



Joint Committee of Public Accounts and Audit

Managing compliance with foreign investment obligations in residential real estate

(Auditor-General Report No.48 of 2017-18)

12 September 2018

Opening Statement by the Auditor-General

1. Good morning Chair and Committee Members.
2. Thank you for the opportunity to appear before the committee today.
3. ANAO Audit Report No.48 2017–18 *Managing Compliance with Foreign Investment in Residential Real Estate* was tabled in parliament in June 2018. The audit addressed an issue of considerable interest to Australian citizens.
4. Australia has a large volume of foreign investment applications for residential real estate each year, with foreign investors required to comply with obligations that intend to support the Government's policy to channel foreign investment into new dwellings and provide economic growth.
5. Changes to the foreign investment framework in 2015 resulted in the transfer of responsibilities from the Department of the Treasury to the Australian Taxation Office (ATO) for the collection of application fees, upfront screening, compliance and enforcement, and establishing a foreign investment register.
6. In this context the objective of the audit was to assess the effectiveness of the ATO's and Treasury's management of compliance with foreign investment obligations for residential real estate.
7. The audit identified that the ATO's management of compliance with foreign investment obligations was becoming effective as it progressively implemented more



sophisticated approaches to encourage compliance and actively detect and address non-compliance.

8. In this respect, the majority of some 4300 cases of potential non-compliance were detected through community or self referrals, or through approval processes for foreign investors. The ATO has established a data matching program to actively detect non-compliance, but as at April 2018 the program had not addressed all the identified key compliance risks.
9. The ATO has developed processes for compiling a land register of residential real estate but faces considerable challenges in populating the register with reliable data in coming years, which it needs to overcome in order to be effective. The ANAO's analysis indicated likely under-reporting of self-registrations, over-reporting of foreign identity information in state property data and low levels of matching between datasets for foreign investment applications, self-registrations of foreign investment in residential property and state property data. Consequently, the ATO will need to undertake extensive manual verification processes in coming years to enable the register to provide accurate information about the nature and extent of foreign investment in residential real estate and produce reliable intelligence for compliance purposes.
10. The audit made two recommendations aimed at strengthening the ATO's residential foreign investment compliance and enforcement strategy and improving data matching arrangements to address key compliance risks to foreign investment in residential real estate.
11. It was clear that the ATO has made significant improvements in managing compliance with foreign investment obligations in residential real estate. A key lesson from the audit was the importance of placing responsibilities for activities with Government entities that have the expertise and systems to deliver them. Another key lesson was



the need to ensure that appropriate data is accessible to report on the achievement of the objectives of Government.

12. We would be happy to answer any questions the Committee may have.