

The Auditor-General
Audit Report No.7 2000–2001
Performance Audit

The Australian Taxation Office's Use of AUSTRAC Data

The Australian Taxation Office

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Canberra ACT
29 August 2000

Dear Madam 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 this report of this audit, and the accompanying brochure, to the Parliament. The report is titled *The Australian Taxation Office's Use of AUSTRAC Data*.

Following its tabling in Parliament, the report will be placed on the Australian National Audit Office's Homepage—
<http://www.anao.gov.au>.

Yours sincerely



P. J. Barrett
Auditor-General

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

AUDITING FOR AUSTRALIA

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

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Abbreviations/Glossary

ALO	AUSTRAC Liaison Officer
ARC	National AUSTRAC Research and Coordination Team
ATO	Australian Taxation Office
AUSTRAC	Australian Transaction Reports and Analysis Centre
BSL	Business Service Line
CSA	Child Support Agency
FTR	Financial Transaction Report
ICTR	International Currency Transfer Report
IFTI	International Funds Transfer Instructions
INB	Individuals Non Business
IOSCO	International Organisation of Securities Commissions
LB&I	Large Business and International
NIDS	National Illicit Drugs Strategy
SB	Small Business
SCTR	Significant Cash Transaction Report
SUSTR	Suspect Transaction Report
TFN	Tax File Number

Summary and Recommendations

Summary

Background

1. As the Commonwealth's principal revenue collection agency, the Australian Taxation Office (ATO) collected total net tax revenue of \$135.3 billion¹ in 1998–99. One of the ATO's strategic directions is to ensure '*increased strategic intelligence activities at the corporate and business line levels, based on an integrated approach to identifying, gathering, analysing and acting on intelligence*'.²
2. The information and service provided to the ATO by the Australian Transaction Reports and Analysis Centre (AUSTRAC) supports that strategic direction. There are in excess of 45 million Financial Transaction Reports (FTR) on AUSTRAC's database and approximately 30 000 are added each day. These reports contain a wide range of valuable intelligence for the ATO.

Australian Transaction Reports and Analysis Centre (AUSTRAC)

3. AUSTRAC was established under the *Financial Transaction Reports Act 1988*³ (FTR Act). It is a regulatory authority and financial intelligence unit within the Commonwealth Attorney-General's portfolio, with operating costs of \$9.2 million for 1998–99.
4. The FTR Act was part of a package of legislation developed by the Commonwealth to fight organised crime. The Act helps improve the integrity of Australia's financial sector by discouraging its use by criminals. While the requirements of the Act may not prevent criminal activity, they do act as a deterrent and make it more difficult to hide significant financial transactions associated with such activity. The Act also permits the provision of financial intelligence to law enforcement and revenue agencies including the National Crime Authority (NCA), Australian Federal Police (AFP), Australian Customs Service (ACS), Australian Security Intelligence Organisation (ASIO), ATO and State and Territory law enforcement and revenue authorities.

¹ Australian Taxation Office *Annual Report 1998–99*, Financial Statements for the year ended 30 June 1999, p. 143. Includes some \$9.7 billion in Excise duty.

² Australian Taxation Office *Annual Report*, op. cit., p. 4

³ Formerly known as the *Cash Transaction Reports Act 1997*. Title changed 1991 (No. 188, 1991)

ATO's use of AUSTRAC data

5. ATO staff use a number of sources of intelligence to assist in revenue collection and compliance activities and AUSTRAC data is one of these sources. AUSTRAC data provides information on individual transactions. Generally, a financial transaction report on the AUSTRAC database only provides evidence that the transaction has occurred and, except in the case of a Suspect Transaction Report (SUSTR), does not indicate suspicious activity or tax avoidance. The information must be used in conjunction with other data sources in order to be of value to the ATO. A SUSTR may indicate tax evasion, proceeds of crime, money laundering or other breaches of the law.

6. The ATO is structured around groups of clients into business service lines (BSLs). These are organised into market segments including individuals, small businesses, large business and international, superannuation and excise. The AUSTRAC database is used by a range of ATO users across a number of business lines to gather intelligence, research projects and profile taxpayers.

7. AUSTRAC data can be used to profile individuals, industries, occupations and geographical areas. The data can also be used to monitor money movements both into and out of Australia; identify potential high risk transactions; and assist in the selection of cases for further investigation.

Revenue raised using AUSTRAC data

8. Over the last five financial years, \$160 million has been raised in assessments for additional tax and penalties that can be directly attributed either wholly, or in part, to the use of AUSTRAC data. Although the use of AUSTRAC data does not contribute significantly to the ATO's overall revenue collection (\$47 million in 1998–99), it does make a valuable contribution to tax administration. It is an important intelligence source that aids compliance activities. There are also indirect benefits associated with using AUSTRAC data. The level of voluntary compliance, which flows from ATO audit activity and community and industry awareness of the ATO/AUSTRAC relationship, assist in deterring potential tax evaders.⁴

Memorandum of Understanding

9. The FTR Act gives ATO officers a statutory right of access to AUSTRAC data. To ensure that access to AUSTRAC data is not used indiscriminately, it is only provided to ATO officers who have a legitimate need to use this data. The Commissioner of Taxation and the Director of AUSTRAC have negotiated a Memorandum of Understanding (MoU) that

⁴ Australian Transaction Reports and Analysis Centre *1998–99 Annual Report*, p. 95.

establishes a framework by which the ATO and AUSTRAC work together to perform effectively their respective statutory functions.

Strategic alliance between the ATO and AUSTRAC

10. In a world in which public sector organisations are being required to respond to competitive pressures and to be more effective as well as efficient, there is increasing recognition in the Australian Public Service (APS) of the importance of cross-portfolio cooperation, particularly where there are shared outcomes. Greater networking and collaboration is necessary if the outcomes approach to budgeting and performance management is to be fully effective. This recognition encompasses both strategic and operational issues and is similar to the ‘cross cutting’⁵ or ‘joined-up government’⁶ approach being pursued in the United Kingdom.⁷ A recent whole of government initiative, in which the ATO is involved, is the Business Entry Point,⁸ which could be a model for other government activity with which the community needs ‘seamless’ portals.

11. Under the current outputs and outcomes framework for managing public resources, government agencies need to ensure that they are not only producing the required products and services, but that these are contributing to the purpose and intention underlying legislation. The FTR legislation imposes a statutory obligation on the ATO and AUSTRAC to establish a productive relationship. The MoU establishes the framework for the two organisations to work together effectively across portfolios. The further development of the strategic alliance between the ATO and AUSTRAC, and networking arrangements as envisaged under ‘cross cutting’, would enable a greater exchange of ideas and information and allow the partners to gain access to the knowledge and resources of the other party. The ATO’s corporate governance framework should enhance the development of such an effective partnership. This framework should also facilitate risk management so that the organisations can be more responsive to emerging opportunities and improve their overall performance whilst managing individual, as well as, shared risks.

⁵ ‘Cross Cutting’, as used in the United Kingdom Modernising Government Agenda, refers to issues that cut across departmental boundaries. Blair, T. The Hon, Mar 1999, *Modernising Government*, CM4310, UK Parliament, London pp. 32–35.

⁶ ‘Joined-up Government’ is a similar expression to ‘cross-cutting’ and means that different parts of Government should work more closely together and across departmental and institutional boundaries than they have in the past. United Kingdom National Audit Office 1999, *Modernising Government: The NAO Response*.

⁷ Blair, T. The Hon, Mar 1999, *Modernising Government*, CM4310, UK Parliament, London pp. 32–35 and United Kingdom National Audit Office 1999, *Modernising Government: The NAO Response*.

⁸ The Business Entry Point is an initiative of the Australian Federal Government and all States and Territories. It provides an on-line service to Australian businesses to make it easier to deal with government as they can access current information on a wide range of government assistance programs and services and business information such as taxation, superannuation, Customs and workplace relations.

Administrative arrangements

12. To facilitate its use of AUSTRAC data, the ATO has established a National AUSTRAC Research and Coordination Team (ARC) which is based in Sydney and a network of AUSTRAC Liaison Officers (ALOs) who are located in most branch offices. The ARC is responsible for liaising with AUSTRAC, providing research, training and technical support to regional ALOs and ATO users, and dealing with AUSTRAC systems and security issues. The ARC also participates in an NCA Task Force and maintains an on-site office in AUSTRAC's headquarters.

Implementation of the New Tax System

13. The Government has introduced The New Tax System including a Goods and Services Tax from 1 July 2000. For the ATO this has meant implementing a comprehensive program of reform with the associated requirements for new systems, operational processes and organisational structures. It has included an extensive staff recruitment and training program and a wide-ranging education and marketing campaign to inform the Australian public and businesses. The ANAO acknowledges the impact of this reform process on the ATO and the challenges of working in such a dynamic environment with multiple demands often on the same groups of people.

Audit objective, scope and methodology

14. The FTR information provided by AUSTRAC is an important source of intelligence for the ATO in administering and enforcing taxation laws and collecting revenue. The audit objective was to examine the administrative effectiveness of the ATO's use of AUSTRAC data. The audit reviewed the use of AUSTRAC data across three of the ATO BSLs namely, Large Business and International (LB&I), Small Business (SB) and Individuals Non Business (INB). These are the most significant BSLs in terms of revenue collection.

15. The audit focussed on the ATO's use of AUSTRAC data at the strategic and operational levels and its management of AUSTRAC data. Aspects examined include the ATO's relationship with AUSTRAC as well as training, data quality, data privacy and security issues.

Overall conclusion

16. The ATO has used AUSTRAC data to achieve a significant improvement in the collection of taxation revenue. The ANAO considers that the ATO could build on this success by using AUSTRAC data more effectively at both the strategic and operational levels.

17. The ANAO considers there are wide-ranging benefits to be gained by the ATO if greater emphasis is given to its strategic relationship with AUSTRAC. Adopting a networking approach, where the ATO works in partnership with AUSTRAC, would contribute to each organisation achieving its outcomes more effectively; would extend the strategic focus of the ATO's use of AUSTRAC data; and would facilitate the effective management of emerging issues and potential risks. As well, including information relating to the use of AUSTRAC data within the existing corporate governance reporting framework would provide a further avenue for ongoing, senior management review of issues such as the utility of the data, the development of appropriate analytical tools and potential enhancements to the database. Reporting on AUSTRAC activities would also provide assurance to the ATO Executive that AUSTRAC data is being used effectively within the ATO.

18. To ensure that the ATO is obtaining maximum benefit from its use of AUSTRAC data, the ANAO considers that the use of this data by relevant ATO BSLs should be regularly reviewed and evaluated, and further opportunities for its use explored. In particular, the profiling and actioning of Suspect Transaction Reports (SUSTRs) could be examined with greater emphasis being given to analysing all financial transaction reports on the AUSTRAC database and to utilising AUSTRAC tools to identify networks, patterns and profiles of suspect financial activity.

19. Evaluation and feedback are important management tools for assessing the utility and quality of AUSTRAC data and identifying improvements to the AUSTRAC database. The development and implementation of a performance management system to provide accurate and relevant feedback to AUSTRAC would help to improve the value and effectiveness of AUSTRAC data to the ATO. The development of such a system would have to be done in conjunction with AUSTRAC.

20. It is important that ATO managers acknowledge and promote the use of AUSTRAC data as this will contribute to the ATO achieving its outcomes. Enhancing existing training initiatives and including the potential benefits of using AUSTRAC data in ATO training courses would be an indication to staff of its importance and further promote its use.

Recommendations

21. The ANAO has made six recommendations to improve the effectiveness and use of AUSTRAC data within the ATO. The ATO has agreed with all recommendations.

Key Findings

Use of AUSTRAC data in strategic planning and management—Chapter 2

Corporate governance framework

22. The ATO incorporates strategic intelligence within its strategic planning and risk management processes. Although AUSTRAC data has significance at both an operational and a strategic level, the ARC is currently not included in the ATO's corporate governance reporting process. This situation means that key issues and concerns such as those bearing on the relationship between AUSTRAC and the ATO and on the utility of the data provided to the ATO may not be raised, where appropriate, at the Executive level.

23. Including information relating to the use of AUSTRAC data within the existing corporate governance reporting framework would provide a further avenue for ongoing, senior management review of issues such as the utility of the data, the development of appropriate analytical tools and potential enhancements to the database. Reporting on AUSTRAC activities would also provide assurance to the ATO Executive that AUSTRAC data is being used effectively within the ATO.

Strategic relationship between the ATO and AUSTRAC

24. The MoU between AUSTRAC and the ATO establishes a cooperative framework within which the ATO and AUSTRAC commit themselves to work together to perform effectively their respective statutory functions. The MoU's terms and the way they have been implemented, emphasise the need for cooperation between the two organisations. Although there is strategic liaison between the ATO and AUSTRAC, there are no formal measures in place to determine the effectiveness of this relationship. There was limited evidence of joint strategic planning being undertaken by AUSTRAC and the ATO to identify strategic priorities and outcomes or emerging issues and potential risks or to assess the strategic capability of the AUSTRAC database to meet ATO specific needs. Adopting a 'networking' approach involving working in partnership with AUSTRAC more closely to achieve outcomes would extend the strategic capability and focus of the ATO's use of AUSTRAC data and facilitate the strategic management of emerging issues and potential risks.

AUSTRAC data as a source of strategic intelligence

25. AUSTRAC's Datamart programs are used by the ATO as strategic intelligence tools. While these programs were developed from ATO initiatives some years ago, there has been no recent formal assessment of the need for additional strategic analytical tools to address specific ATO needs. The result is that the ATO's use of the AUSTRAC capability may be less than optimal given the possibilities presented by new technology and systems.

ATO's management of AUSTRAC data—Chapter 3

ALO administrative structure

26. Responsibility and reporting arrangements for the ARC and ALOs are divided between two separate areas of SB BSL. Under existing arrangements, ALOs are selected at Branch level, at times, without reference to the ARC. Whilst some ALOs perform a full-time role others undertake both ALO and compliance team member duties. The divided reporting structure has given rise to the potential conflict of priorities between ALO duties and other responsibilities as compliance team members. The ATO acknowledges there are problems associated with the current ALO roles and administrative structure and, during the audit, initiated a review to assess the effectiveness of the current arrangements.

