakes to ensure the same quality assurance checks are in place.
4. Activity Statement Processing

This chapter reviews the systems, processes and controls the ATO uses to provide assurance about the integrity of activity statement information. In particular, we examined aspects of the three systems central to activity statement processing: the Instalment Processing System (IPS); the Pay As You Go Instalments (PAYGI) system; and the Risk Rating Engine (RRE). We also examined the methodology and practices the ATO uses to manage data exceptions identified by these systems.

Introduction

4.1 Activity statement processing systems are essential to provide assurance on the accuracy of activity statement information. The failure of these systems to detect incorrect activity statement information (also known as data exceptions) may result in incorrect data being recorded on the ATO’s client account databases, which increases the risk that the ATO will approve an incorrect tax assessment.

4.2 Similarly, IT processing systems that malfunction, or do not apply business rules as intended, may produce incorrect activity statement data. This may also lead to the ATO approving an incorrect tax assessment.

Activity statement processing defined

4.3 Activity statement processing refers to the electronic and manual processes the ATO uses to provide assurance that the information contained on activity statements complies with tax legislation, as well as ATO administrative policy and practice. Unlike activity statement data capture systems, which are designed to replicate activity statement information, activity statement processing systems:

- verify that activity statement information complies with ATO business rules, based on form type and the tax specified on the activity statement; and

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127 For the purposes of this audit, a ‘data exception’ refers to a situation where the data submitted by a taxpayer on an ATO approved form breaches the business rules contained on activity statement processing systems. These systems include IPS, PAYGI or RRE, and are discussed later in this chapter.

128 ATO client account databases are used by the ATO to store client tax transaction information, and client registration information (e.g. name and address, TFN, ABN). One of their primary purposes is to keep a running ‘balance’ of a client’s tax obligations, which is used to determine whether a client has a tax liability, or credit (refunds).

129 The term ‘activity statement processing’ is not strictly defined by the ATO. For the purposes of this audit, it refers to the systems processes and controls outlined in Appendix 8.

130 For the purposes of this audit, a business rule is a rule with its basis in ATO policy or legislation that is applied to information provided by clients to establish the integrity of that information.
• assess activity statement information against risk criteria to determine whether the information is fraudulent and/or whether it complies with tax legislation.

4.4 The ATO has numerous IT systems, supported by manual processes, that undertake the above functions. However, there are three principal systems used to either process or risk-assess activity statement information. These are the:

• Instalment Processing System (IPS);
• Pay As You Go Instalments (PAYGI) system; and
• Risk Rating Engine (RRE).

4.5 Appendix 8 provides a more detailed description of activity statement processing systems, including the links between IPS, PAYGI and RRE, and the operation of these systems.

4.6 The two systems primarily responsible for processing activity statements, and detecting activity statement related data exceptions are: IPS (which is used to process and detect data exceptions relating to taxes other than PAYG); and the PAYGI system (which is used to process and detect data exceptions relating to PAYG information).

**Instalment Processing System (IPS)**

4.7 IPS is the main IT system used to perform activities associated with activity statement processing. It comprises three, distinct sub-systems. These are:

• **IPS Generate:** used to produce activity statements for every registered client with an IAS or BAS obligation;
• **IPS Processing:** used principally to apply ATO business rules to activity statement information; and
• **IPS On-Line:** used to generate a one-off activity statement; and view or alter an existing activity statement.

4.8 For the purpose of this audit we examined IPS Processing and IPS On-Line.

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131 See Appendix 2.
132 See Appendix 9 for a more comprehensive description of IPS functionality.
Pay As You Go Instalments (PAYGI) system

4.9 The PAYGI system is an integrated IT system that provides a framework for taxpayers with investment and/or business income to pay instalments on their expected income tax liability. It was developed as part of the new tax system and replaced the company and superannuation fund instalment system and the provisional tax system. Like IPS, the PAYGI system was introduced from the start of the 2000–01 financial year. Appendix 9 provides a more comprehensive overview of PAYGI and IPS functionality.

IPS and PAYGI system controls

4.10 While not forming the ‘ideal’ overall activity statement processing system, the IPS and PAYGI IT systems do provide the ATO with the capability to process activity statements in accordance with client service level and internal standards. To gain assurance that the IPS processing sub-system, and the PAYGI system, apply business rules to activity statement information as expected, the ANAO intended to test these systems. However, testing was not undertaken because of difficulties in obtaining complete and consolidated IPS system specifications, as well as the complexity of IPS and the PAYGI system, and the amount of time required to obtain meaningful test results. IPS and PAYGI system specifications are discussed in greater detail in Chapter 5.

4.11 However, the ANAO did examine the processes and controls associated with the management and rectification of data exceptions from IPS and the PAYGI system. In particular, we focused on the mechanisms the ATO uses to rectify these data exceptions.

Activity statement data exceptions

4.12 Since the introduction of activity statements in July 2000, there have been a high number of data exceptions in comparison to the total number of activity statements lodged. For example, during 2002–03, approximately 2.66 million activity statements (or 17 per cent of the total number of activity statements lodged and processed) required manual

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133 Some of the factors that inhibited the ATO from implementing an ‘ideal’ activity statement processing system are discussed briefly in Chapter 1. Also, the ATO’s intentions for more efficient and effective activity statement processing systems are examined in Chapter 5.

134 See Chapter 6 for a discussion and a list of client service standards relating to activity statement processing.

135 The term ‘system specifications’ refers to the documentation that outlines how IT systems are supposed to work, including how they apply business rules.
干预措施**136** 在它们完全处理之前。**137** 尽管活动声明的提交数量在 2000–03 期间有所波动，但与活动声明相关的数据异常的数量保持相对稳定。

**Figure 4.1**

活动声明数据异常总数与活动声明总数的比较

![Figure 4.1](image)

**Source:** ANAO 分析了 ATO 统计信息。

**4.13** 图 4.1 显示，活动声明数据异常在 2001–02 年和 2002–03 年期间下降了约九个百分点，尽管同一时期活动声明的提交数量上升了四个百分点。这可能表明客户正在逐步改善他们在活动声明中提供的信息质量，或者 ATO 活动声明处理系统在自动校正数据异常方面的效果更好。

**136** 手动干预包括数据处理异常以及键入异常（参见第 3 章）。数字来自于 ATO 数据仓库信息。活动声明数据异常被 ATO 分类为两个主要类型：SERR（停止与错误）和 HWIP（工作在进行中）。这两个类别都已包括在计算这些数字中。

**137** 需要手动干预的总活动声明数量为 1.24 百万份（或 47%），这些异常是违反业务规则的活动声明数据异常，这些异常是 IPS 或 PAYGI 系统中的数据异常。这些统计数据来自 ANAO 对 ATO 数据的分析。

**138** 异常统计数据包括 SERR 和 HWIP。
4.14 If Figure 4.1 is viewed with reference to Figure 2.1, it shows that although processing systems have been operational for three years, and the number of complaints from clients has decreased significantly\textsuperscript{139}, the number of data exceptions detected by IPS and the PAYGI system has not changed significantly. This indicates that the workloads for teams responsible for rectifying data exceptions (ASE teams), have remained relatively stable over the last three years.

**Activity Statement Exceptions (ASE) teams**

4.15 The principal role of ASE teams is to investigate and rectify data exceptions.\textsuperscript{140} Specifically, the role of an ASE team is to:

- correct all exceptions identified during the processing of activity statements, (usually generated by IPS and the PAYGI system);
- action correspondence and answer telephone queries relating to activity statements, including revisions and keying on-line (see Chapter 3);
- resolve problems escalated from image capture (see Appendix 6); and
- contact clients as needed to obtain relevant information to finalise activity statements.

4.16 Unlike data capture staff, ASE staff have a technical role, requiring the application of specialist knowledge about activity statements and processing systems. This includes having an understanding of:

- the procedures associated with processing activity statements, including those procedures used to identify and escalate complex data exceptions to the relevant business lines or CAST;
- IPS and the PAYGI system, and other systems used to process and administer activity statements;
- each activity statement form, and the individual labels contained on those forms; and
- the application of ATO administrative policy and the tax law to the information provided by clients on activity statements.

\textsuperscript{139} As discussed in Chapter 2, a decrease in the number of complaints may indicate that clients are more comfortable with ATO administrative practices and systems. This assumption, however, has not been tested fully.

\textsuperscript{140} The ATO has between 30 and 40 ASE teams, each with approximately 17.5 FTE staff.
4.17 To provide assurance that ASE staff make correct decisions when interpreting or analysing activity statement data, the ATO has a suite of controls aimed at ensuring that activity statement information is correct before it is posted to client accounts. The ANAO examined these controls using the following categories:

- procedures documentation;
- staff skilling (including training documentation);
- quality assurance; and
- data exception workflow management.

4.18 The application of resources to these control categories should have its basis in an integrated risk management process. Chapter 3 of this report discusses this issue (paras 3.40-3.47).

Procedures documentation

4.19 Although ASE staff are required to exercise their judgement when resolving activity statement data exceptions, detailed procedures documentation and reference material provide a critical support mechanism to assist correct and consistent decision-making. Staff knowledge of procedures and reference material is also important when providing consistent and correct advice to clients.

4.20 The ATO has comprehensive procedures documentation to support ASE work practices that is readily available to all ASE staff on the ATO’s Intranet. The ATO has also established a robust controls framework, which provides assurance that ASE procedures documentation:

- is secure. Robust controls located within the ATO Intranet computer software prevent unauthorised changes being made to procedures documentation. Only a small number of staff have access to change procedures documentation; and

- has received relevant technical and management clearances. Controls within the Intranet software and administrative procedures prevent procedures being placed onto the Intranet without the correct clearance.

4.21 Although these controls are effective, we note that there are some areas of the controls framework that could be enhanced. These areas are:

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141 An Intranet is any network that provides similar functionality within an organisation to the functionality provided by the Internet outside it, but which is not necessarily connected to the Internet.
procedures review. Some ASE staff indicated that there were instances where procedures documentation did not reflect current practice. Although the ATO has a program in place to review all procedures documentation, we found that the majority of procedures documentation had not been reviewed within the specified review period; and

change control. The ANAO notes that, although the ATO has developed a template for recording the changes to procedures documentation, this template is not always completed consistently. For example, document version numbers, and change authors were often not recorded consistently on the template.

Staff skilling

4.22 Staff skilling is a key control used by the ATO to provide assurance that ASE staff make correct decisions when rectifying data exceptions. Without an effective training regime, there is an increased risk that ASE staff will not have the knowledge required to make informed decisions concerning data exceptions, or apply numerous ASE procedures correctly. This may lead to staff: not rectifying data exceptions correctly; inadvertently creating new data exceptions; or providing incorrect activity statement related advice to clients.

4.23 The ANAO considers that the training element of the ASE control framework provides sound assurance that ASE staff have access to the necessary knowledge to undertake their duties to a high standard. Features of this framework include:

- easy access to training material through the ATO Intranet;
- a structured induction course for new staff;
- a buddying program for new staff; and
- the use of ‘team coaches’ to provide guidance to ASE staff on ATO procedure and policy.

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142 The ANAO notes that there are 452 separate procedures documents subject to review. As at 1 October 2003, 408 had not been reviewed within specified review times.

143 Version control refers to adequately documenting the history, approvals and contacts within procedures and reference documentation. It allows two or more similar or conflicting documents to be compared to determine which one is most up to date and comprehensive.

144 On-the-job training consists of an experienced staff member ‘buddying’ a new staff member for upwards of one month to ensure the quality of their work, and to provide guidance. ‘Buddying’ is particularly important given the diverse work practices of ASE staff and the interaction ASE staff have with the public.
4.24 Although the ANAO considers that ASE training material is up to date and comprehensive, as is the case with ASE procedures documentation, the application of consistent version control methodology is not apparent in all training documents.

4.25 Issues surrounding the effective management of procedures, training and IT specifications documentation affects a number of other areas within this report. These issues are addressed as part of Recommendation No.3 of this report.

Activity Statements Exceptions (ASE) team quality assurance

4.26 QA is an important control, not only to provide assurance on the quality of ASE staff work, but also in identifying the training requirements of staff, and the performance of individual ASE teams on a regional and national basis.

4.27 ASE coaches (see above) are responsible for QA work associated with ASE teams. Although each coach utilises a QA methodology that is based on national QA guidelines, the amount and type of QA undertaken is determined by other work priorities, and may not be consistent over time. In Chapter 3, we recognise that the ATO is establishing measures to improve QA methodology and controls for activity statement data capture and processing (which includes ASE team operations).

4.28 We note that in December 2002, the ATO committed QA resources to review and assess ASE telephony teams. As a result, QA activity undertaken on telephony services is more comprehensive than it is for other aspects of activity statement data capture and processing. The ANAO considers that the ATO could use the experience and capabilities of Quality Assurance Officers to further enhance QA practice in other areas of activity statement data capture and processing.

Data exceptions workflow management

4.29 The management of data exceptions workflow refers to the methodology, processes, and systems the ATO uses to distribute data exceptions to ASE teams. It is important that data exceptions are

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145 The role of the team coach is to: provide answers to technical and general queries posed by ASE staff; provide general advice on phone technique, correspondence, and the operation of IT systems; undertake QA on ASE team activities; identify areas of potential underperformance with ASE staff; and ensure ASE staff are aware of, and apply, relevant information contained in bulletins, newsletters and training documentation.

146 IT specifications are discussed in Chapter 5.

147 ASE telephony teams are responsible for managing activity statements lodged by clients over the telephone.
distributed to ASE teams as efficiently and effectively as possible for the following reasons:

- **timeliness.** If data exceptions are not distributed to ASE teams in a timely way, the ATO may not meet its client service standards\(^{148}\), and may be required to pay clients delayed refund interest\(^{149}\) if an activity statement contains a refund claim; and

- **reverse workflow.** If an activity statement is not distributed to the ASE team with the appropriate expertise to rectify a particular data exception, additional time may be wasted while the data exception is redirected to the appropriate staff. Also, there is an increased risk that the data exception may not be rectified correctly. This would create reverse workflow as the initial exception, as well as any additional errors generated by ASE staff, would need to be rectified.

**Automated Workflow Allocation (AWA) system**

4.30 The AWA is the electronic system chosen by the ATO to allocate activity statement related data exceptions to staff for rectification. It was originally introduced to service the requirements of the Child Support Agency\(^{150}\), and later used as the principal workflow allocation system for the Operations Service Line.

4.31 Although the AWA initially provided some of the functionality sought by the ATO to allocate exceptions to ASE teams, its usefulness has eroded over time. In particular, the AWA does not allow the ATO to categorise particular types of data exceptions so they can be allocated to specialist ASE teams.\(^{151}\) As a result, a manual allocation process is used to allocate exceptions to ASE staff.\(^{152}\)

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\(^{148}\) The ATO client service standards are discussed further in Chapter 6.

\(^{149}\) Under Pt 111AA of the *Taxation (Interest on Overpayments and Early Payments) Act 1983*, a taxpayer is entitled to delayed refund interest where the ATO fails to process an activity statement related refund within 14 days. The penalty interest rate for the ATO was 4.86 per cent for the October to December quarter 2001–02.

\(^{150}\) The Child Support Agency was located in the ATO until October 1998, when it was moved to the Department of Family and Community Services.

\(^{151}\) All ASE teams specialise in particular exceptions. For example, ASE teams in the Brisbane office are responsible for actioning activity statements that will take longer than 14 days to process, whereas Penrith and Albury ASE teams are responsible for all activity statement related correspondence.

