

ATO data and systems quality

Historical context

- 2.1 The ATO is an organisation that is heavily dependent on high quality data and systems. Data and systems form the underpinnings of the TFN system and must continually evolve in order to address the challenges faced by the ATO and to ensure the integrity of the tax system.
- 2.2 In its decision making about data and systems, the ATO must balance:
- the priorities of the day;
 - 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.¹
- 2.3 The Committee acknowledges the significant efforts of the ATO in balancing these competing priorities. However, against this backdrop, the persistent findings by the Auditor-General and parliamentary inquiries of shortcomings in the quality of the ATO's data and systems over the last 15 years is of significant concern².

1 Auditor-General. 1999. *ATO Data and Systems Quality - An ANAO Discussion Paper*. Canberra, unpublished, p.13. (Referred to as *ATO Data and Systems Quality - An ANAO Discussion Paper*).

2 *ATO Data and Systems Quality - An ANAO Discussion Paper*, 15p.

- 2.4 While specific problems identified by these inquiries are likely to have been addressed, what is disturbing is the themes flowing through these reports. Recurrent problems found in these inquiries with the ATO's data and systems include:
- shortcomings in the accuracy of information held on the ATO's information systems;
 - databases of which the ATO does not make full use³;
 - continuing concern about the quality and usefulness of the information that financial institutions are required by statute to provide the ATO;
 - scope for improvement in choice of technology;
 - scope for improvement in ATO management of data and systems;
 - shortcomings in the implementation of ATO standards on data and systems quality; and
 - concerns about the adequacy of the ATO's quality assurance systems⁴.
- 2.5 These findings are repeated in the TFN Audit Report, which found large numbers of duplicate and inactive TFNs; failure by the ATO to use more up-to-date methods for generating secure TFNs; and 'fundamentally defective' information technology being used for Investment, Royalties and Withholding arrangements⁵. In addition:
- 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.⁶
- 2.6 The Committee notes that the ATO's Tax File Number Improvement Project (TFNIP), which commenced in late 1998, should address a number of data and systems quality issues⁷.

3 Examples cited by the ANAO include '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 (and) the ATO's inability to link existing databases for compliance checking purposes'. (*ATO Data and Systems Quality - An ANAO Discussion Paper*, p.3.)

4 *ATO Data and Systems Quality - An ANAO Discussion Paper*, pp.14-15.

5 ANAO Audit Report No.37 1998-99, *Management of Tax File Numbers*, pp.17, 18 & 21.

6 ANAO Audit Report No.37 1998-99, *Management of Tax File Numbers*, p.20.

7 ATO, Submission No.17, p.12.

Modernisation

- 2.7 The Audit Office has noted the significant transformation of the ATO during the 1980s and 1990s,
- ... 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 systems⁸.
- 2.8 The ATO consider that they have ‘put great effort into continuing to develop integrated systems, with a significant transformation over the last ten years’.⁹
- 2.9 Of significance in respect of systems reform is the ATO’s ‘Modernisation Project’, which was established in 1989 with the aim of taking advantage of the opportunities of new technologies. The Project consisted of over 100 component projects affecting most areas of the ATO. ‘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’¹⁰.
- 2.10 In the ATO's *1988-89 Annual Report*, 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.¹¹
- 2.11 **However, as outlined in this chapter, the TFN audit report and the Committee’s inquiry cast significant doubt on the quality of the ATO’s data and systems, suggesting that ten years of the Modernisation Project have not delivered improvements commensurate with the expectations and investment in that project.**

8 *ATO Data and Systems Quality - An ANAO Discussion Paper*, p.13.

9 Transcript, p.6.

10 *ATO Data and Systems Quality - An ANAO Discussion Paper*, p.12 - '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'.

11 *ATO Data and Systems Quality - An ANAO Discussion Paper*, p.13 - based on The Commissioner of Taxation’s *Annual Report 1988-89*, p.81.