Measuring the ATO's use of AUSTRAC data

27. The MoU requires the ATO to provide evaluation and feedback in relation to the usefulness of AUSTRAC data. The feedback comprises mainly data on the direct and indirect benefits of using AUSTRAC data and anecdotal information, for example, from individual case studies.

Direct benefits

28. A direct benefit is measured in dollars and occurs where the ATO raises an assessment for additional tax and penalties that is attributed either wholly, or in part, to the use of AUSTRAC information.⁹ However, as assessments are not followed-up, there is no assurance that the potential direct benefit reported, in terms of additional revenue, is actually realised. The measure would be more accurate if the direct benefit were calculated when the potential revenue is actually received rather than when an assessment is raised. However, the ANAO also recognises that reporting benefits when an assessment is raised may be a more cost effective and practical option given the time taken to resolve cases and the need to review assessments.

⁹ The ATO advised direct benefits of \$47 million for 1998–99.

Indirect benefits

29. In February 1999, the ATO initiated a project to measure the indirect benefits of using AUSTRAC data. The current measure of indirect benefits is 40 per cent of the value of direct benefits. The ANAO has concerns that applying a flat 40 per cent indirect benefit may either inflate or under-estimate overall benefits. This may be a risk particularly in those years where there is an unusually high or low return from cases directly attributed to the use of AUSTRAC data. The ANAO acknowledges that quantifying indirect benefits can be extremely difficult and imprecise. However, if the ATO wishes to apply a specific percentage indirect benefit, it should be reviewed to ensure that it has a sound empirical basis and reassessed periodically for its continued relevance. Factors the ATO would need to consider when attempting to quantify more precisely the indirect benefits of using AUSTRAC data, are the value to the ATO of this information and the costs involved in providing it. A more useful approach to indirect measurement may be to concentrate on identifying a range of qualitative indicators showing how AUSTRAC data supports effective tax administration.

More relevant performance information

30. The estimated dollar values of direct and indirect benefits and anecdotal information currently provided as feedback to AUSTRAC are indicators of how effectively the ATO uses AUSTRAC data. However, these measures do not address the outcomes to be derived by both organisations under the MoU. Currently there is little performance information relating to strategic liaison arrangements and activities, the development of ATO specific analytical tools and improvements to the AUSTRAC database. In addition to quantifying direct and, if cost effective, indirect benefits, the ANAO considers that there would be advantages to the ATO if performance indicators were developed and associated performance information collected to provide feedback on these activities. This feedback could be used to determine whether the outcomes of the MoU have been achieved; to develop a better ongoing strategic relationship with AUSTRAC; and to improve the use and effectiveness of AUSTRAC data within the ATO.

Emphasis on Suspect Transaction Reports

31. In its 1993 report, *Checking the Cash*, the Senate Standing Committee on Legal and Constitutional Affairs criticised the ATO for not making greater use of AUSTRAC data. The audit found that, since the Senate Committee report, there is still considerable emphasis on Suspect Transaction Reports (SUSTRs). However, the ATO has made progress in

using other AUSTRAC data. Significant Cash Transaction Reports (SCTRs) and International Funds Transfer Instructions (IFTIs) most specifically, are used through the AUSTRAC Datamart¹⁰ programs.

32. ALOs expend a considerable amount of time routinely profiling SUSTRs. The ANAO noted that this process has not been reviewed by the ATO in recent years. Less than half the SUSTR reports prove to be of value to the ATO, and, given the volume of cases, there is little likelihood that even worthwhile cases will be followed-up by compliance teams in the immediate future. The ANAO considers that the current process of profiling individual SUSTRs may not be the most efficient or effective use of ALO resources. The ANAO considers the ATO should examine the possibility of using AUSTRAC tools such as the TargIT and ScreenIT programs to identify networks, patterns and profiles of suspect financial activity rather than continuing its focus on individual reports. More emphasis could then be given to analysing all AUSTRAC financial transaction reports for evidence of non-compliance.

ATO training in the relevance and use of AUSTRAC data

33. Part of the role of the ARC and ALOs is to promote the value of using AUSTRAC data within the ATO and to train officers to use the AUSTRAC database. Training is provided through awareness seminars and on a small group or one-to-one basis with users.

34. There are no formal mechanisms for eliciting feedback from staff on the value or quality of this training or for reviewing the content of the training sessions. Although there is a register of users, there is no record of the number and duration of the training sessions provided by the ALOs or performance measures that could provide some indication of the effectiveness of this training.

35. AUSTRAC provides an on-line help facility within the database and user documentation. The ATO has also recently developed a self-paced on-line training module. However, the ATO has not developed training documentation, specifically addressing ATO requirements, that would assist officers using the database to understand its full potential and maximise its effective use.

¹⁰ The Datamart is made up of the Country Analysis Program and the Industry/Occupation Analysis Program.

Use of AUSTRAC data at the operational level— Chapter 4

Use of AUSTRAC data by business lines

36. The ANAO found that the use of AUSTRAC data varied considerably across the three BSLs reviewed. For the period July to December 1999, SB BSL accounted for 49 per cent of the searches carried out on the AUSTRAC database, LB&I BSL for six per cent and INB BSL for two per cent of searches. The ARC and ALOs who undertake searches of the database for all BSLs were responsible for 34 per cent of searches carried out.¹¹

37. As to the patterns of use in the three BSLs reviewed in the audit, SB BSL accounts for over 75 per cent of authorised users and has the most developed and systematic procedures for using the AUSTRAC database. LB&I BSL mainly focuses on IFTIs to identify the movement of funds into and out of Australia. LB&I BSL targets its field teams based on an analysis of the risk to revenue that particular industry or other groups may represent. Its teams focus on current practices and tax planning strategies of specific groups of taxpayers rather than past practices. In LB&I BSL, AUSTRAC data is used as a source of intelligence to monitor and develop profiles of these groups and specific organisations within industries. AUSTRAC data is not generally used in INB BSL as the resources, skills and timeframe allocated for this BSL's review activity do not allow for the analysis of external intelligence, although the data can be used in debt collection cases.

38. In its review of the use of AUSTRAC data in different BSLs, the ANAO concluded that overall proficiency in using this data could be improved if successful research and analytical techniques developed and applied in some BSLs were captured and disseminated to users across all relevant business lines.

Frequency of use of AUSTRAC data

39. For the three month period April to June 2000 a total of 28 688 searches were carried out. The majority of registered ATO users of the AUSTRAC database conducted up to ten AUSTRAC searches. This level of use accounted for 59 per cent of the total number of users who had access to the AUSTRAC database at that time. The ANAO's analysis identified that most users undertook a maximum of three AUSTRAC searches per month suggesting that the level of use of the AUSTRAC database in the ATO is relatively infrequent.

¹¹ The remaining nine per cent of searches were carried out by other areas in the ATO.

Monitoring the use of the AUSTRAC database

40. ALOs are currently required to monitor, but do not report, the use of the AUSTRAC database each month so they can identify additional training requirements or target their marketing of the use of AUSTRAC data across BSLs. The ARC also monitors the use of the database on an ad-hoc basis to identify trends and maintain its registered list of users. The ANAO considers that there are benefits in the ARC monitoring the use of the AUSTRAC database on a regular basis, for example, quarterly. This would allow the ATO to identify patterns and trends in its use of AUSTRAC data and to develop appropriate strategies to improve the use and continued effectiveness of the data. Results of this monitoring could be incorporated into the ATO's existing corporate governance reporting framework.

Recommendations

Set out below are the ANAO's recommendations aimed at improving the ATO's use of AUSTRAC data. 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 1, 3, 4 and 6.

Recommendation No.1
Para. 2.33 To improve its strategic 'partnership' with AUSTRAC and maximise the use of AUSTRAC data as a source of strategic intelligence, the ANAO recommends that the ATO:

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

ATO response: Agreed

Recommendation No.2
Para. 3.25 To ensure more relevant measures of performance, the ANAO recommends that the ATO review its current methods for quantifying the direct and indirect benefits of using AUSTRAC data.

ATO response: Agreed

Recommendation No.3
Para. 3.35 The ANAO recommends that the ATO, in conjunction with AUSTRAC, develop and implement a cost effective performance management system to provide accurate and relevant feedback and thereby help to improve the value and effectiveness of AUSTRAC data.

ATO response: Agreed

Recommendation No.4
Para. 3.61

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

ATO response: Agreed

Recommendation No.5
Para. 3.70

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

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

ATO response: Agreed

Recommendation No.6
Para. 4.22

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

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

ATO response: Agreed

Audit Findings and Conclusions

1. Introduction

This chapter provides background information on the various types of financial transaction reports collected by AUSTRAC, the ATO's administrative arrangements for managing this data and the revenue raised in assessments directly attributed to the use of AUSTRAC data. It also outlines the objectives and methodology of the audit and structure of this report.

Background

1.1 As the Commonwealth's principal revenue collection agency, the ATO collected total net tax revenue of \$135.3 billion¹² in 1998–99 while pursuing four major taxation outcomes:

- to maintain overall compliance;
- to reduce the cost of compliance;
- to increase the community's confidence in the administration of the tax system; and
- to be an efficient and adaptive organisation.¹³

1.2 One of the ATO's strategic directions aligning with these outcomes is to ensure that the organisation '*increased strategic intelligence activities at the corporate and business line levels, based on an integrated approach to identifying, gathering, analysing and acting on intelligence*'.¹⁴

1.3 The information and service provided to the ATO by the Australian Transaction Reports and Analysis Centre (AUSTRAC) supports that strategic direction. There are in excess of 45 million Financial Transaction Reports (FTR) on AUSTRAC's database and approximately 30 000 are added each day. These reports contain a wide range of valuable intelligence for the ATO.

¹² Australian Taxation Office *Annual Report 1998–99*, Financial Statements for the year ended 30 June 1999, p. 143. Includes some \$9.7 billion in Excise duty.

¹³ Australian Taxation Office *Annual Report*, op. cit., p. 1.

¹⁴ Australian Taxation Office *Annual Report*, op. cit., p. 4.

1.4 The ATO is the largest user of AUSTRAC information and considers that the FTR legislative requirements assist in the detection and deterrence of those who seek to, amongst other things, conceal taxable income, operate in the cash economy or otherwise engage in tax evasion. These requirements also improve the ATO's ability to detect tax evasion and to better target compliance activities.¹⁵ Over the last five financial years, \$160 million has been raised in assessments for additional tax and penalties that can be directly attributed either wholly, or in part, to the use of AUSTRAC data. Although the use of AUSTRAC data does not contribute significantly to the ATO's overall revenue collection (\$47 million in 1998–99), it does make a valuable contribution to tax administration. It is an important intelligence source that aids compliance activities. There are also indirect benefits associated with using AUSTRAC data. The level of voluntary compliance, which flows from ATO audit activity and community and industry awareness of the ATO/AUSTRAC relationship, assist in deterring potential tax evaders.

Australian Transaction Reports and Analysis Centre (AUSTRAC)

1.5 AUSTRAC was established under the *Financial Transaction Reports Act 1988*. It is a regulatory authority and financial intelligence unit within the Commonwealth Attorney-General's portfolio with operating costs of \$9.2 million for 1998–99.

1.6 The FTR Act requires AUSTRAC to '*collect, retain, compile, analyse and disseminate FTR information*'¹⁶ to approved law enforcement and revenue collection agencies. These agencies include the National Crime Authority (NCA), Australian Federal Police (AFP), Australian Customs Service (ACS), Australian Security Intelligence Organisation (ASIO), ATO and State and Territory law enforcement and revenue authorities.

1.7 The FTR Act is part of a package of legislation developed by the Commonwealth to help fight organised crime and major tax evasion. The FTR Act helps improve the integrity of Australia's financial sector by discouraging its use by criminals. While the requirements of the Act may not prevent criminal activity, they do act as a deterrent and make it more difficult to hide significant financial transactions associated with such activity.

¹⁵ ATO submission to the Commonwealth Legislative Review Taskforce on the *Financial Transaction Reports Act 1988* and *Financial Transaction Reports Regulations*, March 2000.

¹⁶ Section 38 1(b), *Financial Transaction Reports Act 1988*.

Financial Transaction Reports

1.8 The Act specifies the information AUSTRAC can collect from cash dealers.¹⁷ There are four types of information reported to AUSTRAC:

- *Significant Cash Transaction Reports (SCTRs)*: required from cash dealers and solicitors for (domestic) transactions involving \$10 000 cash or more;
- *Suspect Transaction Reports (SUSTRs)*: provided by cash dealers where they suspect tax evasion or breach of Commonwealth, State or Territory law. SUSTRs are reported without the knowledge of the customer;
- *International Funds Transfer Instructions Reports (IFTIs)*: required to be reported by cash dealers where funds are telegraphically transferred or wired into or out of Australia. IFTIs may be for any amount, cash or otherwise; and
- *International Currency Transfer Reports (ICTRs)*: required from individuals in relation to cash of \$10 000 (Australian or foreign equivalent) or more being physically transported into or out of Australia. Relevant information is usually reported to Australian Customs officers at international arrival and departure points.

1.9 There were 6 549 805 financial transactions reported to AUSTRAC in 1998–99. Table 1 provides a breakdown by report type.

Table 1

AUSTRAC financial transaction reports for 1998–99 by report type

<i>Report type</i>	<i>Number of reports</i>	<i>Percentage of total reports</i>
SCTRs	1 342 294	20.5
IFTIs	5 177 423	79.0
ICTRs	23 547	0.4
SUSTRs	6 541	0.1
Total	6 549 805	100.0

Source: AUSTRAC 1998–99 Annual Report

¹⁷ Cash dealers, as defined in section 3 of the FTR Act, include banks, building societies and credit unions, financial corporations, insurance companies and insurance intermediaries, securities dealers and futures brokers, cash carriers, managers and trustees of unit trusts, firms that deal in travellers cheques, money orders and similar instruments, casinos and gambling houses, totalisator agency boards and bookmakers.