\(^{152}\) The manual process involves downloading exceptions from ATO computer systems (ATO Data Warehouse) into a Microsoft Excel spreadsheet where the exceptions are sorted into categories. Each category of exceptions is then printed onto a piece of paper and provided to ASE teams via facsimile.
4.32 The manual allocation process can take up to two days longer than an automated one, which should be instantaneous. Under the existing client service standards, approximately 14 per cent of the total time the ATO has to issue activity statement related refunds (or two out of 14 days) is taken up by manually allocating exceptions to teams. As a result, the ANAO notes that there is an increased risk that the ATO may incur deferred interest penalties due to the delays in distributing exception information to staff. We also note that there is an increased risk that exceptions may be misplaced or incorrectly categorised when the manual allocation system is used.

**Recommendation No.2**

4.33 The ANAO recommends that the ATO evaluate the costs and benefits of introducing a more efficient automated work allocation system to improve the provision of timely and secure data exceptions information to Activity Statement Exception teams.

**ATO Response**

4.34 Agreed. An evaluation of alternative work allocation systems is being conducted as part of the ATO Change Program. As part of this evaluation the ATO has worked with its third party consultants to develop a strategy on how to move forward to develop an enterprise wide (and not just Activity Statement focussed) work management solution. Included within this strategy is a proposal to develop an internal capability which covers all exceptions processing within the ATO.

**Risk Rating Engine (RRE)**

4.35 The GST Business Line originally designed the RRE in 1999 as the main mechanism for risk rating and selecting cases for further investigation. Its principal function was to assess the GST data on activity statements against a risk assessment framework\(^\text{153}\) to identify potential cases of non-compliance or fraud.\(^\text{154}\) High-risk cases identified through this assessment formed the basis of compliance work undertaken by GST Compliance Verification Centres (CVCs).\(^\text{155}\)

\(^{153}\) The RRE risk assessment framework comprises ‘Exception Tests’. These tests are described in more detail in Appendix 10.

\(^{154}\) Although the RRE was established originally to review the risk of GST activity statement data only, its role has been expanded to include other taxes contained on activity statement forms.

\(^{155}\) CVCs are discussed in Appendix 8.
4.36 Since its introduction, the RRE has undergone some changes, particularly with regard to the suspension of a number of the ‘exception tests’\textsuperscript{156} it applies to GST data. This issue has been covered in a recent performance audit into ATO GST Fraud Prevention and Control (GST Fraud Audit)\textsuperscript{157}, and we note the ATO is making progress in finalising the issues and recommendations raised in that audit.

4.37 To complement the work that has already been undertaken in the GST Fraud Audit, we examined some other aspects of activity statement processing associated with the RRE. These aspects were:

- Compliance Verification Centres;
- the Refund Integrity Project; and
- management of RRE system documentation.

4.38 CVCs and the Refund Integrity Project are discussed below. RRE systems documentation is examined in detail in Chapter 5.

Client Verification Centres

4.39 The purpose of CVC teams is to assess and, where appropriate, investigate the information provided by a client on their activity statement, as part of the ATO’s overall compliance framework.\textsuperscript{158}

4.40 The majority of CVC work comprises activity statements that fail RRE exception tests.\textsuperscript{159} CVC staff are required to analyse and rectify RRE exceptions, in a role similar to the ASE teams that action IPS and PAYGI data exceptions. This often requires CVC officers to contact clients to confirm or query activity statement information. Where further compliance work may be required (such as a GST field audit), the CVC teams can provide information to GST field operatives for action.

4.41 We consider that, like ASE teams, there are several areas where controls should be robust to provide assurance activity statement information is processed efficiently and effectively. These areas are:

- procedures documentation. The ATO has a comprehensive set of procedures documentation available to GST staff on the ATO

\textsuperscript{156} Exception tests are applied by the RRE to GST activity statement information to determine the risk of an activity statement. This process is described in more detail in Appendix 10.

\textsuperscript{157} Audit Report No.55, 2002–03. 

\textsuperscript{158} During the audit there were 16 CVC teams located in various ATO sites around Australia, with each team comprising approximately 10 staff.

\textsuperscript{159} CVC teams staff also advised that they undertake project work to supplement their existing duties. Areas such as the GST Strategic Risk Management Unit can initiate this project work.
The ANAO notes, however, that the controls used by the CVC teams to monitor and record changes to procedures documentation are less comprehensive than for ASE procedures documentation:

- **staff skilling (including training documentation).** The ANAO considers that the ATO has a robust training framework in place to provide assurance that CVC staff have the skills necessary to undertake their work effectively. Training documentation is comprehensive and available to staff on the ATO Intranet. We note, however, that the methodology and controls used to record and monitor changes to CVC training material are not as comprehensive as ASE procedures documentation; and

- **data exception workflow management.** Like ASE teams, CVC teams use the AWA system to distribute workflow. However, unlike ASE teams, the CVC teams consider that AWA provides the functionality required to manage and distribute RRE workflow.

**ANAO comment on the ATO’s document management practice**

4.42 The management of procedures and training documentation is an issue common to all operational areas throughout the ATO. From an examination of activity statement data capture and processing practices across ATO business and service lines, we note that the ATO utilises a number of different policies, controls and processes to manage and secure this documentation.

4.43 We consider that a single comprehensive approach to manage procedures and training documentation would significantly increase the level of assurance the ATO can place on the currency, accuracy, completeness and security of this documentation.

4.44 Similar issues over the currency, accuracy, completeness and security of ATO IT specifications documentation (see Chapter 5) also exist. The ANAO considers that this documentation could also be managed effectively using a single, comprehensive approach to documentation management.

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160 For the advantages of using the ATO’s Intranet (ATO Connect) to store CVC procedures, refer to the discussion above concerning ASE procedures documentation.

161 For example, the template used to describe the change, which is attached to each procedure, does not have information like procedure author or change description. This information is recorded on ASE procedures (see above).
Recommendation No.3

4.45 To provide adequate assurance that all procedures, training, and IT specifications documentation is relevant, current and complete, the ANAO recommends that the ATO:

- examine and assess all existing policies, systems and processes used throughout the ATO to manage and secure documentation, in order to identify better practice;
- develop and implement a nationally consistent policy, and robust controls, for the management and security of this documentation; and
- implement, and adhere to, a program of periodic reviews of this documentation.

ATO Response

4.46 Agreed. The ATO is examining the way it manages and secures its activity statement documentation to ensure consistent treatment utilising best practice, and this will involve a program of periodic reviews.

Refund Integrity Project

4.47 We examined aspects of the Refund Integrity Project as part of this audit, as it complements the work on the RRE undertaken by the ANAO during the GST Fraud Audit. At the time of that audit, the ATO was in the process of making further, significant changes to the operation of the RRE. These changes resulted from an event that led to an activity statement refund not being processed correctly. This event, and the ATO’s subsequent actions to rectify identified problems in activity statement processing systems, are described in general below.
Refund integrity Project Case Study

**Issue**
Under the ATO’s self-assessment processes, a large activity statement refund was issued to a client. After further analysis of the refund, it was determined that it was issued by mistake.

**ATO response**
To gain assurance that similar refunds would not be issued by mistake, the ATO undertook a review of refund processing (known as the Refund Integrity Project), which included activity statement related systems.

The review identified control weaknesses within the ATO’s refund control framework. If this control framework operated as intended, the refund should not have been issued.

The weaknesses identified by the review centred on escalation procedures within ASE teams, and system controls within the RRE.

**Results of the ATO review**
The ATO review made 19 recommendations to not only strengthen the weaknesses identified in the case, but also other areas of the ATO’s activity statement refund controls.

All recommendations have now been implemented by the ATO.

Source: ATO.

4.48 The ANAO notes that the successful implementation of the Refund Integrity Project recommendations has provided additional assurance that refunds will be processed correctly, and that activity statement related systems operate effectively. Although all recommendations will have a positive impact on the overall operation of activity statement processing systems, a small number of issues concerning their successful implementation remain.

**Exposure of tax role types other than GST to RRE processes**

4.49 One of the significant issues raised as part of the Refund Integrity Project concerned the specific application of RRE exception tests to support aspects of GST fraud and compliance only. To address this, the ATO broadened the application of the RRE to include other taxes contained on activity statements such as LCT, WET, sales tax credits and PAYG. Subjecting additional activity statement information to the RRE will create new types of specialist work and increase workloads.

4.50 The ATO advised that additional workloads generated by the changes to the RRE are divided between small, specialist teams within the
CVCs\textsuperscript{162} and the Accounting Collections Systems Integrity Team.\textsuperscript{163} It also advised that responsibility for additional workloads generated from future enhancements to the RRE would need to be negotiated between these teams and ATO business lines.\textsuperscript{164}

4.51 Although the aforementioned changes were made to the RRE in June 2003, the ATO advised that exception casework was based on existing procedures and it had not fully developed specific procedures and training documentation relating to the changes to the RRE. However, it advised further, that these specific procedures and training documentation were in the process of being developed, and would be based on existing procedures, as well as on the experience of ATO staff.

4.52 The ANAO considers that the development of this documentation should be completed expeditiously, to provide increased assurance that all non-GST RRE exceptions are investigated and rectified consistently and correctly.

\textsuperscript{162} The CVCs will undertake the additional workload associated with LCT, WET and sales tax credits.

\textsuperscript{163} The Accounting Collections Systems Integrity Team is located within the Operations Service Line, and undertakes RRE exceptions work associated with PAYG.

\textsuperscript{164} Relevant ATO business lines are responsible for developing new RRE exception tests. For example, the GST Business Line is responsible for developing GST exception tests.
5. System Change Management Processes

This chapter examines the systems and processes the ATO uses to manage changes to activity statement processing systems. In particular, we focus on the way the ATO documents changes to its systems, as well as the processes it uses to prioritise and action system exceptions.

Introduction

5.1 To provide assurance that activity statement related systems operate as intended, the ATO needs robust processes to implement and monitor changes to these systems. If the ATO does not have these processes in place, it will be unable to provide assurance that business rules are applied to activity statement information correctly, and that activity statement information is being processed efficiently.

5.2 A critical element in managing the change to ATO IT systems is the creation and maintenance of IT technical documentation which:

‘...includes an up to date description of all aspects of the system, including hardware, software, and data. It is essential that it is constantly updated during the system life cycle.’\(^{165}\)

5.3 This up to date description of all aspects of activity statement related systems is known as system baseline specifications. Although it is ideal to maintain a single set of baseline specifications for a system, it is often not practical to do so because of the number of changes to the system (many made simultaneously), and the complexity of the system. Where this occurs, it is common to have a single set of baseline specifications, with any changes being documented in separate change specifications. Ideally, change specifications are then used to update the baseline specifications at a later point in time.

5.4 If many change specifications are generated for a particular system before baseline specifications can be updated, then a well-managed and documented change control process is critical to maintain control over the operation of systems.

5.5 The ANAO reviewed the development and maintenance of system documentation for the IPS, PAYGI system and RRE, as well as the methodology used by the ATO to identify and rectify system exceptions. A

system exception is broadly defined as an instance where a system does not deliver expected results, or does not meet business needs.\textsuperscript{166}

5.6 Specifically, we examined the following areas:

- the history of system specifications;
- systems documentation policy and practice;
- the identification, prioritisation and management of new system exceptions;
- system testing; and
- future directions in ATO IT systems.

5.7 These areas are discussed below.

**History of system specifications**

5.8 The baseline specifications for the IPS, PAYGI and RRE systems were originally developed for implementation in June 2000. The ATO intended to update these specifications regularly through a scheduled IT release program.\textsuperscript{167} However, this program proved to be inflexible as it only provided for two large system releases each year. As well, all changes had to be approved 12 to 18 months in advance of the implementation date to allow for development and testing. Smaller changes were ‘bundled’ together as part of this release process, rather than being ‘projects’ in their own right. This meant that significant time delays could occur in implementing many relatively small changes.

5.9 In July 2002, the ATO adopted a project-based approach for system changes.\textsuperscript{168} This provides the ATO with the freedom to implement smaller changes when they are needed, rather than waiting for a large release. Although the project approach provides additional flexibility, it must be carefully managed to maintain effective control over the baseline and change specifications. Specifically, the reasons that effective management control is required under a project-based approach include:

\textsuperscript{166} System exceptions are divided into two categories: Production Errors—which are errors that occur when a system does not deliver expected results according to a system specification; and Production Changes – which are defined as changes to a program where the system delivers according to a system specification but does not meet business needs.

\textsuperscript{167} The scheduled release program allowed changes to be made twice a year. These changes generally occurred around July and November of a given year.

\textsuperscript{168} For the purposes of this audit, we consider a ‘system change’ to be a required change to an IT system taking longer than 15 days to complete.
• several projects can be undertaken concurrently, possibly on the same system function;

• system testing must be integrated to cover all project related specifications (sometimes across several concurrent projects);

• the increased number of specifications (both baseline and change specifications) require additional active management; and

• baseline specifications must be updated on a regular basis for any project related changes.

5.10 To effectively manage these areas, it is critical that comprehensive policies and methodology are developed for documenting system specifications and associated changes. If this documentation is not developed and applied, it is difficult to maintain the overall integrity of activity statement related IT systems.

**System documentation policy and practice**

5.11 Formal, written, well-publicised policy establishes the discipline required for effective system documentation. For system documentation policy to be effective, all staff impacted by it should be fully informed, and should understand the reasons and basis of the policy.

5.12 In assessing the ATO’s documentation policy, we reviewed it, and other ATO system documentation, against the following criteria.169

• **Documentation requirements cover the whole system lifecycle.** Documentation is required during the early stages of a project, and must be available and maintained throughout the system development process.

• **Documentation should be managed.** Documentation requires active monitoring and appropriate levels of security to ensure that it is current. Managers should prepare detailed plans outlining: staff responsibility; resources; and QA and review procedures in relation to specification documentation.

• **Documentation should be appropriate to its readership.** Readers may be managers, analysts, professionals with no computer expertise, maintenance programmers, clerical personnel etc. Depending on the tasks performed, they require varying degrees of detail and different presentations of the material.

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169 These criteria were derived from *Australian Standard AS 3897-1991, Information processing—Guidelines for the management of software documentation.*
• **Documentation standards should be identified and used.** Existing standards should be adopted wherever possible. Where no suitable standards exist, standards and guidelines should be developed as required.

5.13 The ATO has developed formal policy documentation for naming, writing, reviewing, and approving system specifications. The ANAO considers that this policy complies with the broader better practice criteria outlined above. However, we note that some policy documentation was developed well after the majority of activity statement related systems were in production.

5.14 The ANAO also notes that the ATO’s application of these policies has varied depending on the systems, and the staff who work on them. The application of the policy for each system is examined below.

**PAYGI**

5.15 As discussed in Chapter 4, the PAYGI system is complex and comprises numerous distinct processes. To manage this system, the ATO constructed a PAYG Instalments Activity Model. This model divides the PAYGI system into nine functional areas, with 51 baseline specifications allocated among these. The model is shown in Appendix 11.

5.16 The ATO uses change specifications for any emergency fixes (e-fixes) to the system and for project-based changes. The ATO advised that change specifications are incorporated into baseline specifications at the end of each release process.

5.17 As part of the audit, we reviewed the PAYGI specifications for consistency and for their compliance with ATO policy. The results of this analysis indicate that the ATO has applied aspects of its system documentation policies consistently to PAYGI specifications. However, the analysis also indicates that:

• management sign-off sheets are not evident on individual specifications. The ANAO notes that in the majority of cases, management sign-offs are done using e-mail due to the various locations of staff and management around Australia; and

• document revision history has not been updated correctly in the majority of cases.

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171 The ANAO notes that ATO policy requires ATO Assistant Commissioners to sign-off on all final specifications before any changes to IT systems are made in the production environment.
5.18 Recommendation No.3 of this report addresses issues concerning documentation management and control policy for specifications.

