

The Auditor-General
Audit Report No.59 2002–03
Performance Audit

Administration of Australian Business Number Registrations

Australian Taxation Office

Australian National Audit Office

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of Australia 2003

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Canberra ACT
27 June 2003

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in the Australian Taxation Office in accordance with the authority contained in the *Auditor-General Act 1997*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit and the accompanying brochure. The report is titled *Administration of Australian Business Number Registrations*.

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

Yours sincerely

A handwritten signature in black ink, appearing to read 'Oliver Winder'.

Oliver Winder
Acting 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

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Abbreviations/Glossary

ABN	Australian Business Number
ABR	Australian Business Register
ABS	Australian Bureau of Statistics
ACN	Australian Company Number
ANAO	Australian National Audit Office
AIS	ATO Integrated System
ASIC	Australian Securities and Investments Commission
ATO	Australian Taxation Office
BEP	Business Entry Point
ELS	Electronic Lodgement Service
EOI	Evidence of Identity
GST	Goods and Services Tax
ISO	International Organization for Standardization
MOU	Memorandum of Understanding
.NET	Microsoft software designed to connect disparate computer applications within organisations to each other and to systems and applications in other organisations.
NOIE	National Office for the Information Economy
NTS	National Taxpayer System
OPA	Output Pricing Agreement
QMT	Quality Management Team
PAC	Policy Advisory Committee
PAYG	Pay-As-You-Go
POI	Proof of Identity
PSC	Project Steering Committee
PKI	Public Key Infrastructure
RD	Registry Division
RFQ	Request For Quotation
SLA	Service Level Agreement

TAQA	Technical Attribute Quality Assurance
TFN	Tax File Number
WAS	Work Allocation System

Summary and Recommendations

Summary

Background

1. In 1996, the Commonwealth Government consulted with business to reduce the ‘red tape’ and costs that small businesses incur when they comply with government requirements, and also to reform the taxation system. The consultations led to *Time for Business—Report of the Small Business Deregulation Task Force* (the Bell Report). It recommended that each business:

- have a unique identifier, which would be used for all government purposes;
- have one, or as few entry points as possible, to gain information and assistance from all government agencies; and
- notify changes of details to one government agency and other agencies would share that information.

2. *A New Tax System (Australian Business Number) Act 1999* (the Act) enacted, in July 1999, the recommendation in the Bell Report for a unique business identifier. The Australian Business Number (ABN), a unique 11-digit number, became the new identifier for business and a key element of the Government’s framework for a new tax system. The legislation also established the Australian Business Register (ABR) as the register of all ABNs. The ABR is the central collection, storage and verification system for basic business information,¹ supplied by businesses with an ABN. Some of this information is available to the public.

3. The ABR is also a whole-of-government initiative, primarily developed to make it easier for business clients to transact business with Commonwealth Government agencies. Eventually it is hoped that the ABR will be able to deliver similar efficiencies to State and Local governments. Once the services to be offered by the ABR are readily available, businesses will be able to update their details as needed and, although the Australian Taxation Office (ATO) will maintain these records, they will be made available to other government agencies. Therefore, other agencies will have the benefit of gaining access to up-to-date information on all Australian businesses. This approach of ‘Tell Once Use Many’ was one of the key themes for the design of the ABR.

¹ Business information relates to name, address and type of business, its email contact address, whether the business is registered for GST and the number of staff it employs.

Administration of the ABN and ABR

4. As part of the Government's Taxation Reform Initiatives, the ATO was given responsibility to implement the ABN and ABR initiatives. The ATO maintains the ABR, and the Commissioner of Taxation is its Registrar. The Government provided the ATO with funds for implementing the ABN and ABR totalling \$128.8 million over four years starting in 1999–2000.

5. The ABR Project Team was established within the ATO in November 1998 and charged with implementing the ABN in two phases. The priority during Phase One of the implementation of the ABR was to register the majority of businesses that applied for an ABN before commencement of *A New Tax System* and the Goods and Services Tax (GST). By 30 June 2000 almost 2.9 million businesses and other eligible entities had applied for an ABN.

6. Phase Two involved the ATO delivering, in June 2002, a new and separate ABR system to store the ABNs and other business information. It involved challenging issues of technology and governance for the ATO that included the use of web-based technology to provide the Australian community with an on-line business register (available 24 hours/day and seven days/week) which processes transactions 'real time'. By 28 September 2002, there were some 4.3 million ABNs recorded in the ABR.