1.10 AUSTRAC data provides information on individual transactions. Generally, a financial transaction report on the AUSTRAC database is only evidence that the transaction has occurred and, except in the case of a SUSTR, does not indicate any suspicious activity or tax avoidance. A SUSTR may indicate tax evasion, proceeds of crime, money laundering or other breaches of the law. The ATO advised that the major proportion of the transactions reported on the database are bona fide. The challenge for the ATO is to maximise its use of the AUSTRAC database to ensure that all available AUSTRAC data, in conjunction with other sources of information, provide valuable intelligence at both the strategic and operational levels.

1.11 The ATO is structured around groups of clients into business service lines (BSLs). The AUSTRAC database is used by a range of ATO users across a number of business lines to gather intelligence, research projects and profile taxpayers. ATO staff use a number of sources of intelligence to assist in revenue collection and compliance activities and AUSTRAC data is one of these sources.

Legislative and policy framework

1.12 The ATO and AUSTRAC have developed a cooperative working relationship within a legislative and policy framework articulated in the following:

- relevant provisions of the *Financial Transaction Reports Act, 1988* (formerly the *Cash Transaction Reports Act, 1988*) as amended, the *Income Tax Assessment Act, 1936* as amended, the *Income Tax Assessment Act, 1997* as amended and the *Taxation Administration Act, 1953* as amended;
- 1988 report by the Senate Standing Committee on Legal and Constitutional Affairs in relation to the Cash Transaction Reports Bill 1987;
- Government's response to the above report;
- 1993 report on the effectiveness of the FTR Act by the Senate Standing Committee on Legal and Constitutional Affairs, entitled *Checking the Cash*; and
- Government's 1995 and 1996 responses to that report.

Memorandum of Understanding (MoU)

1.13 The FTR Act gives ATO officers a statutory right of access to AUSTRAC data.¹⁸ Law enforcement agencies, the ACS and State or Territory revenue authorities may only access this data at the discretion of the Director of AUSTRAC. An MoU establishing a framework for the working relationship between the Commissioner of Taxation and the

¹⁸ The ATO has a Memorandum of Understanding with AUSTRAC and accesses data on the same basis as Commonwealth law enforcement agencies.

Director of AUSTRAC was initially completed in September 1993. The current MoU was negotiated in June 1998 and outlines, among other things, access arrangements, security and privacy requirements and the evaluation and feedback to be provided by the ATO to AUSTRAC.

Strategic alliance between the ATO and AUSTRAC

1.14 Under the current outputs and outcomes framework for managing public resources, government agencies need to ensure that they are not only producing the required products and services, but that these are contributing to the purpose and intention underlying legislation. The FTR legislation imposes a statutory obligation on the ATO and AUSTRAC to establish a productive relationship and the MoU establishes the framework for the two organisations to work together effectively across portfolios. It is important that the ATO and AUSTRAC build on existing alliances and networks to ensure outcomes are met and public monies are used in the most efficient manner.

1.15 Such a networking approach, where the ATO works in partnership with AUSTRAC, enables a greater exchange of ideas and information and allows partners to gain access to the knowledge and resources of the other parties. This approach would also contribute to each organisation achieving its outcomes more effectively; would extend the strategic focus of the ATO's use of AUSTRAC data; and would facilitate the effective management of emerging issues and potential risks. It is in line with the increasing recognition within the Australian Public Service of the importance of cross-portfolio cooperation, particularly where there are shared outcomes. Greater networking and collaboration is necessary if the outcomes approach to budgeting and performance management is to be fully effective. This recognition encompasses both strategic and operational issues and is similar to the 'cross cutting'¹⁹ or 'joined-up government'²⁰ approach being pursued in the United Kingdom.²¹ A recent whole of government initiative, in which the ATO is involved, is the Business Entry Point,²² which could be a model for other government activity with which the community needs 'seamless' portals.

¹⁹ 'Cross Cutting', as used in the United Kingdom Modernising Government Agenda, refers to issues that cut across departmental boundaries. Blair, T. The Hon, Mar 1999, *Modernising Government*, CM4310, UK Parliament, London pp. 32–35.

²⁰ 'Joined-up Government' is a similar expression to 'cross-cutting' and means that different parts of Government should work more closely together and across departmental and institutional boundaries than they have in the past. United Kingdom National Audit Office 1999, *Modernising Government: The NAO Response*.

²¹ Blair, T. The Hon, Mar 1999, *Modernising Government*, CM4310, UK Parliament, London pp. 32–35 and United Kingdom National Audit Office 1999, *Modernising Government: The NAO Response*.

²² The Business Entry Point is an initiative of the Australian Federal Government and all States and Territories. It provides an on-line service to Australian businesses to make it easier to deal with government as they can access current information on a wide range of government assistance programs and services and business information such as taxation, superannuation, Customs and workplace relations.

Administrative arrangements

1.16 To facilitate its use of AUSTRAC data, the ATO has established the National AUSTRAC Research and Coordination Team (ARC) and a network of AUSTRAC Liaison Officers (ALOs). The ARC is an administrative and research unit consisting of a National AUSTRAC Manager and four officers. The unit is responsible for liaison with AUSTRAC, providing research, training and technical support to regional ALOs and ATO users, and dealing with AUSTRAC systems and security issues. The ARC also participates in an NCA Task Force.

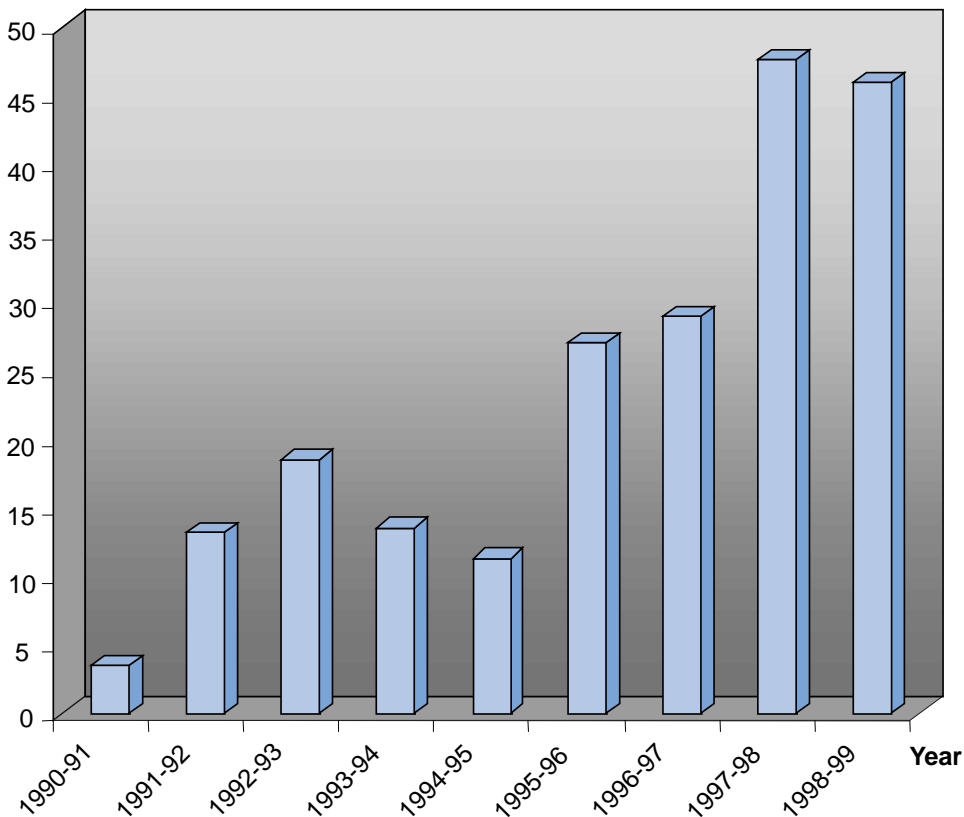
1.17 ALOs, who are also members of compliance teams, are required to effectively promote the use of AUSTRAC data to new and existing users across all BSLs. These officers are also responsible for:

- providing training and support to users;
- undertaking research into potential AUSTRAC cases and selecting appropriate cases for audit;
- providing intelligence in relation to industry based projects; and
- facilitating feedback on the effectiveness of the AUSTRAC information.

Additional revenue raised

1.18 Since the enactment of the FTR Act and the establishment of AUSTRAC, the ATO has used FTR information in combination with other data sources, to assist in collecting revenue, case selection, lodgement enforcement, profiling known or suspected tax havens, the cash economy task force and other compliance activity. The additional ATO revenue²³ raised between 1990–91 and 1998–99 and directly attributed to the use of AUSTRAC data is detailed in Figure 1.

²³ Figures are collated within the ATO from specific cases where AUSTRAC data has initiated work and represents additional tax and penalties raised in assessments.

Figure 1**Additional revenue raised by the ATO using AUSTRAC data****\$ Million**

Source: ATO Annual Report 1998–99 and AUSTRAC Annual Report 1998–99

1.19 In 1995–96, direct revenue raised by the ATO using AUSTRAC data increased by 139 per cent from \$11 million to \$27 million. The ANAO was advised that this increase was the result of the ATO putting in place a more structured approach to identifying the direct benefits of AUSTRAC data. Results in 1997–98 and 1998–99 included a small number of cases which contributed to significant amounts of additional taxation revenue.²⁴ The ATO observed that the increasing trend could also be attributed to a more active promotion and marketing of AUSTRAC data within the ATO, the introduction of analytical software tools such as the AUSTRAC Datamart programs, and improvements in the understanding and use of the AUSTRAC database.

²⁴ In 1997–98 there were three cases totalling \$17 million and in 1998–99 one case involved \$10.4 million and two cases of \$6.2 million.

Previous reviews of the ATO's use of AUSTRAC data

1.20 In 1993, the Senate Standing Committee on Legal and Constitutional Affairs undertook a review of the effectiveness of the FTR Act and its report, *Checking the Cash*, was tabled in November 1993. At that time, the Committee described the results reported by the ATO as 'disappointing' but noted that the ATO was updating its systems and processes to make more use of AUSTRAC data. The Committee recommended that, to maximise the benefits to revenue from the use of AUSTRAC information, the ATO review its application of resources to the:

- training of ATO officers;
- development of the relationship between AUSTRAC and the ATO; and
- usage of AUSTRAC information by its officers.

1.21 An internal review was initiated at the request of the Commissioner in October 1996 to establish the extent of the ATO's use of AUSTRAC data by business line and location and identify particular reasons that AUSTRAC data use differed between business lines and locations. The review put forward 18 recommendations on how the access, use and management of AUSTRAC data might be improved. Thirteen of these recommendations, addressing such issues as training initiatives and user support, have either been implemented or partially implemented.²⁵

Emerging issues for the ATO

1.22 There are several emerging issues for the ATO that are relevant to this audit.

The New Tax System

1.23 The ATO is currently implementing, as part of the Government's tax reform agenda, the New Tax System, which includes a Goods and Services Tax, which came into effect on 1 July 2000. The ANAO acknowledges the impact of this reform process and the difficulties facing the ATO in balancing the competing priorities of implementing a completely new tax system and maintaining the effective administration of existing tax laws. The ANAO notes the inevitable impact this will have on the ATO's day-to-day operations and the extra challenges in maintaining business as usual.

²⁵ Recommendations not implemented related to auditing branches regularly to capture direct results, updating national guidelines, reviewing draft operational standards, warehousing of AUSTRAC data and undertaking a further review in 1997.

Proposed legislative amendments

1.24 In 1998, the Director of AUSTRAC was asked, under the Government's National Illicit Drugs Strategy (NIDS), to prepare a report on possible amendments to the FTR Act. The report outlining AUSTRAC's proposed amendments to the Act was provided to the Minister for Justice in June 1998 and is still being considered. Three of the more important amendments, relating to opening and operating an account in more than one name, proof of identity requirements, and the supply of 'proprietary systems'²⁶ by financial institutions, are being actively pursued by AUSTRAC in consultation with its Provider Advisory Group, the ATO and the law enforcement and State revenue agencies.²⁷ These proposed amendments are aimed at improving the value of the FTR information provided to the AUSTRAC users.

Parliamentary review

1.25 The House of Representative Standing Committee on Economics, Finance and Public Administration is currently reviewing ANAO Report No.37 *Management of Tax File Numbers*. The Committee is examining the management of the Tax File Number (TFN) system and possible extension of the use of the TFN. In its submission to the inquiry, the ATO noted that using a TFN to match AUSTRAC financial transaction reports to ATO holdings would significantly enhance the efficiency, accuracy and integrity of current ATO processes. It would also enhance the value of AUSTRAC data holdings to the ATO and allow the ATO to be more effective in combating tax evasion and money laundering in the cash economy. Including TFN details on financial transaction reports would require legislative amendment. TFN details would also need to be quarantined for ATO use only. The Committee is expected to report by late-2000.

Impact of electronic commerce on financial transaction reports

1.26 The rapid development of communications systems presents challenges and opportunities, not only for the ATO, but for tax administrations worldwide. As the financial services industry offers more services to customers via the Internet, there are greater opportunities for people to evade their tax obligations, engage in cross-border criminal activities or avoid the reporting requirements of the FTR Act. For example, under FTR Act definitions, transactions effected by customers themselves over the Internet are not reportable.

²⁶ Proprietary system, in an FTR context, refers to computer software developed and supplied by financial institutions to major clients to enable them to carry out banking transactions on-line.

²⁷ The AUSTRAC Provider Advisory Group is a consultative forum that includes representatives from peak financial sector and other cash dealer industry bodies.

1.27 In 1996, the ATO began examining the tax implications of e-commerce. The Electronic Commerce Project was created within the ATO for the purpose of examining and reporting on these issues. As a result of this activity, the project published the *Tax and the Internet Discussion Report* in August 1997 and a second report in December 1999.

1.28 The second report by the ATO Electronic Commerce Project Team on the opportunities and challenges of electronic commerce for tax administration, set out a comprehensive action plan. The action plan is to be adopted by the ATO in progressing strategies for dealing with electronic commerce. The action plan includes a commitment by the ATO to consult with AUSTRAC and other government agencies to ensure that, so far as possible, equivalent legislative and regulatory requirements apply to electronic money as those that apply to physical cash.

1.29 The international body for securities regulators, International Organisation of Securities Commissions (IOSCO), has put forward five overarching principles for regulation of the Internet. The first of these states that fundamental principles of regulation do not change based on the medium by which the financial service is provided.²⁸ This proposition is supported by the ANAO as it is considered that the principles of disclosure of transactions set out in the FTR Act should apply, whether the transaction is conducted in person, on paper or electronically.

