

The Auditor-General
ANAO Report No.37 2016–17
Performance Audit

Australian Taxation Office's Implementation of Recommendations

[Australian Taxation Office](#)

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Canberra ACT
9 February 2017

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken an independent performance audit in the Australian Taxation Office titled *Australian Taxation Office's Implementation of Recommendations*. The audit was conducted in accordance with the authority contained in the *Auditor-General Act 1997*. I present the report of this audit to the Parliament.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's website—<http://www.anao.gov.au>.

Yours sincerely



Grant Hehir
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office (ANAO). The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits, financial statement audits and assurance reviews of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Australian Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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Summary

Background

1. The operations and performance of the Australian Taxation Office (ATO) are subject to external scrutiny from parliamentary committees and the Australian National Audit Office (ANAO). Recommendations made by parliamentary committees and performance audits identify risks to the successful delivery of outcomes. The implementation of recommendations agreed to by the ATO will provide the most benefit when the actions taken are timely and adequately address the recommendation.

2. The ATO's purpose is to contribute to the economic and social wellbeing of Australians by fostering willing participation in the tax and superannuation systems.¹ In 2015–16, with approximately 20 700 staff and an operating expense budget of \$3.44 billion, the ATO collected \$342.6 billion in net tax.² From 2011–12 to 2014–15, the ANAO made 39 performance audit recommendations to the ATO and parliamentary committees made 37 recommendations.

3. The audit objective was to examine the effectiveness of the ATO's monitoring and implementation of recommendations about its administration made by the ANAO and parliamentary committees. To form a conclusion against the audit objective, the ANAO adopted the following high-level criteria:

- the ATO's implementation of ANAO and parliamentary committee recommendations has been adequate and timely; and
- the ATO has effectively reviewed, monitored and reported on the implementation of ANAO and parliamentary committee recommendations.

Conclusion

4. In the four years from 2011–12 to 2014–15, the Australian Taxation Office effectively monitored and implemented recommendations about its administration made by the Australian National Audit Office and parliamentary committees.

5. The Australian Taxation Office adequately implemented the vast majority of Australian National Audit Office performance audit and parliamentary committee recommendations. The Australian Taxation Office responded to parliamentary committee reports in a timely manner, however it could implement Australian National Audit Office recommendations in a more timely manner.

6. The Australian Taxation Office's processes and systems supported effective monitoring of the implementation of Australian National Audit Office performance audit and parliamentary committee recommendations. The Australian Taxation Office Audit and Risk Committee received sufficient information to perform its monitoring function for recommendations. Significant changes are being made in 2016–17 to the Australian Taxation Office's future governance arrangements for managing the implementation of recommendations.

1 Australian Taxation Office, *Annual report 2015–16*, October 2016, p. 2.

2 *ibid.*, pp. 38, 86 and 95.

Supporting findings

Implementation of recommendations

7. The ATO has adequately implemented ANAO performance audit and parliamentary committee recommendations. In total, 36 of the 39 recommendations examined were implemented (92 per cent), as there was sufficient evidence that the actions taken met the intent of the recommendation. Of the three remaining recommendations, two recommendations (five per cent) were partially implemented, with some required actions not having been taken and one recommendation (three per cent) was not implemented. Compared to nine other entities recently audited by the ANAO, the ATO was the best performing entity in terms of the percentage of recommendations implemented.

8. The ANAO's analysis of the ATO's implementation of ANAO recommendations demonstrates that the ATO could implement recommendations in a more timely manner. The ATO:

- took 432 days, on average, to implement ANAO recommendations; and
- implemented 92 per cent of ANAO recommendations after the original target implementation date.

9. The ATO has responded to parliamentary committee reports in a timely manner, as all five reports were responded to within the required six month timeframe. Of the relevant 37 parliamentary committee recommendations made between 2011–12 and 2014–15, the ATO implemented all nine with specified implementation timing requirements on time—the other 28 recommendations did not have timing requirements.

Governance arrangements

10. During the four years 2011–12 to 2014–15, the ATO's implementation of recommendations from ANAO performance audits and two parliamentary committees was soundly based and consisted of:

- clearly defined roles being performed by central coordination areas and business areas having responsibility for implementing recommendations;
- established policies and processes that were adequate for the activity and consistently applied; and
- staff meeting the requirements for accurate information to be entered and maintained in corporate systems.

11. The ATO's arrangements for internal monitoring of the implementation of performance audit and parliamentary committee recommendations were appropriate. Adequate support was provided to the Audit and Risk Committee to conduct its monitoring and review function for recommendations. There is scope to improve the recommendations part of the content of the committee's annual report to the Commissioner of Taxation. In three of the four years assessed during the audit, the report did not address the charter requirement that the committee monitor the ATO's progress in implementing recommendations, and therefore did not provide reasonable assurance that this function was performed effectively.

12. Separately, the ATO appropriately monitored the implementation of nine recommendations made by the ANAO in annual audits of the financial statements from 2011–12 to 2014–15.

13. External reporting by the ATO in its annual report and on its website is limited as the amount of detail provided varied during the period and some information on the website is dated.

14. In 2016–17, the ATO is continuing to implement changes to its review and monitoring arrangements for both performance audit and parliamentary committee recommendations. The changes are consistent with suggestions from the ATO Audit and Risk Committee aimed at achieving more efficient monitoring and review processes and streamlined reporting about the implementation status of recommendations. Due to the ongoing nature of the work, the ANAO could not assess the impact of the changes to roles and processes. Changing an important internal control that provides assurance to the ATO's Audit and Risk Committee could improve the time taken to close recommendations, but lessen the assurance provided about the adequate implementation of performance audit recommendations.

Summary of entity response

15. The Australian Taxation Office's summary response to the report is provided below, while its response is at Appendix 1.

The ATO welcomes this review and considers the monitoring and implementation of recommendations important to addressing risks and ensuring the successful delivery of outcomes in our administration of the tax and superannuation systems. This audit recognises the sound processes and systems the ATO has in place to effectively monitor the implementation of Australian National Audit Office (ANAO) and parliamentary committee recommendations. We were pleased with the finding that the ATO was the best performing entity, compared to nine other entities recently audited by the ANAO, in terms of the percentage of ANAO performance audit recommendations implemented. The ATO is continuing to address the timeliness of implementing recommendations while maintaining adequate assurance of implementation to ensure the full intended benefit of each recommendation is realised.

Audit Findings

1. Background

Introduction

1.1 Performance audits can stimulate improvements in the administration and management of public sector entities as well as provide independent assurance to Parliament on the administration of programs.³ Parliamentary committees investigate specific matters of policy, government administration or performance and make recommendations to government.

1.2 Recommendations from performance audits and parliamentary committees identify risks to the successful delivery of outcomes. Recommendations can specify actions aimed at addressing those risks and identify opportunities for improving entity administration. The adequate and timely implementation of recommendations agreed to by an entity's management is an important element of realising the full benefit of those recommendations.

1.3 Successful implementation of recommendations requires an adequate level of senior management oversight and implementation planning to set clear responsibilities and timeframes for addressing the required actions. Implementation should involve key stakeholders. Audit committees, through their position in an entity's governance framework, also have an important role in monitoring and assuring the implementation of recommendations.

Australian Taxation Office

1.4 The Australian Taxation Office (ATO) administers the tax and superannuation systems that support and fund services to Australians. The ATO's purpose is to contribute to the economic and social wellbeing of Australians by fostering willing participation in the tax and superannuation systems.⁴ Its responsibilities include: collecting revenue; administering the goods and services tax on behalf of the Australian states and territories; managing a range of programs that result in transfers and benefits to the community; regulating major aspects of Australia's superannuation system; and custodianship of the Australian Business Register. In 2015–16, with approximately 20 700 staff and an operating expense budget of \$3.44 billion, the ATO collected \$342.6 billion in net tax.⁵

1.5 The ATO's administration is subject to external scrutiny from:

- the Australian National Audit Office (ANAO); and
- parliamentary committees, in particular:
 - Joint Committee of Public Accounts and Audit (JCPAA); House of Representatives Standing Committee on Tax and Revenue; and two Senate Standing Committees on Economics (Legislation and References).

The ATO is also subject to scrutiny from the Inspector-General of Taxation who undertakes broad reviews of the ATO's administration and makes recommendations to the ATO and Government.

3 Parker, Lee and Jacobs, Kerry, *Public Sector Performance Audit: A critical review of scope and practice in the contemporary Australian context*, May 2015, RMIT University and UNSW Australia Canberra, p. 22, available from <https://www.cpaaustralia.com.au/~/_media/corporate/allfiles/document/professional-resources/public-sector/public-sector-performance-audit.pdf> [accessed 19 October 2016].

4 Australian Taxation Office, *Annual report 2015–16*, October 2016, p. 2.

5 *ibid.*, pp. 38, 86 and 95.

1.6 The ANAO conducts both financial statement and performance audits annually in the ATO. The JCPAA⁶ and Standing Committee on Tax and Revenue⁷ undertake regular or specific investigations of the ATO's administration.

1.7 This audit examines the ATO's implementation of ANAO performance audit and parliamentary committee recommendations made during the period 1 July 2011 and 30 June 2015 (that is, 2011–12 to 2014–15). As shown in Table 1.1, the ATO received a total of 76 recommendations in the four-year period from the ANAO, JCPAA and Standing Committee on Tax and Revenue.

Table 1.1: Number of recommendations to the ATO, 2011–12 to 2014–15

Recommendation source	Number of recommendations
ANAO—performance audit	39
Parliamentary—Joint Committee of Public Accounts and Audit	21
Parliamentary—Standing Committee on Tax and Revenue	16
Total	76

Source: ANAO analysis of ANAO performance audits and parliamentary committee reports.