Management culture

- 2.12 Management culture is an important determinant of an organisation's operations in terms of the organisation's approach to problem solving and the focus and priorities of the organisation.
- 2.13 Instances that lead the Committee to question the ATO's approach to managing its databases include:
- that 'the less than satisfactory integrity of the ATO's TFN information is generally acknowledged throughout the ATO'¹² and yet, based on evidence from the TFN audit report and this inquiry, this has not been appropriately acted on;
 - that projects funded under the TFNIP have only been given relatively short term funding¹³; and
 - that the ANAO considered that despite a soundly articulated strategy on data management practices and procedures in the ATO's Corporate Data Management Plan (CDMP) that was issued by the authority of the Commissioner, the Plan had not been accepted in practice and implemented at the operational level by the Business Service Lines¹⁴. The ANAO considered that had there been full operational implementation of the CDMP, as apparently required by the Commissioner's promulgation of it in 1991, there wouldn't have been the problems of poor data quality revealed by the large numbers of excess and duplicate TFNs.
- 2.14 Evidence presented in the TFN Audit Report¹⁵ and to this inquiry suggest that the approach the ATO takes to managing its data bases is fairly short term, focussed on solving the crisis today rather than looking at the longer term. **The impression that has emerged from this inquiry is of an organisation that is reactive rather than proactive; where emphasis is placed on strategies that return a short term financial gain rather than ensuring the long term integrity of the system; and where management philosophies and planning are not well translated through the organisation.**

12 ANAO Audit Report No.37 1998-99, *Management of Tax File Numbers*, p.20.

13 Informal advice from the ATO.

14 ANAO Audit Report No.37 1998-99, *Management of Tax File Numbers*, p.80.

15 ANAO Audit Report No.37 1998-99, *Management of Tax File Numbers*.

Recommendation 1

- 2.15 That the ATO place a higher priority on having the strategic capacity to ensure the long term integrity of the Tax File Number system, including through:
- proactively managing the Tax File Number system and its interrelationships with other systems within the Australian Taxation Office and across government; and
 - ensuring that management philosophies and planning are put into practice throughout the organisation.

Data and systems administration

- 2.16 Effective data and systems administration ensures the integrity of the TFN system and its role in tax revenue collection, benefit payments and administration of the superannuation system. High quality data and systems are also important for community confidence in the TFN system which is a key to ensuring voluntary compliance by individuals with their tax obligations.

Data integrity

- 2.17 In its recommendations, the ANAO set out a number of steps that the ATO could take to improve the quality and integrity of its data¹⁶. These proposals are considered in detail below.
- 2.18 The Committee notes that:
- ... the ATO is currently conducting a two phased exercise to develop a methodology and enable the measurement of the cost of holding poor quality/excess data on ATO databases and is piloting this methodology¹⁷.
- 2.19 The ATO have since advised that the 'cost of bad data methodology report [has been] completed and [is] being considered'¹⁸.
- 2.20 In undertaking such an exercise, the Committee considers that the ATO should make sure that it does not focus solely on the costs and benefits

16 ANAO Audit Report No.37 1998-99, *Management of Tax File Numbers*, Recommendation 7, p.24.

17 ATO, Submission No.30, p.7.

18 ATO, Submission No.37, p.5.

that relate directly to the ATO. Rather, the ATO should take a broader view of costs and benefits. Benefits across Commonwealth administration resulting from the TFN system have been emphasised throughout the Committee's inquiry. Similarly, there are costs across Commonwealth administration associated with shortcomings. Benefits across Commonwealth administration include fraud prevention, improved quality of decision making, improved efficiency and effectiveness as well as improved client service.

- 2.21 In relation to the costs and benefits specific to the ATO, the Committee considers that the ATO should be mindful of the impact of poor data quality on ATO decision making. Possible benefits include large scale systemic data matching and analysis that can only be done with high quality data with which it is possible to establish the connections that link taxpayers to their multiple roles and associated entities where such links exist. Such high levels of interconnectivity would allow the electronic construction of a whole of taxpayer view enabling the ATO to see at once the totality of a taxpayer's tax arrangements.
- 2.22 The Committee considers that the ATO needs to take care that it uses a methodology of cost effectiveness analysis commensurate to the magnitude of the task.