1.30 The Internet and e-commerce give rise to broader issues for the ATO, and tax administration in general, than are encompassed within the scope of this audit. However, the ANAO notes these emerging issues are particularly relevant to the context of this audit and will assume increasing importance in the future.

Audit objective, scope and methodology

1.31 The FTR information provided by AUSTRAC is an important source of intelligence for the ATO in administering and enforcing taxation laws and revenue collection. The audit objective was to examine the administrative effectiveness of the ATO's use of AUSTRAC data. The audit reviewed the use of AUSTRAC data across three of the ATO BSLs namely, Large Business and International (LB&I), Small Business (SB) and Individuals Non Business (INB). These are the most significant groups in terms of the ATO's revenue collection.

²⁸ Foot, M. 'Regulation of the digital age', *The Banker*, January 2000.

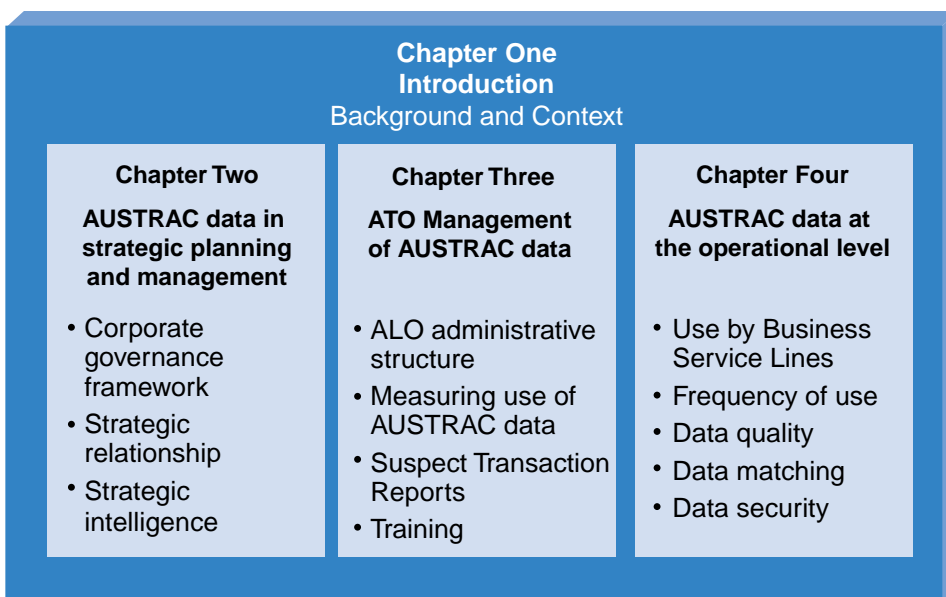
1.32 The audit focussed on the ATO's use of AUSTRAC data at the strategic and operational levels and its management of AUSTRAC data. Aspects examined include the ATO's relationship with AUSTRAC as well as training, data quality, data privacy and security issues.

1.33 During the audit, the ANAO interviewed departmental officers, reviewed files and documentation and analysed AUSTRAC user logs and cases. The Privacy Commission, AUSTRAC staff and ATO secondees to the NCA were also interviewed.

1.34 The audit was conducted in accordance with ANAO Auditing Standards at a total cost of \$240 000.

Structure of report

1.35 The report outlines the ATO's use of AUSTRAC data at the strategic and operational levels and its management of AUSTRAC data. The report is structured as follows:



2. Use of AUSTRAC Data in Strategic Planning and Management

This chapter discusses the use of AUSTRAC data as a source of strategic intelligence and how AUSTRAC data is incorporated into the ATO's strategic planning process. The strategic relationship between the ATO and AUSTRAC is also examined.

Introduction

2.1 A strategic intelligence system should inform the ATO about its internal and external environment and provide the capability to identify emerging risks, opportunities, trends and behavioural patterns. Intelligence can provide information to improve decision-making and provide assurance that the ATO's strategic direction is both appropriate and responsive to emerging risks. Intelligence is one of the six core processes of the ATO's Integrated Planning Process²⁹ and provides the context for, and informs, all other processes. It also guides the ATO's strategic direction as it is used to weigh up alternative outcomes using different scenarios.

2.2 The ANAO considers that the information and service provided by AUSTRAC is a valuable source of strategic intelligence. The AUSTRAC database can be used to profile individuals, industries, occupations and geographical areas. It can monitor money movements both into and out of Australia; identify potential high risk transactions; and assist in the selection of cases for further investigation.

2.3 The audit sought to determine how the ATO uses AUSTRAC data as a source of strategic intelligence and whether AUSTRAC data is incorporated into strategic planning and risk management processes. The ATO's strategic relationship with AUSTRAC was also examined.

²⁹ The Integrated Planning System is the ATO's system of corporate governance and a key element of its Strategic Management System. Its purpose is to bring together management activities and makes explicit the relationships between these activities. It enables the ATO to continuously monitor and review the effectiveness of its strategies so decisions about the allocation of resources can be made based on shifting priorities. The ATO continuously revises its strategic direction to reflect changes occurring in the environment.

Corporate governance framework

2.4 Corporate governance is concerned with the leadership of an organisation, with its structures and processes for decision-making and controls that support effective accountability for performance and outcomes. It also provides the integrated strategic management framework necessary to achieve the output and outcome performance required to fulfil organisational goals and objectives. Risk and control management are integrated elements of that framework. Since the mid-1990s the ATO has refined and expanded its corporate governance framework to emphasise links between strategic, operational planning and accountability for performance.

ATO strategic planning process

2.5 The ATO's 1999 to 2000 strategic plan and the business and risk management plans of LB&I, SB and INB BSLs were reviewed to assess if strategic intelligence had been included in the strategic planning process.

2.6 The audit did not examine the process for developing these plans nor assess their effectiveness. For these issues, we drew on the previous work undertaken by the ANAO in Audit Report No.37 1996–97 *Risk Management in the Australian Taxation Office* and Audit Report No.19 1997–98 *Risk Management in ATO Small Business Income*. These audits examined the ATO's risk management process and how that process is integrated into the strategic planning framework.

Strategic and business plans

2.7 In its Strategic Plan, *Supporting the Community 1999–2000 Plan*, the ATO noted its intention to develop 'a corporate strategic intelligence capability that assists to build a viable and sustainable organisation and having the intelligence capability that informs what is happening in community 'hot spots'—such as the cash economy, aggressive tax planning and international issues—as well as the ability to act quickly on that intelligence'.

2.8 The importance and value of improving and using strategic intelligence have been identified in each BSL's Business Plan. Each plan includes quality measures and strategies for ensuring that strategic intelligence is effectively managed and used. BSLs are required to report on performance outputs and outcomes against these plans.

Risk management process

2.9 The ATO conducts its operations within a risk management framework that recognises that there are limited resources available. Each BSL is required to address its major areas of risk, to establish plans to manage those risks and to justify how these conclusions were reached. AUSTRAC data, through the Datamart programs, is used as a source of intelligence by LB&I and SB BSLs.

2.10 LB&I BSL segment leaders use the Country Analysis Program data as one source of available intelligence in preparing risk assessments. SB BSL uses AUSTRAC data predominantly for the cash economy activity, which has been identified as a major risk by the ATO. SB BSL prepares bi-monthly strategic intelligence and risk reports. The ANAO was advised that there is no structured risk assessment process that incorporates AUSTRAC data in INB BSL. The utility of the data within this BSL is limited because of the BSL's client base of salary and wage earners and the type of review activity undertaken although it can be used for debt collection purposes.

Input into planning processes by ARC

2.11 The ARC has no direct input into the BSLs' planning processes. The ARC and the ALOs undertake a support role by providing advice and training if requested. The AUSTRAC database and Datamart programs are used by BSLs to complete risk proformas as part of the risk assessment process.

Corporate governance reporting process

2.12 Under the current corporate governance framework, the ATO Executive is provided with monthly performance reports that include operational performance information, significant events, emerging issues and trends. The monthly process is supplemented with bi-annual governance reports from each BSL, and reports from officers appointed to provide overview reports on aspects such as finance, security, information technology, internal audit and human resources.

2.13 The ARC currently reports within SB BSL on an exception basis only. The use of the AUSTRAC database is monitored by the ARC on an ad-hoc basis only. The ARC provides general information on achievements and using the AUSTRAC database in its quarterly newsletter *Austracking*, which is provided to senior management.

2.14 Although AUSTRAC data has significance at both an operational and strategic level, the ARC does not contribute to the existing corporate governance reporting process. This situation means that key issues and concerns such as those bearing on the relationship between AUSTRAC and the ATO and on the utility of the data provided to the ATO may not be raised, where appropriate, at the Executive level.

Strategic relationship between the ATO and AUSTRAC

2.15 As agencies move to an output/outcomes framework for managing resources and measuring performance, it is important that the ATO and AUSTRAC build a strategic relationship that will help achieve the outcomes of both organisations. The MoU between AUSTRAC and the ATO establishes a cooperative framework within which the ATO and AUSTRAC agree to work together.

2.16 In examining the strategic relationship between the ATO and AUSTRAC, the ANAO looked for evidence of:

- adequate joint strategic planning including strategically focussed outputs and outcomes;
- the development of tools capable of producing strategic intelligence; and
- joint review of strategic outcomes through agreed performance measures.

2.17 The MoU's terms and the way they have been implemented, emphasise the need for cooperation between the two organisations and there are well-established liaison arrangements between the two organisations at both senior management and operational levels. Senior management liaise through a number of across-agency forums,³⁰ the ATO's Cash Economy Task Force³¹ and bi-annual meetings between the Director of AUSTRAC and the Deputy Director, Money Laundering Targeting Branch and the SB BSL Assistant Commissioner.

2.18 In terms of the strategic relationship between the ATO and AUSTRAC, the ANAO found little evidence of joint strategic planning being undertaken by AUSTRAC and the ATO to identify strategic priorities and outcomes, or emerging issues and potential risks or to assess the strategic capability of the AUSTRAC database to meet ATO specific needs. Although there is ongoing strategic liaison between the ATO and AUSTRAC, there are no formal measures in place to determine the effectiveness of this relationship.

³⁰ Across-agency forums include Heads of Commonwealth Operational Law Enforcement Agencies, GST Fraud Working Group and the Action Group on the law enforcement implications of Electronic Commerce.

³¹ The Commissioner of Taxation established the Task Force in November 1996. Its objective is to examine the nature of the cash economy, likely compliance issues involved and develop a view about what additional steps can be taken by the ATO to address tax evasion in the cash economy. Members of the Task Force include AUSTRAC and representatives from business, industry and government. The Task Force is ongoing and usually meets twice a year.

2.19 The ANAO considers that one opportunity for fostering the strategic relationship between the ATO and AUSTRAC could be AUSTRAC's high risk cash dealers program. AUSTRAC received additional funding under the National Illicit Drugs Strategy (NIDS) to implement a compliance program targeting high risk cash dealers. AUSTRAC is confident that this program will ultimately deliver higher integrity FTR information and improved financial intelligence. The ATO advised that although, to date, it has provided advice on its strategic approach and compliance risk model it has had no other involvement in this program that could provide valuable benefits to it.

AUSTRAC data as a source of strategic intelligence

2.20 The 1993 Senate Standing Committee on Legal and Constitutional Affairs report, *Checking the Cash*, expressed concern that the ATO was not using all the financial intelligence provided by the AUSTRAC database but was concentrating instead on suspect transaction reports. At that time, the AUSTRAC software was still in its initial stages of development and, although single transactions could be interrogated by names and addresses, it was not possible to group related transactions together. The inability to group transactions made it difficult for the ATO to use the data strategically.

Data Research and Warehouse Team (DRAW)

2.21 The ATO formed the DRAW Team in May 1996 to work with AUSTRAC to develop specific programs that would allow the ATO to make more effective use of the AUSTRAC database. The team initially developed the Country Analysis Program and the Industry/Occupation Analysis Program as 'in-house' software products to assist strategic planning. ATO product development work ceased in October 1997. These programs have been developed by AUSTRAC as interactive search tools and now comprise the major components of the Datamart facility. The Datamart allows the ATO to extract data from the database and organise it to provide a macro overview of financial transactions relating to particular industries, occupations and countries.

AUSTRAC Datamart programs

Country Analysis Program

2.22 The Country Analysis Program aggregates data on IFTIs by country of destination or source. This information allows the ATO to examine transactions between Australia and a particular country of interest, for example one that is a known tax haven. It enables the ATO to undertake detailed analysis of the real-time movements of money to tax havens and, together with other available intelligence, to build profiles

of tax havens. Using this intelligence, the ATO can examine offshore tax planning strategies, monitor the tax strategies of individual taxpayers and particular categories of taxpayers, identify and locate tax minimisation schemes and undisclosed income arising from illegal activities.

Industry/Occupation Analysis Program

2.23 The Industry/Occupation Analysis Program using industry and occupation codes³² and descriptors³³ reported by cash dealers aggregates data on SCTRs by industry or occupation. Using these codes or descriptors, the program is able to organise and report transactions by industry and occupation groups. In particular, it enables a systematic analysis of industries that have a high volume of cash transactions. Comparing this data with tax records and other intelligence, allows the ATO to identify and rank industries and occupations according to risk. The program does not include other types of AUSTRAC reports.

2.24 Although specific industries are targeted for compliance review, the audit found no evidence that the ATO routinely reviews the whole range of industry analysis data to examine relative improvements or lapses in compliance across all industries. This information could be used at a strategic level to feed into the ATO's risk management process.

2.25 The analysis provided by the Industry/Occupation Analysis Program relies on an accurate record of an industry code. AUSTRAC and the ATO advised that because the industry and occupation codes and descriptors rely on the information provided by customers and cash dealers keying in the correct data, the quality of data is not always consistent.³⁴

Cash economy activities

2.26 The cash economy has been identified as a strategic risk to the ATO. The Industry/Occupation Analysis Program provides strategic intelligence for the ATO to monitor and select high risk cases within specific industries. This analysis has been used most effectively within the SB BSL and formed a backdrop to the work of its Cash Economy Task Force (Task Force).

