

ATO Data and Systems Quality

An ANAO Discussion Paper

1. Purpose

A finding of Auditor-General's performance audit of ATO's management of tax file numbers was that there were problems with the integrity of ATO's key data fields on ATO's taxpayer databases. The data fields were the tax file number, name and date of birth. This was established by assessing the quality of these databases against others of known integrity, such as ABS census data, and by determining the approximate number of duplicate records.

The Auditor-General also reported:¹

The ATO has taken significant initiatives that aim to ensure only high quality TFN information is included on its databases. The ANAO found that, notwithstanding these initiatives, there is room for improvement in the quality of TFN information. The ATO was advised during the audit, through its own internal research, that the quality of its main databases was probably somewhere between unsatisfactory and average. The less than satisfactory integrity of the ATO's TFN information is generally acknowledged throughout the ATO. The shortcomings in data quality have limited the effectiveness of information matching by the ATO.

The Auditor-General recommended that the ATO:²

- a) improve client data quality throughout its business lines;*
- b) progress strategies for the resolution of duplicate, and the archival of inactive, records;*
- c) assess the cost-effectiveness of accessing and using additional data sets, such as those from the State Registrars-General; and*
- d) work with strategic partners to ensure that data sets conform to ATO standards before they are provided to the ATO.*

In response, the ATO agreed to (a), (c) and (d) and agreed with qualification to (b). Regarding recommendation (a), the ATO added that it noted that major elements of the Corporate Data Management Plan have already been put in place across Business and Service Lines by means of the Client Identity Integration Project including implementation of the ATO Data Standard. This standard imposes corporate client information business rules, data formats and edit rules across all ATO business systems. The ATO added that it is also contributing to the development of an Australian Standard for "Interchange of Client Information" and the ATO Data Standard is being used as the base document for this exercise.

¹ *The Management of Tax File Numbers The Australian Taxation Office The Auditor-General Audit Report No 37 1998-99, page 84.*

² *Ibid, page 96.*

In response to these findings and recommendations, the Committee Chairman requested that the ANAO provide the Committee with a paper summarising how the issue of ATO's data and systems quality had been addressed in previous reports of the Auditor-General and in the reports of parliamentary inquiries.

The first section of this paper provides an overview of the meaning of "data and systems quality". This is followed by an account of some of the more important findings in relation to this overview from previous reports of the Auditor-General and parliamentary committees. The conclusion of the paper provides an outline of themes that the Committee might wish to address in the current inquiry into ATO's management of Tax File Numbers.

In the reports reviewed, the issue of ATO's data and systems quality was not directly examined as an issue itself. Audits, and parliamentary inquiries, have, however, addressed this issue as part of the examination of wider issues. For example, numerous audit reports have examined ATO's use of data and drawn attention to the advantages of making full use of data already available to the ATO or obtainable by the ATO. Several reports highlight the scope for improvement in ATO's data matching capacities. Several reports comment about the accuracy of information on ATO's databases, about the appropriateness of the technology in use by the ATO, about the management of ATO's data and systems and about the adequacy of the information and systems' standards and quality assurance systems used by the ATO.

This paper presents an historical summary of Auditor-General and parliamentary reports. It does not reflect the current ATO state of administration in the areas commented upon by the reports reviewed. In many areas the ATO has agreed with the findings reported and the particular problems that were of concern to the Auditor-General and the parliamentary committees at that time may have been rectified.

In his Report on the management of Tax File Numbers, the Auditor-General also noted:

The integrity of other significant areas of Commonwealth administration now depends on the integrity of ATO's TFN system. This means that, as the TFN has a role in Commonwealth administration that is broader than tax administration and as this role might well expand in future years, the ATO carries a broader administrative role. This role can introduce priorities that might not be those of tax administration. ANAO's main concern is that the ATO will need to be more cognisant of this wider role of the TFN. In improving administration of TFN matters in ways indicated in this Report, the ATO may, in ANAO's view, need to give priority to concerns that relate more to other areas of Commonwealth administration than to tax administration.³

Since the integrity of the TFN is a whole-of-government issue, any weaknesses in this respect could impact adversely on other areas of government. The other Commonwealth agencies whose performance depends directly on the integrity of the TFN are Centrelink, DEETYA, DIMA, and the Child Support Agency. The TFN is

³ Ibid, page 51.

also widely used throughout the community. As a consequence, the integrity of the TFN is a matter of community concern across employers, employees, financial institutions and superannuation funds.

