

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates

16 February 2012

Question No: AET 165 - 170

Topic: Compliance activities conducted by the ATO

Hansard Page: Written

Senator Bushby asked:

165. In relation to the Australian National Audit Office's report on compliance activities conducted by the ATO: Please outline how the ATO intends to implement the recommendations made in the ANAO report.
166. How much is it expected to cost to implement these recommendations?
167. Is it true that prior to the ANAO's investigation, the SME risk engine had not been run for more than 18 months?
168. How often is the SME risk engine run?
169. How does the ATO decide when to run the SME risk engine?
170. How often does the ATO now intend on running the SME risk engine?

Answer:

165. To enhance the results of the Small to Medium Enterprises Risk Engine, the ANAO recommended that the ATO:
- a) improve the frequency of running the risk engine,
 - b) increase the profiling of all market sub-segments and use of data sets other than taxpayer return information, and
 - c) document the process and criteria used to manually weight the results against each risk rule before the final risk score is determined.

In addition, to support the identification of emerging priority risks, the ANAO also recommended that the ATO periodically confirm the validity of all risk rules within the Small to Medium Enterprises Risk Engine.

The ATO intends to implement the ANAO's recommendations by developing an integrated set of risk indicators covering three taxpayer population groups:

- small and medium enterprises (businesses that have an annual turnover from \$2 million to \$250 million)
- highly wealthy individuals (Australian residents who, together with associates, effectively control net wealth of \$30 million or more),
- wealthy Australians (Australian residents controlling a net wealth of between \$5 million and \$30 million).

The ATO will use external and internal sources of data and embed them into a risk assessment and profiling tool. This tool will provide greater flexibility in allowing the ATO to run their automated risk engine as regularly as required to meet business needs.

The ATO will also enhance staff guides to support their understanding of the potential non-compliance identified by each risk rule and to ensure appropriate governance framework around these implementation activities.

166. To enhance the results of the Small to Medium Enterprises Risk Engine, the ANAO recommended that the ATO:
- a) improve the frequency of running the risk engine,
 - b) increase the profiling of all market sub-segments and use of data sets other than taxpayer return information, and
 - c) document the process and criteria used to manually weight the results against each risk rule before the final risk score is determined.

In addition, to support the identification of emerging priority risks, the ANAO also recommended that the ATO periodically confirm the validity of all risk rules within the Small to Medium Enterprises Risk Engine.

At the time of the ANAO audit, there were a number of risk engine improvement projects already underway. The functionality required to implement the recommendations was already in-place. Consequently, there are no additional costs associated with implementing the recommendations. The ATO expects that the implementation of the recommendations will result in greater efficiency and effectiveness in the long term.

167. Yes. Generally the Small to Medium Enterprises Risk Engine was run every 12 months aligning itself with annual tax return lodgment data. However, because the ATO was introducing a new risk assessment and profiling tool, the scheduled run for 2010-11 was delayed by six months. The development and use of the new tool means that the ATO's risk models can now be run as frequently as required.

The fact that the Small to Medium Enterprises Risk Engine was not run for 18 months does not mean that small and medium taxpayers were not risk assessed during this period. Instead, risk assessment and compliance case identification during this period took place through:

- direct submission of structured queries to the ATO's data warehouse by ATO risk and intelligence officers,
- the referral of cases from other areas of the ATO or community.

168. The Small to Medium Enterprises Risk Engine was run once during each of the 2008-09 and 2009-10 financial years. The introduction of the risk assessment and profiling tool delayed the running of the engine for the 2010-11 financial year by six months. The development and use of the new tool platform means that the ATO risk models are now able to be run as frequently as required.

169. A number of factors are considered in deciding when to run the risk engine. The ATO runs the risk engine so it best aligns with significant lodgment dates and updates to third-party data in the ATO's data warehouse. This ensures that the ATO maximises the data-sets on which the risk engine is run. Other considerations can include the ATO's annual corporate planning process, the scope of risk engine improvement activity and operational capacity.

170. With the introduction of the new risk assessment and profiling tool application, the ATO now has more flexibility in when and how often it runs the risk engine. Currently, the ATO intends to run the risk engine twice per year. As was the case prior to the introduction of new platform, the exact timing will be contingent of significant lodgment dates, data warehouse refreshes and other operational considerations. As data sets are refreshed and/or risk models enhanced, the risk engine will be able to take advantage of the flexibility of its new platform and be run on a needs basis.