Implementing recommendations: parliamentary interest and previous audits

1.8 In recent years, the JCPAA and other parliamentary committees have expressed interest in the performance of Australian Government entities in relation to implementing audit recommendations.⁸ The ANAO has conducted a series of performance audits on the implementation of audit recommendations (Table 1.2).⁹

6 Between 2007 and February 2014, the ATO appeared at least annually before the JCPAA. The rationale for these hearings was to provide a mechanism for dialogue between the ATO and the Parliament.

7 Since February 2014, the Standing Committee on Tax and Revenue has responsibility to act as parliamentary scrutineer of the ATO. The committee was re-appointed on 13 September 2016 and may inquire into and report on any matter referred to it by either the House or a Minister, including any pre-legislation proposal, bill, motion, petition, vote or expenditure, other financial matter, report or document.

8 For example, Joint Committee of Public Accounts and Audit, *Report 443: Review of Auditor-General's Reports Nos. 23 and 25 (2012–13) and 32 (2012–13) to 9 (2013–14)*, Canberra, 2014, paragraphs 2.32 and 3.30, available from <<http://www.aph.gov.au>> [accessed 30 October 2016].

9 The ANAO's series of performance audits has not previously included recommendations from parliamentary committees.

Table 1.2: Recent ANAO audits of the implementation of recommendations

ANAO audit report	Entities included in audit	Recommendations included in scope of audit	
		ANAO audits	Internal audits
No.25 2012–13 <i>Defence's Implementation of Audit Recommendations</i>	Department of Defence	Yes	Yes
No.53 2012–13 <i>Agencies' Implementation of Performance Audit Recommendations</i>	Multiple entities ^a	Yes	No
No.34 2013–14 <i>Implementation of ANAO Performance Audit Recommendations</i>	Department of Agriculture and Department of Human Services	Yes	No
No.8 2014–15 <i>Implementation of Audit Recommendations</i>	Department of Health	Yes	Yes
No.5 2015–16 <i>Implementation of Audit Recommendations</i>	Department of Veterans' Affairs	Yes	Yes

Note a: Entities included in the audit were the: Department of Education, Employment and Workplace Relations; Department of Families, Housing, Community Services and Indigenous Affairs; Department of Finance and Deregulation; and Department of Infrastructure and Transport.

Source: ANAO analysis of previous audit reports.

1.9 This series of ANAO performance audits has highlighted that a structured and planned approach to the oversight and implementation of audit recommendations assists entities to manage timeliness, completeness and adequacy of implementation, by allowing progress to be clearly targeted and monitored.

Audit approach

1.10 The audit objective was to examine the effectiveness of the ATO's monitoring and implementation of recommendations about its administration made by the ANAO and parliamentary committees.

1.11 To form a conclusion against the audit objective, the ANAO adopted the following high-level criteria:

- the ATO's implementation of ANAO and parliamentary committee recommendations has been adequate and timely; and
- the ATO has effectively reviewed, monitored and reported on the implementation of ANAO and parliamentary committee recommendations.

1.12 In 2016, fieldwork for the audit involved:

- selecting and testing a sample of recommendations for the adequacy and timeliness of their implementation;
- examining the governance arrangements for monitoring and reporting on the implementation of recommendations; and
- reviewing documents and interviewing key ATO staff.

1.13 The audit was conducted in accordance with the ANAO Auditing Standards at a cost to the ANAO of approximately \$185 000.

2. Implementation of recommendations

Areas examined

This chapter examines the extent to which the Australian Taxation Office (ATO) has implemented recommendations from Australian National Audit Office (ANAO) performance audits and parliamentary committee reports. It also examines the timeliness of implementation of these recommendations.

Conclusion

The ATO has adequately implemented the vast majority of ANAO performance audit and parliamentary committee recommendations. While the ATO responded to parliamentary committee reports in a timely manner, and to committee recommendations that specified the implementation timing, the ATO could implement ANAO recommendations in a more timely manner.

Areas for improvement

The ANAO made two suggestions; that the ATO selectively considers the impact of implemented recommendations (paragraph 2.13), and sets timeliness targets for implementing recommendations (paragraph 2.22).

Has the Australian Taxation Office adequately implemented recommendations?

The ATO has adequately implemented ANAO performance audit and parliamentary committee recommendations. In total, 36 of the 39 recommendations examined were implemented (92 per cent), as there was sufficient evidence that the actions taken met the intent of the recommendation. Of the three remaining recommendations, two recommendations (five per cent) were partially implemented, with some required actions not having been taken and one recommendation (three per cent) was not implemented. Compared to nine other entities recently audited by the ANAO, the ATO was the best performing entity in terms of the percentage of recommendations implemented.

2.1 To assess the adequacy of the ATO's implementation of recommendations, the ANAO selected a sample of recommendations directed to the ATO between 2011–12 and 2014–15. As shown in Table 2.1, the ANAO's sample included:

- 23 performance audit recommendations, representing 59 per cent of the performance audit recommendations made to the ATO during this period. The ANAO selected the sample of performance audit recommendations to give coverage to financial years, areas of administration and market segments; and
- 21 parliamentary committee recommendations, representing 57 per cent of the parliamentary committee recommendations made by the Joint Committee of Public Accounts and Audit (JCPAA) and Standing Committee on Tax and Revenue to the ATO during this period. Similarly, the selection of the sample of recommendations from parliamentary committee reports aimed to give coverage to financial years, committees and types of recommendations.

Table 2.1: Number of recommendations assessed for adequacy of implementation

Recommendations assessed		ANAO	Parliamentary committee	Total
Assessed for implementation	No. of recommendations	23	21	44
	No. of reports	15	5	20

Source: ANAO.

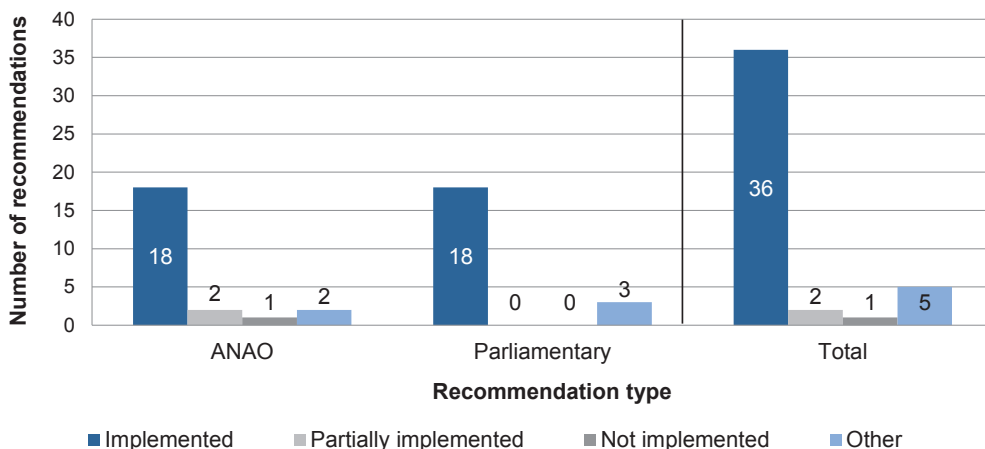
2.2 The categories used by the ANAO to assess the extent to which recommendations were adequately implemented are provided in Table 2.2.

Table 2.2: ANAO's categorisation of implementation

Category	Explanation
Implemented	The action taken met the intent of the recommendation, and sufficient evidence was provided to demonstrate action taken.
Partially implemented	The action taken was less extensive than recommended, as it: <ul style="list-style-type: none"> • fell short of the intent of the recommendation; or • only addressed some of the identified risks.
Not implemented	This category encompasses two considerations: <ul style="list-style-type: none"> • there is no supporting evidence that action has been undertaken; or • the action taken does not address the intent of the recommendation.
Other	This category encompasses recommendations: <ul style="list-style-type: none"> • that the entity disagreed with, however, may have committed to some action against the recommendation; and • where implementation was in progress at the time of the audit.

Source: ANAO.

2.3 Figure 2.1 provides a summary of the ANAO's assessment of the implementation of recommendations.

Figure 2.1: Overview of ANAO's assessment of adequacy of implementation

Source: ANAO assessment of ATO implementation of recommendations.

Performance audit recommendations

2.4 The ATO agreed with all 23 ANAO performance audit recommendations included in the sample for this audit. The recommendations included in the ANAO's sample and the ANAO's assessment of implementation against each recommendation is provided at Appendix 2. The ANAO assessed the implementation of recommendations at a point in time (when closed by the ATO), however, it is possible that recommendations and associated actions may be superseded over time. For example, recommendations directed towards the ATO's former website may no longer be applicable following an ATO initiative to rationalise website content.

2.5 As shown in Figure 2.1, the ATO had implemented the majority of recommendations assessed by the ANAO (18 recommendations or 86 per cent of the 21 closed recommendations¹⁰ were implemented). The ANAO assessed three recommendations as not adequately implemented—two were partially implemented and one was not implemented. For one recommendation assessed by the ANAO as partially implemented, the ATO and ANAO implementation statuses were consistent (see Box 1 below).¹¹ For the remaining two recommendations assessed by the ANAO as partially implemented and not implemented, the ANAO's implementation assessment differed from the ATO's implementation status (see Box 2 and Box 3 below).

ANAO performance audit recommendations not fully implemented

Box 1: Report No.5 2013–14 Administration of the Taxation of Personal Services Income

Recommendation 1: To better inform its assessment of the alienation of personal services income risk and the effectiveness of personal services income compliance activities, the ANAO recommends that the ATO:

- estimates the number of non-compliant personal services income taxpayers; and
- develops a methodology to assess the potential magnitude of the revenue at risk from this non-compliance.

ATO status: Closed—Management Accepts Risk.

ANAO assessment: Partially implemented.

The ATO undertook action to implement this recommendation by attempting to identify the number of taxpayers subject to personal services income legislation. The ATO, however, decided that the recommendation could not be implemented with confidence because of ineffective results and low reliability of the estimates regarding the number of non-compliant personal services income taxpayers. As such, the ATO did not fully implement this recommendation as it could not develop a methodology to assess the potential magnitude of revenue at risk from non-compliance.