IPS

5.19 Like the PAYGI system, the IPS is complex and comprises many distinct processes (see Chapter 4). However, over the last two years, the changes made to IPS have been more substantial than for the PAYGI system. Of the changes made, the most significant related to the February 2001 BAS simplification project (see Chapter 1), which saw the introduction of a greater number of form types. The management of this process, given the number of changes and short timeframes for implementation, was critical.

5.20 To achieve the desired BAS simplification outcomes, the ATO generated large numbers of change specifications to implement changes as quickly and as efficiently as possible. The ANAO notes that, during this period, the ATO’s control over system specification documentation was diminished. To re-establish control, in October 2001 the ATO compiled baseline specifications from system program code for parts of IPS. However, since that time, the ATO has not maintained up to date IPS baseline specifications, while producing many new change specifications.

5.21 As discussed in Chapter 4, when the ANAO requested complete IPS baseline specifications documentation, it was not available. During the audit, the ATO began a process to compile this documentation. The process involved:

- **locating all known baseline and change specifications.** IPS change specifications were dispersed amongst several teams throughout the ATO. Although the ATO is confident that all IPS specifications have now been located, the ANAO considers that the ATO is unable to provide definitive assurance that this is the case, as no logical method or model was used to specify the boundaries of IPS, and guide the development of IPS change specifications (as is the case for the PAYGI system); and

- **developing a new set of baseline specifications from IPS program code.** To provide assurance that it is aware of exactly how IPS operates, the ATO advised that it has drafted a new set of baseline

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172 Chapter 4 specifies that IPS comprises three distinct sub-systems: IPS Generate, IPS Processing, and IPS On-Line. The ATO compiled baseline specifications for IPS Generate and IPS Processing, but not IPS On-Line.

173 Specification information was sourced from several teams within CBS, P&PP and PSS Divisions within the Operations Service Line (see Figure 1.3 for further information on these divisions).

174 See Appendix 11 for the model used by the ATO.
specifications from current IPS program code. Although these new baseline specifications will show how IPS is operating, they do not provide definitive assurance that IPS is operating as intended. A further process of comparing the business rules\textsuperscript{175} to the new baseline specifications is currently being undertaken by the ATO for this purpose.

5.22 The ANAO considers that the ATO’s management of IPS change specifications has historically been less than satisfactory. We note that, until mid-2003, the ATO did not have a system to manage and track the location of IPS specifications. We recognise that the ATO is undertaking measures to correct this deficiency, and to establish a new set of IPS baseline specifications. The challenge for the ATO will be to maintain the currency, completeness and security of the new baseline specification in the future to ensure its effectiveness.

*IPS change specifications*

5.23 There are currently 92 IPS change specifications. Following analysis of these specifications, the ANAO notes that:

- ATO policy for documenting baseline and change specifications had not been adhered to in 46 per cent of cases. By not following the policy, there has not been a consistent application of document history controls, creation and modified dates, authorship etc\textsuperscript{176}; and

- 43 per cent of IPS specifications did not have management endorsement and approval sign-off forms.\textsuperscript{177} Although the ATO advised that all change specifications did receive appropriate approvals before changes were made to IPS, it noted that it would be difficult to locate those approvals.

5.24 Recommendation No.3 (para 4.45) of this report addresses issues concerning documentation management and control policy for specifications.

5.25 We note that, without up to date baseline specifications and strong controls around the management of change specifications, the ATO is not able to provide adequate assurance that all aspects of IPS are operating efficiently, effectively, and as intended.

\textsuperscript{175} The IPS business rules are currently specified in existing IPS baseline specifications and the IPS change specifications.

\textsuperscript{176} ANAO analysis of ATO specifications.

\textsuperscript{177} ibid.
Recommendation No.4

5.26 The ANAO recommends that, to provide adequate assurance that activity statement related systems are operating efficiently and effectively, as intended, the ATO:

- compile a complete set of baseline specifications for the Instalment Processing System (IPS); and
- introduce a robust system of controls to maintain the currency and completeness of the IPS baseline and change specifications.

ATO Response

5.27 Agreed. The ATO, through its IT Service Management Improvement Program, is currently putting into operation processes to support the implementation of change into the ATO production environments. Rollout has already commenced and will continue through to July 2004.

5.28 Specifically, the latest IPS baseline functional specifications have been compiled in one location which is centrally managed and controlled. Change specifications have been stored in one location and will progressively be incorporated into the baseline specifications. Procedures have been documented and implemented to manage and maintain the currency of the specifications. This includes procedures for version control of specifications and an audit trail for the sign off of any changes.

Risk Rating Engine

5.29 The GST Business Line is responsible for managing changes to the RRE, including coordinating the development of new RRE exception rules with other relevant business and service lines. We note that the controls the GST Business Line has in place to manage change to the RRE are robust, and that current RRE system documentation is well managed and tightly controlled. However, we also note that the RRE system is smaller and less complex than IPS and the PAYGI systems.

5.30 Although RRE change management processes are robust, these processes could be enhanced by the ATO adopting a consistent policy regarding the management and control of specifications documentation. This issue is addressed in relation to Recommendation No.3 of this report (para 4.45).
Identification, prioritisation and management of system exceptions

5.31 The management of system exceptions is critical to the identification and prioritisation of system changes including development of change specifications. If system exceptions are not managed effectively, critical errors may not be identified and rectified in a timely way. The timely rectification of critical errors is important in maintaining the overall integrity of activity statement processing systems.

5.32 As noted previously, a system exception is broadly defined as an instance where a system does not deliver results in accordance with system specifications, or delivers an outcome that does not meet business needs. Staff from several areas, including ATO call centres, activity statement data capture and processing, and Correct Business Systems (CBS), usually identify these errors.

5.33 The effective management of activity statement related system exceptions is particularly important, given the number of exceptions identified by system users. Figure 5.1 below illustrates the number of system exceptions identified by the ATO during 2002–03 for IPS and the PAYGI system.

Figure 5.1
The total number of system exceptions for the IPS and PAYGI databases for 2002–03

ANA0 analysis of ATO statistical information.

178 The ATO has officers in each relevant ATO regional office who are responsible for monitoring and managing system issues detected by data capture and processing staff. These officers are known as System Support Officers.

179 ATO information was extracted from the PAYGI Helpdesk and the Unicentre Service Desk.
5.34 Figure 5.1 shows that there were 6,808 system exceptions associated with IPS and the PAYGI system during 2002–03. Although a large proportion of these were rectified easily, all exceptions are subject to a process of analysis and prioritisation by ATO system staff. We note that the management of these exceptions requires effective automated processes to identify critical exceptions. The ATO currently uses three separate databases to manage system exceptions: the PAYGI Helpdesk, Unicentre Service Desk (USD) and SOLVE. These system databases are described below.

PAYGI Helpdesk

5.35 The PAYGI Helpdesk is a sophisticated Microsoft Access database, used to record all system issues involving the PAYGI system. One of its primary functions is to identify high-risk system exceptions that require timely rectification.\(^{180}\) Once a high-risk exception has been identified, it is transferred to SOLVE for further action (see below). The advantages and disadvantages of the PAYGI Helpdesk system are discussed in Appendix 13.

Unicentre Service Desk (USD)

5.36 This system provides a functionality similar to the PAYGI Helpdesk system, for IPS system exceptions.\(^{181}\) One of its primary functions is to prioritise system exceptions to determine which ones are transferred to SOLVE for further action. The advantages and disadvantages of the USD database are discussed in Appendix 13.

SOLVE

5.37 SOLVE is the nationally mandated IT system error reporting tool used by the ATO for all areas involved in developing IT systems. It is used, amongst many other functions, for tracking system exceptions that arise from existing production systems, as well as exceptions that arise during system testing (discussed below). All SOLVE cases will need to be resolved, with the majority eventually resulting in changes to an IT system. Any change to ATO IT systems must have one or more SOLVE records attached to it. The advantages and disadvantages of the SOLVE system are discussed in Appendix 13.

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\(^{180}\) These issues are known as Priority 1 (P1) issues. See Appendix 12 for a full description.

\(^{181}\) The USD is also used as an ATO corporate enquiry management tool and is used widely in other business and service lines throughout the ATO.
ANAO comment

5.38 We note that, although the USD and the PAYGI Helpdesk provide similar functionality, they have been developed independently of one another and deliver this functionality differently. We consider that the PAYGI Helpdesk is a highly effective helpdesk system, whereas the USD is not as effective in managing system exceptions.

5.39 We note, however, that because the PAYGI Helpdesk system has been developed independently of the ATO’s corporate application development processes, and has a specific PAYGI focus, it is uncertain whether it would operate as an effective management system for all activity statement exceptions.

5.40 At present both helpdesks do not directly interface with the ATO’s main error management system (SOLVE). This has the following implications:

- **duplication of effort**: that is, data has to be re-keyed from each helpdesk system into SOLVE. This can potentially lead to inconsistencies between the systems if the data contained in the helpdesk systems is not accurately replicated into SOLVE; and

- **no clearly defined audit trail**: it is currently not possible to match records originally created in USD with associated SOLVE records.\(^{182}\) This may mean that, if a change\(^ {183}\) needed to be traced back to an original exception, it would be difficult, if not impossible, to do so.

Recommendation No.5

5.41 To provide adequate assurance that system exceptions are managed efficiently and effectively, the ANAO recommends that the ATO:

- develop and implement a standardised approach to identify, record and prioritise activity statement related system exceptions; and

- assess the costs and benefits of developing a single national system exceptions management system.

\(^{182}\) The ANAO attempted to match the information contained in SOLVE against the USD and determined through that matching process that it was not possible.

\(^{183}\) Which resulted from an exception being escalated through the USD and SOLVE.
ATO Response

5.42 Agreed. The ATO recognises the need for robust processes and procedures that provide assurance in relation to the implementation of system changes.

5.43 The ATO, through its IT Service Management Improvement Program, is designing and implementing a national systems exception management process. It is also reviewing the current ATO Service Management toolset and defining strategy to address the future tool needs of Service Management including managing system exceptions.

Management of critical system exceptions

5.44 The management of resources to correct critical system exceptions is an essential aspect of ensuring system integrity. If resources are not effectively targeted to correct the most critical system exceptions first, there is an increased risk that activity statements will continue to be processed incorrectly (or that IT systems will remain off-line for a longer time than necessary). To manage the allocation of resources efficiently and effectively, we consider that there should be a:

- robust system exception prioritisation process;
- clear and documented process for allocating and approving resources; and
- clear ‘trail’ of documentation from when the exception is identified through to when resources are allocated to rectify it.

System exception prioritisation process

5.45 The principal objective of the system exception prioritisation process is to identify and rank exceptions that require rectification. The SOLVE system is used to classify and record all system exceptions into four priority categories. Priority One (P1) cases are critical to the effective operation of activity statement related systems; Priority 2 (P2) cases require attention, however, workarounds are acceptable in the interim; Priority 3 (P3) cases also require attention, however, workarounds are acceptable for the medium term; and Priority Four (P4) cases are

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184 See Appendix 12 for a definition of ‘critical exceptions’, and the process used by the ATO to manage these exceptions.

185 Workarounds refer to processes, usually manual, that are in place to bypass failing automated processes (see Appendix 12).
considered ‘nice to have’. Figure 5.2 shows the number of SOLVE cases, by category.

**Figure 5.2**
The total number of SOLVE cases for 2002–03, by priority category

Due to the high number of critical exceptions (P1s), and the limited capacity of the ATO to manage project system releases (discussed above), the ATO has made the decision to resolve P1 cases only. Other priority cases are reviewed, on occasion, to reassess their priority level.

The Correct Business Systems (CBS) Division, in conjunction with the Production Systems Support (PSS), are responsible for prioritising all system exceptions. The procedures and processes CBS uses to prioritise critical system exceptions are described in Appendix 12. We note that these procedures and processes are well defined and followed by ATO staff.

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186 Refer to Appendix 12 for additional information relating to P1-P4 cases.

187 ATO statistical information is drawn from the ATO’s SOLVE system and includes Production (PROD) solves only.

188 See Chapter 1 for an overview of the ATO organisational structure.
The resources approval process to rectify P1 cases

5.48 As noted in Appendix 12, there are four ways of rectifying P1 cases. These are outlined below:

- **e-fixes.** This is where a small, immediate change is required to facilitate continued operation of an IT system. These changes are recorded in the SOLVE system. During 2002–03 there were 197 e-fixes for activity statement processing systems;¹⁸⁹
- **work-arounds.** This is where a temporary manual or IT procedure is put in place to facilitate the operation of an IT system, until such time that a permanent system change can be formulated and implemented. P1 cases that result in a workaround are recorded in SOLVE;
- **P1 cases that require less than 15 days to rectify.** These are generally smaller changes that do not require extensive project management. However, they do require the development of appropriate system documentation (usually a change specification); and
- **P1 cases that require more than 15 days to rectify.** These are larger changes that require the establishment of project teams to rectify. As at 27 June 2003, there were 136 P1 cases that would take longer than 15 days to rectify. These cases will result in the development of change specifications.

5.49 Due to the number and size of system changes, and the amount of resources required to undertake the changes, the audit focused primarily on the processes used to manage P1 cases that will take longer than 15 days to rectify. In particular, we examined the documentation and systems used to underpin management decisions to proceed with a project, and whether appropriate approval processes were followed.

5.50 The ATO established a CBS Issues Management System to manage all P1 cases that may result in project-based system changes. This system is used to:

- record all P1 cases relating to activity statements;
- manage project resources devoted to rectifying activity statement related P1 cases;

¹⁸⁹ This comprise 64 PAYGI, 1 RRE and 132 IPS e-fixes.
• record key contacts for individual projects, such as project manager and approving officers; and
• record staff and other resources approved for each project.

5.51 ANAO analysis of the CBS Issues Management System found that:
• all system records were not complete;
• there were few controls over the data entered into the system; and
• it was not clear from the information contained in the system that approvals had been given to commence projects.

5.52 The ANAO considers that the ATO should implement new controls to provide assurance of the integrity of the data contained in the CBS Issues Management System, and that accurate, logical and comprehensive documentation is kept on each P1 case of this kind.

**Recommendation No.6**

5.53 To provide adequate assurance that project management resources are effectively attributed to the highest risk critical system exceptions, the ANAO recommends that the ATO:
• develop a system capable of managing system change projects effectively, with robust controls to provide data integrity; and
• ensure that accurate, logical and comprehensive project documentation is maintained, and available, for each project.

**ATO Response**

5.54 Agreed. The ATO, through its IT Service Management Improvement Program, is currently implementing processes to support the identification, analysis and prioritisation of system exceptions and implementation of change into the ATO production environments. Rollout has already commenced and will continue through to July 2004.

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190 The ANAO reviewed the individual fields within the issues management database. We noted that none of these fields had validation rules attached to them.

191 To understand the decision making process behind the allocation of resources to particular P1 projects, we requested all documentation for 36 P1 cases randomly selected from the Issues Management System. The documentation for these cases was limited to e-mail records and attached work request forms. We note that it is difficult to gain a complete understanding of the process of approving project from this material. We also had difficulty in determining what positions e-mail senders and recipients had in the approval process.
5.55  The IT Service Management Improvement Program is also addressing imposition of mandatory operational requirements.

**System testing**

5.56  System testing provides an independent QA control for all IT projects, and is used to provide assurance that a system change operates as intended, and does not have any unexpected impacts on the overall operation of the system. The ATO Applications Solutions group is responsible for system testing.

5.57  For the purposes of this audit, activity statement related system testing is divided into two main phases. These phases are:

- **integrated system testing**, which refers to the process of testing a collection of functional system changes before they are being migrated into production; and

- **regression testing**, which refers to the process of testing whether functional changes have an adverse or unexpected effect on existing system functionality (i.e. whether they have an impact on the end-to-end functionality of a system). The application system testing teams undertake this phase of testing.