2. Definition of data and systems quality

The Auditor-General's reports have regularly contained findings about shortcomings in the quality of ATO's data and systems and recommendations to overcome them. Our review of these reports and of ATO papers about data and systems quality⁴ show that there is a network of concepts relevant to defining data and systems quality.⁵

The network of key concepts includes:

- *Accuracy*
In quality information systems, stakeholders can generally have a high level of confidence about the quality of data items, that is about the accuracy, completeness and reliability of information and data. Shortcomings in this area would include audit findings about the incidence of errors and duplicates, about the absence of data items (eg addresses) in data fields or about the ease with which data items (eg date of birth) could be changed.
- *Usefulness*
A feature of quality information systems is the timeliness and usefulness of information on databases, including easy access to relevant data by authorised persons. In quality information systems, the use of the data is relatively easy. All relevant data is accessible, interconnected, integrated and capable of being matched. Information can be used to achieve management objectives, to add value to the organisation, to generate knowledge, and to improve the quality of decision making. All data and information that are sought are put to good use. Shortcomings in this area would include the receipt of databases by the ATO from external agencies (eg banks) that the ATO is unable to use because of poor quality, or cannot put to good use, because it is received too late for income checking purposes. A further limitation may be the ATO's inability to link existing databases for compliance checking purposes.
- *Technology*
Having the right technology is crucial to quality information systems. Quality implies the use of highly cost effective and smart systems that can transform data and information into knowledge that adds value. Smart systems contribute value

⁴ This refers to a review of relevant ATO reports and working papers during the audit of ATO's management of tax file numbers.

⁵ The concepts of "data" and "information" tend to be used interchangeably in the reports reviewed and for ease of discussion we will continue this practice. Thus "information systems" is used interchangeably with the phrase "data and systems". The meaning of "data" is usually restricted to refer to the items that are entered into fields with specifically designated classifications, or names, on databases. Examples of fields with specific classifications include name, date of birth, gender, address, occupation, employer, income, and marital status. The term "information" is usually applied when data is used in a decision-making context. In this context, information is usually defined as that which makes the difference between decision making based on a random process (and therefore seldom getting it right) and decision making which gets it right most of the time. Accordingly, "information" means much the same as "accurate, good quality, useable data".

in an integrated way, adding value in a multiplicative, and even exponential, sense. Shortcomings in this area would be the use of outmoded equipment and software, the non-use of key information and the non-use of relevant software and information technology systems.

- *Management*

Good management, including good information management, is necessary for the sound functioning of quality systems and data. More generally, information is a key resource of the ATO in the same category as people and capital. The good management of information can be assessed against the general criteria for better practice management. Information management encompasses all the stages of the data cycle from defining data needs, planning for the collection and analysis of data in line with defined needs, through to assuring data quality and its availability for use.⁶ Shortcomings in this area would include the failure to specify all relevant data requirements, the failure to properly value information as an asset of the organisation or in relation to other values (for example, as evidence of administrative action or in a heritage sense), and weaknesses in the management of information as a key resource of the ATO.

- *Standards and quality assurance*

The functioning of data and systems quality means that there are standards for all of the above and quality assurance systems to evaluate compliance with those standards. Shortcomings in this area would be the absence of standards, the absence of quality assurance procedures and systems or, if there are appropriate standards and quality assurance systems, the lack of compliance with them and the failure of management to rectify any such compliance problems.