¹⁰ Two recommendations were being implemented.

¹¹ The ANAO reviewed the implementation status in the ATO's recommendations database and an ATO status update provided to the ANAO in 2016 for each recommendation as part of its response to the ANAO's *Annual Audit Work Program 2016* (Chapter 3 refers).

Box 2: Report No.19 2013–14 *Management of Complaints and Other Feedback*

Recommendation 1: To improve transparency, the ANAO recommends that, in reporting performance against its published timeliness resolution target, the ATO reports on the percentage of complaints that were finalised within:

- the target timeframe (from 2013–14, 15 business days) without adjusting for extended timeframes that may be arranged with complainants; and
- any extended timeframes arranged with complainants separately.

ATO status: Implemented.

ANAO assessment: Partially implemented, as the ATO reported as proposed internally, but not externally.

Externally, the ATO reports its performance against this service commitment by including complaints resolved within extensions to the 15 business days that were negotiated with the taxpayer. The ANAO found in its 2013–14 audit that there was a tendency for some ATO staff to routinely extend timeframes.

In response to this recommendation, the ATO modified its internal reporting to distinguish between complaints resolved with and without extensions.

During this audit, (10 October 2016), the ATO modified the service commitment on its website to specify that resolving complaints within extended timeframes negotiated with the taxpayer are considered to have met this standard. In November 2016, the ATO advised that the performance measure for complaints is likely to be further modified in the future.

Box 3: Report No.35 2013–14 *Managing Compliance of High Wealth Individuals*

Recommendation 2: To enable the ATO to more efficiently allocate compliance resources across the Private Groups and High Wealth Individuals business line, and to more accurately demonstrate return on investment, the ANAO recommends that the ATO:

- better assesses the cost of compliance activities for the High Wealth Individuals population; and
- calculates the return on investment for High Wealth Individuals compliance activities on the basis of cash collected, in addition to liabilities raised.

ATO status: Implemented.

ANAO assessment: Not implemented. The action taken does not address the intent of the recommendation:

- The ATO outlined some relevant broad measures aimed at identifying where compliance efforts are best directed, such as having processes for case call over, technical advisors and its Risk Differentiation Framework. Many of the identified activities were already in place prior to the recommendation.

Box 3: Report No.35 2013–14 *Managing Compliance of High Wealth Individuals*

- In response to this recommendation, the ATO developed an Excel spreadsheet to assist with monitoring and analysing the cash and liabilities of High Wealth Individuals. However, the new arrangements did not incorporate the proposed return on investment measure, or equivalent, as an element of the new arrangements because the ATO was unable to separate out the costs associated with High Wealth Individuals compliance activities.

ATO comment:

At implementation the ATO believed the actions taken addressed the intent of the recommendation. This was based on our understanding of the key drivers for this recommendation being made at the time of report and our operational environment. This approach was approved as implemented by the ATO Internal Audit area.

Since the implementation of this recommendation, this approach has further evolved with a focus on engagement with taxpayers, including [High Wealth Individuals]. We do continue to utilise [return on investment] as an indicator across our entire Privately owned population with including specific areas of focus such as the Tax Avoidance Taskforce.

While we still believe our implementation actions met the intent of the recommendation at the time, we are not intending to continue with the agreed process due to our changing business model.

Parliamentary committee recommendations

2.6 Of the 21 parliamentary committee recommendations included in the ANAO's sample, the ATO fully agreed with 17, partially agreed with two and disagreed with two. The ANAO assessed whether the ATO:

- adequately implemented the recommendations it agreed to; and
- undertook the range of activities that it committed to in response to those recommendations to which it partially or fully disagreed.

2.7 As at 31 October 2016, the ANAO found that the ATO had adequately implemented 18 of 19 parliamentary committee recommendations (or parts of recommendations) that it agreed to implement. For the remaining recommendation¹², the ATO was implementing the recommendation with a due date of 2017. Recommendations and the ANAO's assessment against each recommendation are provided at Appendix 2.

2.8 For one of the recommendations the ATO disagreed with, it undertook some action against this recommendation—Recommendation 4 of the Standing Committee on Tax and Revenue's inquiry, *Tax Disputes*.¹³ In response to this recommendation, the ATO committed to review its existing guidance material and work through how best to provide further clarity for its staff about the responsibilities and necessary conditions for an allegation or finding of fraud or evasion. The ANAO found evidence that this had been done. For the remaining recommendation disagreed to, the Government disagreed with the recommendation and the ATO did not commit

12 Recommendation 7, JCPAA, *Report 447: EPBC Act, Cyber Security, Mail Screening, ABR and Helicopter Program: Review of Auditor-General Reports Nos 32–54 (2013–14)*.

13 House of Representatives Standing Committee on Tax and Revenue (March 2015), *Tax Disputes*, p. xviii.

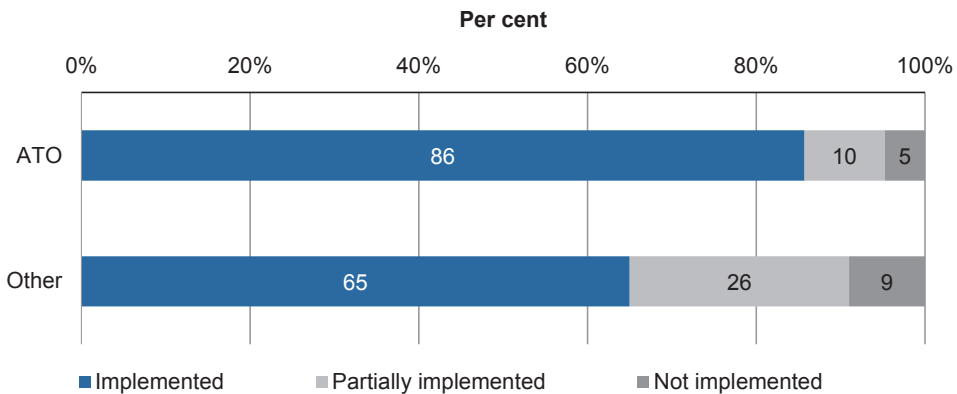
to any action. As discussed in Chapter 3, parliamentary committees can seek details of the implementation status of recommendations from entities in subsequent hearings. Where the response to a parliamentary committee is considered inadequate, the committee may follow-up with the entity and may decide to reopen its inquiry.

How the Australian Taxation Office compares with other entities

2.9 In recent years, the ANAO has conducted a series of five performance audits that have assessed the implementation of audit recommendations by nine entities (Table 1.2). While recognising that individual audit recommendations may vary in their scope and complexity, the ANAO's findings from these audits provide a basis for comparative assessment of entity performance.

2.10 Figure 2.2 compares the ATO's performance in adequately implementing ANAO recommendations to the other entities audited by the ANAO in recent years. The ATO's performance in implementing recommendations compares very well to the nine entities recently audited by the ANAO (the ATO was the best performing entity in terms of the percentage of recommendations implemented).

Figure 2.2: Adequate implementation of ANAO recommendations—ATO compared to other Australian Government entities



Note: ATO total does not equal 100 per cent due to rounding.

Source: ANAO analysis.

2.11 As outlined in Chapter 1, the ANAO's series of performance audits has not included recommendations from parliamentary committees and, as such, there is no basis on which to compare the adequacy of implementation across entities.

Impact of recommendations

2.12 Up until September 2014, the ATO's Implementation Plans for performance audit recommendations (see Chapter 3) required business areas to identify only what would have changed after implementation.¹⁴ The ANAO's sample of 23 performance audit recommendations

¹⁴ The Implementation Plan template was reviewed and streamlined as part of the ATO's contribution to red tape reduction initiatives by the Australian Government.

confirmed that there was no structured approach to measuring the impact of recommendations. There was no equivalent requirement for parliamentary committee recommendations.

2.13 The ANAO suggests that the ATO consider, on a case-by-case basis¹⁵, the likely impact of recommendations being implemented—for specific business areas and ATO wide—before providing a management response to any performance audit or parliamentary committee recommendation. This would ensure that the ATO considers impact before agreeing to a recommendation and developing an Implementation Plan.

Has the Australian Taxation Office’s implementation of recommendations been timely?

The ANAO’s analysis of the ATO’s implementation of ANAO recommendations demonstrates that the ATO could implement recommendations in a more timely manner. The ATO:

- took 432 days, on average, to implement ANAO recommendations; and
- implemented 92 per cent of ANAO recommendations after the original target implementation date.

The ATO has responded to parliamentary committee reports in a timely manner, as all five reports were responded to within the required six month timeframe. Of the relevant 37 parliamentary committee recommendations made between 2011–12 and 2014–15, the ATO implemented all nine with specified implementation timing requirements on time—the other 28 recommendations did not have timing requirements.

2.14 The timely implementation of a recommendation assists an entity to realise the full benefits of the recommendation. Audit recommendations can vary in scope and complexity and may require coordination across business areas within an entity. As shown in Table 2.3, the ANAO assessed the timeliness of the ATO’s implementation of recommendations made between 2011–12 and 2014–15 by: ANAO performance audit and closed as at 31 October 2016¹⁶; and whether the ATO had responded in a timely manner to recommendations made by parliamentary committees.

Table 2.3: Number of recommendations assessed for timeliness

Recommendations assessed		ANAO	Parliamentary committee	Total
Assessed for timeliness	No. of recommendations	36	37	73
	No. of reports	17	5	22

Source: ANAO.

15 Criteria for determining whether to examine the likely impact of a particular recommendation include whether the costs of implementation are likely to be high and the scale or nature of potential benefits is not apparent.

16 As at 31 October 2016, three performance audit recommendations of the total of 39 recommendations made between 2011–12 and 2014–15 were in progress.

Performance audit recommendations

2.15 It is the responsibility of the relevant business area implementing a recommendation to set out the planned implementation timeframe. This timeframe is set out in an Implementation Plan for each recommendation and is approved by an appropriate senior manager within the business area.