5.58  If these two testing phases are not applied to each system change, there is an increased risk that a systemic error may occur in activity statement processing. As part of the Financial Statement Audit program, the ANAO examined system testing across all ATO activity statement related and other systems. However, as part of this performance audit, we focused on the aspects of this testing related to IPS, and the PAYGI and RRE systems.

**Integrated system testing**

5.59  The ATO’s corporate Application Testing Group (ATG) is responsible for system and integration testing of all ATO systems. As part of our analysis of the effectiveness of the ATG’s integrated system testing program, we examined a sample of system changes from IPS, PAYGI and

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192 The ATO does not consider that functional testing forms part of the system testing process. Functional testing refers to testing that ensures a particular change to a function is actually operating as intended and specified in system specifications. The system developer, rather than the application system testing teams, normally undertakes functional testing.

193 A function refers to an aspect of the operation of a system. New functions can be added through change specifications.

194 Being ‘migrated into production’ refers to changes actually being implemented to the system. This can only occur once the appropriate management sign-off for systems testing has been obtained.
RRE systems, and reviewed testing strategies undertaken by the ATO during 2002–03.

5.60 The ATO has developed comprehensive guidelines detailing how integrated system testing is to be undertaken. However, the results of our analysis showed that the quality of integrated system testing work was variable, and depended on individual teams and the type of systems being tested. Specifically, our analysis showed the following:

- **IPS changes**: the majority of testing planned to be undertaken was undertaken; testing procedures were well documented; ATO testing procedures were adhered to; and testing comprised functional testing components, which are not normally part of system testing;

- **PAYGI changes**: we were unable to determine whether planned testing was undertaken because of poor testing documentation. Where documentation was sighted, the testing undertaken varied to what was planned within the test strategies; and

- **RRE changes**: the ANAO reviewed ATG testing summaries, which indicated that several components of testing were not undertaken and that the timing of the testing was not ideal. The testing was generally well documented and some components of function testing were undertaken as part of system testing.\(^{195}\)

5.61 The ATG has acknowledged that, for recent releases, the number, complexity and level of integration of the applications being tested have increased. At the same time, funding and resourcing for test activities have been reduced. As a result, the ATO is unable to provide a testing regime that effectively tests each component of a system change, and is therefore required to leave some functionality untested.

5.62 To provide assurance that IT system testing resources are directed to the highest priority system changes, the ATG uses a risk-based approach. This approach uses comprehensive criteria, which are centred on the likelihood and consequence of errors occurring with respect to that change.

5.63 The ANAO considers that use of this risk-based criteria to determine what system changes are tested, and the extent to which they are tested, can be effective. However, we note that from our review of ATO testing procedures documentation, regression testing is generally the first aspect of testing to be dropped from any testing program.

\(^{195}\) Our conclusions were drawn from our analysis of project-based releases, which included several applications.
Regression testing

5.64 Regression testing forms a key component of the ATO’s system testing strategies. Unless regression testing is undertaken regularly, it is unlikely that the ATO will be able to provide definitive assurance that systems are operating as intended overall.

5.65 The ANAO notes that regression testing is time consuming and resource intensive because it involves the examination of all aspects of existing system functionality, in conjunction with the change, to identify any unintended outcomes. As a result, the ATO has performed little or no regression testing on changes made to ATO systems for 2002–03.

Recommendation No.7

5.66 To provide adequate assurance that changes to activity statement systems operate as intended, the ANAO recommends that the ATO:

- apply consistent integrated system testing methodology to all system changes; and
- as part of its overall testing program, allocate appropriate resources to undertake regression testing to assess the effectiveness of activity statement systems.

ATO Response

5.67 Agreed. The ATO will continue to apply consistent system testing methodologies to all system changes.

5.68 The ATO applies risk-based criteria to testing and quality assurance activities, including regression testing. The ATO will conduct a full regression test of activity statement systems in the 2004 calendar year.

Future directions in ATO IT systems

5.69 During early 2003, the ATO began developing a model of ATO systems to provide a foundation for future applications. The ATO advised that this process is part of a three-year plan. The initial stage of this project involves defining what the ATO would like a new system to do. This is discussed below. The next stage involves selecting an integration partner to help develop a new system incorporating the ATO’s vision. This selection process will commence shortly.
5.70 The ATO has identified that processing is generic, even though the data is different. This means that processing all ATO approved forms, whether they are activity statements, income tax returns or Higher Education Contribution Scheme (HECS) documents, for example, should be similar. The primary benefit of creating a new system would be its flexibility, by allowing a single ‘system’ to process many different types of information. At this stage, the ATO considers that an ideal system:

- would be modular, allowing the ATO to build new or different functionality into existing systems rather than creating new systems; and
- would have a dynamic decision making capability, which could, for example, examine client risk, transaction risk, and refund risk.

5.71 The ATO is considering this system within a three-year time frame. It intends delivering components of the system progressively, using pilots for the various stages. However, it is in the very early stages of this process. The ATO advised that the initial phase of the project involves developing a clear understanding of the:

- high-level business application groupings. Draft business application groupings have been identified and comprise: client components; and lodgement, accounting, processing and compliance components;
- key process flows involved. The key process flows are intended to follow the submission of a return from lodgement to payment;
- issues that a new system needs to address. Some issues have been identified against each of the business application grouping components\(^{196}\);
- important features of future applications; and
- ideal functionality of future applications.

5.72 Parts of the ATO system are already being improved. Several pilot projects were initiated in July 2003 to improve the functionality and interoperability of the eAS, Business Portal and IPS. In June 2004, the ATO intends eAS to operate in ‘real time’.\(^{197}\)

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\(^{196}\) Those relating to the collection and management of activity statement information currently include the following: ECI and ELS perform the same function and there is duplication of effort and infrastructure; duplication of lodgement functionality in many processing systems; and complexity of systems, resulting in difficulties to add or change tax products.

\(^{197}\) ‘Real time’ refers to a process that occurs while the user is watching or waiting. In the case of eAS, clients will be able to monitor an electronically lodged activity statement as it is processed by the ATO.
5.73 We note that the progression towards the system outlined above has the potential to significantly enhance activity statement processing. However, in delivering this IT framework, the ATO will need to consolidate activity statement related baseline specifications, so that it is fully aware of the functionality its existing systems provide. The ANAO notes also, that development and adherence to a robust change control policy could assist in achieving this.
6. Aspects of Governance

This chapter examines aspects of governance relevant to the collection and management of activity statement information. We discuss aspects of planning, risk management, and performance information monitoring and reporting relating to the collection and management of activity statement information.

Introduction

6.1 Activity statement data capture and processing activities are managed by a number of ATO business and service lines, and divisions. To provide assurance that these activities are coordinated and managed effectively, the ATO needs a robust governance framework.

6.2 Governance is concerned with achieving results while taking account of risk, thus making formal risk management an essential element of sound governance and management practice. Effective governance has a broad range of elements, including:

- how an organisation is managed;
- its corporate and other structures;
- its culture, policies and strategies; and
- how it deals with stakeholders.

6.3 Many issues relevant to these elements have been examined in previous chapters. This chapter focuses on the higher-level strategies, controls and reporting arrangements the ATO uses to manage activity statements, and in particular on:

- effective ATO planning processes;
- a structured and integrated approach to risk management; and
- a structured and regular system of performance monitoring.

Effective ATO planning processes

6.4 An essential element of a robust governance framework is an effective corporate and business planning process, which seeks to ensure that all corporate objectives and planning documentation are aligned and mutually supportive. Ideally, planning should cascade from an agency’s intended purpose (as expressed in its outputs and outcomes) through to

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198 See Figure 1.3 for an overview of the ATO business and service lines, and divisions responsible for managing activity statements.
team plans. This reduces scope for confused objectives, or gaps in performance planning and monitoring.\[199\]

6.5 The ATO uses a tiered approach for its planning and governance framework. This approach is represented in Figure 6.1.

**Figure 6.1**
Aspects of the ATO’s planning and governance framework

<table>
<thead>
<tr>
<th>ATO outputs (Tier 1)</th>
<th>ATO sub-plans (2003–04) (Tier 2)</th>
<th>Operations tactical plans (areas of work for 2002–03) (Tier 3)</th>
<th>Team plans (Tier 4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Shape design and build administrative systems</td>
<td>2. Management of revenue collection and transfers</td>
<td>Compliance</td>
<td>Operations</td>
</tr>
<tr>
<td>3. Compliance assurance and support for revenue collection</td>
<td>4. Compliance assurance and support for transfers and regulation of super funds...</td>
<td>Information Technology</td>
<td>People and Place</td>
</tr>
<tr>
<td>5. Services to Governments and agencies</td>
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ANAO analysis of ATO information.

6.6 A key element of this framework is that there are clear links between each tier, which includes integrating objectives, and ensuring a consistent approach to assessing risk and monitoring and reporting

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performance. Each tier, and its relevance to the management of activity statement data capture and processing activities, is discussed below.

ATO outputs (Tier 1)

6.7 The ATO’s outputs establish its corporate direction, and specify the products and services it undertakes to deliver to the community. Performance against each output is reported publicly through the ATO’s Portfolio Budget Statements, Portfolio Additional Estimates Statements, and in its Annual Report. Activities associated with the collection and management of activity statement information relate mainly to Output 2—management of revenue collection and transfers. However, other outputs are also relevant to these activities, for example, Output 1 relates to ATO administrative systems, which (as discussed in Chapters 3, 4 and 5) are relevant to activity statement data collection and processing.

ATO Sub-Plans (Tier 2)

6.8 The ATO sub-plans articulate the strategies, priorities, risks and performance measures the ATO uses to manage its performance against its outcome-outputs framework. The ATO sub-plans also aim to report against commitments to Government in the ATO Output Pricing Review. As each sub-plan may be linked to more than one output, the interdependencies between sub-plans and their contributions to the achievement of outputs, should be apparent.

6.9 The Operations Sub-Plan provides the overarching strategic direction for the collection and management of activity statement information, and is the principal plan used to set the strategic directions for the divisions within the Operations Service Line (see Figure 1.3).

Operations Tactical Plans (Tier 3)

6.10 Tactical plans are used to translate the strategic priorities and risks contained in the sub-plans, into priorities and risks that have a more specific operational (functional) focus. Specifically, Operations’ tactical plans identify and document the expectations, requirements, risks and performance measures relevant to the specific divisions within the Operations Service Line.

6.11 Although the ANAO reviewed the tactical plans for all divisions within the Operations Service Line, we focused particularly on the Payment and Product Processing (P&PP) Division’s tactical plan, as this

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200 ATO, 10 September 2002, ‘Proposed ATO Planning and Governance Process 02/03—03/04’.
201 For example, the Operations Sub-Plan will contribute to Output 1 and Output 2 in particular.
202 See Chapter 1 for a description of Operations Service Line divisions.
plan deals directly with activities associated with the collection and management of activity statement information.

**Team plans (Tier 4)**

6.12 Team plans provide direction to staff on the practical implementation of the various elements of tactical plans. Specifically, they are intended to specify team performance measures, risks and mitigation strategies, as well as QA and resourcing practices.

**ANAO comment on the ATO’s planning framework**

6.13 The ANAO reviewed the 2003–04 Operations Sub-Plan to determine whether it provided clear linkages to the relevant ATO outputs and outcome. We also reviewed whether the interdependencies with other sub-plans were articulated clearly, and whether there were clear linkages with relevant tactical plans. We found that:

- the Operations Sub-Plan is clearly aligned with the ATO outcome-outputs framework, with clear linkages established between the output performance measures and the performance measures contained in the sub-plan;

- the number and complexity of interdependent issues between sub-plans has meant that the ATO does not specify in detail all interdependent issues between the Operations Sub-Plan and the other sub-plans. To address this aspect for 2003–04, the ATO introduced a ‘Certificate of Conformance’ process, where the ATO’s Sub-Plan Executive ‘sign-off’ that sub-plan interdependencies have been duly considered. Although we consider this certificate provides a level of assurance that sub-plan interdependencies are understood and considered by the ATO Sub-Plan Executive, we would expect sub-plan interdependencies to be documented in more detail in future sub-plans;

- there are linkages between the Operations Sub-Plan and relevant tactical plans. However, some of these links are not clear, with the strategic priorities outlined in the Operations Sub-Plan not aligning directly with the priorities covered in the tactical plans. This may

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203 The ATO may refer to some ‘teams’ as ‘cells’.

204 The ATO also produced a 2003–04 sub-plan interdependencies document, which details all meetings that the ATO sub-plan Executive attended.

205 For example, the P&PP tactical plan lists eight strategic priorities that should link directly to the Operations Sub-Plan. However, the Operations sub-plan only lists seven priorities. We also note that the strategic priorities listed in the other relevant tactical plans do not link exactly to the P&PP Tactical Plan or the Operations Sub-Plan.
have resulted from timing differences in the development of the tactical plans and the sub-plans (discussed below); and

• strategic risks are identified clearly in the Operations Sub-Plan, with lower-level ‘tactical’ risks clearly identified in the tactical plans. The ATO intended that the strategic risks would form the basis for identifying ‘tactical’ risks. However, in some cases there are discrepancies between these risk assessment processes. Again, this may have resulted from timing differences occurring between the development of the tactical plans and the Operations Sub-Plan. Risk management is discussed further below.

Timing differences in the development of tactical plans and sub-plans

6.14 The ATO advised that the development of the Operations Sub-Plan and relevant tactical plans is an iterative and integrated process, with the completion of the tactical plans not impeded by the completion of the sub-plan. We note that, for 2003–04, the Operations tactical plans were ratified well in advance of the Operations Sub-Plan.

6.15 The ANAO agrees that the development of the Operations Sub-Plan and the Operations tactical plans should be iterative. However, it does not follow that the completion of the tactical plans is not contingent on the completion of the sub-plan. Each tactical plan relies heavily on the strategic direction provided in the sub-plan for the development of priorities, reporting requirements, and risks at the operational level.

6.16 As noted above, discrepancies between the Operations sub-plan and the Operations tactical plans have occurred. This is because the tactical plans were based on a draft sub-plan, which was changed before final approval. These circumstances may cause a misalignment between the strategic direction set out in the Operations Sub-Plan and the detailed operational direction set out in the Operations tactical plans.

Recommendation No.8

6.17 To provide a consistent and integrated approach to planning and reporting, the ANAO recommends that the ATO clearly link the priorities, outcomes and risks in its planning documentation identified at the strategic level to its lower-level plans.

ATO Response

6.18 Agreed. A draft Corporate Management Practice Statement ‘Corporate Planning in the ATO’ has been issued, and is scheduled to be formally endorsed at the March ATO Executive. This Practice Statement clearly links priorities, outcomes and risks as well as outlining and
mandating detailed requirements for the development of plans at all levels that reflect ATO commitments and deliverables to Government agreed to through the ATO Outcome and Output Framework and Output Pricing Agreement.

6.19 This Practice Statement emphasises the hierarchical nature of plans, from the ATO Strategic Statement though to individual performance and development plans, including clear alignment to outcomes and measures, strategic priorities and risk mitigation strategies where relevant through plans at all levels.

6.20 The existing Certificates of Conformance arrangement, which requires certain written assurances as to compliance with planning policy, has been embedded into this Practice Statement. In particular, this certificate requires assurances as to the visibility of linkages within and across plans.

**A structured and integrated approach to risk management**

6.21 The process of identifying, prioritising, monitoring and reporting risks provides management with information necessary to make informed decisions. Risk management should be an integral part of activity statement processing, given the complexity of the task, the numerous systems involved, and the finite resources available.