3. Data and systems quality themes from the Auditor-General's and Parliamentary Committees' Reports

Relevant extracts from the Auditor-General's reports

On 7 December 1984 the Commonwealth Auditor-General's first efficiency audits of the ATO's administration of the tax system were tabled in the Commonwealth Parliament. In his Foreword to these reports the Auditor-General stated:

The major questions posed by the audit findings is whether, at a time when the pace of change seems to be quickening, the ATO has been sufficiently innovative and has fully understood the advantages to be derived from a substantially enhanced investment in information processing technology.⁷

The Auditor-General's reports of the 1980s and early 90s consistently report shortcomings in ATO's performance that arise from poor quality data and systems.

⁶ *Data Management in the APS* The Auditor-General Audit Report No 48 1997-98.

⁷ *Reports of the Auditor-General on Efficiency Audits* 7 December 1984, Foreword page ii.

Many reports examined how the ATO matched data as part of its work. Where this was examined, the reports conclude that ATO was not able to fully realise the potential of data matching.⁸

The main reasons given for this in the reports as follows:

- ATO does not obtain all relevant information;
- ATO does not obtain information that should be provided under statute;
- ATO is not able to use all the information it does obtain because of the poor quality of the information;
- ATO cannot match its own databases because they are incompatible;
- ATO does not examine discrepant cases and mismatches;
- ATO is unable to conduct a full cross-referencing of relationships among companies, partnerships, trusts and individual taxpayers including those whom the ATO exempts from having to lodge returns.

Related to the capacity of the ATO to fully realise the potential of data matching are findings in these reports that relate specifically to considerations of the accuracy and usefulness of data and the use of appropriate technology. These findings include:⁹

- Taxpayers are not reporting all assessable income and the steps taken by the ATO to ensure that they do are inadequate. ATO's capacity to verify that all assessable income is reported is insufficient to the task. Recurring problems are reported in respect of the following classes of assessable income:
 - Dividends, interest and the like;
 - Real estate, especially rental income;
 - Other occupations;
 - Payments from the Commonwealth Government.
- ATO's capacity to obtain and use relevant data bases from external sources.

⁸ These findings are reported in many of the Auditor-General's efficiency audit reports since 1984. The following reports tabled between 1984 and 1995 contain findings that support this conclusion. *The Collection of Sales Tax by the ATO* AGPS 1984, page 97. *Processing and Assessment of Income Tax Returns by the ATO* AGPS 1984, page 15. *Checking of Dividends and Interest Disclosed in Income Tax Returns by the ATO* AGPS 1984, pages 28, 33, 35, 47. *Processing of Income Tax Instalment Deductions by the ATO* AGPS 1984, page 60. *ATO-External sources of information* Report of the Auditor-General March 1986, pages 143-153. *ATO-Disclosure of diesel fuel rebates* Report of the Auditor-General March 1986, pages 153-157. *ATO-Partnership and trust distributions* Report of the Auditor-General March 1986, pages 157-160. *ATO-Unpresented Group Certificates* AGPS August 1986, pages 1-3. *ATO-Prescribed Payments System* AGPS September 1986, pages 2-5. *ATO-Taxpayers in unincorporated businesses* AGPS 1987, pages 42-50, 79-90. *ATO-Prescribed Payments System* Audit Report No. 28 1991-92, 29 April 1992, pages viii, ix, x, 5, 6, 21-23, 35. *ATO-Management of Appeals and Review* Audit Report No. 24 1993-94 14 December 1993, page ix. *ATO-Wool Tax* Audit Report No. 3 1994-95 12 October 1994, page 10. *ATO-Income Matching System* Audit Report No. 1 1995-96 28 July 1995, pages xiii, xiv, 12, 14, 23, 27, 40, 42-49, 53-56.

⁹ Ibid.

- ATO's capacity to link all of the entities associated with a particular taxpayer.
- ATO's capacity to ensure that full and accurate information is provided by taxpayers about the trust and partnership distributions.