³² An industry code is an alpha/numeric code that divides industries into categories. The Australian and New Zealand Standard Industrial Classification (ANZSIC) has been developed in both countries for the production and analysis of industry statistics. It replaces the Australian Standard Industrial Classification (ASIC).

³³ A descriptor is a description of a person's occupation and can be used when an industry code is not provided.

³⁴ AUSTRAC advised that a report text search can be used to extract, for example, all entities within a specific industry where an industry descriptor is included in the report text, thereby making the report useful even if no code is attached by the cash dealer.

2.27 In its 1998 report, *Improving Tax Compliance in the Cash Economy*, the Task Force outlined a number of areas where it considered careful consideration should be given to extending financial reporting requirements under the FTR Act. The Task Force made two recommendations relating to AUSTRAC and the FTR Act. These recommendations are as follows:

- consideration be given to amending the FTR Act to broaden the cash dealer categories and the range and level of report types; and
- AUSTRAC data be more strategically utilised by the ATO to identify high risk cash transactions.

2.28 The Commissioner agreed with both recommendations, commenting *'the ATO will continue to assist AUSTRAC identify ways of ensuring the effectiveness of the FTR Act to counter tax evasion'*. The Commissioner committed the ATO to *'making increased use of AUSTRAC data, both on a strategic level and for case selection purposes'*.³⁵ The first recommendation is being addressed in the legislative package of proposed amendments to the FTR Act currently being considered by the Attorney-General's Department.

Conclusion

2.29 The ATO incorporates strategic intelligence within its strategic planning and risk management processes. Currently, the ARC does not contribute to the corporate governance reporting process and the use of the AUSTRAC database is monitored on an ad-hoc basis only. Consequently, under-utilisation is not highlighted to senior management. Including information relating to the use of AUSTRAC data within the existing corporate governance reporting framework would provide a further avenue for ongoing, senior management review of issues such as the utility of the data, the development of appropriate analytical tools and potential enhancements to the database. Reporting on AUSTRAC activities would also provide assurance to the ATO Executive that AUSTRAC data is being used effectively within the ATO.

2.30 The Datamart programs are used by LB&I and SB BSLs as strategic intelligence tools. While these programs were developed from ATO initiatives some years ago, there has been no recent formal assessment of the need for additional strategic analytical tools to address specific ATO needs. The result is that the ATO's use of the AUSTRAC capability may be less than optimal given the possibilities presented by new technology and systems.

³⁵ Cash Economy Task Force Recommendations—Commissioner's Response.

2.31 Although there is liaison between the two organisations, the ongoing, strategic relationship between the ATO and AUSTRAC could be further developed to ensure that the ATO is maximising its use of AUSTRAC data. Adopting a 'networking' approach involving working in partnership with AUSTRAC more closely to achieve outcomes would extend the strategic capability and focus of the ATO's use of AUSTRAC data and facilitate the strategic management of emerging issues and potential risks.

2.32 The ANAO considers that by raising the profile of AUSTRAC data, promoting its potential value and actively investigating ways to better use the data, the ATO could improve it as a source of strategic intelligence. Furthermore, these initiatives would address the concerns of the Senate Standing Committee on Legal and Constitutional Affairs that the ATO was not using all the financial intelligence provided by the AUSTRAC database and the recommendation put forward by the Cash Economy Task Force that AUSTRAC data be used more strategically.

Recommendation No.1

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

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

Agency response

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

3. ATO's Management of AUSTRAC Data

This chapter discusses the ATO's management of AUSTRAC data through the ARC and ALO network and the training provided to ATO staff. The evaluation and feedback given to AUSTRAC and the processes in place for handling suspect transaction reports are also addressed.

Background

3.1 To facilitate the ATO's use of AUSTRAC data, the ATO has established the National AUSTRAC Research and Coordination Team (ARC) and a network of AUSTRAC Liaison Officers (ALOs). As noted in Chapter One, the ARC is an administrative and research unit consisting of a National AUSTRAC Manager and four officers. The unit is responsible for liaison with AUSTRAC, providing research, training and technical support to regional ALOs and ATO users, and dealing with AUSTRAC systems and security issues. The team is based in central Sydney and maintains an on-site office in AUSTRAC's headquarters. Its salary and administration costs for 1998–99 were \$347 000.

3.2 Currently there are 12 full-time and eight part-time ALO positions to service 22 ATO branches with some ALOs responsible for two branches. ALOs, in addition to their duties as compliance team members, are required to effectively promote and market the use of AUSTRAC information and provide training and support to all users across all business lines. They also facilitate:

- feedback on the effectiveness of using this information;
- research into potential AUSTRAC cases;
- selection of appropriate cases for compliance activity; and
- intelligence in relation to project/industry based activities.³⁶

3.3 The ANAO identified three key areas bearing on the ATO's good management of AUSTRAC data. These are:

- the ARC/ALO administrative structure;
- the measurement of the ATO's use of AUSTRAC data; and
- the profiling and actioning of SUSTR cases.

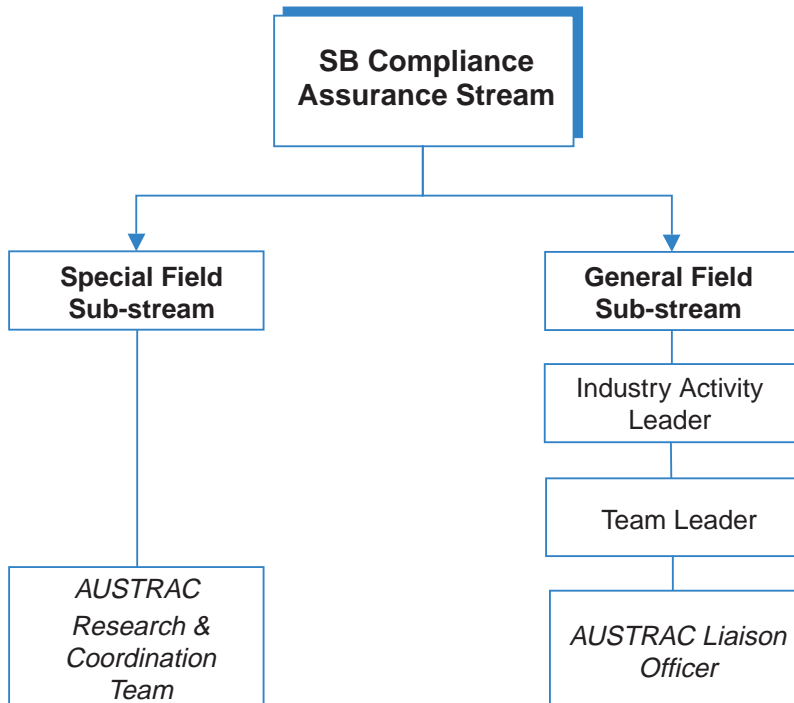
³⁶ Duties as outlined in the ALOs job description.

ALO administrative structure

3.4 The ARC and ALO network is part of the Compliance Assurance Stream in SB BSL. Reporting is divided between the General and Specific Field areas.³⁷ The ARC is managed and reports within the Specific Field area and regional ALOs are funded and managed within the General Field area. Figure 2 outlines the current ALO structure.

Figure 2

ARC and ALO administrative structure within Compliance Assurance Stream in SB BSL



Source: ATO

3.5 The ANAO examined this administrative structure to form a view about whether it facilitated the most effective use of AUSTRAC capabilities. It found:

- ALOs are selected at Branch level, at times, without reference to the ARC;
- reporting lines for ALOs are divided between the ARC and compliance team leaders and this gives rise to potential conflicts of priorities between ALO duties and other responsibilities as compliance team members; and

³⁷ General Field and Specific Field are sub-streams within the Compliance Assurance Stream of SB BSL.

- there are differing views within the organisation about the value of ALOs pursuing AUSTRAC work compared to other compliance activities.

3.6 The ATO acknowledges there are problems associated with the current ALO roles and administrative structure and, during the audit, initiated a review to assess the effectiveness of the current arrangements.

Measuring the ATO's use of AUSTRAC data

3.7 The MoU requires the ATO to provide evaluation and feedback in relation to the usefulness of AUSTRAC data. These are important elements of any program as they can assist in assessing the effectiveness of the program and identify areas where improvements can be made.

3.8 Performance information should be developed within a framework that includes the objectives or purpose of the MoU. Objectives should be concise, realistic, outcome-oriented statements of what the MoU is intended to achieve, and specify the means by which they are to be achieved. Performance information should then permit a judgment on whether the objectives are being achieved.³⁸

3.9 The stated purpose of the MoU between the ATO and AUSTRAC is to:

- establish an agreement between AUSTRAC and the ATO for access and use of the database by certain ATO officers;
- establish a cooperative framework by which the ATO and AUSTRAC will work together to effectively perform their respective statutory functions; and
- utilise AUSTRAC data for a range of purposes in administering and enforcing taxation laws. These purposes include audit projects at the macro and micro level, information matching, lodgement enforcement, industry profiling, international country profiling and the collection of outstanding debts. AUSTRAC data, either alone or in combination with other data, may assist in raising taxes directly or indirectly.

Feedback on effective use of AUSTRAC data within the ATO

3.10 ATO staff use a number of sources of information in finalising compliance cases and the AUSTRAC database may simply be one of these sources. The AUSTRAC database is used by the ARC, ALOs and other ATO users to gather intelligence, research projects and profile taxpayers. Under the MoU, the ATO is required to provide feedback to AUSTRAC

³⁸ DoFA/ANAO Better Practice Guide, *Performance Information Principles* 1996, pp. 6–8.

so that the utility of the data can be improved. This feedback includes direct and indirect measurements of the ATO's use of AUSTRAC data and anecdotal information, for example, from individual case studies. However, the primary focus for feedback is on the direct and indirect benefits to the ATO of using AUSTRAC data.

3.11 Tracking the use of the database, estimating the precise proportion of an audit's results that are attributable to AUSTRAC data and costing its benefits can be difficult and costly. In many instances, the benefits of using AUSTRAC data are not realised quickly because cases are not finalised until audit action has been completed or tax returns have been submitted and assessed. Some projects may take several years to resolve.

Measuring direct benefits

3.12 A direct benefit is measured in dollars and occurs where there is an assessment raised for additional tax and penalties that can be attributed either wholly, or in part, to the use of AUSTRAC information. However, as assessments are not followed-up, there is no assurance that the potential direct benefit reported, in terms of additional revenue, is actually realised. This practice of reporting results prior to the revenue being received is in contrast to the reporting of direct benefits by the ATO's High Wealth Individuals (HWI) project³⁹ where revenue is not recorded as achieved until the actual payment has been received and accounted for.⁴⁰

3.13 The current method of determining AUSTRAC direct benefits requires ATO users and audit staff to advise ALOs when cases are finalised and to complete manually an AUSTRAC-Case Profile proforma. The ANAO was advised that staff do not always report case results.

3.14 Under-reporting of AUSTRAC results, particularly in some BSLs, and the need to develop and implement strategies to more systematically capture this information, were noted in the 1996 ATO review of the use of AUSTRAC data. The review recommended that all BSLs be reminded of the procedure for reporting the direct dollar results and that ALOs implement a program of regular audits of branch offices to capture this information. The ATO advised the ANAO that ALOs do not carry out regular audits of branches '*as it could not be established how it could reasonably occur*'.

³⁹ In May 1996, the Commissioner of Taxation announced a compliance program to expand the ATO's understanding of tax planning techniques used by what came to be titled the High Wealth Individuals (HWI) taxpayer group (an individual who owns or controls net wealth of \$30 million or more), and the resulting compliance risks.

⁴⁰ ANAO Audit Report No.46 1999–2000 *High Wealth Individuals Taskforce*.

Reporting systems

3.15 Currently, there is no standard case reporting system to monitor and track the progress of audits involving the use of AUSTRAC data across BSLs. Some BSLs, branches and ALOs have developed their own local systems based on their reporting requirements. The ANAO considers that the ARC could improve the efficiency of the current manual process for reporting direct benefits if it were automated.

3.16 The audit found that the LB&I BSL's management information system, CASES, is not generally used by LB&I teams to record cases using AUSTRAC data although the system has this capability. The ARC undertook to promulgate instructions more widely to alert teams to use the CASES system.

3.17 SB BSL also has a management information system (CaMRA) to record and monitor compliance activity. However, this system does not include AUSTRAC as a related field, source code or keyword, so the use of AUSTRAC data in initiating or progressing cases cannot be recorded. It is understood that the system could be modified to include AUSTRAC information and the ANAO considers that the ATO should examine the viability of doing so to capture the performance information required by the MoU. INB BSL currently does not generally use AUSTRAC data in its compliance activities.

Measuring indirect benefits

3.18 The MoU provides examples of indirect measurements arising from the use of AUSTRAC data and these include:

- assistance in decision making;
- flow on or deterrent effects of audit activity in which AUSTRAC data has been used;
- voluntary compliance arising from the use of AUSTRAC data;
- the identification of domestic or international funds movements which enhances the ATO's research of financial intelligence holdings; and
- the identification of domestic or international funds movements that enhance the ATO's knowledge or understanding of tax minimisation, evasion and avoidance schemes.

3.19 In February 1999, the ATO initiated a project to measure the indirect benefits of using AUSTRAC data. Users were asked to estimate the value of indirect benefits as a percentage of direct benefits. The project report noted that measurement had proved a difficult task. However, it was considered that there was sufficient confidence about the figure of '40 per cent of direct benefits', to warrant its adoption.⁴¹

⁴¹ ATO Report *Measurement of Indirect Benefits to the Australian Taxation Office*, 3 February 1999, p. 4.

3.20 The ANAO acknowledges the difficulty in measuring and quantifying indirect benefits, but has concerns that applying a flat 40 per cent indirect benefit may either inflate or under-estimate overall benefits. This may be a risk particularly in those years where there is an unusually high or low return from cases directly attributed to AUSTRAC data.

3.21 AUSTRAC has also raised concerns that indirect benefits should not be seen only as a factor of direct benefits as not all indirect benefits can be related to direct results. For example, there are instances where AUSTRAC data is used as an intelligence source and, in conjunction with other data, assists in case profiling, risk identification and tax haven investigations where there is no correlation to a direct result.