Excess TFNs

- 2.23 The ANAO found that there were '3.2 million more individual TFN registrations than people in Australia counted in the last census'¹⁹. In further reviewing this issue, the ATO identified 5.3 million potentially inactive (ie excess) registrations on the ATO individuals data base²⁰.
- 2.24 There are two key concerns with these excess TFNs - the extent to which these TFNs are being used to commit fraud, against both the Commonwealth and in the broader community; and the fact that it compromises the quality of the ATO database.
- 2.25 The potential for fraud arises through:
- tax avoidance, eg through income splitting or falsely claiming tax concessions;
 - falsely claiming benefits such as income support payments by minimising taxable income against a particular TFN; and
 - using the TFN as a means of creating a false identity which is then used to commit fraud in the broader community.

19 ANAO Audit Report No.37 1998-99, *Management of Tax File Numbers*, p.21.

20 ATO, Submission No.30, p.6.

2.26 The ATO have advised that:

... we do not believe that there is a significant risk arising from this as the vast majority of the TFNs are readily explainable and are not being utilised. The main components of this apparent 'excess' number of TFNs are:

- short term visitor departures not notified to the ATO;
- permanent departures not notified to the ATO;
- clients who are deceased, but the ATO has not been advised of this fact; and
- clients who have registered, but have not lodged for the first time yet²¹.

2.27 Given the scale of excess, it is hard for anyone, the ATO or others, to be confident of the above claim by the ATO.

2.28 While the Committee agrees that these categories are likely to account for the majority of excess TFNs, it is still concerned that the ATO fully investigate these inactive TFNs to determine whether any are being used to commit fraud, and the level of revenue at risk from this fraud.

2.29 In particular, the Committee has received anecdotal evidence that suggest that a proportion of these TFNs are being used to commit fraud. A number of submissions and witnesses have advised the Committee of concern regarding the use of TFNs issued to non-residents following their departure from Australia, such as the sale of TFNs by non-residents²² and the posting of lists of TFNs in youth hostels²³.

2.30 In addition to a potential reduction in fraud, the ATO should place priority on the improvements to data quality and therefore decision making that can result from resolving these excess TFNs.

2.31 The Committee recommends as a priority that the ATO should implement strategies to resolve and remove excess TFNs, as would seem to be required by the CDMP promulgated by the Commissioner in 1991. The Committee notes that the two key proposals for advancing these strategies would be for the ATO to data match against Fact of Death data from State Registrars-General of Births, Deaths and Marriages and movements data from the Department of Immigration and Multicultural Affairs (DIMA). Further measures could include use of Australian Electoral (AEC) data and random mail checks.

2.32 The Committee strongly supports matching against Fact of Death data and movements records as a means of improving ATO data quality. These

21 ATO, Submission No.30, p.6.

22 Transcript, p.94; ATO, Submission No.23, p.2.

23 Transcript, p.120.

proposals are considered in more detail in Chapter 3. The Committee notes that while access to movements data is dependent on legislative amendment, that this is not the case for matching against Fact of Death data. In the case of Fact of Death data, the only impediment is a failure by ATO management to commit adequate resources. As stated by the Dr Bob Webb, Deputy Commissioner, Individuals (Non-business), ATO, 'it is purely a matter of technology systems prioritising'²⁴ and this issue has not been top priority. In this regard, the Committee notes that Centrelink and the AEC have been using this data for several years. ATO implementation of matching against Fact of Death data would have benefits that would accumulate across the ATO and have whole of government consequences as well. The Committee considers that the use of Fact of Death data in the way indicated would be a standard consequence of properly implementing the previously mentioned CDMP.