6.22 Risk increases if there is a breakdown between business strategies, risk management processes, reports, methodologies, or systems and data. For example, if:

- accurate information is not available for analysis or reporting;
- methodologies do not adequately analyse that information;
- reports do not provide appropriate information for effective management;
- people do not have the information to perform a process; and/or
- processes do not achieve required outcomes.206

6.23 Using an integrated risk management framework will help develop the right control environment and provide reasonable assurance that the organisation will achieve its objectives, within an acceptable degree of risk,

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and that all major decisions are considered in terms of sound risk management principles.\textsuperscript{207}

6.24 The ATO’s risk management strategies relating to specific activities within the collection and management of activity statement information process, that is, data capture, processing, and change management, have been discussed in previous chapters. This chapter examines the ATO’s broader risk management strategy as an integral component of an effective governance framework.

The ATO’s risk management strategy

6.25 When assessing the risks associated with activity statement data capture and processing, the ANAO sought all risk assessment documentation associated with relevant activity statement systems and processes. We found that there are three main risk assessment mechanisms that impact on activity statement data collection and processing, namely:

- ATO fraud control plans;
- the Certificate of Compliance process; and
- risk assessment processes associated with the development of the sub-plan, tactical plans and team plans.

6.26 These risk assessment mechanisms are discussed below.

ATO fraud control plans

6.27 The ATO recognises that activity statement processing can pose significant fraud risks to the ATO. For this reason, it has constructed three fraud control plans that assess activity statement related processes and systems. These are:

- \textit{Fraud Control Plan for ATO Operations};
- \textit{Fraud Control Plan for GST}; and
- \textit{GST (BAS end to end) Fraud Control Plan}.

6.28 The \textit{GST (BAS end-to-end) Fraud Control Plan} in particular focuses specifically on activity statement related risks. However, this and other fraud control plans, are protected documents with limited distribution amongst operational staff.

6.29 The ANAO considers that the operational staff responsible for the development of other related risk management plans\textsuperscript{208}, should be aware

of the fraud risks associated with their areas of responsibility. We found no evidence that the risks contained in the fraud control plans were considered when other risk assessments were developed.

6.30 The ANAO considers that the ATO should reassess which activity statement data capture and processing staff have access to relevant fraud control plans (or extracts of those plans). This would increase consistency between relevant risk assessment processes, and provide assurance that relevant staff are cognizant of the fraud risks that may impact on their work.

Certificate of Compliance

6.31 The Certificate of Compliance for the Payment of Public Money (through CAM) process provides assurance to the ATO’s Chief Finance Officer that all refunds are correct following processing by ATO business systems. It is a process that identifies key controls relevant to the payment of public monies. These controls are continually assessed by operational staff and reported on a monthly basis to ATO national managers. A large number of these controls are incorporated into activity statement related systems, such as IPS and the PAYGI system. A risk assessment to identify the relevant controls was last carried out in mid-2000.

6.32 The ANAO recently undertook a review of the certification process as part of its 2002–03 Financial Statement Audit program. This review identified a number of concerns over the integrity and reliability of the Certificate of Compliance process, particularly as there has been a considerable amount of change to activity statement and other systems. In addition, controls had not been reassessed since mid-2000. The ATO is aware of this finding and has agreed with the ANAO recommendation to conduct a:

‘...national review of the scope, purpose and appropriateness of the certification process....to determine whether the process is achieving the desired effect. Following the review, the Certificate of Compliance process should be reengineered to ensure effectiveness and appropriateness of reporting to the senior management.’

6.33 At the time of the audit, the ATO completed a preliminary review of the Certificate of Compliance process, and has developed a number of proposals to enhance the current certificate. These include:

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208 For example risk assessment processes used to develop tactical and team plans.
210 ibid. p.21.
211 ibid. p.23.
expanding the certificate to include end-to-end activity statement processing. This will also incorporate RRE controls, which were not included previously; and

- the introduction of a regular and systematic approach to identify system control risks.

6.34 These proposals are yet to be considered by the ATO Executive. The ANAO notes that it may be some time before changes to the existing certification process are made.

6.35 The risk assessment process associated with the Certificate of Compliance process includes an assessment of controls that are critical to the effective operation of activity statement data capture and processing systems. We consider that it is crucial that a comprehensive and well-documented risk assessment process is conducted regularly as part of the Certificate of Compliance process, given the amount of change activity statements data capture and processing systems undergo annually (see Chapter 5). We also consider that the risks identified as part of the Certificate of Compliance process must be considered as part of other relevant activity statement risk assessment processes.

6.36 The ANAO notes that the Certificate of Compliance risk assessment was not considered as part of other risk assessment processes, including the development of the 2003–04 P&PP Tactical Plan and the 2003–04 Operations Sub-Plan.

Other risk management plans

6.37 There has been a significant improvement in the identification of strategic risks in the 2003–04 Operations Sub-Plan, in comparison to previous years. However, at the time of the audit, the Operations risk assessment process had not been fully completed. In particular, risk mitigation strategies had not been identified.

6.38 The risk assessment process undertaken as part of the tactical planning process has also improved in 2003–04. We consider that P&PP in particular, has made significant progress in implementing the elements required for effective risk management planning. These include a clear description and assessment of each risk, clear mitigation strategies, and the identification of ‘risk owners’ for each risk.

6.39 However, as discussed above, there are instances where the strategic risks specified in the Operations Sub-Plan do not match those in

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212 The ATO has defined ‘end-to-end’ as registration, data capture, applying process rules and refund controls, accounting and payment.
the tactical plans. It is also not clear whether risks identified in other risk assessment documents are also considered.

**Recommendation No.9**

**6.40** In order to develop a comprehensive and consistent approach to risk assessment, the ANAO recommends that the ATO:

- when undertaking risk assessments that affect activity statement data capture and related processing activities, identify and pay regard to all other activity statement risks identified in other activity statement risk assessment processes;
- conduct regularly a risk assessment of controls affecting the payment of public monies as part of the Certificate of Compliance process; and
- provide the appropriate ATO fraud control risk documentation to staff responsible for completing activity statement related risk assessments.

**ATO Response**

**6.41** Agreed with qualification. In undertaking risk assessments of Activity Statement data capture and processing other risk assessment processes will be considered.

**6.42** To ensure other risk assessment processes are considered a database is being developed to enable the consolidation all of the Operational Tactical Plan Level risks into one place so we can make better relational connections between them and the Operations and ATO level risks. Additionally, relevant 'consider points' from the Fraud Control Plan will be obtained.

**6.43** Regular risk assessments are a feature of the proposed Certificate of Compliance process.

**6.44** The Fraud Control Plans are protected documents with a limited distribution amongst operational staff. In view of their content (which necessitates a security classification of protected), the ATO does not agree with the proposal for a wider general distribution of documents relating to fraud risk assessments or Fraud Control Plans to operational staff. The risks in doing so are considered too great.

**6.45** However, the ATO acknowledges the ANAO position that:

- operational staff responsible for the development of other related risk management plans should be aware of the fraud risks associated with their areas of responsibility;
• risks contained in the Fraud Control Plans be considered when other risk assessments are developed; and
• there is a need on the part of the ATO to increase consistency between relevant risk assessment processes, and to provide assurance that relevant staff are cognizant of the fraud risks that may impact their work.

6.46 The ATO believes the intent of this recommendation can be realised by providing relevant staff with 'consider points' (prepared by those responsible for the administration of the fraud control plans) for use when undertaking activity statement risk assessments and risk management plans. The ATO will move to implement these procedures.

ANAO Comment

6.47 The ANAO acknowledges the sensitivity of ATO fraud risk documentation, and recognises the importance of maintaining the security of this documentation. However, as noted above, the ANAO considers that the Operations staff responsible for the development and implementation of risk assessment documentation should be aware of the fraud risks that impact on their work areas. This would allow them to implement appropriate fraud mitigation strategies at all levels, and provide for a consistent approach to the development of Operations risk assessment documentation.

6.48 The ANAO notes that, if the ATO’s proposal for the introduction of ‘consider points’ provides Operations staff with the information necessary to mitigate the relevant fraud risks detailed in the fraud control plans, the intent of Recommendation No.9 would be satisfied.

A structured and regular system of performance reporting

6.49 Performance reporting is an important aspect of activity statement management. Without the timely collection and analysis of performance information, informed decisions about activity statement processing cannot be made. Timeliness and consistency are crucial for reporting against activity statement performance as:
• there are a number of divisions within the Operations Service Line responsible for processing activity statements;
• staff from these divisions are distributed nationally; and
• system errors can occur daily during peak lodgement times.
6.50 Performance measures enable the assessment of the extent to which objectives are being met, by establishing quantifiable targets. We examined the performance measures used for planning, and reporting, the collection and management of activity statement information to determine their appropriateness to monitor and evaluate the ATO’s performance in carrying out this function.

6.51 ATO reporting follows a tiered approach (in accordance with its planning processes), which includes:

- Plenary governance reporting: that is, performance reporting against the Operations Sub-Plan;
- the Operations Report: detailed reporting about all aspects of the Operations Service Line;
- Executive Reports: the performance of Operations divisions; and
- regional, site and team reporting.

### Plenary governance reporting

6.52 As part of the ATO’s national reporting requirements, business and service lines are required to report to the Plenary Governance Forum, against the ATO’s five sub-plans approximately four times a year.

6.53 The Operations Sub-Plan focuses primarily on Output 2: the management of revenue collection and transfers.\(^{213}\) Reporting on aspects of its performance is divided into quantitative and qualitative measures. Measures relating to activity statement data capture and processing includes the number of payments and products processed, as well as the ATO’s performance against relevant Taxpayers’ Charter standards or corporate standards.\(^{214}\) These reports provide the ATO Executive with a level of assurance that the Operations Service Line is achieving the ATO’s objectives.

6.54 Another aspect of Plenary Governance reporting is the ATO’s performance against its Output Pricing Agreement (OPA) obligations. One of the key Operations Business Priorities for 2003–04 is that the ATO delivers the OPA with Government. Relevant aspects of this agreement are discussed below.

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\(^{213}\) See Figure 6.1.

\(^{214}\) These standards are discussed later in this chapter.
Output Pricing Agreement (OPA) obligations

6.55 As part of the OPA funding agreed by Government, the ATO was provided with $1.5 million additional funding to clear the activity statement exception backlogs. Figure 6.2 illustrates that the ATO’s progress in reducing the backlog of activity statement exceptions that were over 40 days old (i.e. aged cases), in accordance with its OPA obligation.

Figure 6.2
Reduction of the activity statement exceptions backlog between August 2002 and June 2003

ANAO analysis of ATO data.

6.56 As Figure 6.2 illustrates, the ATO has significantly reduced the number of aged activity statement exceptions since the OPA funding became available; and is fulfilling its OPA obligations in this respect.

Operations Report

6.57 All areas of the Operations Service Line compile comprehensive quantitative information for the Operations Executive each month. The Operations Report is closely aligned with performance criteria specified in the Operations Sub-Plan, and is used as a framework for compiling information for the Plenary Governance Forum.

6.58 The Operations Report is comprehensive, containing approximately 90 pages of detailed statistical data covering all aspects of

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Operations performance, including activity statement related activities. As noted above, key drivers for the statistics reported in the Operations Report are the Taxpayer’s Charter standards and corporate standards.

6.59 Although comprehensive, the Operations Report does not include analysis of the quantitative data compiled in the report, at either the ‘individual process’ or ‘whole of system’ level. Nor does it comment on the financial or qualitative aspects of performance. This type of analysis would improve the quality of the information provided to the Operations Service Line Executive, and reduce the possibility that the qualitative data will be misinterpreted.

Service level standards

6.60 Service level standards are the standards for service delivery that ATO clients can expect under the ATO Taxpayers’ Charter. They are reported comprehensively in the Operations Report. Specific standards of delivery relating to activity statement processing, include that the ATO aims to process activity statement:

- refunds within 14 days of receipt in the ATO;
- electronic debits within 14 days of receipt in the ATO; and
- paper debits within 42 days of receipt in the ATO.216

6.61 As at 31 March 2003, the ATO had, on average, met these targets in over 95 per cent of cases.217 The ANAO recognises that the service level standard relating to paper income tax returns is significantly higher, at 42 days, than the 14 day standard used for processing electronic activity statements or paper-based refunds.218 The process involved in managing paper-based activity statements, including the inherent problems in processing activity statements in this time frame, were discussed in detail in Chapter 4.

Executive Reports

6.62 P&PP Executive Reports provide detailed information about all aspects of performance, including: performance against external and internal service standards; complaint management; financial management targets; and cost attribution to GST administration. We note that

216 ATO, Service Standards 2002/03, ‘Service standards performance Tax Office YTD summary (to 31 March 2003)’.
217 ibid.
218 loc.cit.
significant financial variances are analysed; and that initiatives in place to address the ‘operations administrative irritant program’ are reported.\textsuperscript{219}

6.63 We also note that the quantitative statistical information contained in this report is, for the most part, comprehensive and robust. However, analyses of this statistical information, as well as of qualitative measures of performance, although improving, are limited.\textsuperscript{220}

6.64 The ANAO considers that analysis of the numerous statistics and qualitative measures, both at an ‘individual process’ and ‘whole of system’ level, would provide P&PP management with improved information for effective decision-making.

Other reports

6.65 The ANAO examined a number of reports produced by the P&PP Division, which provide performance information relating to teams within the Division. These include weekly reports for P&PP regional and national management\textsuperscript{221}, and daily reports used to assist managers in allocating work to staff. Some teams within the P&PP Division also maintain QA feedback reports to support the Certificate of Compliance process. This process may be more effective once a new Certificate of Compliance risk assessment and reporting regime is in place.

\footnotesize{\textsuperscript{219} The issue of ‘administrative irritants’ was examined in Chapter 2.}

\footnotesize{\textsuperscript{220} We note that some statistical analysis does occur on aspects of the report (for example, quality assurance and financial analysis). However, this is not done consistently throughout the report, or for the P&PP Division as a whole.}

\footnotesize{\textsuperscript{221} The number and type of reports produced by Team Leaders depend on the role they perform.}
ANAO comment

6.66 The ANAO notes that the ATO has a comprehensive and integrated reporting framework based around its tiered governance structure. The lower-level reports largely support, and provide additional detail on, the information included in higher-level reports. However, greater analysis of the comprehensive statistical and qualitative information included in the high-level reports could provide the Operations and P&PP Executive with improved information upon which to make decisions. Understanding and interpreting the information collected and reported in Operations reports at all levels, could be improved markedly through targeted analysis. The ATO advised that it is placing greater emphasis on the interpretation of information through the creation of new Operations intelligence units.

Canberra ACT
3 March 2004

P. J. Barrett
Auditor-General

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222 Team and regional reports, and the P&PP Executive Reports and Operations Report respectively.
Appendices
Appendix 1: Agency response

The Australian Taxation Office’s Collection and Management of Activity Statement Information – Proposed Audit Report

Thank you for the letter of 18 December 2003, from your Executive Director Mr Peter White, and for the opportunity to provide comments on the proposed audit report on the Australian Taxation Office’s Collection and Management of Activity Statement Information.

The ATO notes that the Australian National Audit Office concludes that the ‘current systems, processes and controls provide a sound basis for the efficient and effective administration of activity statements’. The ATO believes that this conclusion reflects well on the ATO staff involved in managing a complex process.

The ATO agrees that implementing the activity statements processing systems to give effect to the A New Tax System legislation was a significant and important achievement. Since implementing these systems the ATO has worked with the community to continue to refine and improve them. The ATO acknowledges that these systems can continue to be improved and recognises the recommendations made by the ANAO assist in that aim.

Overall the recommendations are supported, except to the extent outlined in Recommendation Number 9.

Recommendation No.1
Para 3.59

The ANAO recommends that, to provide increased assurance that the activity statement pre-processing services provided by Australia Post staff are of high quality, the ATO subject Australia Post staff to a quality assurance process at least equal to that required of ATO pre-processing staff.