3.22 The ANAO considers that if a specific percentage indirect benefit is to be applied, the ATO should review this measure to ensure that it has a sound empirical basis, and reassess it periodically for continued relevance. Factors the ATO would need to consider when attempting to quantify more precisely the indirect benefits of using AUSTRAC data are the value to the ATO of this information and the costs involved in providing it. A more useful approach to indirect measurement may be to concentrate on identifying a range of qualitative indicators showing how AUSTRAC data supports effective tax administration.

3.23 The ATO's HWI project is one example where an attempt has been made to report on the indirect revenue gains that have been made from HWIs as individuals and from HWI companies as a result of taskforce activities. Although the HWI model may not be fully suitable for AUSTRAC cases, the work undertaken by the ATO's Revenue Analysis Branch may provide some guidance and assistance in attempting to quantify indirect benefits.

Conclusion

3.24 The ANAO considers that the ATO should review its current methods for quantifying the direct and indirect benefits of using AUSTRAC data. The ANAO considers that the measure would be more accurate if the direct benefit were calculated when the potential revenue is actually received rather than when an assessment is raised. However, the ANAO also recognises that reporting benefits when an assessment is raised may be a more cost effective and practical option given the time taken to resolve cases and the need to review assessments. Quantifying indirect benefits can be extremely difficult and imprecise. However, if the ATO wishes to apply a specific percentage indirect benefit, it should be reviewed to ensure that it has a sound empirical basis and reassessed periodically for its continued relevance.

Recommendation No.2

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

Agency response

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

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

Feedback on system improvements

3.28 Arrangements currently in place for identifying system improvements require users to approach the ALOs with their concerns or requirements and this information is then passed to the ARC. The ARC meets with AUSTRAC information technology staff monthly and if improvements are considered necessary, the ARC will submit a request for change. System improvements are usually included in major system upgrade releases, which occur approximately every three years. A number of long-standing users of the AUSTRAC database commented that the system had markedly improved over time.

3.29 It is appreciated that any system improvements must be first directed at the functionality of the database and take account of the needs of all user agencies and reasonable expectations of users. However, a small number of ATO users still do not perceive that the AUSTRAC system is 'user-friendly'. The ANAO considers these perceptions could be addressed through closer liaison between the ARC and ATO users and, if necessary, additional training provided.

More relevant performance information on effective use of AUSTRAC data

3.30 AUSTRAC has advised the ANAO that it often has difficulty in securing specific details on the utility of the FTR information, such as how the information assists in decision making or case selection or any flow-on or deterrent effects of audit activity as a result of AUSTRAC data being used. The ANAO considers that to break down the use of AUSTRAC data to the level of detail required by the MoU would be extremely difficult for the ATO, particularly as there appears to be no systematic process for capturing such information from users across business lines.

3.31 The estimated dollar values of direct and indirect benefits and anecdotal information currently provided as feedback to AUSTRAC are indicators of how effectively the ATO uses AUSTRAC data. However, these measures do not address the outcomes to be derived by both organisations under the MoU. Currently there is little performance information relating to:

- strategic liaison arrangements and activities;
- development of ATO specific analytical tools and enhancements for intelligence gathering; and
- improvements at the operational level to make the AUSTRAC database more 'user-friendly' for ATO users.

3.32 In addition to quantifying direct and, if cost effective, indirect benefits, the ANAO considers that performance indicators should be developed and associated performance information collected to provide feedback on these activities. This feedback process would help to determine whether the outcomes of the MoU have been achieved; to develop a better ongoing strategic relationship with AUSTRAC; and assist in improving the use and effectiveness of AUSTRAC data within the ATO.

Conclusion

3.33 To ensure AUSTRAC receives relevant and accurate feedback that will allow it to improve the service and information it provides, the ANAO considers that the ATO and AUSTRAC should work together to develop a performance management framework that would include:

- identifying the specific output/outcomes to be achieved under the MoU;
- developing and regularly reviewing key performance indicators to evaluate if these outputs/outcomes are being achieved;
- identifying the performance information required and the form in which it is to be collected;
- putting in place a reporting structure that will cost-effectively capture performance information at both the strategic and operational levels; and
- establishing a review process to ensure that the key performance indicators remain relevant.

3.34 To ensure that there is an adequate reporting system in place to capture the performance information required by the MoU, the ANAO considers the ATO should examine the viability of modifying the existing SB BSL management information system to record and monitor its AUSTRAC cases. The ARC should also ensure that LB&I BSL records and monitors its AUSTRAC cases on the existing CASES management information system.

Recommendation No.3

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

Agency response

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

Emphasis on Suspect Transaction Reports

3.37 In its 1993 report, *Checking the Cash*, the Senate Standing Committee on Legal and Constitutional Affairs criticised the ATO for not making greater use of AUSTRAC data. The Committee considered that '*the ATO may need to take the FTR Act on board in a more positive and active way to take proper account of the principle objective of the Act*'.⁴²

3.38 In its submission, the ATO agreed that it had mainly concentrated on using SUSTRs, but reported that it was in the process of upgrading systems to make better use of the SCTRs and expected to use IFTIs to assist intelligence efforts in international tax evasion. The ATO undertook to improve the way it used AUSTRAC data by:

- using the significant transactions reports for high-level case selection and risk management;
- increasing the use of all AUSTRAC data; and
- ensuring IFTIs become a normal part of the ATO's procedures for actioning AUSTRAC data.

3.39 The audit found that, since the Senate committee report, the ATO has made progress in using SCTRs and IFTIs, particularly for intelligence activities with the development of the Datamart programs. The ANAO was advised that there is a general understanding within the ATO that, where relevant, an AUSTRAC search should be carried out for projects and compliance activities but this instruction is not documented. There was also evidence that some audit teams explored the AUSTRAC database in a systematic and thorough manner, however, this was not consistent across all BSLs.

⁴² Senate Standing Committee on Legal and Constitutional Affairs, *Checking the Cash*, 1993 pp. 104–105.

3.40 The ANAO noted that the ATO still assigns considerable emphasis and resources to SUSTRs. ALOs use SUSTRs to profile taxpayers and potential audit cases. They provide monthly statistics to the ARC on the number of SUSTR cases on hand, cases received and cases referred to audit teams.

Confidentiality of SUSTRs

3.41 Section 26 of the Act explicitly states that SUSTRs can be communicated only to taxation officers, AFP members, NCA officers and customs officers. The administrative consequences of this are:

- additional workload for the ATO in accessing primary source documentation; and
- inability of the ATO to refer those cases that may reflect fraud against the Commonwealth to other agencies (eg. Department of Family and Community Services or Centrelink).

Profiling of Suspect Transaction Reports by ALOs

3.42 In 1998–99, AUSTRAC received over 6000 SUSTRs and disseminated almost all of these to the ATO.⁴³ All reports are received by the ARC and distributed to the regional ALOs. ALOs are required to undertake an initial evaluation to determine whether or not the report is worthy of any further action. If it is considered that it warrants further action the SUSTR is then profiled by the ALO. This is done by cross matching the name and address provided against the ATO systems to locate a TFN. The TFN is then checked against a range of tax databases to determine lodgment history and taxation details. The taxpayer is also checked against the AUSTRAC database to establish if they have made any cash transactions and/or international transfers. This provides a more substantial profile of the taxpayer's compliance and allows ALOs to make a considered judgment about whether or not the case warrants compliance action.

3.43 The ANAO was advised that less than half of SUSTR cases proved to be of interest to the ATO. The majority of cases are designated 'no further action' either because of insufficient information or because the case refers to potential social security fraud⁴⁴ rather than to tax matters.

⁴³ Australian Transaction Reports and Analysis Centre, *Annual Report*, 1998–99, p. 115

⁴⁴ The ATO advised that approximately 9.2 per cent of cases may involve potential social security fraud.

SUSTR cases prior to October 1999

3.44 Prior to October 1999, ALOs were required to 'market' their SUSTR cases to compliance teams across the BSLs. The ANAO examined the volume of cases prior to this change in process. During 1998–99, the ATO received 6432 cases. Of these cases, 3941 (61.3 per cent) required no further action, 684 (10.6 per cent) were referred to compliance teams and 1807 (18.1 per cent) were profiled and retained by ALOs awaiting allocation to teams. During this period, 225 cases were finalised.

Current arrangements for actioning SUSTR cases

3.45 The process for profiling and actioning SUSTRs changed in October 1999. Since October 1999, new SUSTR cases profiled by ALOs that cannot be referred to compliance teams are placed on the ATO's Community Information, Storage, Communication and Observation (CISCO) system database. However, those SUSTR cases being held by ALOs at that time pending allocation to teams, were not entered into the CISCO database and are not being followed up by compliance teams. During the audit, the ATO advised that, over the next few months, these cases will be entered into the CISCO database.

3.46 The ATO advised that at October 1999, ALOs had 2703 cases on hand that were awaiting profiling action. The number of cases ALOs had on hand awaiting profiling action in June 2000 was 2006. However, a further 1050 SUSTR cases have been received by the ATO but have yet to be distributed to ALOs by the ARC.

The Community Information, Storage, Communication and Observation (CISCO) System

3.47 CISCO was set up in July 1998 to ensure the consistent capture of community 'tip-offs'. It is designed to allow the ATO to maximise its intelligence and is used to disseminate that information to the appropriate areas as efficiently and effectively as possible. CISCO receives information from a number of external and internal sources including Centrelink, the Department of Immigration and Multicultural Affairs and internal referrals by ATO staff. SUSTRs are treated as an internal referral.

3.48 A CISCO call centre receives information from the public and assigns the case to the appropriate BSL for assessment and risk rating by a regional coordinator and follow-up compliance action. During 1998–99 approximately 35 000 calls, letters and referrals were received that resulted in 23 585 CISCO cases. Approximately 40 per cent of calls do not result in CISCO cases, as they are of a general nature. Across SB, INB and Superannuation BSLs, 11 219 cases were profiled in 1998–99. Of these cases, 828 (7.4 per cent) were considered to require no further action

and 871 cases (7.8 per cent) were completed. Adding SUSTR cases to CISCO's existing case load, as the ATO advised will occur, as noted above, will impede the ATO's ability to process and follow-up an already high volume of outstanding cases.

3.49 For the period 1 October 1999 to 29 February 2000, 271 SUSTR cases had been entered into the CISCO database. Of these, 156 cases were awaiting review by the BSL regional coordinators. Of the remaining 115 cases,⁴⁵ only five cases had been finalised during this period.

3.50 Lodging AUSTRAC cases on the CISCO database will enable ALOs to 'action' cases. However, given the volume of cases on this database and the small number completed, it does not appear to increase the likelihood that these SUSTR cases will be followed up with an audit or other action in the immediate future.

3.51 The ATO advised that compliance resources are currently focused on ensuring taxpayers are aware of their obligations and are putting in place appropriate accounting and recordkeeping systems to support the new tax system while maintaining a focus on serious evasion and fraud. As the new system is bedded down, these resources will move progressively to verification activities.

3.52 As SUSTR cases have only been included in the CISCO database since October 1999, the ANAO did not examine the effectiveness of this new process for following-up cases. However, it is considered that the ATO should undertake an evaluation following the first 12 months of operation to determine if the process is effective and whether high risk cases are being prioritised and forwarded to compliance teams for action.

3.53 The ATO also advised that it is in the course of bringing together SUSTRs with other referral information such as community tip-offs to better enable risk analysis and identification of high risk cases. When implemented, this process will be further refined as the ATO establishes a range of compliance verification centres undertaking office-based verification activities where there is an indication that all tax obligations have not been met. The ATO expects this to increase the strategic intelligence value of SUSTRs while improving targeting of high risk cases.

⁴⁵ Of the 115 cases, 24 cases required no further action, 40 cases had been reviewed but not allocated to compliance teams, 35 cases were pending review, 11 cases were being actioned and five cases were finalised.

AUSTRAC dissemination of Suspect Transaction Reports

3.54 AUSTRAC has a system for disseminating SUSTRs. Reports are made available to a small number of designated officers in the AFP, NCA, ACS and ATO. Almost all SUSTRs are disseminated to the ATO.

3.55 AUSTRAC monitoring systems are able to identify SUSTRs likely to be of particular value to agencies. These reports could deal with high dollar values or relate to clusters of other types of financial transaction reports. This is done through a number of AUSTRAC software applications, including the ScreenIT and TargIT programs and, in many cases, AUSTRAC has been able to identify networks of suspect financial activity involving up to 100 SUSTRs.⁴⁶

3.56 Through these programs, AUSTRAC is also able to link related financial transaction reports to particular SUSTRs. This enables agencies to assess the potential value of suspect reports and relieves them of the need to replicate searches already undertaken by AUSTRAC analysts. AUSTRAC analysts are also able to link related entities to intelligence assessments.

3.57 Although nominated ATO officers currently have limited access to the outputs of these programs as members of an NCA Task Force, this data is not ATO specific. The ANAO has been advised by AUSTRAC that the ATO could be provided with broader ATO specific access to the financial intelligence prepared by AUSTRAC analysts using the TargIT and ScreenIT programs. However, the ATO would need to undertake further analysis to enable this information to be used as valuable financial intelligence. AUSTRAC advised that in order to gain maximum benefit from using these tools, users need to fully understand the underlying processes and use the tools regularly.

Conclusion

3.58 ALOs expend a considerable amount of time routinely profiling SUSTRs. The ANAO noted that this process has not been reviewed by the ATO in recent years. Less than half the SUSTR reports prove to be of value to the ATO, and, given the volume of cases, there is little likelihood that even worthwhile cases will be followed up by compliance teams in the immediate future. The ANAO considers that the current process of profiling individual SUSTRs may not be the most efficient or effective use of ALO resources.

⁴⁶ Australian Transaction Reports and Analysis Centre 1998–99, *Annual Report*, p. 107.

3.59 The ANAO considers the ATO should examine the possibility of using AUSTRAC tools such as the TargIT and ScreenIT programs to identify networks, patterns and profiles of suspect financial activity rather than continuing its focus on individual reports. More emphasis could then be given to analysing all AUSTRAC financial transaction reports for evidence of non-compliance. Such an approach could include, for example, the ATO requesting AUSTRAC to identify, say on a monthly basis, all instances of individuals who have over one hundred SCTRs reported on the database during the previous 12-month period. The ATO could automatically refine such a list by applying parameters which would exclude those categories of cash transactions known to be legitimate.