In view of the problems reported by the Auditor-General in the TFN report about the quality of information provided to the ATO by financial institutions in 1998-99, especially the banks, and their compliance with statutory reporting requirements, the Auditor-General's finding in 1984 on this matter is instructive:

*In Audit's view the ATO has not shown evidence of a firm and consistent approach in this area. This has resulted in significant deficiencies in information submitted by the banks. Consequently revenue that might have been collected has not been. The receipt of complete statements of interest from the banks as required by Income Tax Regulation 11 (2) since 1936 has yet to be achieved.*¹⁰

*Using ATO estimating techniques and the results of research which the ATO had carried out in respect of the 1978-79 income year, Audit concluded that the amount of tax evaded in respect of undisclosed dividends and interest (mainly the latter) could be currently up to some \$500 million per annum.*¹¹ *Because of various deficiencies in the ATO checking system and its failure to utilise all available information, it also appeared to Audit that there was little prospect of remedying the situation without significantly greater efforts by the ATO.*¹²

**Efficiency Audit Australian Taxation Office
The Management of Appeals and Review Audit Report No 24 1993-94
14 December 1993**

One of the key points emphasised in the Report (with which the ATO agreed) was: *The management information system used by Appeals and Review cannot be relied upon to deliver accurate, complete, and timely information to management. A new system is planned. In the meantime, the ANAO has made recommendations for improvements in operating arrangements for the present system.*¹³

A key conclusion of the Report (with which the ATO agreed) was:

*The ANAO is of the opinion that, if an effective Management Information System had been in place together with accurate work measurement practices and efficient monitoring and co-ordination, the current Appeals and Review work situation could have been achieved with further reduction in the resources assigned.*¹⁴

¹⁰ *Checking of Dividends and Interest Disclosed in Income Tax Returns by the ATO* AGPS 1984, page 33.

¹¹ This was 1.2% of total tax revenue (\$40.75 billion) for the financial year 1983-84. The equivalent amount for 1998-99 would be about \$1.4 billion as this is 1.2% of the total tax revenue, (excluding excise), (\$122.5 billion) for the financial year 1998-99. (The source of the figure for the 1998-99 tax collections is page 26 of the ATO's *Annual Report 1998-99*).

¹² *Checking of Dividends and Interest Disclosed in Income Tax Returns by the ATO* AGPS 1984, page 28.

¹³ *ATO-Management of Appeals and Review* Audit Report No. 24 1993-94 14 December 1993, page ix.

¹⁴ *Ibid*, page xvii.

**Performance Audit Australian Taxation Office
Income Matching System Audit Report No 1 1995-96
28 July 1995**

Amongst other things, the Auditor-General found that the ATO restricted the use of the Information Matching System (IMS) (developed to identify taxpayer non-compliance) to a narrow range of cases that had relatively high quality data (mostly TFN matched), namely dividends and interest, spouse rebates and pensions and benefits.¹⁵

The Auditor-General found:

*...that the Information Matching system is generating sufficient cases of interest discrepancies to justify a tax audit program.*¹⁶

*That ATO's knowledge of the effect of the income matching program on compliance for interest income is not sufficient to enable meaningful evaluation of the effectiveness of its program.*¹⁷

*Relatively few cases are selected from the remaining income categories provided by IMS; salary and wage cases, partnership and trust distributions, cases that combine dividends and interest with other income sources and the Prescribed Payments System. Virtually no use was made of credit discrepancies, which were produced in 1992 for the first time.*¹⁸

Regarding the use of management information systems, the Auditor-General found that although *the Primary Audit program is characterised by a high degree of devolution of authority and responsibility for day-to-day operations to the various branches, the Primary Audit Case Information Management System has not facilitated economical reporting of productivity at branch and national level because it is not integrated nationally and cannot compare cases completed with work plan targets.*¹⁹

Regarding the use of quality assurance systems, the Auditor-General found that *the ATO was unable to demonstrate the statistical basis for the QA system adopted and therefore lacks the means to defend the reliability, cost-effectiveness or results of the QA system.*²⁰

The ATO agreed with these findings and undertook to rectify the deficiencies identified.

¹⁵ ATO-Income Matching System Audit Report No. 1 1995-96 28 July 1995, page 47.

¹⁶ Ibid, page 12.

¹⁷ Ibid, page 14.