Duplicates

- 2.33 ATO research undertaken during the audit found 'an estimated 185 000 potential duplicate records of individual taxpayers amongst 17.1 million active tax records of such taxpayers'²⁵. The ATO also advised the Committee of a second activity in relation to duplicates, undertaken 'to look at more subtle cases where potential duplications may have occurred'²⁶. This process 'identified a further 65 000 potential duplications (130 000 TFNs)'²⁷.
- 2.34 As with excess TFNs, and as noted in the ANAO's report, duplicate TFNs represent a risk to revenue and reduce the quality of information used for ATO decision making and have adverse whole of government impacts.
- 2.35 The Taxation Institute of Australia (TIA) have advised the Committee of their concerns regarding duplicate TFNs, noting in particular that:
- ... it appears that the process for removing duplicate TFNs does not tie in with other systems such as HECS, and that elimination of duplications takes considerable time.²⁸
- 2.36 The TIA have given an example of where 'it took 17 months to cancel one duplicate TFN'²⁹. This example highlights the inefficiency of the process, failure to automatically update related systems (in this case the Higher

24 Transcript, p.189.

25 ANAO Audit Report No.37 1998-99, *Management of Tax File Numbers*, p.21.

26 ATO, Submission No.37, p.8.

27 ATO, Submission No.37, p.8.

28 Transcript, p.67.

29 TIA, Submission No.14, p.4.

Education Contribution Scheme (HECS)) and the cost to tax agents of needing to continually follow-up with the ATO.

- 2.37 In relation to the 185 000 potential duplicates reported in the ANAO report, the ATO advised at the hearing on 12 April 2000 that they 'had successfully resolved around 24 000 cases so far'³⁰ of which only a very small number were expected to involve identity fraud. In further advice to the Committee, the ATO advised that:
- After applying a risk assessment to these records and then using a resolution process on those considered to be of substantial possible risk to revenue, these cases have been resolved.³¹
- 2.38 The ATO have advised that the 65 000 potential duplicates identified by considering more subtle cases (as noted in paragraph 2.33) will be addressed in the next financial year.
- 2.39 The Committee commends the ATO on its efforts to date to address the issue of duplicate TFNs. As previously mentioned, the Committee considers that the proper implementation of the CDMP promulgated by the Commissioner in 1991 would result in ATO databases free of duplicate records.
- 2.40 The Committee has some concerns about the risk assessment process used by the ATO to identify duplicates that were worthy of investigation. In particular, in its comments to the Committee, the ATO appeared to be assessing duplicate TFNs from the perspective of addressing identity fraud and 'substantial possible risk to the revenue'³². While safeguarding revenue collections is clearly important, the Committee would also draw attention to the need to remove duplicate TFNs to improve data quality, as well as the need to ensure that lessons learnt from the analysis are applied to the TFN registration process in order to minimise future cases of duplicate TFNs (TFN registration process are discussed in Chapter 4) and any flow-on effects to ABNs.

30 Transcript, p.179.

31 ATO, Submission No.37, p.8.

32 ATO Submission No.37, p.8.

2.41 The ATO focus on identity fraud and substantial revenue risk also fails to take into account the risks of duplicates as identified by the ANAO. The ANAO has stated that:

Duplicates represent risk to:

- revenue through inappropriate use of the TFNs, invariably as a result of fraud (such as income splitting fraud);
- revenue through not being able to use external data income because of duplicate records; and
- the accuracy of information used for decision making (as in including duplicate records in client profiling and other exercises).³³

Archiving

2.42 The ANAO report noted that ‘the ATO has not undertaken archival action in relation to TFNs since the late 1980s’³⁴. The ANAO recommended, based on better practice records management principles, that the ATO progress strategies for the archival of these inactive records³⁵.

2.43 The ATO noted reservations about such an approach, including that archiving data was too expensive and that aspects of the process were resource intensive. Their current approach is to flag TFNs on their system as inactive. While the ATO have stated that they are investigating this issue, they have noted that any decision will need to be balanced against other internal priorities³⁶.