Audit objective

7. The objective of the audit was to assess the administrative effectiveness of the ABN registration process and the ATO's implementation and management of the ABR. In addressing the audit objective we considered whether the:

- implementation of the ABR was managed efficiently and effectively by the ATO;
- ATO has implemented governance arrangements for the effective ongoing administration of the ABR;
- ABN registration systems and procedures will efficiently and effectively deal with all applications for ABNs;
- ATO has implemented systems and procedures to ensure the integrity of ABR data; and
- ATO is making progress towards achieving the whole-of-government outcome for the ABR.

Audit findings and overall conclusion

Implementation

8. The ATO successfully implemented Phase One of the ABR which involved processing, by 1 July 2000, 99 per cent of the ABN applications lodged before 31 May 2000. Those that could not be registered in time for *A New Tax System* were issued with a ‘safety net advice’ letter, which allowed the applicant to temporarily work under *A New Tax System*. Due to the imperative to process some 2.9 million ABN applications before 1 July 2000, the ATO switched off some business rules.² This resulted in subsequent data quality problems for the ATO (see paragraph 23).

9. The Australian National Audit Office (ANAO) found that in implementing the ABR Project the ATO had established a sound framework for the project. However, the ATO did not have documentation to support some key contract and project management decisions relating to the project. This lack of documentation has meant that the ANAO is unable to comment on whether the ATO fully considered Commonwealth procurement principles, including value for money, for some of its ABR Project decisions.

10. We found that the ABR Project did not deliver on some fundamental aspects of the agreed scope of services, and did not meet approved timeframes, despite revisions to the original project schedule. The ATO advised that, although there was some delay in delivering the full scope of the project, it considers the full scope of the project was delivered within the budget. However, based on the financial information provided by the ATO, the ANAO is unable to form an opinion on the project budget.

Governance

11. The ATO has implemented sound governance arrangements for ongoing administration of the ABR. This includes the adoption of strategic and business planning, which reflects commitment to achieving ATO corporate objectives, and the development of an ABR Business Case to provide an analysis of the costs and benefits to be realised in establishing the ABR. The ABR Business Case subsequently formed a basis for the ATO’s justification of its ABR resource requirements and performance measures proposed in the ATO’s Output Pricing

² Business rules generally are data integrity checks; to ensure, for example, that the applicant has provided information in all mandatory fields and that all questions have been answered.

Agreement (OPA).³ However, the ANAO found that, despite slippages in implementing the ABR system, the ATO has not reviewed the Business Case since its inception in November 2000. As a result, this increases the risk that the ATO will not achieve some of the targets specified in the Business Case and OPA. Particularly at risk are targets relating to realising tangible savings from a high integrity ABR and achieving agency participation rates. The ATO has advised that it has now instigated a review of the ABR Business Case.

ABN entitlement criteria

12. The Act (s.10) states that the Registrar must register an applicant if satisfied that the applicant:

- is entitled to have an ABN or is likely to be entitled to have an ABN by the date specified in his/her application (a test for eligibility);
- has established his/her identity (a test for existence); and
- is not already registered in the ABR (a test for duplication).

Test for eligibility

13. The basic requirement for eligibility to an ABN is that the applicant is actually undertaking a business in Australia. Section 10(b) of the Act requires the Registrar to be satisfied that applicants are entitled to an ABN before issuing one. However, the ANAO found that the ATO undertakes limited up-front checking of information provided by applicants to determine eligibility. Instead the ATO has opted for a ‘self-assessment’ approach, placing the onus on applicants to determine their eligibility for an ABN. The ATO undertakes certain computerised checks, before an ABN is issued, to ascertain whether information provided by applicants meets ATO’s requirements and meets various ABR business rules. The ATO also undertakes post registration integrity checks both on a random and risk-related basis.