2.16 Table 2.4 provides a summary of the ANAO's assessment of the timeliness of implementation of recommendations. The ANAO assessed the time taken to implement recommendations from the date the audit was tabled to the date the audit was closed in the ATO's recommendations database.

Table 2.4: Timeliness of the ATO in implementing ANAO performance audit recommendations

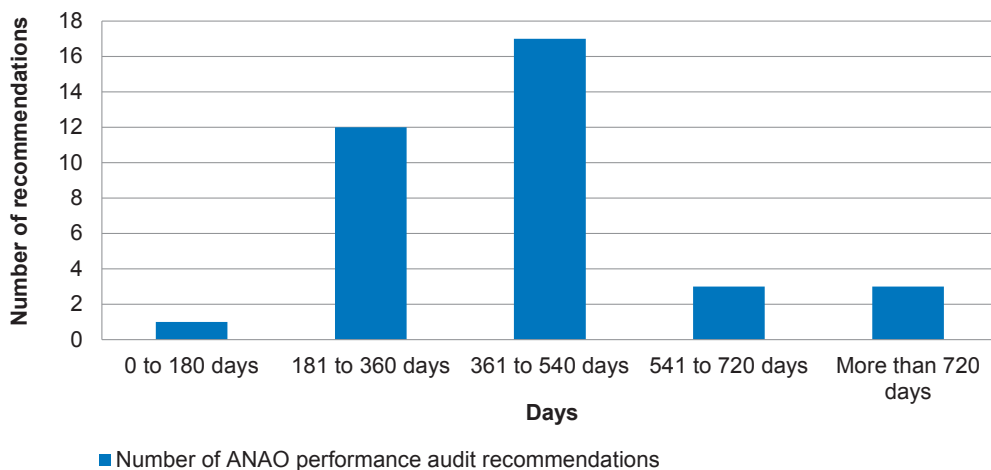
Timing element	Days
Average number of days to implement audit recommendations	432 days
Average number of days after planned implementation that audit recommendations were implemented	99 days

Source: ANAO analysis of ATO data on the implementation of 36 ANAO recommendations.

2.17 The average number of days to implement the 36 ANAO recommendations was 432 days (approximately 14 months). The time taken to implement recommendations ranged from 178 days (approximately six months) to 869 days (approximately 2.5 years). One recommendation took 869 days to implement because the ANAO recommended the ATO conduct a post implementation review after the scheduled completion of project funding. The funding for this project ended approximately 1.5 years after the recommendation was made.

2.18 Figure 2.3 categorises recommendations by the range of days taken to implement. The majority of recommendations (29 of 36 recommendations) were implemented between 181 days and 540 days (six months and 1.5 years).

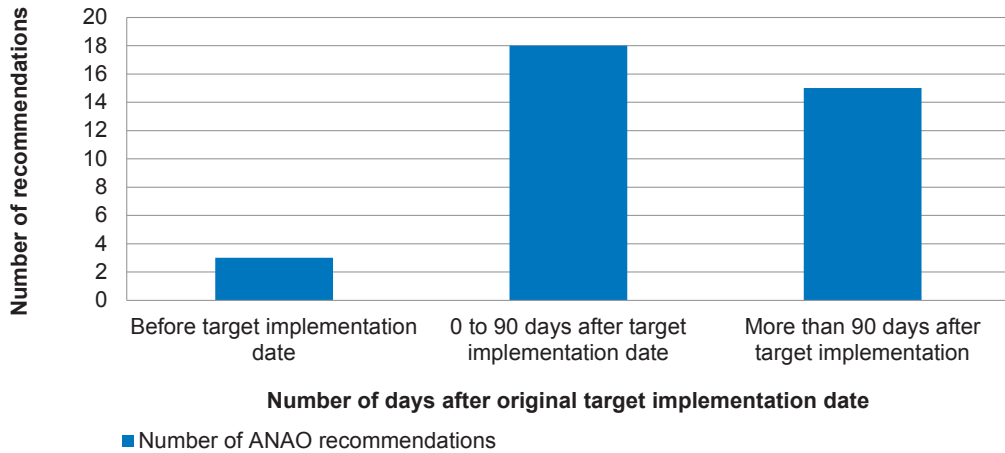
Figure 2.3: Number of days to implement ANAO recommendations by 180 day range



Source: ANAO analysis of ATO data on the implementation of 36 ANAO recommendations.

2.19 Of the 36 recommendations fully implemented as at 31 October 2016, 33 (92 per cent) were implemented after the original ATO target implementation date. As shown in Figure 2.4, half (18 recommendations) were implemented up to 90 days after the target implementation date (the Audit and Risk Committee’s monitoring of overdue recommendations is discussed in Chapter 3).

Figure 2.4: Number of ANAO recommendations implemented before and after original target implementation date



Source: ANAO analysis of ATO data on the implementation of 36 ANAO recommendations.

2.20 Of the 32 recommendations reviewed by ATO Internal Audit, 16 (50 per cent) were rejected at least once prior to closure. One recommendation submitted for closure was rejected three times, and took a total of 178 days to implement. Internal Audit’s verification activities and subsequent business area follow-up work to adequately implement the recommendations took, on average, 58 days. While Internal Audit’s verification activities have added time to the implementation process, these activities were an important internal control that provided assurance to the ATO’s Audit and Risk Committee.

2.21 As part of planning for the implementation of ANAO recommendations, business areas are required to assign an implementation priority of low, medium or high. As shown in Table 2.5, most ANAO performance audit recommendations (31 of 39) directed to the ATO from 2012–13 to 2014–15 were categorised as medium priority. There was no apparent relationship between the average number of days to implement recommendations and the implementation priority. Recommendations with a low implementation priority were implemented in the shortest number of days, on average.

Table 2.5: The ATO's implementation priority classification

Priority	Explanation	Total number of recommendations (n=39)	Average days to implement (n=36) ^a
Low	Attention is warranted by management to ensure that business activities and operations align with ATO requirements.	3	324
Medium	Requires the attention of management and an agreed program for timely resolution.	31	457
High	Prompt action required by senior ATO management to successfully manage risks in key line activities and operations.	5	357

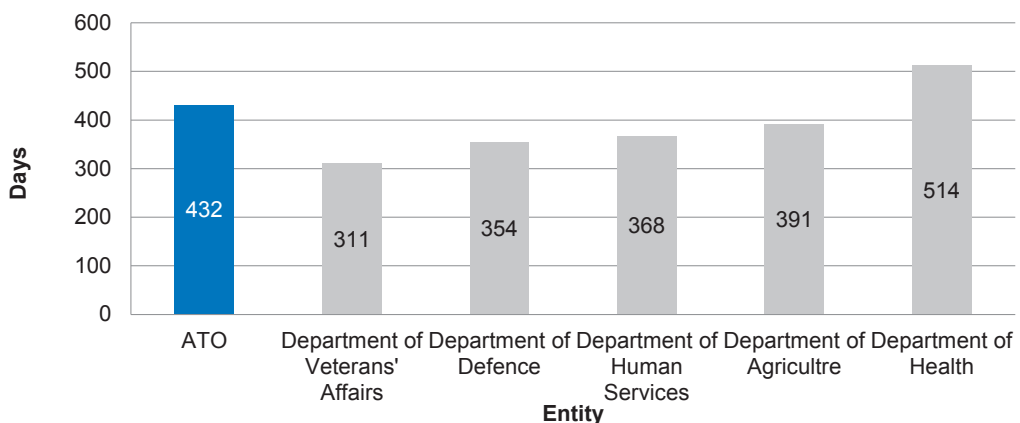
Note a: As at 31 October 2016, 36 recommendations had implementation completed dates.

Source: ATO Implementation Plan and ANAO analysis of records in ATO's recommendation database.

2.22 In light of the findings relating to implementation priorities, the ANAO suggests that the ATO reviews the guidance for each implementation priority and considers the benefit of setting timeliness targets (in days or months) for implementing recommendations against the implementation priorities.

How the Australian Taxation Office compares with other entities

2.23 The ANAO's recent series of performance audits has assessed the timeliness of entities' implementation of recommendations. Individual recommendations are likely to vary in their scope and complexity and the circumstances of individual entities will also vary. Entities can also have varied implementation processes that impact on the time taken to implement recommendations and the recording of implementation dates. Nevertheless, the ANAO's published findings provide some basis for a comparative assessment of entity performance. These findings indicate that the ATO has been relatively slow in implementing ANAO performance audit recommendations—averaging 432 days to implement the recommendations compared to 388 days by the other entities. Figure 2.5 compares the ATO to other entities, where data is available on those entities' performance.

Figure 2.5: Average number of days to implement ANAO performance audit recommendations compared to other entities audited by ANAO

Source: ANAO analysis of ATO data and results from recent ANAO audits.

Parliamentary committee recommendations

2.24 The JCPAA and Standing Committee on Tax and Revenue require that government responses and executive minutes in response to committee reports should be provided within six months of a committee report being tabled in the Parliament. If a government response is provided more than six months after the tabling of the report, the response is considered to be overdue.

2.25 For the five parliamentary committee reports assessed as part of this audit, the ATO responded to all five within the required six month timeframe. Response times ranged from 50 days to 183 days (approximately six months).

2.26 Unless specified by a parliamentary committee, there are no parliamentary or ATO requirements relating to the priority or timing for implementing committee recommendations. Of the 37 recommendations directed to the ATO by the two parliamentary committees from 2011–12 and 2014–15:

- nine recommendations requested that the ATO include certain information in its next submission to the committee. For these recommendations, the response to the committee was timely and the response date was also the implementation date; and
- 28 recommendations requested that the ATO undertake an action, but not within a specified timeframe. Unlike ANAO performance audit recommendations, the ATO does not have a structured process to close parliamentary committee recommendations when they have been implemented. While the ANAO assessed whether recommendations had been adequately implemented, data for the final implementation date was not routinely collected by the ATO for these parliamentary committee recommendations.