2.44 In contrast to ATO data management practices, the Committee has heard from a number of Commonwealth agencies about their use of archiving. This has included Centrelink, which consider that removing inactive data from their system improves the operation of the system³⁷; the AEC, which have three separate, linked data bases that contain current, deleted and archived records³⁸; the Health Insurance Commission (HIC), which have a two stage process of end-dating records that are not active, and then archiving this information over time³⁹; and the Child Support Agency (CSA), which are currently in the process of introducing an archiving system⁴⁰.

33 ANAO Audit Report No.37 1998-99, *Management of Tax File Numbers*, pp.82-83.

34 ANAO Audit Report No.37 1998-99, *Management of Tax File Numbers*, p.81.

35 ANAO Audit Report No.37 1998-99, *Management of Tax File Numbers*, p.24.

36 ANAO Audit Report No.37 1998-99, *Management of Tax File Numbers*, p.96.

37 Transcript, pp.115-116.

38 AEC, Submission No.39, p.3.

39 Transcript, p.137.

40 Transcript, p.161.

- 2.45 Given the widespread use of archiving amongst Commonwealth agencies, and the ANAO's identification of it as good record management practice, the Committee considers that the ATO needs to reexamine its approach to archiving. In particular, the ATO could benefit from examining what constitutes good archiving practice among comparable Commonwealth agencies.

Recommendation 2

- 2.46 **That the Australian Taxation Office act as a matter of priority to improve the significant shortcomings with its data integrity. This should include addressing the issue of excess and duplicate Tax File Numbers and archiving of redundant Tax File Numbers.**

Systems quality

- 2.47 As outlined above, the solution to a number of the ATO's data integrity problems lies with systems solutions. Systems quality influences both the ability to improve data quality and the ability to make effective use of data.
- 2.48 Examples of current systems limitations include:
- a lack of automation
 - ⇒ TFN registrations accepted by Centrelink are manually transferred to the ATO
 - ⇒ checks for duplicate TFNs at registration point are manually generated at the discretion of the operator
 - difficulties in retrieving data
 - ⇒ Income data requests from Centrelink are manually, individually processed
 - ⇒ Interconnectivity problems between ATO data bases mean that 'ATO staff experience difficulty in accessing data from various IT systems during their work'⁴¹
 - outdated IT systems
 - ⇒ 'the information technology system upon which IRW administration depends is fundamentally defective'⁴².

41 ANAO Audit Report No.37 1998-99, *Management of Tax File Numbers*, p.84.

42 ANAO Audit Report No.37 1998-99, *Management of Tax File Numbers*, p.61.

- 2.49 The Committee believes that at the base of these problems is an inability of executive management to see the maintenance of high quality data and systems as a high priority issue. The result has been a lack of resources for systems improvements and a lack of willingness to prioritise allocation of systems resources to the TFN system. This approach appears to be continuing, as evidenced by the ATO's comment that 'IT priorities within ATO diminish opportunities for big-step improvements'⁴³ in the 'Management Information Systems for TFN operations' (a sub-project of the TFN Improvement Project).

Recommendation 3

- 2.50 **That the Australian Taxation Office take all necessary steps to improve Tax File Number systems quality to more properly reflect the importance of the Tax File Number system within the Australian Taxation Office and across government.**

Data and systems planning

- 2.51 Underlying the individual elements of data and systems administration is the broader question of ATO data and systems planning. Based on the Committee's investigations, the ATO appears to have in place many of the better practice principles identified in ANAO Audit Report No.48 1997-98, *Data Management in the APS*⁴⁴.
- 2.52 However, while the ATO may have the principles in place, the data and systems difficulties outlined above suggest a need to review the practice of ATO data management at both the corporate and operational or business line level. In addition, there appears to be a need to better anticipate data and systems requirements.

43 ATO, Submission No.37, p.6.

44 Auditor-General. 1998. *Data Management in the APS*. Audit Report No.48 1997-98 Performance Audit. Canberra, ANAO, xxviii 102p. (Referred to as ANAO Audit Report No.48 1997-98, *Data Management in the APS*).