14. The ANAO has reservations regarding the ATO’s approach of limited up front checking because of the reliance on ‘self-assessment’. ATO analysis of ABR data has identified registrants that appear to be employees rather than businesses (employees are not entitled to ABNs). Also the ATO has identified, as part of its

³ In line with the Department of Finance and Administration requirements, the ATO undertook an Output Pricing Review to establish an appropriate price for an agreed quantity and quality of outputs to be provided by the ATO in future years. A report was prepared for consideration by government in the context of the 2002–03 Commonwealth Budget deliberations. This led to additional funding of \$36.7 million being provided to the ATO for ABN/ABR related improvements from 2002–03 and a new outcome output framework for the ATO. The OPA was the outcome of the review and documents the ATO’s resource requirements for the next three years to achieve the outputs and deliverables identified in the four ATO sub-plans that make up the ATO Corporate Plan.

own quality assurance and data analysis initiatives, changing patterns in registrations, with less (supposed) new businesses wanting to register for GST and Pay-As-You-Go (PAYG). Registration for GST and PAYG are strong indicators that the entity actually is undertaking a business enterprise. In addition, our own testing of the ABR database identified apparently ineligible registrants.

15. As a result of our review of the ATO's current approach to registration, we sought legal advice to clarify whether the Registrar was meeting his obligations under s.10(b) of the legislation. Our legal advice expressed the view that the legislation states specifically that the Registrar must satisfy himself on eligibility before registering the applicant on the ABR. Therefore, the Registrar has an obligation to assess eligibility of applicants on the basis of information he receives from applicants. The advice to us was that the Registrar may use a computerised system to assess eligibility for an ABN, and that computerised system may be backed up by random audit checks after registration. However, the Registrar may only adopt this method of assessment (that is, by a computerised system) where the Registrar has reasonable grounds to be satisfied that the programs underlying the computer system will correctly assess the entitlement. Our legal advice concluded that, based on their understanding of current ATO procedures, the Registrar might not be fulfilling his legislative obligations under the Act in some cases because the system used to assess ABN eligibility is not sufficiently rigorous.

16. However, the ATO advised us that if a purposive interpretation is taken of the ABN legislation then, against the policy intent of the law, the ATO considers the better view is that the Registrar is meeting his legislative requirements. Further, the ATO considers that the legislative requirements of the ABN enable the Registrar to provide to an enterprise an ABN where, on the face of a request by the enterprise, it is appropriate to do so. Such an approach is consistent with the self-assessment system of taxation which provides the backdrop to the ABN law. The ATO considers the current application forms and processing method accurately determine whether an applicant is entitled to an ABN in the majority of cases. The ANAO considers the issue of eligibility to an ABN is significant enough to warrant review of current registration procedures and ABR business rules to determine whether these are sufficient to meet the legislative requirements.

Test for existence

17. A further requirement placed on the Registrar is that he be satisfied that the applicant's identity has been established. For this test the ABR mainly relies on data matching applicants' information to Tax File Number (TFN) information on the ATO's Individual Client Register (for individuals, partnerships and trusts),

and uses Australian Securities and Investments Commission (ASIC) data to confirm the existence of companies and other registered bodies. Although the ATO is undertaking checks to determine the existence of ABN applicants, the ANAO considers that these checks are not sufficiently robust. There are unresolved issues surrounding the quality of TFN data in the ATO's Individual Client Register. For company applicants, the ATO relies on ASIC procedures. However, these procedures are primarily focussed on the requirements for company registrations and are limited with regard to the ATO's ABN registration requirements.

18. The ATO has advised that, as a result of recent additional funding allocations, it is working to improve the integrity of the TFN (Individual Client Register) system. Further, specific funding has also been provided to enable ASIC and the ATO to combine the ABN application and ASIC registration into one process. The ANAO considers that this might provide opportunities to better align registration requirements between the two agencies.

Test for duplication

19. The final requirement on the Registrar is to ensure that the applicant is not already included on the ABR. To ensure that businesses are not issued more than one ABN, the ATO relies on the application of system controls within the ABR to identify possible duplicate records. From our review of ATO procedures and testing of systems controls, the ANAO found that the likelihood of duplicated ABNs, or registrants having more than one ABN, is low.

ABR systems and controls

Operation of business rules and application controls

20. Most of the ATO's testing of ABN applications relies on the effective operation of the ABR system and application of its business rules. Overall, the ANAO considers the system design and implementation was consistent with the ABR business requirements, and that key controls and business rules are operating as intended. Data holdings within the ABR were found to be generally reliable and consistent with implementation of the business rules. However, the ANAO identified data quality deficiencies relating to the migration of ABN data from other ATO systems to the ABR. The ATO advised that the ABR Project had acknowledged these issues as a risk to be managed from the outset, and had implemented a process to (progressively) correct the data when records are updated.