ATO Response:

Agreed.

To the extent that the Pre-Processing function in relation to activity statement mail is replicated in Australia Post and the ATO, the ATO undertakes to ensure the same quality assurance checks are in place.
Recommendation No.2  
Para 4.33

The ANAO recommends that the ATO evaluate the costs and benefits of introducing a more efficient automated work allocation system to improve the provision of timely and secure data exceptions information to Activity Statement Exception teams.

ATO Response:
Agreed.

An evaluation of alternative work allocation systems is being conducted as part of the ATO Change Program. As part of this evaluation the ATO has worked with its third party consultants to develop a strategy on how to move forward to develop an enterprise wide (and not just Activity Statement focussed) work management solution. Included within this strategy is a proposal to develop an internal capability which covers all exceptions processing within the ATO.

Recommendation No.3  
Para 4.45

To provide adequate assurance that all procedures, training, and IT specifications documentation is relevant, current and complete, the ANAO recommends that the ATO:

- examine and assess all existing policies, systems and processes used throughout the ATO to manage and secure documentation, in order to identify better practice;
- develop and implement a nationally consistent policy, and robust controls, for the management and security of this documentation; and
- implement, and adhere to, a program of periodic reviews of this documentation.

ATO Response:
Agreed.

The ATO is examining the way it manages and secures its activity statement documentation to ensure consistent treatment utilising best practice, and this will involve a program of periodic reviews.
Recommendation No.4
Para 5.26

The ANAO recommends that, to provide adequate assurance that activity statement related systems are operating efficiently and effectively, as intended, the ATO:

- compile a complete set of baseline specifications for the Instalment Processing System (IPS); and
- introduce a robust system of controls to maintain the currency and completeness of the IPS baseline and change specifications.

ATO Response:

Agreed.

The ATO, through its IT Service Management Improvement Program, is currently putting into operation processes to support the implementation of change into the ATO production environments. Rollout has already commenced and will continue through to July 2004.

Specifically, the latest IPS baseline functional specifications have been compiled in one location which is centrally managed and controlled. Change specifications have been stored in one location and will progressively be incorporated into the baseline specifications. Procedures have been documented and implemented to manage and maintain the currency of the specifications. This includes procedures for version control of specifications and an audit trail for the sign off of any changes.

Recommendation No.5
Para 5.41

To provide adequate assurance that systems exceptions are managed efficiently and effectively, the ANAO recommends that the ATO:

- develop and implement a standardised approach to identify, record and prioritise activity statement related system exceptions; and
- assess the costs and benefits of developing a single national system exception management system.
ATO Response:

Agreed.

The ATO recognises the need for robust processes and procedures that provide assurance in relation to the implementation of system changes.

The ATO, through its IT Service Management Improvement Program, is designing and implementing a national systems exception management process. It is also reviewing the current ATO Service Management toolset and defining strategy to address the future tool needs of Service Management including managing system exceptions.

Recommendation No.6 Para 5.53

To provide adequate assurance that project management resources are effectively attributed to the highest risk critical system exceptions, the ANAO recommends that the ATO:

- develop a system capable of managing system change projects effectively, with robust controls to provide data integrity; and
- ensure that accurate, logical and comprehensive project documentation is maintained, and available, for each project.

ATO Response:

Agreed.

The ATO, through its IT Service Management Improvement Program, is currently implementing processes to support the identification, analysis and prioritisation of system exceptions and implementation of change into the ATO production environments. Rollout has already commenced and will continue through to July 2004.

The IT Service Management Improvement Program is also addressing imposition of mandatory operational requirements.
Recommendation No.7  Para 5.66

To provide adequate assurance that changes to activity statement systems operate as intended, the ANAO recommends that the ATO:

- apply consistent integrated system testing methodology to all system changes; and
- as part of its overall testing program, allocate appropriate resources to undertake regression testing to assess the effectiveness of activity statement systems.

ATO Response:

Agreed.

The ATO will continue to apply consistent system testing methodologies to all system changes.

The ATO applies risk based criteria to testing and quality assurance activities, including regression testing. The ATO will conduct a full regression test of activity statement systems in the 2004 calendar year.

Recommendation No.8  Para 6.17

To provide a consistent and integrated approach to planning and reporting, the ANAO recommends that the ATO clearly link the priorities, outcomes and risks in its planning documentation identified at the strategic level to its lower-level plans.

ATO Response:

Agreed.

A draft Corporate Management Practice Statement ‘Corporate Planning in the ATO’ has been issued, and is scheduled to be formally endorsed at the March ATO Executive. This Practice Statement clearly links priorities, outcomes and risks as well as outlining and mandating detailed requirements for the development of plans at all levels that reflect ATO commitments and deliverables to Government agreed to through the ATO Outcome and Output Framework and Output Pricing Agreement.

This Practice Statement emphasises the hierarchical nature of plans, from the ATO Strategic Statement though to individual performance and development
plans, including clear alignment to outcomes and measures, strategic priorities and risk mitigation strategies where relevant through plans at all levels.

The existing Certificates of Conformance arrangement, which require certain written assurances as to compliance with planning policy has been embedded into this Practice Statement. In particular, this certificate requires assurances as to the visibility of linkages within and across plans.

**Recommendation No.9**
Para 6.40

In order to develop a comprehensive and consistent approach to risk assessment, the ANAO recommends that the ATO:

- when undertaking risk assessments that affect activity statement data capture and related processing activities, identify and pay regard to all other activity statement risks identified in other activity statement risk assessment processes;

**ATO Response:**

Agreed.

In undertaking risk assessments of Activity Statement data capture and processing other risk assessment processes will be considered.

To ensure other risk assessment processes are considered a data base is being developed to enable the consolidation all of the Operational Tactical Plan Level risks into one place so we can make better relational connections between them and the Operations and ATO level risks. Additionally, relevant ‘consider points’ from the Fraud Control Plan will be obtained.
• conduct regularly a risk assessment of controls affecting the payment of public monies as part of the Certificate of Compliance process;

ATO Response:
Agreed.
Regular risk assessments are a feature of the proposed Certificate of Compliance process.

• and provide the appropriate ATO fraud control risk documentation to staff responsible for completing activity statement related risk assessments.

ATO Response:
Agreed with qualification.
The Fraud Control Plans are protected documents with a limited distribution amongst operational staff.

In view of their content (which necessitates a security classification of protected), the ATO does not agree with the proposal for a wider general distribution of documents relating to fraud risk assessments or Fraud Control Plans to operational staff. The risks in doing so are considered too great.

However, the ATO acknowledges the ANAO position that:

• operational staff responsible for the development of other related risk management plans should be aware of the fraud risks associated with their areas of responsibility;

• risks contained in the Fraud Control Plans be considered when other risk assessments are developed; and

• there is a need on the part of the ATO to increase consistency between relevant risk assessment processes, and to provide assurance that relevant staff are cognizant of the fraud risks that may impact their work.

The ATO believes the intent of this recommendation can be realised by providing relevant staff with
'consider points' (prepared by those responsible for the administration of the fraud control plans) for use when undertaking activity statement risk assessments and risk management plans. The ATO will move to implement these procedures.

We agree that the ATO will give priority to Recommendations 3, 4, 5, 6, and 7.

Should you wish to discuss this matter further please contact Scott Hooper on (02) 6216 8872.

Thank you for your constructive and co-operative approach to this review. I would like to commend to you the work of your auditors, Jon Hansen and Katherine Buchanan who were very professional in their approach.

Yours sincerely

Greg Farr
Second Commissioner of Taxation
30 January 2004
Appendix 2: Types of activity statement forms

The following list outlines activity statement forms used by the ATO:

- **BAS A** Quarterly Business Activity Statement (BAS) – For taxpayers with a quarterly GST, PAYG tax withheld and PAYG ITI obligations. Typical users include sole traders and companies.
- **IAS B** Instalment Activity Statement (IAS) – For taxpayers with a PAYG ITI obligation only. Typical users include partners in partnerships and other individual taxpayers who report and pay PAYG ITI quarterly.
- **BAS C** Quarterly BAS – For taxpayers with a quarterly GST, PAYG tax withheld and PAYG ITI obligations and any ONE or combination of FBT instalments, WET or LCT.
- **BAS D** Quarterly BAS – For taxpayers with a quarterly GST only. Typical users include partnerships and charities.
- **BAS F** Quarterly BAS – For taxpayers with quarterly GST and tax withheld obligations. Typical users include partnerships and charities.
- **BAS G** Monthly BAS – For taxpayers with monthly GST and any other obligations.
- **BAS H** Annual GST Return
- **IAS I** – For taxpayers with a PAYG tax withheld only (quarterly or monthly). Note that taxpayers may receive IAS I for two months of a quarter and a quarterly activity statement form for the third month.
- **IAS J** Quarterly IAS – For taxpayers with PAYG ITI, PAYG tax withheld and FBT obligations. Clients use this document for record keeping purposes.
- **IAS N** Annual IAS – For taxpayers who report PAYG instalments annually.
- **BAS P** Annual GST Return.
- **BAS Q** Annual GST Information Report.
- **IAS R** Quarterly PAYG Instalment Notice.
- **BAS S** GST instalment remittance advice.
- **BAS T** GST instalment, PAYG-ITI instalment, Remittance advice.

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223 Sourced from ATO (as at October 2003). Forms that are not IAS or BAS return forms are not included above, for example, BAS L, which is the GST Calculation Sheet.

224 For the 2001 financial year only.

225 IAS N replaced the former AITIN from June 2003. Note that the ATO website also lists a form N BAS – Annual Instalment Activity Statement.

226 To be introduced in Quarter Two 2003–04.

227 To be introduced in Quarter Two 2003–04.
Appendix 3: Overseas practice

There are many differences between the Australian tax system and those of other countries, including the social and institutional environments in which the tax systems operate. Nonetheless, comparisons between the different practices and systems used in the collection and management of tax information can be instructive. The ANAO examined relevant aspects of the tax systems of four countries. These are summarised below:

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Australia</th>
<th>NZ</th>
<th>Canada</th>
<th>Singapore</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumption Tax</td>
<td>GST</td>
<td>GST</td>
<td>GST/HST</td>
<td>GST</td>
<td>VAT</td>
</tr>
<tr>
<td>Other taxes collected on consumption tax form</td>
<td>Yes (See Note 1)</td>
<td>No</td>
<td>Generally No (See Note 5)</td>
<td>Unknown</td>
<td>No</td>
</tr>
<tr>
<td>Pre-printed forms (paper) sent to clients</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Is there an automated method in place for:

<table>
<thead>
<tr>
<th>Activity</th>
<th>Australia</th>
<th>NZ</th>
<th>Canada</th>
<th>Singapore</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electronic Lodgement</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes (See Note 6)</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Opening</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Unknown</td>
<td>Yes</td>
</tr>
<tr>
<td>Sorting</td>
<td>Yes</td>
<td>No (See Note 2)</td>
<td>No</td>
<td>Unknown</td>
<td>Yes</td>
</tr>
<tr>
<td>Process to enter data lodged manually</td>
<td>Yes</td>
<td>Yes (See Note 3)</td>
<td>Yes (See Note 7)</td>
<td>Unknown</td>
<td>Yes</td>
</tr>
<tr>
<td>Editing data if error found</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Unknown</td>
<td>No (See Note 10)</td>
</tr>
<tr>
<td>Processing</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
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<tr>
<td>Controls</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Refunds</td>
<td>Yes</td>
<td>Yes (See Note 4)</td>
<td>Partly (See Note 8)</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Notification of exceptions generated</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes (See Note 9)</td>
<td>Unknown</td>
<td>Planned (See Note 11)</td>
</tr>
</tbody>
</table>

Source: ANAO analysis of overseas data and reports

**NOTE 1**: In addition to the GST, PAYG, FBT, WET, and LCT are collected on the BAS. Even though PAYG, FBT and deferred company instalment obligations are collected on the IAS. The IAS does not collect the consumption tax, that is the GST, which has been used as the attribute for comparison.

**NOTE 2**: The IRD does not automatically sort paper GST returns. However, these returns can be identified as they are filed (that is, lodged) in a specific envelope, which is supplied by the IRD.

**NOTE 3**: Data is currently submitted on paper forms and is manually entered into IRD systems. In 2004, the IRD intends that this data will be captured using imaging technology.

**NOTE 4**: No GST refunds are released if there are arrears outstanding in other revenue lines (for example, income tax). GST credits are automatically transferred to other ‘overdue’ taxes. Once the refund has been cleared, it is automatically released to the client, usually by direct credit.

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228 Harmonized Sales Tax

229 Value Added Tax

Report No.33 2003–04
The Australian Taxation Office’s Collection and Management of Activity Statement Information
NOTE 5: For a very small sub-population, first nation sales taxes are also reported on this form. In this case, a schedule (FNT schedule) is provided by the taxpayer to provide the necessary information.

NOTE 6: Most GST returns are ‘paper filed’. However, some returns are filed using Electronic Data Interchange (EDI). Internet filing is not yet available.

NOTE 7: All data entry is done manually. Documents are placed in batches and sent for document preparation and data capture. Items with incomplete information or errors are sent to the error correction centre.230

NOTE 8: Partly automated. Once a return is approved for payment Public Works and Government Services Canada is instructed to produce cheques and send them to registrant.231

NOTE 9: Canada Customs and Revenue Agency (CCRA) has automatic notification for mathematical errors only.

NOTE 10: All VAT returns are entered manually onto HM Customs and &Excise’s VAT mainframe by processing staff. This includes VAT returns that have been submitted using the electronic VAT service. These returns are printed out when received, and keyed in.

NOTE 11: A new e-VAT pilot service to be launched in 2004 should include real-time automated error-checking.

The table above shows that there are some similarities in the systems used by the ATO and overseas revenue collection agencies in the collection and management of tax information; particularly surrounding IT and the use of automated systems. The ANAO notes that audits in the United Kingdom232 and Canada233 refer to IT-related challenges faced in those jurisdictions similar to those we have identified in the ATO, including data integrity and system control issues.

Another issue common to the ATO and overseas revenue collection agencies is the need for an integrated approach to risk management. Audit reports by the Office of the Auditor-General (Canada)234 and the National Audit Office (United Kingdom)235 identify the need for an integrated approach to risk management, and the need to manage data integrity risks effectively.

The ANAO notes that the ATO is an active and leading participant in a number of forums involving other revenue agencies. In considering the operation of overseas revenue collection agencies, we consider that the ATO should pay particular attention to how relevant overseas agencies:

- expand taxpayer use of electronic lodgement systems;
- maintain currency of IT and processing systems;


231 ibid., p.16–8.


• integrate processing systems as technology and tax system requirements change;
• manage risks to data integrity; and
• manage change control mechanisms.
Appendix 4: Framework of forums and liaison groups

Source: ATO, Professional Associations Liaison Unit (PALU).
National Tax Liaison Group (NTLG)

The NTLG is the ATO’s peak consultation forum for discussing and resolving broad issues of procedures and policy in tax administration. The group is chaired by the Commissioner of Taxation, and comprises representatives of the major accounting and legal professional associations and senior ATO officers. Its main role is liaison, and it focuses on tax administration, aspects of law administration, and strategic and systemic issues. Issues raised here may be distributed to the ATO Tax Practitioner Forum (ATPF) and its working parties for resolution.

ATO Tax Practitioner Forum (ATPF) and its working parties

The ATPF has a more ‘operational’ focus than the NTLG, and examines the more day-to-day administrative matters. A senior ATO executive officer chairs the ATPF, which includes representatives from the professional associations represented at the NTLG, major industry firms, individual tax practitioners and senior ATO officers. The ATPF is the main forum for the ATO’s tax practitioner consultation and is supported by a number of working groups. Two of the working groups specifically examined in relation to activity statements were the Accounting Working Group and the Lodgement Working Party. The AWG focuses on resolving administrative ‘irritants’\(^\text{236}\) including refunds and offsets issues. The LWP focuses on existing lodgement and payment issues, particularly the tax agent lodgement program.