¹⁸ Ibid, page 44.

¹⁹ Ibid, page xiii.

²⁰ Ibid, page xiv.

**Performance Audit Australian Taxation Office
Sales Tax Audit Report No 20 1997-98
4 December 1997**

The Auditor-General drew attention to problems in the quality of ATO's sales tax databases. For example, the Auditor-General found:

*There is a potentially high risk of registration being used incorrectly or illegally and sales tax not being paid.*²¹

*No evidence to suggest that the ATO is improving its management of sales tax audit data quality with the introduction of CaMRA.*²²

*The relatively high level of illegal quotations [of sales tax numbers] to the Australian Customs Service undermines the integrity of the sales tax system and is potentially a serious risk to revenue.*²³

The Auditor-General made a number of recommendations to improve the administration of sales tax, including initiatives to improve data and systems quality and the establishment of an ATO/ACS data matching program. ATO agreed with all of the recommendations.

**Performance Audit Australian Taxation Office
Prescribed Payments System Audit Report No 14 1998-99
12 November 1998**

The Auditor-General found although the ATO collects Payment Summary information from Prescribed Payment System (PPS) payers and payees which imposes a compliance cost on PPS payers, the ATO could make more effective use of this information thereby improving taxpayer compliance (and therefore the amount of revenue collected).²⁴

The Auditor-General found that the ATO was not making as good a use of its own or external databases as it should and was not carrying out sufficient data matching, or availing itself of the most cost-effective data capture technology.²⁵

On 25 September 1986 an efficiency audit report of the ATO's administration of the PPS was tabled in the Parliament. The same type of problems about the inadequate use of Payment Summary information, the limited use of ATO's own or external databases containing taxpayer information, the limited use of data matching reported in 1998 were reported in 1986.²⁶ Amongst the many findings in the 1986 Report is the following:

To realise the potential of the PPS, the ATO would need to take advantage of ADP methods that would permit routine internal checking that payments notified by payers

²¹ *Sales Tax ATO Audit Report No 20 1997-98 4 December 1997, page 52.*

²² CaMRA is ATO's computer based Case Management, Reporting and Analysis tool to support the administration of sales tax. *Ibid*, page 65.

²³ *Sales Tax ATO Audit Report No 20 1997-98 4 December 1997, page 94.*

²⁴ *Prescribed Payments System ATO Audit Report No 14 1998-99 12 November 1998, pages 33-38,47-50.*

²⁵ *Ibid*, pages 39-43, 45, 46.

²⁶ *ATO-Prescribed Payments System AGPS September 1986, pages 2-5.*

*are disclosed as income by payees. The considerable amount of payments data flowing continuously into the ATO from payers, local authorities and householders is not fully utilised.*²⁷

On 29 April 1992 a report of the Auditor-General's follow up of this audit was tabled in the Parliament. The Auditor-General reported that although the ATO had implemented most of the recommendations of the 1986 Efficiency Audit, the ATO could make better use of ATO's own and external databases containing taxpayer information, improve the use of data matching, and improve the integrity of data.²⁸ The follow up audit concluded:

The ANAO considered that there was a strong need to increase enforcement action and to improve management information. In particular, there should be:

- *implementation of more effective payer enforcement strategies;*
- *further development of the computer system as an aid in the identification of defaulting payers;*
- *more effective use of income matching information on PPS payees, and*
- *implementation of national PPS performance processing standards.*²⁹

Relevant extracts from reports of parliamentary inquiries

Parliamentary committees have inquired into many aspects of ATO's administration over the past 15 or so years. A number of these investigated ATO's data and systems quality. In a number of inquiries, the committees determined that there were deficiencies in ATO's data and systems quality in each of the areas defined in Section 2 above. The following extracts from past reports give some indication of the extent of the committees' findings.