Security of ABR information

21. An important aspect of the ABR is that the information stored is used only as allowed by the legislation, and that adequate security arrangements are in place to ensure that this occurs. The ANAO found that the ATO systems and procedures are designed to address adequately the security and privacy considerations relating to the ABR.

Data integrity and quality management

Quality assurance activities

22. The integrity of ABR data is an ongoing challenge for the ATO. The ATO has developed an extensive suite of policies and procedures that provide the framework within which the quality assurance activities are to take place. The ANAO found that the ATO's approach to its quality assurance activities is comprehensive. However, there are some limitations in implementing ABR-related quality assurance activities that affect their overall effectiveness. These relate to the relevant ATO quality management staff not having access to all ABR data to allow the selection of representative samples for some quality activities, and the absence of quality assurance activities for registrations processed automatically by the ABR system.

ABR data quality issues

23. Data integrity has been adversely affected by past operational decisions to switch off some business rules, and from data quality deficiencies relating to the migration of ABN data from other ATO systems. The imperative to issue 2.9 million ABNs to businesses before *A New Tax System* commenced on 1 July 2000 meant that some business rules were switched off. Also the ATO found some of the business rules contradicted others and had to be overridden. The ATO advised that the business rule changes were documented as part of the process of changing the system and that the records affected were self-correcting, or subsequently have been, or are being, dealt with through the ATO's ongoing data integrity activities.

24. In October 2002, the ATO again switched off one of the ABR business rules because of operational difficulties. The ATO advised that these recent arrangements were fully documented and it would be a simple process for the ATO staff to review and make the necessary changes when resources permit. However, the ANAO found that processes to identify and correct affected records were not fully developed, and the implications of the business rules being switched off were not fully considered. This has the potential to further

exacerbate ABR data quality problems. In May 2003, the ATO advised the ANAO that correction of the affected records is scheduled into the ABR Integrity Program for 2003–04.

ABR-related integrity projects

25. As part of its submission to the Government for its current OPA the ATO made a case for specific funding to ensure ongoing integrity of the ABR data. The ABR Integrity Project results from the Government's acceptance of that submission. The ANAO found that this project contains a comprehensive suite of strategies to address ABR data integrity. However, because there is a co-reliance between the ABR and other ATO activities, based on the ATO's past experience, we consider that the ATO faces a number of challenges to effectively implement these strategies. These challenges include, *inter alia*, the need for improved co-ordination and improved exchange of information between the ABR area and some other areas in the ATO.

Whole-of-government

External partnerships

26. The Commissioner has pre-existing partnerships with several Commonwealth and State agencies on taxation matters. Nevertheless, in his capacity as the Registrar, he is attempting to establish new co-operative relationships to promote the use of the ABR as a whole-of-government register. The ATO has invested significant time and effort in promoting the ABR as a whole-of-government register. However, the ANAO found that the ATO's current approach to establishing and developing external partnerships with Commonwealth and State agencies, to promote the use of ABR, is achieving limited results and that only limited progress has been achieved in meeting whole-of-government objectives. The ABR has now been commissioned for some 12 months but by May 2003 only 11 agencies have signed Memoranda of Understanding (MOUs)⁴ with the Registrar. Some agencies that were extensively involved throughout the ABR Project are yet to sign the MOU relating to the use of ABR's both public and private data. Despite lengthy negotiations the parties have been in dispute over legal aspects of the proposed MOUs. This has related to the inclusion of liability and indemnity clauses.⁵

⁴ All agencies that wish to obtain ABN data (both public and non-public data) will be required to enter into a Memorandum of Understanding with the Registrar. The MOU is an agreement between an agency and the Registrar, setting out the agency's entitlement, obligations and level of access to ABN data.

⁵ Broadly, the liability and indemnity clause indicates the responsibilities of the Registrar and agency in instances where an action is brought by a third party concerning the use of ABR records.

27. The ATO advised that the previous liability clauses which have created delays in finalising the MOUs with a number of agencies have been re-written as ‘responsibility’ clauses and have been forwarded to several key agencies for consideration. The ATO believes that this issue is now close to resolution.

28. In addition, the ATO has acknowledged that delays in implementing the ABR system and providing all the planned functionalities have contributed to the agency participation rates. As the ATO is now behind its targets for achieving agencies’ participation because of the impediments mentioned above, the ANAO considers that the ATO needs to advise the Government of the delays and options to progress the whole-of-government outcome.