3.60 The ANAO considers that this approach would provide real time information to the ATO on a more robust range of transactions that might incur a tax liability than it pursues at present. It would also address the criticisms of the Senate Standing Committee on Legal and Constitutional Affairs that the ATO was not making greater use of AUSTRAC data.

Recommendation No.4

3.61 To ensure the most effective use of ALO resources and enhance the effective and efficient use of AUSTRAC data, the ANAO recommends the ATO review its current processes for profiling and actioning SUSTR cases and examine the opportunities for using AUSTRAC tools to identify patterns of suspect financial activity.

Agency response

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

ATO training in the relevance and use of AUSTRAC data

3.63 Part of the role of the ARC and ALOs is to promote the value of AUSTRAC data within the ATO and to train officers on how to use the AUSTRAC database. This training occurs on two levels. The first is an awareness seminar in each ATO branch every 18 months. The seminar presentation covers a general overview of the FTR Act, cash dealers and their reporting obligations, the types of reports collected by AUSTRAC and a summary of the available AUSTRAC software. Attendance at the presentation is voluntary.

3.64 The second level of training, conducted by ALOs, usually in small groups or on a one-to-one basis, is provided to ATO officers interested in accessing the AUSTRAC database. It is tailored to the appropriate skill level and provides a more in-depth study of the capabilities of the AUSTRAC database.

3.65 There are no formal mechanisms for eliciting feedback from staff on the value or quality of this training, or for reviewing the content of the training sessions. Although there is a register of users, there is no record of the number or duration of the training sessions provided by the ALOs or performance measures that could provide some indication of the effectiveness of this training.

3.66 AUSTRAC provides an on-line help facility within the database and user documentation. The ATO has also recently developed a self-paced on-line training module. However, the ATO has not developed training documentation, specifically addressing ATO requirements, that would assist officers using the database to understand its full potential and maximise its effective use.

3.67 To improve the knowledge and understanding of the potential value of using AUSTRAC data, the ANAO considers that there would be merit in the ATO enhancing its current training on the use of AUSTRAC data. An introductory training module could be developed for all new ATO staff likely to use the data. This could include a general overview of the FTR Act, the AUSTRAC database, how the data can be used and examples of successes in the ATO. An ATO-specific user's guide, summarising the database functions, search methodologies, case studies and information on how the data can be applied, would also assist both new users and those other users requiring support.

AUSTRAC involvement in training

3.68 The current MoU specifies *'the ATO AUSTRAC National Team and ALOs will be responsible for the delivery of training to all other ATO users'*. This limits AUSTRAC's role in training to members of the ARC. The ANAO considers there may be value in reviewing AUSTRAC's involvement in ATO training. AUSTRAC is currently responsible for training NCA and other law enforcement staff and the ANAO considers that the ATO could benefit from this expertise when developing training packages and documentation.

Conclusion

3.69 The ANAO acknowledges that there are important security considerations implicit in the use of AUSTRAC data. However, the ANAO considers that it is important that ATO managers acknowledge and promote the use of AUSTRAC data to assist in identifying, gathering, analysing and acting on intelligence, to contribute to the ATO achieving its outcomes. Incorporating the potential benefits of using AUSTRAC data into ATO training courses would be an indication to staff of its importance. Maintaining the existing ATO-specific on-line training capability and developing training documentation such as an ATO-specific user's guide would also increase the knowledge and level of expertise of AUSTRAC users.

Recommendation No.5

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

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

Agency response

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

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

4. Use of AUSTRAC Data at the Operational Level

This chapter outlines the ATO's use of AUSTRAC data in an operational context. It examines how the data is used by the BSLs, the additional revenue raised and the frequency of use by ATO users. Data matching, data quality and data security issues are also discussed.

Introduction

4.1 To assess the ATO's operational use of AUSTRAC data, the ANAO examined the way in which AUSTRAC data is used in INB, SB and LB&I BSLs, analysed the additional revenue raised through using AUSTRAC data and reviewed the AUSTRAC database user logs to gauge the frequency of use by ATO users.

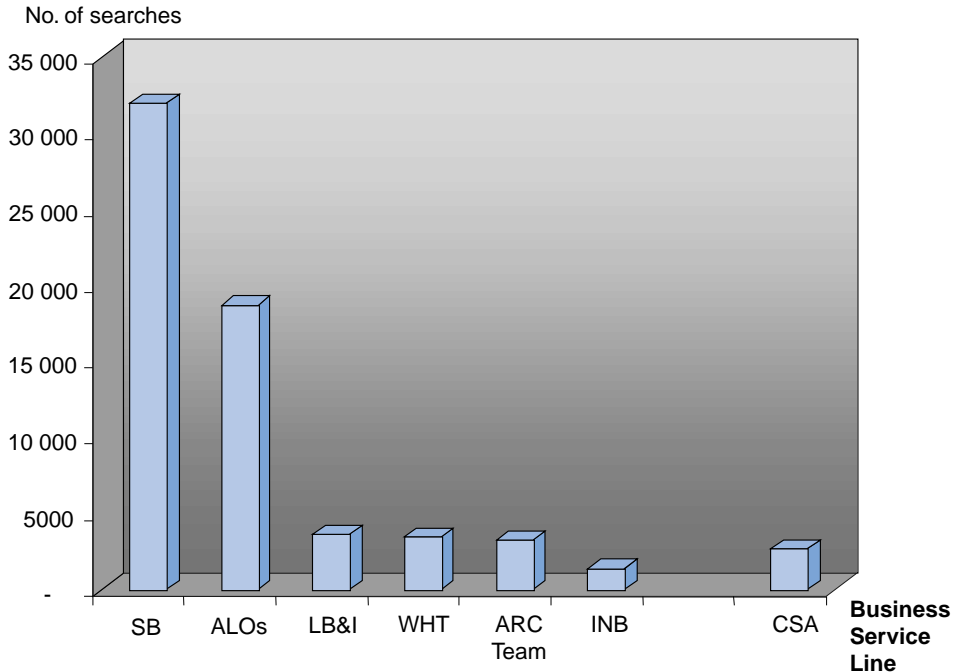
Use of AUSTRAC data by business lines

4.2 The use of the AUSTRAC database varies considerably across business lines. Figure 4 shows the number of AUSTRAC searches conducted by BSLs and the Child Support Agency (CSA)⁴⁷ in the six months from July to December 1999.

4.3 For this period, SB BSL accounted for 49 per cent of the searches carried out on the AUSTRAC database, LB&I BSL for six per cent and INB BSL for two per cent of searches. The ARC and ALOs who undertake searches of the database for all BSLs were responsible for 34 per cent of searches carried out.⁴⁸ This analysis is consistent with the finding of the 1996 ATO Internal Review of the use of AUSTRAC data that SB BSL was the major user of the database.

⁴⁷ Although the Child Support Agency is incorporated within the Department of Family and Community Services, its officers continued to access the AUSTRAC database until April 2000.

⁴⁸ Remaining nine per cent of searches were carried out by other areas in the ATO.

Figure 4**Number of AUSTRAC searches by BSL for the period July to December 1999**

Source: ATO AUSTRAC Research and Coordination Team

4.4 The ATO Internal Review recommended that the ARC provide Regional Commissioners with quarterly reports of AUSTRAC data use in their line, highlighting areas of potential under-utilisation. The ARC does not currently report on database use.

Small Business BSL

4.5 The SB BSL manages income tax collection from all business taxpayers with annual gross turnover of less than \$10 million. This BSL is the primary user of the AUSTRAC database and accounts for over 75 per cent of users. The audit found that its compliance teams have the most developed and systematic procedures for using the AUSTRAC database.

4.6 SB BSL uses AUSTRAC data for strategic intelligence, project and case selection, risk ranking of industries, debt collection and general compliance activity. The use of this data is mainly concentrated in the cash economy industries that are characterised by large volumes of cash transactions. Data contained in the AUSTRAC database can be especially helpful in recording and analysing these transactions.

4.7 SB BSL also conducts a number of real-time audits. The AUSTRAC database receives data from cash dealers in real time, allowing audit teams to use the AUSTRAC data as a source of up-to-date intelligence. This means they do not have to wait until a tax return is lodged before undertaking an audit.

Large Business and International BSL

4.8 LB&I BSL works with large companies and multinationals with an annual gross turnover of more than \$10 million. These organisations are generally characterised by complex tax arrangements and structures. Large and/or international businesses generally employ tax specialists and engage in tax planning in a far more sophisticated way than individuals and small businesses.

4.9 LB&I BSL's main focus is on IFTIs, which enables it to identify the movement of funds into and out of Australia. It targets its field teams based on an analysis of the risk to revenue that particular industry or other groups may represent, and reviews current practices and tax planning strategies, rather than past practices. AUSTRAC data is used as a source of intelligence to monitor and develop profiles of these groups and specific organisations within industries.

4.10 AUSTRAC data can provide accurate, real-time and historical information to assist LB&I officers in their discussions and negotiations with large businesses. The difficulty for LB&I in its operations is identifying networks of company transactions, and ascertaining the relationships between separate entities. When a payment is made to a related entity, it can trigger a different tax treatment than for a payment made to an external party. Once the ATO establishes the relationship between two entities, it can use AUSTRAC data to ascertain what transactions have occurred between these entities and ensure they have received the appropriate tax treatment.

Individuals Non Business BSL

4.11 INB BSL is responsible for the management and collection of income tax from around eight million taxpayers that are not involved in a business. Its review processes are based on tax returns from salary and wage earners, and its analysis focuses on income matching and specific claims such as work related expenses and rental property. Under 'self assessment', the ATO takes on face value the information provided by taxpayers or tax agents on their behalf. The interest and dividends declared by taxpayers are matched with information provided by financial institutions. Taxpayers' schedules of work related expenses are reviewed to assess the overall legitimacy of their claim. AUSTRAC data is not used

by INB BSL as part of its compliance review activity as the resources, skills and timeframe allocated for this activity do not allow for the analysis of external intelligence.

4.12 Data relating to rental property claims is matched in the ATO data warehouse against specific parameters to identify risk cases. These cases are then followed up with audit activity. The ANAO was advised that when the rental review project was initiated two years ago, AUSTRAC's Autosearching facility was used to match the names and addresses of the rental property owners selected for audit with FTR data. Although the ATO project manager found the information useful, and considers that there is a capacity to use AUSTRAC data as a source of intelligence in such audits, at the time, he did not have the resources to undertake the additional AUSTRAC searches required. The ATO advised that this data matching process would be far more efficient if a TFN were applied to FTR data.

4.13 INB BSL uses AUSTRAC data in its debt collection cases to identify taxpayers with an outstanding tax debt who may have made large cash transactions. This is done through the routine bulk matching of tax debtors.⁴⁹ The ATO provides AUSTRAC with listings of the names and addresses of debtors. AUSTRAC matches these names against its own data holdings using its Autosearching facility and advises INB BSL of the results.

Analytical techniques applied to AUSTRAC data

4.14 The audit noted that there were individual teams in both SB and LB&I BSLs that had developed creative and innovative techniques of analysing AUSTRAC data, in conjunction with other intelligence, to achieve specific results. These teams are dispersed across the ATO, with no effective process in place to encourage dialogue, particularly across business line divides. The audit found that even where cases had significant results, the methodology and analytical techniques applied to the data had not always been effectively recorded or disseminated to other audit teams working on similar projects.

⁴⁹ When the ATO performs a bulk data match, it gives notice in the *Commonwealth Government Gazette* to adhere to privacy guidelines.

4.15 Although the ARC disseminates a quarterly newsletter to publish success stories and inform of better practice, the ANAO still found areas of the ATO that did not appreciate the potential benefits of using AUSTRAC data. The ANAO considers that there would be benefits to the ATO if successful techniques for analysing AUSTRAC data and other intelligence, could be captured in a more standard form and used by other teams dealing with similar complex investigations.

Revenue raised using AUSTRAC data

4.16 As noted previously, in 1998–99 \$47 million⁵⁰ was raised in assessments for additional tax and penalties that can be directly attributed either wholly, or in part, to the use of AUSTRAC data. The ANAO analysed this additional revenue⁵¹ and found that SUSTRs accounted for the highest number of cases reviewed and finalised in the period. However, on average, the return for SCTRs and IFTIs was significantly higher than for SUSTRs. It would appear, based on this analysis, that, in concentrating on SUSTRs, the ATO's use of AUSTRAC data does not reflect those cases with the highest average potential return to taxation revenue. The ANAO appreciates that the analysis reflected only those cases that have been finalised during this period and, in considering the concept of 'results', the figures do not take into account those reports used for intelligence or other purposes. The current emphasis given to SUSTRs by ALOs is discussed in Chapter 3.

Frequency of using AUSTRAC data

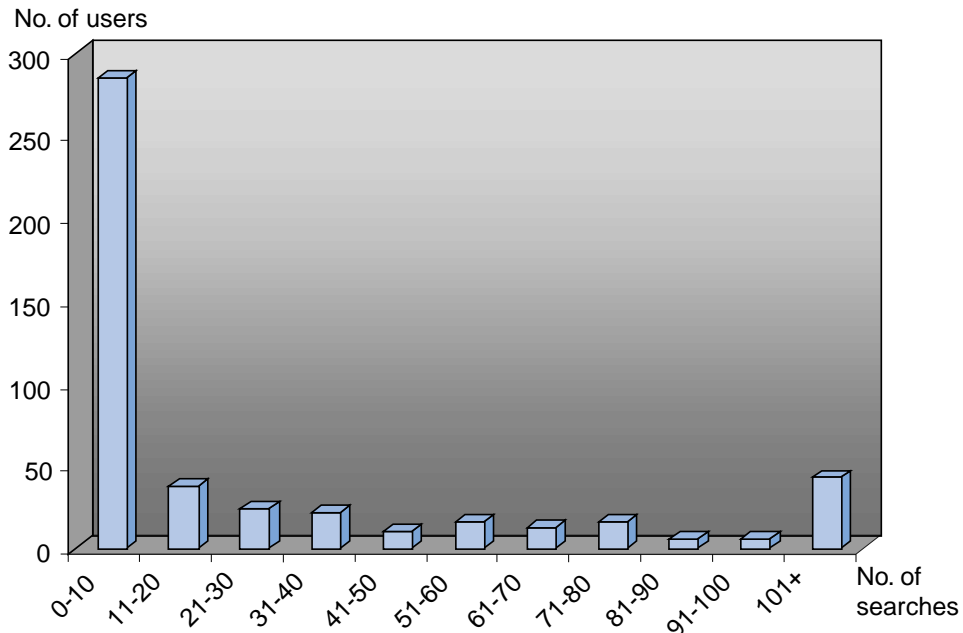
4.17 The audit sought to determine the extent and frequency of the ATO's use of the AUSTRAC database, and analysed user logs to determine the number of AUSTRAC searches carried out by ATO users for the three-month period April to June 2000. Figure 5 details the number of searches carried out by users during this period.