3. Governance arrangements

Areas examined

This chapter examines whether the Australian Taxation Office (ATO) effectively monitored and reported on the implementation of Australian National Audit Office (ANAO) performance audit and parliamentary committee recommendations from 2011–12 to 2014–15.

Conclusion

In the four years from 2011–12 to 2014–15, the ATO's processes and systems supported effective monitoring and review of the implementation of ANAO performance audit and parliamentary committee recommendations. The ATO Audit and Risk Committee received sufficient information to perform its monitoring function for recommendations. Significant changes are being made in 2016–17 to the ATO's future governance arrangements for managing the implementation of recommendations.

Areas for improvement

The ANAO made two suggestions: that the content of the Audit and Risk Committee's annual report to the Commissioner of Taxation meet the requirements in its charter for reporting on the implementation of performance audit and parliamentary committee recommendations (paragraph 3.19); and that the ATO measure the impact of changes in 2016–17 to the review of performance audit recommendations closed by business areas (paragraph 3.28).

Does the Australian Taxation Office have sound processes and systems for the implementation of recommendations?

During the four years 2011–12 to 2014–15, the ATO's implementation of recommendations from ANAO performance audits and two parliamentary committees was soundly based and consisted of:

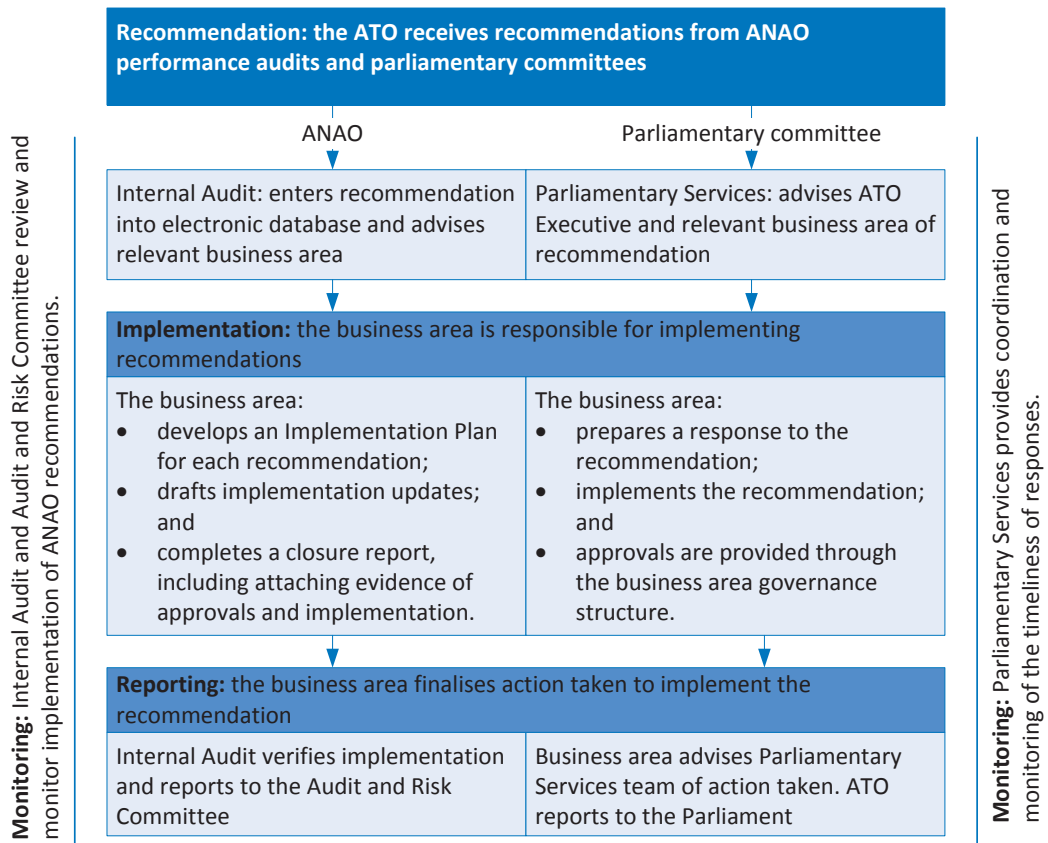
- clearly defined roles being performed by central coordination areas and business areas having responsibility for implementing recommendations;
- established policies and processes that were adequate for the activity and consistently applied; and
- staff meeting the requirements for accurate information to be entered and maintained in corporate systems.

Roles and responsibilities

3.1 The ATO has clearly specified the roles and responsibilities of coordination and business areas that manage recommendations from ANAO performance audits and parliamentary committees. An overview of the ATO's arrangements in place for the four years 2011–12 to 2014–15 (the years in scope for this audit) is set out in Figure 3.1. The ATO's future arrangements for managing the implementation of performance audit and parliamentary committee recommendations made in and beyond 2016–17 are discussed at paragraph 3.26.

3.2 The ATO's arrangements for managing the implementation of performance audit and parliamentary committee recommendations from 2011–12 to 2014–15 were similar (Figure 3.1). The key difference in the governance arrangements was the role of Internal Audit and the ATO's Audit and Risk Committee in reviewing and monitoring performance audit recommendations.¹⁷

Figure 3.1: Roles and responsibilities of ATO coordination and business areas for implementing performance audit and parliamentary committee recommendations, 2011–12 to 2014–15



Source: ANAO analysis of ATO documents.

Policies and processes

3.3 The ATO maintains an internal instruction for staff that sets out the policy and guidelines for working with external scrutineers, including the ANAO. The policy states that Internal Audit's role is to monitor, confirm the implementation status of recommendations, and report to the Audit and Risk Committee (see paragraphs 3.13–3.15 for details of the reports).

¹⁷ Under legislation—*Financial Management and Accountability Act 1997* (previously) and *Public Governance, Performance and Accountability Act 2013* (current)—the Commissioner of Taxation is required to establish an audit committee to provide independent advice and assurance to the Commissioner.

3.4 In addition to the policy for all staff, Internal Audit provides detailed written guidance and templates to assist ATO staff to manage the implementation of recommendations. The documentation includes templates and guidelines relating to: the development of Implementation Plans for recommendations; providing implementation status updates; and satisfying evidence requirements and the approval process required to close recommendations. The ANAO's sample of performance audit recommendations showed that the guidance and templates were sufficient to enable staff in the ATO business areas to have fulfilled their reporting requirements.

3.5 ATO responses to parliamentary committee recommendations from the Joint Committee of Public Accounts and Audit (JCPAA), from 2011–13, were consistent with the guidelines issued by the Department of Finance.¹⁸ For example, the guidelines address the processes for entities to respond to recommendations that are either policy or administrative in nature, and states that all responses to recommendations must be provided within six months of the date of tabling of the report. A similar process was followed by the ATO for responses to recommendations made by the Standing Committee on Tax and Revenue from 2014–15.

3.6 The Parliamentary Services area provides the relevant ATO business area lead with details of specific parliamentary recommendations, timing for a status update and the required approval process for finalising recommendations. For the four years in scope for the audit, the ATO also provided an adequate level of general advice to staff about the: operation and processes (submission and inquiry) of parliamentary committees; requirements for responding to Questions on Notice received from the Parliament; and clearance and approval process for responses. The guidance was sufficient to manage the implementation of the parliamentary committee recommendations in the ANAO's sample of recommendations.

Systems and information requirements

3.7 The ATO used various corporate electronic systems and applications for managing performance audit and parliamentary committee recommendations. The systems in use were TeamCentral (part of the TeamMate audit management system), Microsoft Excel and ATO share drives. The ATO was able to provide the ANAO with access to TeamCentral and/or provide documents showing approvals and evidence provided by the business areas as part of the workflow for managing both types of recommendations.

3.8 The information recorded in ATO systems is initially entered by a coordination area (Internal Audit or Parliamentary Services in Figure 3.1) and status updates are provided by business areas either on request or when the recommendation has been implemented. Business areas are also responsible for providing supporting evidence and undertaking approval processes.

3.9 As part of the ANAO's sampling of recommendations, key elements of the implementation process for performance audit recommendations were examined for compliance with ATO requirements. Table 3.1 shows that all of the implementation requirements for the sampled recommendations were met on an ATO-wide basis, which provided assurance around the successful operation of the systems and processes that were in place to manage the implementation of recommendations by a range of business areas.

18 Department of Finance, *Joint Committee of Public Accounts and Audit Reports. A guide for Commonwealth entities when preparing a response*, available from <www.finance.gov.au/sites/default/files/JCPAA-preparing-a-response.docx> [accessed 5 October 2016].

Table 3.1: Audit sample results of compliance with ATO implementation requirements for performance audit recommendations, 2011–12 to 2014–15

Australian Taxation Office requirement	Yes	No	Not required
Was an Implementation Plan completed?	23	0	0
Was a priority rating assigned for implementation?	23	0	0
Was a risk rating assigned to the recommendation?	15	0	8 ^a
Was the timing for implementation specified?	23	0	0
Was the relevant business area for implementation identified?	23	0	0
Was a closure report completed?	21	0	2 ^b
Were there appropriate senior staff approvals?	21	0	2 ^b
Did Internal Audit review the action taken and evidence provided?	19	0	4 ^c

Note a: Not a requirement included in all of the Implementation Plan templates during the period.

Note b: Two recommendations still in progress.

Note c: Two recommendations still in progress and two recommendations finalised that did not require a review because of a change in process.

Source: ANAO analysis of a sample of performance audit recommendations stored in the ATO's TeamCentral database.

3.10 An important requirement was for ATO business areas to develop an Implementation Plan for performance audit recommendations that the ATO had agreed to implement. The plan was required by the Audit and Risk Committee for the purpose of transparently managing and implementing recommendations, which would provide assurance to the committee about ATO internal controls and risk management.¹⁹ The completed plans were a sufficiently comprehensive planning tool for use by ATO staff at all levels.