Two-way exchange of information

29. Fundamental to the success of the ABR is the two-way exchange of data between the ABR and all levels of government. However, currently there are legislative impediments to this two-way exchange of information. The ATO indicated that the ABN legislation currently provides only for one-way flow of information, that is, provision of information from the ABR to subscriber⁶ agencies under s.30 of the Act. The ABN legislation is silent with regard to the provision of the publish⁷ facility. Similarly, a number of government agencies at the Commonwealth and State level are bound by their respective legislation and some agencies will not be able to disclose or publish business information to the ABR unless their existing legislation is amended.

30. The ATO has advised that it plans to review and propose amendments to the ABN legislation to facilitate the two-way exchange of data. However, the impediments to the two-way exchange of data are to a large extent outside the control of the ATO. The ANAO considers that for the two-way exchange of information to work as was originally envisaged, further consideration needs to be given to the adoption of a whole-of-government approach by government agencies at the Commonwealth, State and Territory level. There might be benefits also in establishing formal inter-governmental machinery of relevant Commonwealth and State policy-making agencies to oversee and progress the ABR as a whole-of-government register.

⁶ An agency that ‘subscribes’ is using ABR data.

⁷ An agency that ‘publishes’ is providing data to the ABR.

Overall conclusion

31. The ABN and ABR initiatives were implemented as part of the Government's comprehensive reform of the taxation system in 2000. Their introduction involved challenging issues of technology and governance for the ATO, including the imperative to process and register significant numbers of ABN applications in a short period of time.

32. Overall, the ANAO concluded that the ABN registration process is operating effectively. However, matters relating to the eligibility of some ABN applicants need to be reviewed. Further, some data integrity issues remain outstanding. These relate to:

- data quality problems with TFN information used to assess many ABN applications;
- the migration of ABN data from other ATO systems that does not conform to ABR business rules; and
- for operational reasons, the switching off of some ABR business rules.

33. We concluded that the ATO has made significant progress towards implementing an effective ABR system. However, there have been delays in implementing the project and only limited progress has been achieved in meeting whole-of-government initiatives.

Recommendations

Set out below are the ANAO's recommendations with report paragraph references. The ANAO has made eight recommendations aimed at improving the ATO's systems and processes for administering the ABN registration process. The ANAO considers that all recommendations warrant the same priority.

Recommendation No.1 **Para 2.20** The ANAO recommends that, to improve accountability in contract management, the ATO implement procedures to ensure key project decisions are adequately documented for future projects. The ANAO considers that the ATO's IT Accredited Purchasing Unit could play a key role in assisting in this regard.

ATO response: Agreed. It is noted that IT Accredited Purchasing Unit was involved in establishing the contract.

Recommendation No.2 **Para 3.24** The ANAO recommends that, as part of its assessment of the success of the implementation of the ABR, the ATO should review and update the ABR Business Case.

ATO response: Agreed. Work to review and update the ABR Business case is currently in progress and is well advanced.

Recommendation No.3 **Para 4.31** The ANAO recommends that, to enhance current registration procedures for issuing ABNs, the ATO:

- extend current up-front checking procedures to detect, for further investigation before registration, the more obvious categories of apparently ineligible applicants being identified by ATO quality assurance and data analysis initiatives;
- review current registration procedures and ABR business rules to determine whether these are sufficient to meet the legislative requirements; and
- if appropriate, provide advice to government on any necessary amendments to the legislation.

ATO response: Agreed in principle. A review of the ABN registration process is planned, it will include a focus on actively seeking opportunities to enhance the registration process.

Recommendation No.4
Para 5.25 The ANAO recommends that, to improve the effectiveness of the quality assurance function for the ABR, the Quality Management Team:

- be given access to the relevant ABR data required to implement fully its quality assurance program; and
- once this access is provided, the Quality Management Team develop strategies to include in its quality assurance process testing of registrations that are processed automatically by the ABR system.

ATO response: Agreed. However, as allowing the Quality Management Team to directly access production data would contravene our security and access guidelines, other access that meets their needs will be provided.

Recommendation No.5
Para 5.49 The ANAO recommends that, to maintain the integrity of ABR data, the ATO ensure that, in the future before business rules are switched off, comprehensive strategies are developed and implemented to systematically identify and redress records affected.