Report from House of Representatives Standing Committee on Expenditure A Taxing Problem September 1986

This report outlined the major failings of the ATO's capacity to collect and use data effectively. One of the most relevant assertions in this report for the present inquiry is that *not the least of the [ATO's] problems is the very low integrity of the present tax file number system.*³⁰

In relation to systems and data quality, the Report found that:

- *Their (ATO's) database is woefully inadequate. Their computer system, their ability to extract the required data and be able to interface that data between different systems, is inadequate.*³¹
- *The ATO had failed to take full advantage of technological advances that should permit computerised processing.*³²

²⁷ Ibid, page 2.

²⁸ ATO Prescribed Payments System Audit Report No. 28 1991-92, pages viii, x, 21-23.

²⁹ Ibid, pages 5, 6.

³⁰ Paragraph 4.39

³¹ Paragraph 3.10

³² Paragraph 3.7

- *This failure was widespread and certainly applicable to all taxation assessment and collection operations³³ and this failure has severely hindered ATO's capacity to process all external data vital for checking activities. Simply put, the ATO could not process all data it received. This is a major problem in view of the fact that ATO is reliant on its information matching system in order to assess the full liability of taxpayers to taxation.³⁴*
- *The ATO acknowledged that there are serious inadequacies within its automatic data processing (ADP) operations. For example, from ATO's 1983-84 Annual Report: There are serious inadequacies in our computer systems, due mainly to their age.³⁵*
- *The non-realisation of tax revenues has arisen because of two fundamental problems within the information reporting system: lack of information, and inadequate matching capabilities. The major problem confronting the ATO is its lack of processing capacity. Currently it cannot utilise all external data available to it nor can it perform the number of checks and investigations necessary to ensure all tax due and payable is actually collected.³⁶*

In relation to management and planning, the Report found that:

- *There was also evidence that ATO had suffered from poor management and direction of its ADP area. This in part, seems to be supported by the findings of ADP consultants commissioned to review ATO's Technical Strategy Plan.³⁷*
- *Apart from contending with its internal problems, the ATO has had to cope with the task of administering the increasing complexities of the taxation legislation.³⁸*

The following two reports by Senate Standing Committees examined TFN administration in 1988 and 1989. They are directly relevant to the current inquiry. Concerns about the quality of ATO's data and systems in relation to the administration of the TFN system were identified in both reports. Although these reports are from the late 1980s, some of these weaknesses were again highlighted in the Auditor-General's audit of the TFN system in 1998-99.

Senate Standing Committee on Legal and Constitutional Affairs Feasibility of a National ID Scheme; The Tax File Number October 1988

- *The ATO maintained that the current system of income matching, on which these results are based, is labour intensive and falls 'well short of realising its full potential'. The ATO referred to the difficulties of name and address matching, the problems of dealing with the bulk of unrepresented group certificates under these arrangements, difficulties with matching income reports on interest payments and gaps in the interest reporting 'net'.³⁹*
- *Forms may be examined and corrected by administrative staff but 'only a fraction of the total errors will be picked up through administrative checking'.*

³³ Paragraph 3.8

³⁴ Paragraph 3.9

³⁵ Paragraph 3.13

³⁶ Paragraph 4.5

³⁷ Paragraph 3.14

³⁸ Paragraph 3.34

³⁹ Paragraph 4.15

*Generalising from this statement, it can be said that the quality of information on many databases is unlikely to be high.*⁴⁰

**Senate Standing Committee on Finance and Public Administration
The Administration of the Tax File Numbers System
June 1989**

- *A few individuals reportedly received more than one TFN advice addressed to them. This reflected the lack of integrity of the pre-TFN numbering system, under which it was possible for an individual to obtain more than one number. This could occur through taxpayer error or deceit, or through ATO error.*⁴¹
- *[The ATO] did not seek to conceal the fact that it was a computer programming error on its part that was primarily responsible. The effect of this error was to include in the mailing taxpayers who have since moved or died, notwithstanding that the ATO was using the latest information supplied to it.*⁴²

**House of Representatives Standing Committee on Finance and Public Administration
Follow the Yellow Brick Road – The Final Report on an Efficiency Audit of the Australian Taxation Office: International Profit Shifting
March 1991**