Appendix 5: Overview of electronic lodgement

ANAO analysis of ATO information.
Appendix 6: Paper activity statement data capture process

ANAO analysis based on ATO information.
Note: The numbers in the above diagram correspond to the numbers in the description below.

Pre-processing

1. The clients use pre-marked envelopes provided by the ATO to return their paper activity statements to the ATO. These activity statements are received at either the Penrith or Albury tax offices. The Penrith Tax Office receives activity statements from NSW and Queensland; the Albury Tax Office receives activity statements from Victoria, Tasmania, South Australia, and Western Australia. This is about a 50:50 split between the two offices.

Pre-marked envelopes are put through ATO machines that do a further sort by envelope size and thickness. The thickness of the envelope can be used to determine the type of form received. The ATO’s high-speed mail opening machines then open the majority of sorted mail. The machines also check the thickness of each form received. This allows ATO staff to identify any returns that may have cheques attached to them. Irregular or bulky mail is sent to staff to be opened manually.

2. If clients send paper activity statements to an ATO address other than the address printed on the pre-marked envelopes, Australia Post staff open, sort and send these activity statements to either the Penrith or Albury tax offices for imaging.

3. ATO staff check whether each activity statement received is suitable for scanning. Suitable forms are further sorted into form types (for example BAS A, IAS G) date stamped, counted and then grouped into batches. Remittance slips (which are part of the activity statement form) are removed from the activity statement and attached to the cheques, which are separated and placed into a cheque box for banking.

The batched forms suitable for scanning are then weighed to provide an estimate of how many forms are in each batch. This information, as well as the date, is recorded on a separate form for each batch. This is then reconciled with the number of forms that have been scanned.

4. Activity statements that cannot be scanned are sent to Capture Exception Teams. These teams manually review and input the information contained on the activity statement directly into activity statement processing systems (see Appendix 8). The most common reasons why an activity statement cannot be scanned are detailed in Appendix 7.

Pre-processing controls

- **Pre-processing procedures documentation (manual control).** The P&PP Division has developed detailed procedures documentation for pre-processing. The maintenance and change management of this documentation are discussed in Chapter 3.

- **Quality Assurance (manual control).** The ATO has a number of QA mechanisms in place for its pre-processing function. These range from checks that pre-processing staff follow pre-processing procedures, to occasional checks that bins containing discarded envelopes do not contain documentation such as activity statements, cheques or money that been
accidentally discarded. Paper activity statement QA is discussed further below.

- **Reconciliation processes (automated and manual control).** The ATO uses a number of manual and electronic controls to ensure that the number of activity statements received equals the number of activity statements scanned and archived.

- **Individual identifiers (automated control).** During the imaging process, each activity statement is individually numbered for tracking and reconciliation purposes.

**Imaging**

5. Each activity statement within the batch is scanned. Scanning is the process of capturing activity statement images (taking a picture of the activity statement) and running those images through Optical Character Recognition (OCR) software to convert the image into data.

Each high-speed scanning machine (there are nine in Albury and six in Penrith, with any four operating in each site at any one time) can scan approximately 4,000 single or double sided A4 forms an hour.

6. Scanned forms are then individually numbered and stored on numbered pallets, by batch, in labelled bar-coded boxes. Each paper form can be identified and retrieved if there are any problems with the scanned forms.

All paper forms must be kept for a period of seven years and are stored in warehouses on and off scanning sites (with the most recent forms remaining on-site).

7. Each scanned document passes through two OCR engines\(^{237}\) that reconcile the scanned images with one another. If the two engines do not reconcile, or if either engine cannot determine information, the activity statement is forwarded to a key edit operator (Process 8) for further examination, clarification and correction.

**Imaging controls**

- **Pre-processing procedures documentation (manual control).** P&PP has developed detailed procedures documentation for image capture. The maintenance and change management of this documentation is discussed in Chapter 3.

- **QA (manual control).** The ATO image capture QA focuses predominantly on ensuring that procedures documentation is adhered to. QA of this type is collated and reported monthly.

- **OCR engines (automated control).** Reconciliation process between two OCR machines is used to determine whether an activity statement has been imaged correctly.

**Key edit**

8. When the key edit operator retrieves an activity statement requiring clarification, the fields with the unrecognisable characters are highlighted in a

\(^{237}\) The two OCR engines are Mitek and Nestor.
black box (with the OCR engine’s ‘best guess’ as to what the data should be). If the ‘best guess’ is correct, the key operator approves the data. If the data is incorrect, the key operator keys in the correct data.

Note: Key edit staff do not interpret the information on the scanned activity statement. Rather they simply ensure the information contained on the activity statement is a true reflection of what is contained on the activity statement. If key edit staff are not able to interpret information contained on an activity statement, that statement is sent to ASE teams (Process 10).

9. Once a batch of activity statements has been correctly imaged, it is sent through to the Image Processing Interface (IPI). This software places the imaged data into a format that can be used by other activity statement processing systems such as IPS. This process also has a number of validation rules to ensure data integrity. Forms found with a business rule error are sent to the ASE teams for resolution (Process 10).

10. If the activity statement image cannot be recognised at all by the OCR engines, or if the activity statement fails basic validation rules (IPI), and key edit staff are not able to correct the faults, both the activity statement image and its paper form are provided to the ASE team for resolution. Staff in ASE teams are able to contact clients to confirm the information contained on activity statements. If, following this contact, the activity statement cannot be repaired and processed, it can be forwarded to relevant business and service lines for further assessment or, in certain circumstances, to Complex Activity Statement Team (CAST).

Activity statements that are removed from batches for manual follow-up work (usually by ASE teams) are tracked using the File Location Service system (FLocS). This system identifies who has the activity statement, where it is located and the reason it was removed from regular processing.

Key edit controls

- **Key entry and edit procedures documentation (manual control).** P&PP has implemented comprehensive procedures documentation for these areas, which is updated regularly;

- **QA (manual control).** Key entry and edit have an established QA program. This QA is collated and reported monthly; and

- **Computer software (automated control).** Computer software highlights OCR and business rule exceptions on activity statements, and prevents the activity statements from being processed further until each exception is checked by key edit staff.

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238 A note is attached to the batch where the activity statement has been removed, detailing the date and reason for removal. The removed form is also entered into Reconciler so it may be tracked.

239 It is rare for CAST to receive an activity statement in this way. However, if there are complex circumstances surrounding an activity statement, CAST may be asked to advise.

240 The ATO uses the FileNet system to highlight errors that need correction. This system prevents OCR or business rule exceptions passing through key edit without being reviewed by an ATO officer.
11. If a problem with ATO IT systems arises during pre-processing, imaging or key entry/edit, staff are able to report those problems to System Support Officers. These officers provide IT support specific to activity statement data capture processes. If System Support Officers are not able to resolve an IT issue, they refer that issue to IT helpdesks in Albury and Adelaide, depending on the issue and type of activity statement form affected.
Appendix 7: Reasons for not imaging paper activity statements

Activity statements cannot proceed through the imaging process if they:

- are damaged or photocopied;
- are completed in an ink that is unsuitable for scanning;
- contain errors that have been corrected with typing correction fluid;
- are non-standard ATO forms;
- have not been filled out correctly;
- do not match enclosed cheques;
- are illegible; that is, if the client’s handwriting is not legible; or
- do not complete relevant activity statement labels correctly.
Appendix 8: Activity statement processing

ANAO analysis of ATO information.

**Note:** The numbers in the above diagram correspond to the numbers in the description below.

1. Activity statements are lodged with the ATO via paper, electronic or telephone lodgement methods.

The paper activity statement lodgement process is described in detail in Appendix 6.

**Electronic lodgements** are received via eAS, ELS, ECI or, less commonly, Interactive Voice Response (IVR). IVR allows a person to ask questions and...
provide answers by pressing keys on their touch-tone phone. IVR systems are used to automate data entry, eliminating the need for 24-hour staffing of very routine jobs. Electronic lodgements generally enter the ATO environment via an electronic ‘gateway’ and are then processed through ELS and IPS.

The electronic ‘gateway’ is a secured connection between an external system such as ELS or the Internet and internal ATO systems. The ‘gateway’ also confirms to the ATO client that the tax return has been received by the ATO through a validation report. The return is stored in a database held in the ATO National Office. From this holding database, the data is uploaded into the ELS system. The ELS system undertakes an automatic matching process with the electronic data, and also looks generically at the data contained within the return so that any edit errors are picked up before lodgement.

**Telephone lodgements** are activity statement lodgements that are submitted over the telephone. ATO telephony staff manually enter the data as directed by the client. From October 2003 only ‘nil’ lodgements will be eligible for telephone lodgement.

2. Activity statement information lodged with the ATO via any of the methods above is transferred to the IPS and PAYGI systems for processing.

IPS generates and processes all monthly and quarterly BAS forms, and quarterly or annual IAS forms. IPS was developed as part of the new tax system which commenced in July 2000. It encompasses the systems component dealing with GST and deferred GST, incorporating data from the Australian Customs Service (ACS). Since its inception IPS has evolved with the changes introduced in the BAS simplification initiative, which included the GST reporting options as well as an expansion in the number of forms to be issued to taxpayers.

The PAYGI system is an integrated system, which provides a framework for taxpayers with investment and/or business income to pay instalments of their expected income tax liability. It was developed as part of the new tax system and replaced the Company and superannuation fund instalment system and the provisional tax system. It commenced from the start of the 2000–01 income year.

3. IPS and PAYGI processing apply ATO business rules to the activity statement information.\(^{241}\) If IPS and PAYGI do not identify any exceptions, the activity statement information is used to update the client account (see Process 12). If exceptions are identified by IPS or PAYGI, then processing is stopped and a work item is created in AWA (go to Process 6 below).

4. The RRE is the primary system currently used for risk profiling and fraud protection within the ATO. At present the RRE profiles GST registrations at the point of lodgement of the registration application, and incoming activity statement returns. However, this will be expanded to incorporate all activity statement roles, not just GST.

5. At the same time as IPS and PAYGI process activity statement information, the RRE also applies risk exception tests to this information. This process is described in more detail in Appendix 10. Activity statement information that fails

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\(^{241}\) A broad overview of the types of business rules that are applied to activity statement information by IPS and the PAYGI system is outlined in Appendix 9.
RRE exception tests creates a work item in the AWA system (go to Process 6 below).

6. The AWA system is intended to generate work items for allocation to staff for manual intervention to resolve the issue raised by the failure of the activity statement against business rules in IPS, PAYGI (see Process 3 above) or RRE (see Process 4 above). The AWA work item serves as a notification for a piece of work, which should be actioned manually by ATO staff.

An AWA work item generated from an IPS or PAYGI exception is recorded at the end of each day in the ATO Data Warehouse (see Process 7 below). An AWA item generated from the RRE is directed to Client Verification Centres (CVC) (see Process 9 below).

7. The ATO Data Warehouse is a central repository for storage of tax information. Activity statement information is updated daily into the Data Warehouse. The ATO can run queries against the information stored in the Data Warehouse database instead of using the data that resides within the processing systems. Queries are run for analysis purposes and to identify items within selected parameters, for example, those that fail IPS business rules. Activity statements that are identified as having failed business rules generate work items. AWA work relating to IPS and PAYGI exceptions is extracted from the Data Warehouse on a daily basis and copied into a Microsoft Excel spreadsheet. This spreadsheet is used to sort exceptions according to exception type. A list (known as a DIN list) of each exception type is then distributed (usually via facsimile) to ASE teams throughout Australia for further action.

8. There are a number of ASE teams located nationally. Specific teams are responsible for specific exception types.

To resolve exceptions the ASE operator reviews all information available and, where possible, checks the details in the system against the scanned image to ensure that the scanned information is correct. If no scanned document is available the client is contacted to determine the required information. When contacting the client a number of POI questions are asked prior to discussing the issues with them.

ASE staff access a number of systems to check the event history for the activity statement (IPS), to obtain a copy of the activity statement image (Filenet), and to obtain client and payment details (AIS). Where an activity statement exception is identified as CVC related, it is transferred to the CVC for resolution (see Process 9 below).

9. Activity statements that have been identified by either the AWA or ASE teams as being a CVC or RRE related exception are transferred to the CVC.

CVCs verify information provided by businesses through telephone contact with ATO clients. CVC staff undertake real time compliance activities, generally in the area of 'pre-issue' refunds. Targeted client contact forms part of an overall real-time case management strategy to achieve GST compliance objectives based on the ATO compliance model. It requires businesses to provide information verbally, electronically or via a paper-based medium. Some reviews are referred to other areas of the ATO, particularly GST Field. Reviews cover all areas of the BAS, including both GST and non-GST labels.
10. Activity statements that are identified as being complex, or requiring complex resolution methods, are transferred to the relevant business line, System Exception Management, or to the Complex Activity Statement Team (CAST).

- **Relevant business line.** Where a problem is escalated to the relevant business line for resolution, the course of action depends on the type of problem. It may require ATO staff contacting the client, amending client education material where the problem relates to tax administration and/or affects a number of clients, or liaising with IT systems staff.

- **System Exception Management.** Includes a series of helpdesks within the CBS division of ATO Operations, where referred issues are identified as either a procedural or a system problem. Once identified, they are escalated to the appropriate work area for resolution.

- **CAST.** Is responsible for resolving client problems relating to activity statements, in particular those problems relating to generation, processing and refunds, and those that cover multiple issues. In order to resolve the problem, the team may liaise with the appropriate business lines.

The actual process relating to the resolution of complex activity statement exceptions is outside the scope of the flow diagram.

11. The Construct module is a batch interface style program that picks up data from IPS and posts it to the ATO Integrated System (AIS) or Integrated Instalment Accounts (IIA) according to tax type. The Construct module also updates the control account and client accounts at the same time (see Process 12).

12. The AIS is an accounting system for instalment-based taxes. It includes the IIA and Legacy Accounts carried over from the old tax system (i.e. pre-ANTS). The IIA maintains both client accounts and a control account. Once the data has passed through the appropriate controls within IPS and the RRE, individual client account details are posted from IPS to the IIA, which is based in the AIS. The client accounts detail the transactions related to each client, the control account records the postings for each posting code.

Every time a posting is made to a client account the control account is also updated. These updates are made in the sub-systems, or databases, relating to the particular role type. Role types are the taxes relevant to the client’s business. For the purposes of activity statement processing they include GST, PAYG, FBT, LCT and WET.

Once the client information is updated for each role type, client account information is transferred back to AIS. This information is used to determine the client’s overall tax assessment.
Appendix 9: Functions of the PAYGI system and IPS

PAYGI system
The PAYGI system performs many automatic processes for the maintenance and management of an entity's PAYG instalment obligations, including:

- entering a new entity into the system;
- calculating notional tax;
- calculating base assessment instalment income;
- calculating the Commissioner's instalment rate;
- calculating gross domestic product (GDP)-adjusted notional tax and instalment amounts;
- calculating instalment amounts based on an entity’s estimated benchmark tax;
- processing annual and quarterly GDP elections;
- bringing deferred coin instalment (DCI) amounts to account;
- performing end of income year processing;
- generating AWA items where system exceptions or business rules require manual intervention;
- preparing data to be included on activity statements and the annual instalment notice;
- issuing letters/notices through Automated Document Despatch (ADD); and
- exiting an entity from the system.

A sub-system of PAYGI manages the DCI system including:

- creating, maintaining and amending DCI schedules; and
- bringing DCI amounts to account.

