Senator CARR asked: —I would like to ask about the audit arrangements. How frequently are claims for the tax concession audited? Is it done as part of a normal tax auditing process or is there a special arrangement with the industry R&D board? Is it the case that the ATO takes a risk based approach to auditing?

Mr Peel—AusIndustry has a compliance program in place for the tax concession. We undertake a risk based approach to that, so we have a sampling approach and audit a number of companies each year. As well as that, the tax office from time to time refers specific cases to us that it has concerns about flowing from its activities.

Senator CARR—Essentially, is it a two-streamed approach; one is a specific complaint and the other is risk based?

Mr Peel—Correct.

Senator CARR—How many firms did you audit last year?

Mr Birch—We might take that on notice. It was around 40. I can check the number.

Senator CARR—Do you have a percentage target for each of the years?

Mr Peel—We have a rolling program auditing the top 30 customers in the concession by value. We also have a program that targets the larger claims, in excess of $5 million, and then we have a series of company visits where new registrants for the tax concession are visited by officers from AusIndustry and we explain to them how the tax concession works and what their responsibilities are under that arrangement. What we will take on notice are the actual numbers and which category we did in the last year.

ANSWER

Compliance activities are conducted at various levels from advisory and risk assessment visits (Level 2) to formal legislatively based examinations under the provisions of the *Industry Research and Development Act 1986* (Level 4).

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<tbody>
<tr>
<td>Level 2 compliance activities undertaken (companies &lt;$5m pa R&amp;D)</td>
<td>397</td>
<td>194</td>
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<tr>
<td>Level 3 compliance activities undertaken (companies &gt;$5m pa R&amp;D)</td>
<td>17</td>
<td>17</td>
</tr>
<tr>
<td>Level 4 compliance activities undertaken (statutory assessments on R&amp;D and core technology)</td>
<td>47</td>
<td>36</td>
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Level 2 compliance activities are performance monitoring undertaken as a program of compliance activities on a proportion of the customer base. Level 3 are substantiation activities.
Level 4 compliance activities are non-financial audits. They result in a decision by the Industry Research and Development Board on the eligibility of R&D claimed for the concession (Section 39L assessments) and for core technology (Section 39LA assessments).