The Committee found that ATO's information systems did not contain sufficient information to distinguish between legitimate arrangements and those established to evade tax. This shortcoming in the accuracy and completeness of ATO's information systems had serious consequences as the Committee concluded:

- *The acknowledged difficulties associated with distinguishing between legitimate arrangements and those established to evade taxation obligations meant that the level of revenue loss could not be quantified with precision.*⁴³

From Administrative Arrangements

- *There is no linkage between the withholding tax system and the ATO's National Taxpayer Computer System; and*
- *There is an absence of meaningful statistics collected from withholding tax data available to the ATO which could assist in audit risk assessment.*⁴⁴

From the Efficiency Audit findings

- *Audit concluded from a review of operations that (the ATO) initiated minimal follow up on advice it received either internally, or externally from organisations. It was evident that the ATO did not make use of information held by it . . . to identify and prevent tax evasion.*⁴⁵
- *There was inadequate computerised support . . . the use of computing facilities and some expert analysis and redesign of the operations was essential.*⁴⁶

⁴⁰ Paragraph 5.18

⁴¹ Paragraph 50

⁴² Paragraph 43

⁴³ Paragraph 2.48

⁴⁴ Paragraph 3.12

⁴⁵ Paragraph 3.4

⁴⁶ Paragraph 3.5

Committee's conclusions

- *The likelihood of [tax evasive] arrangements being detected and reported through the cash reporting mechanisms which are currently in place is minimal.*⁴⁷
- *The Committee considers that this (not monitoring of cash transaction transfers) to be a notable deficiency, as it precludes the ATO from an important source of intelligence.*⁴⁸

Joint Committee on Public accounts and Audit

Report No 326 Assessment of Tax

November 1993

Weakness in the alignment of systems technology to the ATO's needs is a point of criticism of the ATO in this Committee's Report. It found, for example, that the capacity of the technology within the ATO was inadequate for the needs of ATO's main tasks. The Committee considered that the ATO was often not up to date with technology, which led the Committee to recommend that 'the ATO prepare estimates of possible revenue gains relating to all systems redevelopment proposals which pertain to modernisation developments'.⁴⁹

Senate Economic References Committee

A Question of Balance, The Tax Treatment of Small Business

June 1995

- Much of this Report focuses on many of the complexities and ambiguities of taxation legislation and how they apply to small businesses. In relation to the issue at hand, the main problem stemming from these complexities is that the information that is provided to the ATO about these businesses is often incorrect, incomplete and/or inconsistent. These deficiencies are then recorded on the ATO's systems and compromise the accuracy of the records.

5. Modernisation

The Auditor-General's reports of the 1980s provided evidence for the scope to improve ATO's performance by the better use of contemporary management strategies and information technology. In 1989 the Government established the Modernisation Project. This Project was directly aimed at taking advantage of the opportunities of new technology.

The Project consisted of over 100 component projects affecting most areas of the ATO, including many of the areas examined in the above-mentioned reports. The Government invested over \$1.1 billion over a ten-year period, and the ATO contributed to this cost by the achievement of staff savings over the same period.⁵⁰

⁴⁷ Paragraph 5.16. This meant that the ATO was either not capturing the information necessary to detect tax evasion, or, if it was, the ATO was not using this information appropriately to detect tax evasion.

⁴⁸ Paragraph 5.27

⁴⁹ Paragraph 8.109

⁵⁰ This is drawn from the following: The Commissioner of Taxation's *Annual Report 1988-89* pages 79-81 and *The Explanatory Notes 1990-91 Treasury Portfolio* pages 216-217.

At the time, the Commissioner of Taxation stated:

*The Modernisation Project is a major focus of organisational change for the ATO. It provides the ATO with the opportunity to examine the way it administers tax laws and removes many of the barriers to change posed by the existing computer systems.*⁵¹

The Modernisation Project had a much broader scope than the improvement of ATO's data and systems quality. However, the Project was expected to result in improvements in this area. Given that the 10 years of the Modernisation Project is just up, the Committee could explore whether the improvements to the quality of ATO's data and systems that have occurred over the period are commensurate with expectations and investment.