ATO response: Agreed. The ATO will continue to follow this process for any alteration of business rules including discontinuation.

Recommendation No.6
Para 5.64 The ANAO recommends that the ATO give high priority to formalising communications and liaison arrangements across business lines to share ABR-related information with the Registry Division. This should have the benefits of achieving broader outcomes from its compliance and intelligence activities and improving the quality of ABR data.

ATO response: Agreed.

Recommendation No.7
Para 6.24 The ANAO recommends that, in order to increase Commonwealth agencies' participation in the ABR, the ATO bring to the Government's attention the delays and possible options required to achieve the whole-of-government outcome.

ATO response: Agreed in principle. The ATO is currently undertaking a review of the ABR Business Case and the strategies used to engage agencies. A revised strategy will then be put in place with a range of options for achieving increased participation across Government agencies including at the cross agency Chief Information Officer Committee (CIOC). The ATO will consider raising this to Government level once the work outlined above has been undertaken. It is noted that current legislative frameworks and existing co-operative arrangements have allowed participation by various key agencies (for example, by the ABS through existing arrangements between the Commissioner of Taxation and the Australian Statistician under taxation legislation) while the ATO has been working towards formalising MOUs, therefore the operation of the ABR has not been hindered in the interim.

Recommendation No.8
Para 6.35 The ANAO recommends that, to effectively implement the ABR's whole-of-government objectives, the ATO consider the benefits in establishing formal inter-governmental machinery of relevant Commonwealth and State policy-making agencies to oversee and progress the ABR as a whole-of-government register.

ATO response: Agreed. The ATO has already established the ABR Policy Advisory Committee as part of its governance structure. The future role of this committee is currently being reviewed and discussed with agency representatives.

Audit Findings and Conclusions

1. Background and Context

This chapter discusses the concept of the Australian Business Number and the Australian Business Register and outlines the objective and methodology of this performance audit.

Introduction

1.1 In 1996, the Commonwealth Government consulted with business to reduce the ‘red tape’ and costs that small businesses incur when they comply with government requirements, and also to reform the taxation system. The consultations led to *Time for Business—Report of the Small Business Deregulation Task Force* (the Bell Report). It recommended that each business:

- have a unique identifier, which would be used for all government purposes;
- have one, or as few entry points as possible, to gain information and assistance from all government agencies; and
- notify changes of details to one government agency and other agencies would share that information.

1.2 *A New Tax System (Australian Business Number) Act 1999* (the Act) enacted, in July 1999, the recommendation in the Bell Report for a unique business identifier. The Australian Business Number (ABN), a unique 11-digit number, became the new identifier for business and a key element of the Government’s framework for a new tax system.

1.3 The legislation also established the Australian Business Register (ABR) as the register of all ABNs. The ABR is the central collection, storage and verification system for basic business information⁸ supplied by businesses with an ABN. Some of this information is available to the public.

1.4 The ABR is also a whole-of-government initiative. It aims to make it easier for business clients to conduct relevant transactions with Commonwealth Government agencies. Eventually it is hoped that it will be able to deliver similar efficiencies to State and Local governments.

⁸ Business information relates to the name, address and type of business, its email contact address, whether the business is registered for GST and the number of staff it employs.

Significance of ABN and ABR

1.5 Currently the ABN is used by businesses for some dealings with the Australian Taxation Office (ATO). Businesses with an annual turnover of \$50 000⁹ or more need an ABN to register for the Goods and Services Tax (GST) and other elements of *A New Tax System*.

1.6 Registration of ABNs is an important component of the overall administration of the GST. To remit GST collected, or to claim a refund for GST from the ATO, businesses must have an ABN and have registered for the GST. Registration for the GST ensures a business can claim an input tax credit for any GST it has paid for goods and services used during the course of its business.

1.7 As well as its significance in the overall administration of the GST, if businesses do not have an ABN, under the Pay-As-You-Go (PAYG) system, tax will be withheld (at the top marginal rate) from payments owing to them.