3.11 From 2011–12 to 2014–15, a formal approval process was also in place for finalising the implementation of recommendations made to the ATO by the Joint Committee of Public Accounts and Audit and Standing Committee on Tax and Revenue. The ANAO's sample of recommendations from that period confirmed that in all instances (21 recommendations) the ATO's response to the relevant committee was approved by the appropriate senior ATO staff member and/or the Commissioner of Taxation. A detailed Implementation Plan was not required for the management of parliamentary committee recommendations and the regular reporting cycle was from one committee hearing to the next.

¹⁹ The document template included a number of elements: recording the rationale provided for the recommendation; target implementation date; implementation strategy; closure and evidence requirements; and specified management endorsement for key stages in the process.

Does the Australian Taxation Office have effective arrangements for monitoring the timely and adequate implementation of recommendations?

The ATO's arrangements for internal monitoring of the implementation of performance audit and parliamentary committee recommendations were appropriate. Adequate support was provided to the Audit and Risk Committee to conduct its monitoring and review function for recommendations. There is scope to improve the recommendations part of the content of the committee's annual report to the Commissioner of Taxation. In three of the four years assessed during the audit, the report did not address the charter requirement that the committee monitor the ATO's progress in implementing recommendations, and therefore did not provide reasonable assurance that this function was performed effectively.

Separately, the ATO appropriately monitored the implementation of nine recommendations made by the ANAO in annual audits of the financial statements from 2011–12 to 2014–15.

External reporting by the ATO in its annual report and on its website is limited as the amount of detail provided varied during the period and some information on the website is dated.

Recommendation monitoring arrangements within the Australian Taxation Office

3.12 The ATO's Audit and Risk Committee is required to satisfy itself that the entity has appropriate mechanisms in place to review and implement relevant performance audit and parliamentary committee recommendations. This requirement was an ongoing function under all versions of the committee's charter from 2011–12 to 2014–15.

3.13 From 2011–12 to 2014–15, the Audit and Risk Committee met quarterly and considered reports at each meeting about the implementation status of performance audit and parliamentary committee recommendations.²⁰ For performance audit recommendations, the updates were based on information provided by the business areas in quarterly progress reports entered in TeamCentral.

3.14 While the format of reports to the Audit and Risk Committee differed slightly over time, the focus remained on providing the committee with advice about the timely and adequate implementation of recommendations. The reports contained: summary tables, similar to Table 3.2; charts that presented trends over time; and the use of colours (red and amber) to highlight delays in implementation.

Table 3.2: Example of a summary table for monitoring recommendations

Number of open recommendations	Total open as at (date)	Added this quarter	Closed this quarter	Total open	Not yet due	Overdue <3 months	Overdue ≥3 months
External scrutineer							

Source: ANAO analysis of Audit and Risk Committee meeting papers, 2011–12 to 2014–15.

²⁰ The Audit and Risk Sub-Committee, which supports the full committee in meeting its responsibilities, also met quarterly during the four years and considered similar monitoring reports.

3.15 Audit and Risk Committee (and Sub-Committee) members regularly asked questions about the content of reports and processes, and made suggestions for improvements in the reports. For example, committee members discussed the:

- implementation status and age of recommendations;
- number of overdue recommendations and whether implementation dates set by the business areas were realistic;
- implementation priority (low, medium, high) of overdue recommendations; and
- ongoing management and tracking of Implementation Plans.

3.16 Since 2012, the final stage in monitoring the implementation of performance audits has occurred at Audit and Risk Committee meetings. After the business area has submitted a recommendation for closure, Internal Audit assesses and accepts or rejects the evidence provided. Half of the recommendations in the ANAO's sample that were reviewed by ATO Internal Audit were rejected at least once prior to closure (as discussed in Chapter 2). Following tabling and discussion by the committee, the recommendation is classified as being 'implemented' and closed in TeamCentral.

3.17 In July 2014, members of the Audit and Risk Sub-Committee agreed that for recommendations highlighted as 'on watch' (overdue for implementation) the responsible actioning officer for each overdue action or recommendation should attend the next Audit and Risk Committee meeting to explain the reason for the delay.²¹ However, no representatives from a business area were required to attend an Audit and Risk Committee meeting before 30 June 2015 to discuss overdue recommendations, which was the end of the four-year period assessed by the ANAO.

3.18 The Audit and Risk Committee (and Sub-Committee) has been provided with sufficient information to fulfil their monitoring function for recommendations made by performance audits and parliamentary committees from 2011–12 to 2014–15. The ATO has responded to requests from the committees for amendments to two key reports so as to increase the reports' transparency and usefulness for monitoring purposes, for example, by highlighting exceptions more clearly.

3.19 To satisfy a charter requirement, the Audit and Risk Committee's annual report to the Commissioner of Taxation should have explicitly addressed the committee's monitoring function for performance audit and parliamentary committee recommendations. Aside from the 2011–12 annual report, insufficient detail was provided in the following three years to afford assurance that the committee was satisfactorily undertaking its monitoring function, including summarising the ATO's progress in implementing recommendations. While the committee's annual reports have become more concise over time, the content should still be consistent with the requirements contained in the committee's charter for monitoring recommendations.²²

21 Reporting to the Audit and Risk Sub-Committee included identifying those recommendations where likely implementation dates had been changed a number of times and/or implementation will be at least 12 months late from the original due date.

22 The format of the Audit and Risk Committee's annual report was refreshed in 2015–16 and addresses the committee's monitoring function for performance audit recommendations but not parliamentary committee recommendations.

Financial statement audit recommendations

3.20 From 2011–12 to 2014–15, the functions of the Audit and Risk Committee included reviewing: the ATO's financial statements for adequacy and compliance; and whether appropriate management action had been taken in response to any issues raised by the ANAO, as the external auditor.

3.21 The ANAO's annual financial statement audits for the ATO identify audit issues that are categorised and reported to the ATO, and depending on the category, the Minister and the Parliament.²³ At the interim and final audit phases of the financial statement audit, the ANAO issues a letter to the ATO with details of the audit issues identified and recommendations for action. These letters also report on the status of previously identified audit issues and incorporate management responses from the ATO to the audit issues and the recommendations for action.

3.22 Unlike performance audit and parliamentary committee recommendations, financial statement recommendations for action are not published. The Audit and Risk Committee monitors the implementation of those recommendations and the ANAO determines when an audit issue has been resolved. During this audit, the ANAO reviewed the relevant committee meeting papers for the Audit and Risk Committee and Audit and Risk Sub-Committee, and ANAO interim and closing audit letters to the ATO. For the four-year period, the ATO, supported by its Audit and Risk Committee, appropriately monitored the implementation of nine financial statement recommendations for action.

External reporting

3.23 ATO written submissions that include responses to recommendations made by parliamentary committees are published on the Parliament of Australia website.²⁴ A committee can subsequently ask follow-up questions at a later hearing or seek details of the implementation status of recommendations in subsequent hearings. During the four-year period assessed by the ANAO, the JCPAA commented positively in 2011 about the ATO's implementation of its recommendations.²⁵ While a parliamentary committee may follow-up with an entity and may decide to re-open its inquiry if a response to a recommendation is considered to be inadequate, this has not happened for the Standing Committee on Tax and Revenue's inquiry into *Tax Disputes*.²⁶

3.24 In annual reports from 2011–12 to 2014–15, the ATO reported on performance audit reports and recommendations, and parliamentary committee hearings and recommendations, in varying degrees of detail. Annual reports published in the last two years of the period did not include the number of recommendations made by parliamentary committees or the ATO's response.

23 The Auditor-General reports on audits of financial statements to the Parliament twice a year: *Interim Phase of the Audit of Major General Government Sector Agencies*; and *Audits of the Financial Statements of Australian Government Entities*, available from <<https://www.anao.gov.au>> [accessed 6 October 2016].

24 Available from <http://www.aph.gov.au/Parliamentary_Business/Committees> [accessed 13 October 2016].

25 *Report 426 Ninth biannual hearing with the Commissioner of Taxation*, Joint Committee of Public Accounts and Audit, 2011, p.5 available from <http://www.aph.gov.au/Parliamentary_Business/Committees> [accessed 13 October 2016].

26 House of Representatives Standing Committee on Tax and Revenue (March 2015), *Tax Disputes*.

3.25 In 2013, in response to a recommendation of the JCPAA, the ATO advised that it would publish information about the implementation of the committee’s recommendations on its website. In December 2016, the ATO website provided details of performance audit recommendations and their implementation status (as assessed by the ATO) for five of the six performance audit reports available from 2011 and 2013. The ATO’s website also directed viewers to the Parliament of Australia website for the details of committee recommendations and provided a general link to the ANAO website. The ATO advised that it intends to investigate alternative options—other than its website—for efficiently publishing information about recommendations made to it and ATO responses.

What are the future directions for the Australian Taxation Office’s arrangements for managing the implementation of recommendations?

In 2016–17, the ATO is continuing to implement changes to its review and monitoring arrangements for both performance audit and parliamentary committee recommendations. The changes are consistent with suggestions from the ATO Audit and Risk Committee aimed at achieving more efficient monitoring and review processes and streamlined reporting about the implementation status of recommendations. Due to the ongoing nature of the work, the ANAO could not assess the impact of the changes to roles and processes. Changing an important internal control that provides assurance to the ATO’s Audit and Risk Committee could improve the time taken to close recommendations, but lessen the assurance provided about the adequate implementation of performance audit recommendations.

3.26 In 2016–17, the ATO is making changes to the governance arrangements for managing the implementation of recommendations, which will impact on performance audit and parliamentary committee recommendations. Table 3.3 shows recent changes to the ATO’s review process for performance audit recommendations, which were instigated by the ATO Audit and Risk Committee. The changes are designed to make the central coordination and monitoring processes more efficient and to use a risk based approach to sampling the recommendations closed by business areas.