4. Conclusion

As already noted, the TFN is a whole of government issue, however, it should be pointed out that the ATO is an organisation most likely to be heavily dependent on good data quality and systems. The findings from the Auditor-General's and parliamentary reports reviewed indicate that the issue of the quality of ATO's data and systems would merit the Committee's consideration. However, the magnitude of the task of the transformation within the ATO, in terms of administrative management, systems modernisation and strategic direction, over the last 15 or so years ought not to be underestimated.

Throughout the 1980s and 1990s, the ATO transformed from an organisation structured on seven states using a mix of largely state based manual records and simple mainframe computer systems to one that has a national focus and is almost entirely dependent on national computer based systems.

In any one year there are many millions of records to process and tens of millions of transactions taking place. Moreover, in attending to the multiplicity of tasks involved in this complex transformation, the ATO has had to strike an appropriate balance between different agendas. These include:

- the priorities of the day,⁵²
- the management of business as usual,
- maximising the amount of revenue collected in any one year,
- the complexity of legislation,
- rapidly changing technology, and
- planning for the future.

Achieving the right balance over an appropriate timeframe is the critical management task. Each agenda is dynamic and changes within each impact on the others. The balance is in a continual state of flux, evolving over time.

⁵¹ The Commissioner of Taxation's *Annual Report 1988-99* page 81.

⁵² This includes the policy and legislative initiatives of the Government as well as incidents such as the revelations of widespread tax evasion and avoidance as occurred, for example, with the disclosure of the "bottom-of-the-harbour" schemes in the 1980s or public disquiet about the "cash economy" in the early 1990s.

The Auditor-General's audits occur at particular stages in the evolution of ATO's balancing the main challenges that the ATO faces at any point in time, such as is summarised by the above-mentioned agendas, and invariably find shortcomings. Nevertheless, many large organisations in the finance sector face similar challenges.

Since the first efficiency audit reports were published there have been steady improvements in ATO's administration. There also continues to be audit and parliamentary findings about shortcomings in the quality of ATO's data and systems. Although improvements have been noted in the reports reviewed, the Committee could review ATO improvements against the framework provided in section 2 above.

The main findings in relation to this framework identified by this review are:

▪ **Accuracy**

Meaning: Stakeholders can have a level of confidence about the quality of ATO's information systems and about the quality of data items, (that is the accuracy, completeness and reliability of information and data), in those systems.

Finding: Shortcomings in the accuracy of information, in this sense, continue to be a concern in the reports reviewed.

▪ **Usefulness**

Meaning: The timeliness and usefulness of information, including easy access to relevant data by authorised persons, is a feature of quality information systems.

Findings: There continue to be databases of which the ATO does not make full use. In addition, there has been a continuing concern in the reports reviewed about the quality and usefulness of the information that financial institutions are required by statute to provide the ATO.

▪ **Technology**

Meaning: Having the right technology is crucial to quality information systems.

Finding: Continuing improvements in this area are noted over the period, but recent reports indicate that there is scope for improvement.

▪ **Management**

Meaning: The sound functioning of quality systems and data requires good management.

Finding: Continuing improvements in this area are noted over the period, but recent reports indicate that there is scope for improvement.

▪ **Standards and quality assurance**

Meaning: Data and systems quality means that there are standards for all of the above and quality assurance systems to evaluate compliance with standards.

Findings: The reports reviewed indicate that the ATO has promulgated standards on most aspects of data and systems quality, but that there may have been shortcomings in their implementation.⁵³ There also continue to be concerns about the adequacy of ATO's quality assurance systems.

⁵³ *The Management of Tax File Numbers The Australian Taxation Office The Auditor-General Audit Report No 37 1998-99, pages 79-80.*

The ATO has from time to time undertaken actions to improve the integrity of its databases. It has also made attempts to address data integrity problems systemically and initiated strategies to clean up data at source. But, as the Auditor-General's Report on the management of Tax File Numbers indicates, problems with the quality of ATO's data and systems continue.