1.8 That said, the ABN does not cover all business dealings with the ATO. For example, businesses still need to quote their Tax File Number (TFN) when lodging their personal and business income tax returns. Applying for an ABN does not replace business registration requirements with other agencies; for example, companies requiring to be registered with Australian Securities and Investments Commission (ASIC).¹⁰

1.9 Benefits from the introduction of the ABN are expected to flow to businesses as well as to government agencies. Ultimately the ABN is expected to reduce the number of government registration and reporting requirements for businesses, through a process of streamlining and rationalising government operations and infrastructure. The greatest benefits to business will come when government agencies start to use the ABN as their business identifier, and use the ABR as a method of updating their client records as changes occur.

Administration of the ABN and ABR

1.10 As part of the Government's Taxation Reform Initiatives, the ATO was given responsibility to implement the ABN and ABR initiatives. The ATO maintains the ABR, and the Commissioner of Taxation is its Registrar.

⁹ Non-profit organisations have a threshold of \$100 000. Taxi drivers with \$1 or more of income need also to register for GST.

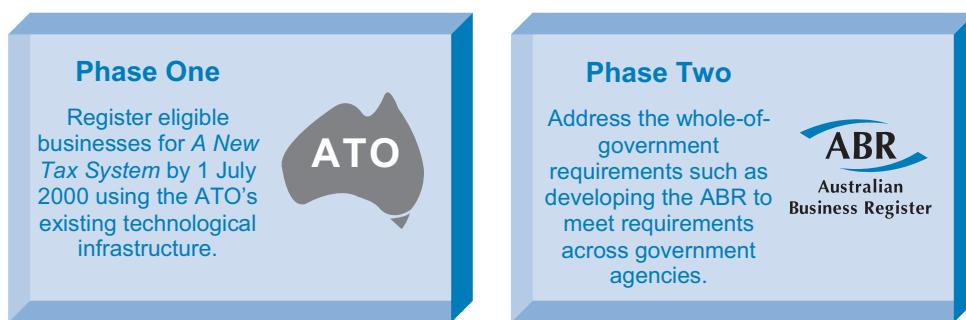
¹⁰ ASIC is an independent Commonwealth Authority responsible for regulating company and financial services laws to protect consumers, investors and creditors. Businesses that are companies are required to register first with ASIC before obtaining an ABN. The Federal Government announced a \$3 million initiative in its 2001–02 Budget to streamline ASIC and ATO reporting systems into one process to remove unnecessary duplication.

1.11 The ATO was positioned to provide support to the reform processes because it had the foundations for an appropriate infrastructure, partnerships with tax agents and industry groups, and national registration service centres that registered businesses for taxes. In addition, it had alliances with the Business Entry Point (BEP),¹¹ the centralised government portal for business to communicate with government. This gave access to broad government and industry-based information and services, and the facility to apply for a TFN.¹²

1.12 The ABR Project Team was established within the ATO in November 1998 and charged with implementing the ABR in two phases. Figure 1 shows their scope.

Figure 1

Phased development of the ABR



Source: ANAO depiction of ATO information.

Delivering the ABN by 30 June 2000

1.13 The priority during Phase One of the implementation of the ABR was to register the majority of businesses that applied for an ABN before commencement of *A New Tax System* and the GST. The short time for issuing ABNs¹³ necessitated a temporary system¹⁴ that met the minimum processing requirements for the

¹¹ BEP, which is now part of Department of Industry, Tourism and Resources (DITR), but was formerly part of the Department of Employment, Workplace Relations and Small Business, formed a major alliance with the ATO in providing access to broad government and industry-based information and services.

¹² ATO Annual Report 1999–2000.

¹³ The ABN legislation was passed in July 1999 with the ABN Registration Project being implemented from November 1999. Businesses could only apply for ABNs from 1 December 1999.

¹⁴ The ATO developed new systems to enable the rapid registration of business clients for ABN. The two systems that particularly helped to streamline the processing of ABN applications were: Forms Exceptions Actioning System (FEAS), designed to allow staff to work efficiently when processing large volumes of registrations; and the Interactive Voice Response System, a telephone tool that allowed clients to order new application packages or to advise the ATO that they did not need to register.

new business taxes. The ATO delivered Phase One with the assistance of BEP, which served as a primary channel for both the public search facility and ABR secure transactions to the business client.¹⁵

1.14 The ATO considers the ABN registration process was a resounding success. The number of businesses registered exceeding their highest expectations. By 30 June 2000 almost 2.9 million businesses and other eligible entities had applied for an ABN. More than 99 per cent of businesses that applied for an ABN before 31 May 2000 received their ABN by 1 July 2000. The others were sent safety-net letters, which gave recipients authority to operate under the new tax regime as if they had received their ABN. The safety-net letters applied from 1 July to 31 July 2000.