Table 3.3: ATO Internal Audit reviews of closed performance audit recommendations

Year	Closed recommendations reviewed by Internal Audit
2014–15	<ul style="list-style-type: none"> • 100 per cent
2015–16	<ul style="list-style-type: none"> • 100 per cent of the high priority for implementation recommendations • 50 per cent of the medium priority for implementation recommendations • 20 per cent of the low priority for implementation recommendations
2016–17	<ul style="list-style-type: none"> • To be determined

Source: ANAO analysis of ATO documents.

3.27 In 2016–17, a review of a sample of the performance audit recommendations that have been closed by a business area, before going to the Audit and Risk Committee for consideration, will be conducted as an internal audit. The audit is currently scheduled to commence in February 2017 and a report is to be presented to the Audit and Risk Committee in September 2017.

3.28 The timeliness of implementing performance audit recommendations and rejection rate after reviews by the ATO's Internal Audit function of recommendations closed by a business area were discussed in Chapter 2. New processes for reviewing the implementation status of performance audit recommendations should take into account historical performance information and ensure the Audit and Risk Committee is provided with sufficient support to perform its monitoring function for performance audit recommendations. There is the potential for less scrutiny to result in less assurance of the adequate implementation of performance audit recommendations in the future. The ANAO suggests that the ATO establish a baseline or indicators to measure the impact of new review arrangements being introduced in 2016–17 to provide assurance about the adequate implementation of ANAO performance audit recommendations by business areas.

3.29 As part of a whole-of-government project, the ATO is implementing a Parliamentary Workflow Solution. The shared service aims to provide cost efficiencies and improved record keeping for managing a range of parliamentary documents. The new electronic workflow system will support the central monitoring of parliamentary committee recommendations. The ATO advised that a new guide for staff working with parliamentary recommendations is being developed that will address: governance arrangements; roles and responsibilities; and procedures. The workflow system will also be used for quarterly reports to the Audit and Risk Committee in 2016–17 about the implementation status of parliamentary committee recommendations.

3.30 The quarterly reporting on parliamentary committee recommendations to the Audit and Risk Committee will assist the ATO to compile an annual update for the ANAO.

3.31 In 2015, the Audit and Risk Committee suggested that reporting on performance audit recommendations could be coordinated by the ATO External Scrutineers Unit to allow ATO Internal Audit complete independence from the monitoring and review process. In 2016–17, the ATO has been preparing to move the central monitoring function for performance audit recommendations to the External Scrutineers Unit, including developing a new electronic database for monitoring recommendations. The ATO advised that the Audit and Risk Committee will continue to receive quarterly updates on the implementation status of performance audit and other scrutineer recommendations.



Grant Hehir
Auditor-General

Canberra ACT
9 February 2017

Appendices

Appendix 1 Entity response



Australian Government
Australian Taxation Office

Ms Michelle Kelly
Group Executive Director
Performance Audit Services Group
Australian National Audit Office
GPO Box 707
CANBERRA ACT 2601

Dear Ms Kelly

AUSTRALIAN NATIONAL AUDIT OFFICE PERFORMANCE AUDIT OF
AUSTRALIAN TAXATION OFFICE'S IMPLEMENTATION OF RECOMMENDATIONS

Thank you for your letter dated 19 December 2016 and for the opportunity to provide comments on the proposed report on *Australian Taxation Office's Implementation of Recommendations*.

We agree with the ANAO that the ATO has effectively monitored and implemented recommendations in the four years reviewed and note the suggestions for further improvements.

Attached is a summary of our response to be included in the report (at Annexure 1). Our comments to the suggested improvements are also provided (Annexure 2).

I would like to thank the Australian National Audit Office audit team for the cooperative and professional manner they have adopted in working with us on this matter. I look forward to continuing the good working relationship developed in this performance audit.

If you require further information on this matter, please contact Janine Clark on (02) 6216 6362.

Yours sincerely

A handwritten signature in black ink, appearing to read 'JA Curtis'.

Jacqui Curtis
Chief Operating Officer
Australian Taxation Office

30 January 2017

Appendix 2 The Australian National Audit Office's assessment of implementation

Recommendations	Assessment
ANAO performance audit recommendations	
Report No.25 2011–12 Administration of Project Wickenby	
Recommendation 1—To respond to the Government's requirement at the outset of Project Wickenby, the ANAO recommends that the ATO conducts a post-implementation review of the project after the scheduled completion of project funding in June 2013.	Implemented
Report No.40 2011–12 Interpretative Assistance for Self Managed Superannuation Funds	
Recommendation 1—To ensure that the SMSF interpretative assistance products address the most significant needs of the SMSF market, the ANAO recommends that the ATO evaluate the satisfaction levels of trustees and their representatives with SMSF interpretative assistance products, and implement potential improvements, as relevant.	Implemented
Report No.54 2011–12 The Engagement of External Debt Collection Agencies	
Recommendation 1—To provide assurance that taxpayers' information for the referral program is being adequately protected, the ANAO recommends that the ATO: <ul style="list-style-type: none"> a) clearly defines the respective roles and responsibilities of the Debt business line and the Trusted Access branch and the Security Policy and Services branch; and b) implements all elements of the security framework, particularly the scheduling of reviews, and the completion of Certificates of Assurance and other requirements as set out in the Deeds of Standing Offer with the ECAs. 	Implemented
Recommendation 2—To maintain integrity and consistency in the processes for selecting and referring debt cases to external collection agencies, the ANAO recommends that the ATO reviews and updates the Legacy and Enterprise systems and procedural documentation.	Implemented
Recommendation 3—In recognising the evolving nature of the referral program, the ANAO recommends that the ATO: <ul style="list-style-type: none"> a) establishes the relative costs of the use of external collection agencies and the ATO's internal processes; b) improves analysis to support the selection of debt cases for referral; and c) clarifies the program's position in relation to the broader debt management framework. 	Implemented
Report No.34 2012–13 Preparation of the Tax Expenditures Statement	
Recommendation 1—To improve the consistency of the reliability ratings disclosed in the Tax Expenditures Statement, ANAO recommends that the Department of the Treasury and the Australian Taxation Office review and standardise their internal methodology for allocating reliability ratings to tax expenditure items.	Implemented
Report No.44 2012–13 Management and Reporting of Goods and Services Tax and Fringe Benefits Tax Information	
Recommendation 1—To allow information that has been deleted in the ATO's Integrated Core Processing system to be accurately reflected in the data warehouse, the ANAO recommends that the ATO more regularly performs the data extraction and reconciliation routines between the Integrated Core Processing system and the data warehouse.	Implemented

Recommendations	Assessment
<p>Recommendation 2—To improve the management of Structured Query Language (SQL) scripts and their outputs, the ANAO recommends that the ATO develops:</p> <ul style="list-style-type: none"> a) standard operating procedures for the development, testing, storage and quality control of SQL scripts as they relate to reporting from the data warehouse; and b) guidelines for the storage and archiving of SQL scripts outputs and referenced tables, where the exact replication of those outputs is required. 	Other—In progress
<p>Recommendation 3—To provide assurance that the Enterprise Reporting Strategy will deliver its planned objectives in relation to the production and use of assured reports, the ANAO recommends that the ATO:</p> <ul style="list-style-type: none"> a) develops interim performance indicators and targets for the strategy; and b) monitors and reports against these indicators at regular intervals. 	Implemented
Report No.51 2012–13 Management of the Australian Taxation Office's Property Portfolio	
<p>Recommendation 1—To support the ongoing initiatives in property management and planning, and consistent with Department of Finance and Deregulation guidance, the ANAO recommends that the Australian Taxation Office maintains an overarching property management plan, which is updated every two or three years in line with the agency's corporate planning cycle, and provides clear strategic direction for its property portfolio.</p>	Implemented
Report No.52 2012–13 Management of Debt Relief Arrangements	
<p>Recommendation 2—To provide increased assurance of the quality and consistency of decisions to remit general interest charges, the ANAO recommends that the Australian Taxation Office undertakes specific quality assurance assessments on general interest charge remission decisions and includes a focus on these decisions in the IQF summary reports.</p>	Implemented
Report No.5 2013–14 Administration of the Taxation of Personal Services Income	
<p>Recommendation 1—To better inform its assessment of the alienation of personal services income (PSI) risk and the effectiveness of PSI compliance activities, the ANAO recommends that the Australian Taxation Office:</p> <ul style="list-style-type: none"> a) estimates the number of non-compliant PSI taxpayers; and b) develops a methodology to assess the potential magnitude of the revenue at risk from this non-compliance. 	Partially implemented
Report No.19 2013–14 Management of Complaints and Other Feedback	
<p>Recommendation 1—To improve transparency, the ANAO recommends that, in reporting performance against its published timeliness resolution target, the ATO reports on the percentage of complaints that were finalised within:</p> <ul style="list-style-type: none"> a) the target timeframe (from 2013–14, 15 business days) without adjusting for extended timeframes that may be arranged with complainants; and b) any extended timeframes arranged with complainants separately. 	Partially implemented
<p>Recommendation 2—To better monitor the quality of complaints handling, the ANAO recommends that the ATO:</p> <ul style="list-style-type: none"> a) implements an agency-wide quality assurance framework for complaints and other feedback that provides results at an agency-wide and individual business and service line level; and b) includes these results in monthly complaints and community feedback reports. 	Implemented