IPS
The IPS performs many automatic processes for the maintenance and management of an entity's GST, WET, LCT and FBT tax reporting obligations, including:

- generating BAS and IAS forms, including personalising of the forms with taxpayer specific information, such as name, address, eligible obligation options and amounts or rates applicable to that taxpayer. Data used in the generate process is sourced from numerous other ATO systems including AIS (client data), PAYG and FBT as well as ACS;
- processing activity statements returned by paper, or electronic media, including data and posting liabilities to taxpayer accounts. Also includes processing of client variations to notified instalment amounts;
• determining a taxpayer's eligibility for GST instalments;
• calculating the GST instalment amount;
• processing activity statement revisions;
• setting and applying extensions of time for lodgement or payment in the processing of an activity statement and associated account postings;
• creating notifications (events) to other systems of the processing of the activity statement or instalment notice, (e.g., whether the form has been lodged after the due date, whether it has been lodged and processed on time, etc). Events also include data provided to other systems, (e.g., amounts, lodgement dates, received date, extended due date);
• generating AWA items where system exceptions or business rules require manual intervention;
• issuing letters/notices through ADD (Automated Document Dispatch);
• providing facilities to cancel, revise, replace or discontinue an activity statement or instalment notice; and
• providing data to compliance systems.
Appendix 10: Overview of the Risk Rating Engine

This diagram should be considered within the broader context of Appendix 8.

Description of diagram

Within the RRE, the risk profile of a taxpayer consists of the results of calculated risk characteristic scores and exception tests. A calculated risk score is the
comparative level of risk that a taxpayer represents in a specific risk area. Each risk area is made up of a number of risk characteristics. These characteristics are multiplied by their associated magnitude rating to determine a risk score. Exception tests measure the risk of fraud or non-compliance based on either a single criterion, or multiple criteria, with the fraud tests being given higher priority.

The RRE process identifies potential risks and assesses the risk characteristics and exception tests against a threshold value. A threshold value has been set in the risk areas for each risk characteristic. Where the threshold is exceeded, a workflow item (or case) is generated in the AWA system for the business area to review. A stopper may also be placed on the taxpayer’s file to ensure a refund is not issued until the work item has been assessed. Fraud work items are actioned by Fraud Intelligence; and compliance-related works items are referred to the CVCs.

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242 Currently there are five compliance risk areas and three fraud risk areas.

243 The system will generate a workflow item for the highest risk identified. Results of the other tests that have also created a work item are attached to this work item.

244 A stopper is placed on a work item when there is a direct risk to revenue, for example, the payment of a GST refund. Non-stopper work items relate to either GST registrations or clients who have a debit situation with the ATO. That is, the client is required to remit to the ATO GST charged and collected on the provision of goods or services. Non-stopper work items are generally created as a result of risk profiling in the RRE as opposed to the activity statement failing one or more of the RRE fraud exception tests.
## Appendix 11: Instalments Activity Model

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### Associated Documents
- Glossary of terms
- Message numbers
- Reasons for decisions:
  - Rate calculation
  - Letters
  - Consolidations

Source: ATO
Appendix 12: System exceptions management

Source: ANAO analysis of ATO information

Note: The numbers in the above diagram correspond to the numbers in the description below.

Escalation Process (depicted above)

Once a potential system exception has been identified, it is escalated to Systems Exceptions Management (refer to Chapter 4 and Appendix 8 for the identification process, prior to the Systems Exceptions Management depicted above.)

1. The PAYG and IPS Process Manager

A potential system exception has been identified at the first level of escalation (Level 1) and is submitted to the PAYG and IPS Process Manager for consideration. The process manager decides whether or not the exception can be resolved without corrective action, i.e. it is not a system related error.
If corrective action is not required, the exception can be resolved at Level 2 (go to Process 2).

If corrective action is required, for example where a program must be fixed because the system does not deliver according to specification (i.e. a Production Error), the potential system exception is escalated to the relevant CBS Process Manager (CPM) (go to Process 3).

2. Finalise issue and update appropriate database

Once an issue has been analysed, and it is determined that no systems rectification work is required, each Helpdesk will finalise the issue and update the relevant database. For the purposes of activity statement exceptions recording, the IPS Helpdesk utilises the USD database and the PAYGI Helpdesk utilises an Access database developed by CBS.

If, after analysis, it is determined that an issue requires a systems fix it is forwarded to the relevant CBS Process Manager (CPM) for action.

3. Relevant CBS Process Manager (CPM)

Issues requiring systems rectification are forwarded to the relevant CPM for further analysis. These are Accounting, Instalments, Annual Liability Determination and Obligations management. The CPMs make an initial assessment of the error priority as indicated in Process 4.

4. Analyse and determine priority of issue, and raise SOLVE

The analysis conducted by the CPMs includes a weekly meeting to discuss why a work item has been raised, the history of the item, who has been liaised with to come up with a solution or identify potential impacts for clients / ATO (for example Policy to identify the intent of the policy, and IT to identify potential solutions to ensure policy intent is adhered to).

The purpose of these meetings is to prioritise the issues into the P1 to P4 categories. As the ATO focus is on rectifying P1s the reasons for each issue considered is outlined and discussed individually. The criteria used to determine the priority of an error includes:

- impact on revenue;
- impact on the number of taxpayers;
- system is not working to specification/s; and
- change management.

After the initial allocation of priority by the CPMs any P1 issues are forwarded to Issues Management for review. This review is designed to verify if the error should be a P1 error, and, if it is, then to CBS Issues Management to assess and determine the resources required to fix the error.

System fixes are split between 2 groups as follows:

- Errors that take less than 15 days – Issues Management will assess the error and determine which area will provide resources to rectify it. Errors that take less than 15 days can be rectified either within CBS or resourced from PSS.
• Errors that take more than 15 days – Issues Management will forward these errors to the Operations Project Management Forum (OPMF) for allocation to project-based releases. Once allocated Issues Management takes on a coordinating role in the tracking of these errors.

5. **Document, monitor and re-assess issue.**

P2-4 issues are monitored and forwarded on occasion to Issues Management for review and re-assessment.

6. **Forward to CBS & PSS for action**

As indicated above, any errors that take less than 15 days to rectify are forwarded to teams within CBS or PSS to rectify. Any errors that take more than 15 days are rectified as part of the project-based release process and are allocated in Process 10.

7. **Promote to Production**

Refers to the process of incorporating system changes into a ‘live’ production environment.

8. **Go to P1 Production Maintenance**

Production Maintenance is defined as work to be undertaken by PSS, other than production changes and production errors, to enable a planned business outcome to be achieved. The production maintenance process was not covered in detail during the audit as it is outside the audit scope.

9. **CBS / PSS finalise the issue and update appropriate database**

Once an error is finalised the Issues Management team update the IM database and ensure that all appropriate databases are updated.

10. **Create CBS / PSS project team**

The OPMF assesses the errors that are determined as taking greater than 15 days to rectify and the Business Approval Committee (BAC) approves the creation of the project teams. The CBS Issues Management area coordinates and monitors the progress of project teams to ensure that progress is being made on rectifying exceptions. Once project is complete, the change is implemented into production (see Process 7).

11. **Return to CPM to consider other options**

In instances where the BAC rejects the errors forwarded for their approval they are returned to the CPMs for re-evaluation. This effectively starts the evaluation process over again. However, the request can also be submitted to the OPMF as a project.

**Definitions**

A *system exception* is broadly defined as an instance where a system does not deliver expected results, or does not meet business needs.

*Production Errors* are errors that occur when a system does not deliver expected results according to a system specification.
Production Changes are changes to a program where the system delivers according to a system specification, but does not meet business needs.

Call Centres are ATO sites that respond to telephone enquiries.

Systems Support Officers (SSO) are specialists in complex systems issues. They are part of the ASE team and are present on every site. If the problem is outside their capability SSOs refer the systems issues to the technical advisers in ASP (Level 2 help). They refer errors to CBS.

IPS Production Support – level 3 Helpdesk deals with IPS. Preliminary analysis of reported system problem is undertaken here. Helpdesk staff also devise and manage workarounds.

Three levels of escalation:

Level 1 (helpdesk) provides initial analysis of errors detected by systems users. This level is generally undertaken by the helpdesks. The main source of problems at this level comes from SSOs from within the ASEs. Most questions are uncomplicated and are procedural in nature. Many responses by helpdesk are scripted at this level. Note that PAYGI Level 1 Helpdesk is completely automated.

Level 2 (activity statement system support) deals with both procedural problems and system problems (i.e. where systems are not working in line with system specifications). Different approaches are used for each type of problem. Level 2 determines the severity of issues that cannot be handled at Level 1. Level 2 staff are primarily responsible for workarounds. Staff in Albury are responsible for IPS-related issues. Staff in Adelaide are responsible for PAYG-related issues.

Note that if it is determined that a data fix is required, these are made immediately without further escalation. However if problem relates to the system, appropriate system change documentation should be completed, considered and reviewed prior to changes being implemented. Problems that cannot be fixed at Level 2 are escalated to Level 3.

Level 3 relates to system errors only. That is, systems are not doing what they are supposed to do, or is not working in line with the system specifications. Staff in Canberra and Adelaide are responsible for Level 3 issues.

Four levels of error:

The ATO has a four-tiered error classification system to prioritise all errors. P1s are the highest priority and P4s are the lowest. Note that ‘workarounds’ refer to processes (usually manual) that are in place to bypass failing automated processes. The four priority levels are:

- **Priority 1 (P1s)** require urgent attention (critical errors);
- **Priority 2 (P2s)** require attention, however, workarounds are acceptable in the interim;
- **Priority 3 (P3s)** will require attention in the future. Workarounds are acceptable for the medium term; and
- **Priority 4 (P4s)** do not require attention as the sustainable workaround is acceptable.
Management of P1 issues within CBS

A number of processes are in place to establish the categorisation of P1 issues. These include regular formal meetings to discuss each item, aimed at clarifying issues, identifying impacts and solutions, and to provide feedback on the progress of current P1 items.

These meetings are held weekly to allocate P1s, and bi-weekly meetings to report on the status of P1s. CBS Instalments also provide a report to the weekly Issues Management Forum (IMF) for which CBS Issues Management undertakes the Coordination and Secretariat functions.

Prioritising P1s

Prioritising P1s is undertaken during short, regular meetings with CBS Instalments staff. Prior to the weekly meeting, CBS Work Request Items are distributed to attendees for discussion. The meetings are held in Canberra, with phone hook-ups to staff in the Adelaide and Albury offices. They are designed to ensure that CBS Instalments staff, who may not be involved in either raising the work item or developing the solution, are still aware of each issue and have the opportunity to consider potential impacts of the problem on their area and potential solution.

During these meetings the reasons for each item being considered as a P1 are outlined and discussed individually. Once agreement is reach to categorise an item as a P1, it is recorded on the list of current P1s maintained by CBS.

Each meeting includes discussions on:

- why a work item has been raised;
- the history of the item;
- who has been involved with developing a solution; and
- who has been consulted to identify potential impacts for clients or the ATO (for example Policy staff to identify the intent of the policy behind the item, and IT staff to identify potential solutions to ensure policy intent is adhered to).

Attendees are also provided with the opportunity to ask questions to clarify the reasons behind the need to categorise the item as a P1. They may provide feedback about the impact of the problem on their area.

Reporting against P1s

Reporting against P1s is also held during bi-weekly meetings. Prior to each meeting a spreadsheet is distributed to attendees reflecting current P1s. CBS staff from ACT, Brisbane, Adelaide, and Albury are represented; as well as staff from other areas that are involved in the resolution of P1s. These include staff from IT, Production, Testing and Projects.

During these meetings attendees provide updates on current P1s including:

- the status of each P1;
- contact names for the various areas (e.g. Production, IT & Testing) are recorded or updated;
• the status of current warranty solves\textsuperscript{245};
• the status of P1s in production, and in testing; and
• feedback to answer questions about the status of particular issues or items requested during the meeting.

The spreadsheet is maintained with consecutive dates for each report, to provide a history of events for each relevant P1.

The current information on all P1s, particularly those that have been in the system for 20 or more days, is incorporated into the IMF report for submission to the weekly IMF meeting.

The IMF consists of representatives from each relevant CBS area and other interested areas from Operations. IMF meetings are undertaken via phone hook-up. Standing agenda items include Reports (for example, the CBS Process Manager reports on old solves, and the Change Report) and ‘Hot Issues’, which are urgent issues to be discussed during the meeting.

Following the meetings minutes are completed and are distributed to attendees, and made available to staff via the Outlook Public Folders.

\textbf{Databases:}

\textit{USD} is a problem tracking system. It is a web interface database using third party software.

\textit{SOLVE} is a case management tool that is accessible to ATO areas outside CBS. Its primary function is to log and track cases.

\textit{PAYGI Helpdesk} is an Access database used as a case management tool.

\textsuperscript{245} After implementation of a release an agreed warranty period is entered between ATOAS and PSS/CBS. During this period the project team has responsibility for any identified post-implementation errors.
Appendix 13: Advantages and disadvantages of exceptions management systems

**PAYGI Helpdesk**

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>• The system provides the functionality required to manage PAYGI system exceptions as it was specifically designed for this purpose;</td>
<td>• The system was not designed to operate on a wide-area network. That is, it may not be effective as a national exception management system;</td>
</tr>
<tr>
<td>• it can be altered to provide new functionality with comparative ease;</td>
<td>• as the system was developed outside the ATO's corporate IT applications suite, it is not, and has not been, subject to national change management processes; and</td>
</tr>
<tr>
<td>• it has good audit trails for each system exception. Each system exception is able to be traced to who created it and for what purpose;</td>
<td>• the system was specifically designed to capture PAYGI system exceptions information, and may require significant redesign if it were to be used to manage IPS exceptions.</td>
</tr>
<tr>
<td>• it has automated processes to identify and rectify simple exceptions;</td>
<td></td>
</tr>
<tr>
<td>• good system documentation has been developed and is continually maintained; and</td>
<td></td>
</tr>
<tr>
<td>• it automatically reconciles back to SOLVE on a weekly basis.</td>
<td></td>
</tr>
</tbody>
</table>

**USD**

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>• It operates effectively over the ATO's wide-area network;</td>
<td>• It does not provide all functionality required to manage system exceptions effectively(^{246});</td>
</tr>
<tr>
<td>• it provides basic functionality to enable the capture of system exceptions in a central, national database; and</td>
<td>• it does not provide appropriate audit trails and linkages to SOLVE. ANAO analysis of USD and SOLVE found that there was no way to match records originally created in USD associated SOLVE records. This is a significant weakness of this system;</td>
</tr>
<tr>
<td>• the system is an ATO approved IT application, and has been subjected to ATO IT testing processes.</td>
<td>• there is greater reliance of manual entry of data and analysis than on automated processes (in comparison to PAYGI Helpdesk); and</td>
</tr>
<tr>
<td></td>
<td>• data quality is variable.</td>
</tr>
</tbody>
</table>

\(^{246}\) For example, the USD does not have a single field to record SOLVE numbers. This makes it difficult to match USD to SOLVE.
## SOLVE

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>• It is a nationally approved system which is available across all relevant ATO IT platforms;</td>
<td>• It does not effectively support multiple users accessing the same SOLVE records concurrently;</td>
</tr>
<tr>
<td>• the system is effective in recording IT exceptions for activity statement related systems; and</td>
<td>• it has limited functionality in producing meaningful reports other than those it was originally designed to produce; and</td>
</tr>
<tr>
<td>• it is subject to mainframe security controls.</td>
<td>• there is no effective means of linking SOLVE records back to helpdesk databases. This means that data originally recorded in the helpdesk databases has to be manually re-keyed into SOLVE.</td>
</tr>
</tbody>
</table>

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247 That is, it is subject to the Resources Access Control Facility (RACF) controls.

248 The helpdesk databases are the PAYGI Helpdesk and USD.
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