- 2.53 Key issues to consider with regard to corporate level planning and resource allocation for the TFN system are:
- the quality of performance information that management is receiving in relation to the TFN system; and
 - the extent to which flow-on effects of the TFN system are incorporated into decision making.
- 2.54 With regard to the first of these areas; effective data management at a business line level ensures that comprehensive performance information is flowing from this operational level to the corporate level. The Committee is concerned that TFN system data management is not fully identifying and evaluating data and systems problems - the problems identified by the ANAO in the TFN audit report⁴⁵ should not have been news to ATO management. Improving performance information generated at an operational level may help in demonstrating the importance of addressing TFN system problems.
- 2.55 In terms of considering the full implications for the ATO of TFN system problems, this is one of the key reasons for corporate level planning – to consider ‘data management from the perspective of the whole of the agency’⁴⁶. It appears that in its decision making on resourcing for the TFN system, that the ATO is not considering the flow on effects of TFN data and systems quality. As noted, the TFN is one of the key identifiers for the issuing of an ABN. This means that the quality of TFN data will potentially have a significant impact on the integrity of the ABN system (the link between the TFN and the ABN is dealt with in more detail in Chapter 4).
- 2.56 The Committee acknowledges that at a corporate level, the ATO must balance resources across competing priorities within the organisation and that this is a key decider in data and systems planning. However, the Committee considers that there is a need to review the practice of data management in relation to the TFN system to ensure that data and systems problems and their implications are fully identified and that data management properly supports management decision making.

45 ANAO Audit Report No.37 1998-99, *Management of Tax File Numbers*.

46 ANAO Audit Report No.48 1997-98, *Data Management in the APS*, p.51.

Recommendation 4

- 2.57 That the Australian Taxation Office review its current planning mechanisms in relation to the Tax File Number system, with a view to properly upgrading data management practices at both the agency and business line level.**

Whole-of-government approach

- 2.58 In addition to considering flow-on effects of TFN data and systems quality across the ATO, there is also a need to consider the reliance of other Commonwealth agencies on the TFN system when making resourcing decisions.
- 2.59 As outlined earlier in the report, the role of the TFN system is much broader than ensuring the collection of tax revenue. The TFN system plays an important role in the management of both the superannuation industry and the Commonwealth benefits payment system; and ATO data bases are used by a wide range of other Commonwealth government departments to facilitate the operation of their systems.
- 2.60 One possible vehicle for considering the importance of the TFN system to other agencies is through the ATO Pricing Agreement. The Pricing Agreement is an agreement between the Department of Finance and Administration (DoFA) and the ATO that sets out ATO funding against specified outputs⁴⁷. The Committee considers that there is scope to broaden the perspective of the Pricing Agreement to include consideration of the whole-of-government service provided by the TFN system.
- 2.61 The Committee understands that negotiations for the next ATO Pricing Agreement will commence next financial year, with the Agreement to take effect from July 2002. DoFA have advised the Committee that they 'will use information such as the ANAO findings to inform [them] on issues that may arise in forming the next pricing agreement'⁴⁸.
- 2.62 In formulating the next ATO Pricing Agreement, the Committee considers that DoFA and the ATO should also consider means of better reflecting the use of the TFN system across government. This could include consideration of incorporation of aspects of TFN system performance under the outcome of 'cross-agency support' and the possible input by

47 Transcript, pp.139-140.

48 Transcript, p.141.

other agencies on their use of ATO outputs as part of Pricing Agreement negotiations and review.

- 2.63 Formally including the broader use of the TFN system in the Pricing Agreement may be an effective means of ensuring that these activities are given suitable priority and are not subsumed by other ATO internal priorities.

Recommendation 5

- 2.64 **That the Department of Finance and Administration and the Australian Taxation Office review the Australian Taxation Office Pricing Agreement to ensure that it reflects the whole-of-government requirements in relation to the Tax File Number system.**