⁵⁰ Figures are collated within the ATO from specific cases where AUSTRAC data has initiated work and represents additional tax and penalties raised in assessment.

⁵¹ Details of the revenue analysis were provided to the ATO.

Figure 5

Number of AUSTRAC searches carried out by ATO users for the period April to June 2000



Source: ATO AUSTRAC Research and Coordination Team

4.18 A total of 28 688 searches were carried out for the three-month period, with the majority of registered ATO users conducting up to 10 searches for the period. This level of use accounts for 59 per cent of the total number of users who had access to the AUSTRAC database at that time. The analysis identified that most users undertook a maximum of three AUSTRAC searches per month, suggesting that the level of use of the AUSTRAC database in the ATO is relatively infrequent.

Monitoring the use of the AUSTRAC database

4.19 ALOs are currently required to monitor, but do not report, the use of the AUSTRAC database each month, so they can identify additional training requirements or target their marketing of the use of AUSTRAC data across BSLs. The ARC also monitors the use of the database on an ad-hoc basis to identify trends and maintain its registered list of users. The ARC is currently undertaking a comparative review of levels of use for an eight month period in 1997–98 and 1998–99. These analyses could possibly be used as a benchmark for future evaluations.

Conclusion

4.20 The ANAO found that the use of AUSTRAC data varied considerably across the three BSLs. The level of use can often be related to an audit team's expertise and proficiency in using the AUSTRAC database but also reflects the BSL's clientele. The ANAO considers that there may be potential for the use of the AUSTRAC database across all three BSLs to be improved. Proficiency in using the data may also be improved if the successful research and analytical techniques applied in some BSLs were captured and disseminated to users across all relevant business lines. It may be useful to appoint a contact officer in each BSL who has responsibility for providing such feedback to the ARC for wider dissemination.

4.21 The ANAO considers that there are benefits in the ARC monitoring the use of the AUSTRAC database on a regular basis, for example, quarterly. This would allow the ATO to identify patterns and trends in the use of AUSTRAC data, and to develop appropriate strategies to improve the use and continued effectiveness of the data. For example, the ARC could identify the need to target the marketing of AUSTRAC data to specific BSLs or projects, implement a comprehensive program of training or seek senior management support, to ensure regular use of AUSTRAC data and the continued proficiency of ATO users. Results of this monitoring could be incorporated into the existing corporate governance reporting framework.

Recommendation No.6

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

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

Agency response

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

Data matching using a unique identifier

Use of Tax File Number (TFN)

4.24 Under the *Privacy Act* 1988, the ATO can only use or disclose TFNs as permitted by law. TFN arrangements are protected by strict guidelines that are binding on the ATO as well as employers, financial institutions and other persons/organisations that have access to TFN information and/or employers, financial institutions and other persons/organisations that have a responsibility to report information to the ATO. As TFNs cannot be matched with other records except for lawful purposes and, under present legislation, are not reported to AUSTRAC, this method of cross-matching is currently not possible. Including a TFN (which would need to be quarantined for ATO use) on AUSTRAC financial transaction reports would significantly enhance the efficiency, accuracy and integrity of matching FTR data with existing ATO information. The ATO advised that currently low data matching rates are an impediment to the effective use of FTR data.

4.25 As previously noted, the House of Representatives Standing Committee on Economics, Finance and Public Administration is examining the management of the TFN system and possible extension of the use of the TFN. The Committee has received submissions from a number of agencies including the ATO, AUSTRAC and the Privacy Commission.

Use of Australian Business Number (ABN)

4.26 Identifying taxpayers can be made difficult because of variations in names and addresses. Sometimes, the information on ATO systems does not match with the information provided by cash dealers.⁵²

4.27 If the ATO cannot find a match, it uses supporting information such as date of birth (if available) and addresses to identify the taxpayer on the AUSTRAC database.⁵³ ATO officers may need to input a number of possible variations on names and addresses and this can be time-consuming. In the majority of cases, the ATO is able to identify taxpayers with the assistance of this supporting information, provided they have reports on the AUSTRAC database. However, in the more difficult cases, this can be reliant on the ATO officer's familiarity and expertise with the AUSTRAC search software.

⁵² These problems can arise because people may shorten their given name to the first letter, or they might have changed the order of their surname and given name, as well as a host of other variations.

⁵³ The name matching software that AUSTRAC uses enables non-exact and stem searching where a common attribute or link can be made between otherwise non-exact names.

4.28 The Government has introduced an Australian Business Number (ABN) as a key component of The New Tax System with effect from 1 July 2000.⁵⁴ This is a unique identifier that will enable business in Australia to deal with a range of government departments or agencies, including the ATO, using just one number. Assigning a unique identifier, such as the ABN, to AUSTRAC financial transaction reports could result in improved efficiencies for the ATO, as it would reduce the need to perform time consuming searches of names and addresses. Although the ABN is only available to businesses, transactions by businesses comprise a majority of financial transaction reports. This would allow an immediate cross-match of a significant proportion of FTR data. It could also enhance the quality of AUSTRAC data, as in most cases it should identify the entity involved.

4.29 The reportable details required to be included in the various financial transaction reports are set out in Schedules to the FTR Act and in the Regulations. These details may be amended by Regulation. The ANAO considers that the potential benefits and costs of including the ABN as a unique identifier on financial transaction reports should be examined by the ATO in conjunction with AUSTRAC. It is appreciated that any proposal to include ABN details on financial transaction reports would include extensive consultation with cash dealers and privacy advocates.

Shared Index strategy

4.30 AUSTRAC advised the ANAO that a further possible option available to the ATO that could enable it to cross-reference its data holdings to AUSTRAC's database is the Shared Index Concept. It is understood that the proposed methodology, which is under development by AUSTRAC, will avoid the duplication and transfer of bulk data and provide the benefits of combining two databases while still retaining the use of existing mechanisms for maintenance, updating, privacy and security controls and audit trails of each separate database. The ATO advised the ANAO that it is aware of this proposal and will consider it in the light of the ATO's data standards and other alternatives.

Data privacy

4.31 Matching ATO data with external data is a sensitive issue. However, such data matching can provide significant benefits for the ATO in collecting tax revenue. The collection, handling, storage and use by Commonwealth agencies of information about individuals are

⁵⁴ *Tax Reform not a new tax a new tax system*, AGPS, August 1998.

regulated by the *Privacy Act* 1988. To comply with the Privacy Commissioner's Guidelines on Data Matching in Commonwealth Administration, which includes standards for data matching to protect the privacy of individuals, the ATO has developed and implemented a strict program protocol for using AUSTRAC's Autosearching facility that addresses data privacy and security requirements.

Data quality

4.32 Quality data is essential if the ATO is to effectively use AUSTRAC information. Data quality is AUSTRAC's responsibility and the ATO must rely on assurance from AUSTRAC that the quality of the data provided is robust and that there are mechanisms for effectively monitoring data quality. Users of the AUSTRAC database identified data quality issues during the audit. The major issue was the variation in the quality and scope of reporting across the spectrum of cash dealers.

4.33 To minimise costs to cash dealers and to maximise efficiencies, AUSTRAC encourages reporting in an electronic format. AUSTRAC assists cash dealers by providing and maintaining software known as the Electronic Data Delivery System (EDDS). Paper reports are forwarded by cash dealers, solicitors and the ACS (for international currency transfers) to the Australian Securities and Investments Commission, which processes them on a contracted outsourcing basis.⁵⁵

4.34 The FTR Act gives AUSTRAC auditors inspection powers to follow-up non-reporting. It has a Database Management Unit and a compliance program to monitor data quality and ensure cash dealers meet FTR legislative requirements.

AUSTRAC's Database Management Unit

4.35 The Database Management Unit reviews the reports received to assess their quality and detect any report exceptions. The exception reports are then referred to relevant cash dealers for appropriate action. Generally, issues identified under the Unit's desk audit program are resolved by contacting or visiting cash dealers.⁵⁶

⁵⁵ Australian Transaction Reports and Analysis Centre, *Annual Report*, 1998–99 p. 60.

⁵⁶ Australian Transaction Reports and Analysis Centre, *Annual Report* op. cit., p. 61.

AUSTRAC's compliance program

4.36 In 1998–99, AUSTRAC had two full-time auditors based in Sydney to cover all cash dealers across Australia. The key elements of its compliance program in 1998–99 were joint studies and compliance audits⁵⁷ and during this period, 10 joint studies and 17 compliance audits were completed.⁵⁸ The number of full-time auditors increased to six in October 1999.

4.37 The Cash Economy Task Force noted that processes aimed at improving the integrity of AUSTRAC data needed to be refined. The Task Force considered this might include seconding ATO staff to AUSTRAC in the short-term or implementing approaches whereby ATO field staff check compliance with FTR requirements as part of their audit activity. The ATO raised with AUSTRAC in 1998 the prospect of using ATO field staff, and were advised by AUSTRAC that there are legal issues to be fully considered before these officers could be used to ensure FTR compliance.

4.38 The ANAO notes it is important that AUSTRAC maintain a firm audit presence to ensure compliance with FTR legislative requirements. As AUSTRAC has only a small number of officers to maintain a consistent audit presence, the use of ATO field staff could dramatically increase the scope of its existing compliance program and, as a consequence, improve data quality. The ANAO considers that the potential use of ATO field staff should again be pursued with AUSTRAC, and efforts made to resolve any legal constraints. To ensure there is no confusion or concern amongst cash dealers, it would be important to clarify the respective roles and policies of the ATO and AUSTRAC.

Legislative limitations relating to overseas transactions

4.39 Currently there are four major issues relating to the quality of the information on overseas transactions recorded by AUSTRAC that limit the capacity of the ATO to review International Funds Transfer Instructions Reports (IFTIs):

- (i) cash dealers are only required to report on telegraphic or electronic funds transfers, they do not report on international bank drafts. As a result, a significant volume of international transactions, which are

⁵⁷ Joint studies involve cooperative reviews with a cash dealer's staff of their systems and procedures to facilitate compliance with the FTR Act. Compliance audits inspect a cash dealer's reporting program by examining the cash dealer's compliance infrastructure, controls and internal procedures.

⁵⁸ The joint studies focused on the second tier banking sector and state based Totalisator Agency Boards. Compliance audits were conducted with six bookmakers, one securities dealer and eight bullion sellers. Audits were conducted at the interstate offices of two of those bullion sellers.

less than \$10 000, is not captured by the FTR Act reporting requirements. (Cash transactions over \$10 000 should be reported as a SCTR);

- (ii) IFTIs can be purchased over the counter. Most financial institutions have international counters and advertise their daily rates of exchange. Customers can choose the bank that offers the most attractive rate. Currently customers making over-the-counter purchases of IFTIs are not required by law to provide proof of identity. AUSTRAC records of these transactions, even where they may be suspicious, may not be adequate to enable the ATO to identify the taxpayer responsible;⁵⁹
- (iii) currently the ATO cannot identify a transfer of funds to a country of interest, such as a tax haven, where that transfer is done in two or more stages. The first stage may be made to an offshore branch of a bank with a second transfer to the country of interest; or the first stage to a neutral (or non-suspect) country such as the USA, with an ongoing transfer to a tax haven; and
- (iv) banks and cash dealers, although they are taxpayers, are not required to report on their own overseas transactions. They are specifically exempted under the FTR legislation.⁶⁰ Since the FTR Act was enacted there has been a significant increase in the number of overseas banks and cash dealers operating within Australia's deregulated banking environment thereby increasing the likely number of overseas transactions that are not reportable to AUSTRAC.

4.40 It is recognised that these issues would need to be addressed through legislative amendment to the FTR Act. If the proposed amendments to the FTR Act, currently being considered, are implemented points (i) and (ii) will be addressed. The ANAO is not aware of any proposals to address points (iii) and (iv) and recognises that these issues would need to be pursued by AUSTRAC rather than the ATO.

Data security

4.41 The Administrative Arrangements Orders made on 21 October 1998 transferred responsibility for the Child Support Agency (CSA) from the ATO to the Department of Family and Community Services (FACS).⁶¹

⁵⁹ The ANAO was advised that one of Australia's major banks does require proof of identity for the purchase of IFTIs as part of its business practice.

⁶⁰ FTR Act Division 3 Section 17B (4).

⁶¹ Administrative Arrangements Orders made on 21 October 1998 and gazetted on 22 October 1998.

CSA continues to be provided with information technology and other services under a service agreement with the ATO. At the time of the audit, the ANAO was advised that CSA officers also had access to AUSTRAC data.

4.42 As noted earlier, the FTR Act⁶² states that access to FTR information should only be provided to taxation officers, law enforcement agencies, the ACS, State and Territory revenue authorities and the Attorney-General. The ANAO was advised that AUSTRAC had some uncertainty about the need for amending legislation and whether CSA officers remained ATO officers. AUSTRAC, while awaiting legal advice, continued to provide CSA staff with access to FTR information until April 2000 when such access was withdrawn on advice from the Attorney-General's Department.

4.43 The ANAO is aware that there is still some uncertainty regarding CSA access to FTR information. This issue needs to be clarified by AUSTRAC.



Canberra, A.C.T.
29 August 2000

P. J. Barrett
Auditor-General

⁶² S.27(1)(a) *Financial Transaction Reports Act 1988*.

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