Recommendations	Assessment
Report No.35 2013–14 <i>Managing Compliance of High Wealth Individuals</i>	
<p>Recommendation 2—To enable the ATO to more efficiently allocate compliance resources across the Private Groups and High Wealth Individuals business line, and to more accurately demonstrate return on investment, the ANAO recommends that the ATO:</p> <ul style="list-style-type: none"> a) better assesses the cost of compliance activities for the HWI population; and b) calculates the return on investment for HWI compliance activities on the basis of cash collected, in addition to liabilities raised. 	Not implemented
Report No.48 2013–14 <i>Administration of Australian Business Register</i>	
<p>Recommendation 1—To make it easier for business to deal with government, the ANAO recommends that the Registrar of the ABR works with the Australian Securities and Investments Commission, the Department of Industry and the Department of the Treasury to:</p> <ul style="list-style-type: none"> a) review the entry points to government; and b) develop and implement the most effective and efficient delivery mechanism for businesses to meet their registration and reporting requirements, and to access information and services from government. 	Other—In progress
Report No.5 2014–15 <i>Annual Compliance Arrangements with Large Corporate Taxpayers</i>	
<p>Recommendation 1—To better tailor ACAs to taxpayers' assessed compliance risks, the ANAO recommends that the ATO reassesses: the design of these arrangements within the compliance framework for large corporate taxpayers; the level of compliance assurance required to provide benefits for both parties; and the administrative processes.</p>	Implemented
<p>Recommendation 2—To support ongoing assessment of the effectiveness of ACAs to identify and mitigate tax risks in real time, the ANAO recommends that the ATO enhance its record keeping of taxpayers' disclosures of contentious tax positions, and the strategies developed to deal with these disclosures.</p>	Implemented
Report No.7 2014–15 <i>Administration of Contact Centres</i>	
<p>Recommendation 1—To help deliver seamless, consistent and efficient services across all communication channels and to increase the take-up of online services, the ANAO recommends that the ATO:</p> <ul style="list-style-type: none"> a) develops an overarching cross-channel strategy that details how the ATO plans to transition to an improved online service environment, while also continuing to provide and improve the performance of other service channels; b) adopts organisational arrangements that better support the coordinated delivery of services; and c) further develops its website to better support the delivery of online services. 	Implemented
<p>Recommendation 2—To help identify opportunities for further efficiency improvements in the operation of contact centres, the ANAO recommends that the ATO develops a consistent approach for calculating call handling costs, including the cost of telephony handling by its 'boutique' contact centres.</p>	Implemented

Recommendations	Assessment
Report No.39 2014–15 <i>Promoting Compliance with Superannuation Guarantee Obligations</i>	
<p>Recommendation 1—To provide greater assurance of the level and nature of non-compliance with Superannuation Guarantee obligations, the ANAO recommends that the ATO:</p> <ul style="list-style-type: none"> a) better analyses non-compliance, including at the industry sector levels and among the categories of employees most at risk; and b) further engages with external stakeholders involved in Superannuation Guarantee compliance activities. 	Implemented
<p>Recommendation 3—To improve the effectiveness of the ATO's Superannuation Guarantee compliance activities, the ANAO recommends that the Superannuation business line better aligns its Superannuation Guarantee compliance strategy with the compliance activities conducted by other relevant business lines.</p>	Implemented
Report No.51 2014–15 <i>Administration of Capital Gains Tax for Individual and Small Business Taxpayers</i>	
<p>Recommendation 1—To determine the effectiveness of its capital gains tax (CGT) compliance strategies and activities, the ANAO recommends that the ATO:</p> <ul style="list-style-type: none"> a) undertakes an evaluation of the bulk mailout of letters to individual taxpayers for potential non-compliance with CGT obligations; b) further assesses the effectiveness of CGT reviews and audits of small business taxpayers; and c) conduct an evaluation for CGT that includes all the relevant market sectors using the Compliance Effectiveness Methodology. 	Implemented

Parliamentary committee recommendations	
Report 424: <i>Eighth biannual hearing with the Commissioner of Taxation—4 July 2011 (JCPAA)</i>	
<p>Recommendation 2—The Committee expects the next submission to the biannual hearing from the Australia Taxation Office to contain explicit consideration of, and reporting on action taken to improve complaint handling and address the underlying causes of complaints.</p>	Implemented
<p>Recommendation 6—The Committee recommends that the next submission to the biannual hearing details the status of the 900 current cases of compromised tax file numbers, including actions taken to resolve the issue and reasons for delay, should some remain unresolved.</p>	Implemented
<p>Recommendation 7—The Committee recommends that the next submission to the biannual hearing details the Australian Taxation Office's responses to recommendations made by external review agencies such as the Australian National Audit Office, the Commonwealth Ombudsman and the Inspector General of Taxation.</p>	Implemented
<p>Recommendation 8—The Committee recommends that the Australian Taxation Office respond to written reports and recommendations made by external scrutiny bodies in writing.</p>	Implemented
Report 426: <i>Ninth biannual hearing with the Commissioner of Taxation—23 November 2011 (JCPAA)</i>	
<p>Recommendation 1—The Committee recommends that the Australian Taxation Office increase the visibility of the traffic light reporting system, on its achievements against benchmarks, to a more prominent position on its website with clear signposting for visitors to the website.</p>	Implemented

Recommendations	Assessment
<p>Recommendation 2—The Committee recommends that Australian Taxation Office notifications to the Government, either directly or through Treasury, on tax policy and legislative problems be made public within 12 months of submission, along with the Government's response.</p>	<p>Other—ATO disagreed</p>
<p>Report 434: Annual public hearing with the Commissioner of Taxation—26 November 2012 (JCPAA)</p>	
<p>Recommendation 3—That the Australian Taxation Office offer to provide assistance to professional organisations that provide online calculators relating to taxation to ensure these resources are based on accurate figures and assumptions, and that the Australian Taxation Office promote this service to these organisations.</p>	<p>Implemented^a</p>
<p>Recommendation 5—That the Australian Taxation Office examine tax gap methodologies to produce a comprehensive national estimate, and report to the Joint Committee of Public Accounts and Audit on the positives and negatives of these methodologies and whether implementation is practical.</p> <p>That this report form part of the Australian Taxation Office's submission to the Joint Committee of Public Accounts and Audit's 2013 Annual Public Hearing with the Commissioner of Taxation.</p>	<p>Implemented</p>
<p>Recommendation 6—That the Australian Taxation Office publicly release its tax gap analysis relating to Goods and Services Tax collections when the analysis has been completed.</p>	<p>Implemented</p>
<p>Recommendation 7—That the Australian Taxation Office publish information regarding the implementation of Joint Committee of Public Accounts and Audit recommendations on its website alongside those of other Australian Taxation Office scrutiny bodies.</p>	<p>Implemented</p>
<p>Report 447: EPBC Act, Cyber Security, Mail Screening, ABR and Helicopter Program: Review of Auditor-General Reports Nos 32-54—2 March 2012 (JCPAA)</p>	
<p>Recommendation 7—The Committee recommends that the Australian Taxation Office work more closely with the Australian Securities and Investments Commission, the Department of Industry and the Department of Treasury on the administration of the Australian Business Register (ABR), to make it easier for business to interact with government by:</p> <ul style="list-style-type: none"> • reducing entry points to government • developing and implementing registration and reporting mechanisms that are efficient and convenient for business • simplifying business access to information and services offered by government • reviewing and updating the information technology supporting the ABR. 	<p>Other—In progress</p>
<p>Tax disputes—26 March 2015 (Standing Committee on Tax and Revenue)</p>	
<p>Recommendation 1—The Committee recommends that the Australian Taxation Office review its performance reporting measures and:</p> <ul style="list-style-type: none"> • develop a measureable key performance indicator of taxpayer perceptions of fairness in tax disputes; • that this key performance indicator be monitored and reviewed by the Australian Taxation Office executive on a regular basis (at least half-yearly); and • that the outcomes against such a key performance indicator be reported in the Australian Taxation Office Annual Report. 	<p>Implemented</p>
<p>Recommendation 4—The Committee recommends that the Australian Taxation Office amend its internal guidance so that findings or suspicion of fraud or evasion can only be made by an officer from the Senior Executive Service.</p>	<p>Other—ATO disagree</p>

Recommendations	Assessment
Recommendation 5—The Committee recommends that the Australian Taxation Office only make allegations of fraud against taxpayers when evidence of fraud clearly exists.	Implemented
Recommendation 6—The Committee recommends the Australian Taxation Office should ensure that allegations of fraud or evasion are addressed as soon as practicable in an audit or review.	Implemented
Recommendation 9—The Committee recommends the Australian Taxation Office better engage with taxpayers prior to litigation so that they are aware of what the model litigant rules require, and do not require, of the Australian Taxation Office.	Implemented
Recommendation 10—The Committee recommends the Australian Taxation Office approach the Australian Government Solicitor to determine if they can provide advice and assistance to the Australian Taxation Office in terms of best practice in complying with the model litigant rules.	Implemented
Recommendation 16—The Committee recommends that the Australian Taxation Office invite the Commonwealth Ombudsman to advise on improving its compensation processes, including compensation liability and amounts.	Implemented
Recommendation 17—The Committee recommends that the Australian Taxation Office ensure that the information passed between an auditor and an objection officer surrounding a dispute only consist of the factual case documents, and the audit conclusion provided to the taxpayer. Any internal auditor commentary on the dispute should remain with the audit team.	Implemented
Recommendation 18—The Committee recommends that the Australian Taxation Office develop protocols to ensure that an individual Tax Counsel Network officer only be allowed to provide advice or contribute to the provision of advice at the audit or objection stage of a dispute.	Implemented
<p>Recommendation 19—The Committee recommends that the Australian Taxation Office establish a separate Appeals area:</p> <ul style="list-style-type: none"> • under the leadership of a new Second Commissioner—Appeals to carry out the objection and litigation function for all cases; • establish and publicly articulate clear protocols regarding communication between Appeal officers and compliance officers, including a general prohibition against ex parte communication, save where all parties are informed of, and consent to, such communication taking place; and • empower the appeals function to independently assess and determine whether matters should be settled, litigated or otherwise resolved (for example, Alternative Dispute Resolution). 	Implemented ^a

Note a: The ATO partially agreed to this recommendation. The ANAO assessed the ATO against the elements of the recommendation that it agreed to implement.

Source: ANAO analysis of ANAO audit reports and ATO and parliamentary committee documents.