1.15 The following table shows the ABN registration results to 30 June 2000.

Table 1

Statistics from Phase One—ABN results to 30 June 2000

ABN applications received	2 898 000
ABNs issued	2 795 000
Respondents not required to register for an ABN	106 000
GST registrations	2 100 000

Source: ATO Annual Report 1999–2000, p. 64.

Delivering a permanent ABR

1.16 Phase Two of the ABR involved developing a permanent solution and addressing the whole-of-government requirements including:

- processing ABN and GST registrations in ‘real-time’, that is, immediately issuing an ABN during an Internet session, if all the required information is provided by the applicant and meets the ATO’s required criteria;
- facilitating authenticated business transactions, whereby a business can view and change its details on the ABR and other appropriate agencies are alerted of the change;
- trialing by other agencies the use of ABR data to pre-fill certain questions in their own registration forms; and
- providing agency access to public and non-public ABR data¹⁶ through several different delivery options including direct on-line access.

¹⁵ The system offered a facility to apply for an ABN on-line and register for GST and PAYG, search for an ABN and request change of details.

¹⁶ The Act specifies who can access ABR data. Some basic data (such as the name of the business and whether it is registered for GST) are available to everyone, but most data are restricted to authorised users. Before agencies can access public or non-public data they have to sign a Memorandum of Understanding with the Registrar on the use of that data.

1.17 To deliver the ABR effectively and address the challenges of meeting the whole-of-government requirements, the ATO had to be innovative. It needed to establish and maintain partnerships and strategic alliances with both public and private sector agencies. Public sector partners¹⁷ provided the development of policy, quality and data standards, as well as service delivery. A close working relationship was formed with the Australian Government's business Internet portal, BEP.

1.18 The ATO also engaged consultants to help manage and implement the project, and developed a strong strategic alliance with a software developer and supplier to provide new technology and skills. These arrangements demanded innovations in governance, policy development, stakeholder management and technology.

1.19 Phase Two of the ABR was delivered in June 2002 offering a new facility to register for an ABN online in 'real time'. The ATO established a new and separate web-based ABR system,¹⁸ independent from the ATO's other systems, to store the ABNs and other business information.

1.20 The ATO considers that the development of the ABR represents a very significant innovation in delivering registry-related services. The ATO advised that there is no similar registration process in the world that provides the same scope of real-time services to users as does the ABR. The concept of ABR was also based on the progressive development of the Register with improvements and enhanced functions being added progressively (see Appendix 5).

1.21 As at 28 September 2002, there were some 4.3 million ABNs recorded in the ABR.

Whole-of-government

1.22 The ATO is in the process of delivering on other aspects of the ABR to meet the whole-of-government requirements.

1.23 The manner in which individual agencies use the ABN will vary. It is anticipated most will add the ABN to their databases as an additional field. This is likely because different agency systems may have multiple purposes for existing identifiers. Once agencies incorporate the ABN into their operations, they will be able to make use of a number of services currently being developed by the ATO.

¹⁷ The ABR Project was established as a cross-agency initiative involving the ATO, the ABS, the ASIC and the DITR, as well as representatives from the Offices of State Revenue, the Commonwealth Treasury and the National Office for the Information Economy.

¹⁸ The temporary system for processing ABN registrations ceased operating from 4 June 2002.

1.24 To facilitate the sharing of business information, agencies will establish communications with the ABR. One of these communication links is an on-line connection that will allow agencies to incorporate the ABN into any on-line registration processes they choose to develop. This would see information drawn from, or supplied to the ABR, depending on the services the given agency chooses to make use of.

1.25 Some agencies might elect to use information contained within the central repository (the ABR), rather than collecting and processing information themselves. An example of this might be the use of ANZSIC¹⁹ coding. ANZSIC coding (or similar industry coding systems) is used by numerous government departments. As the ATO already collects the information and assigns codes to the main business activities of Australian entities, other agencies might choose to make use of the information made available by the ATO, therefore allowing that agency to focus on other activities that make up their key business.

1.26 In some cases, agencies might choose to cease maintaining their own database and utilise the ABR as their primary database. Such integration of different agencies' requirements into the ABR will take several years to achieve fully.

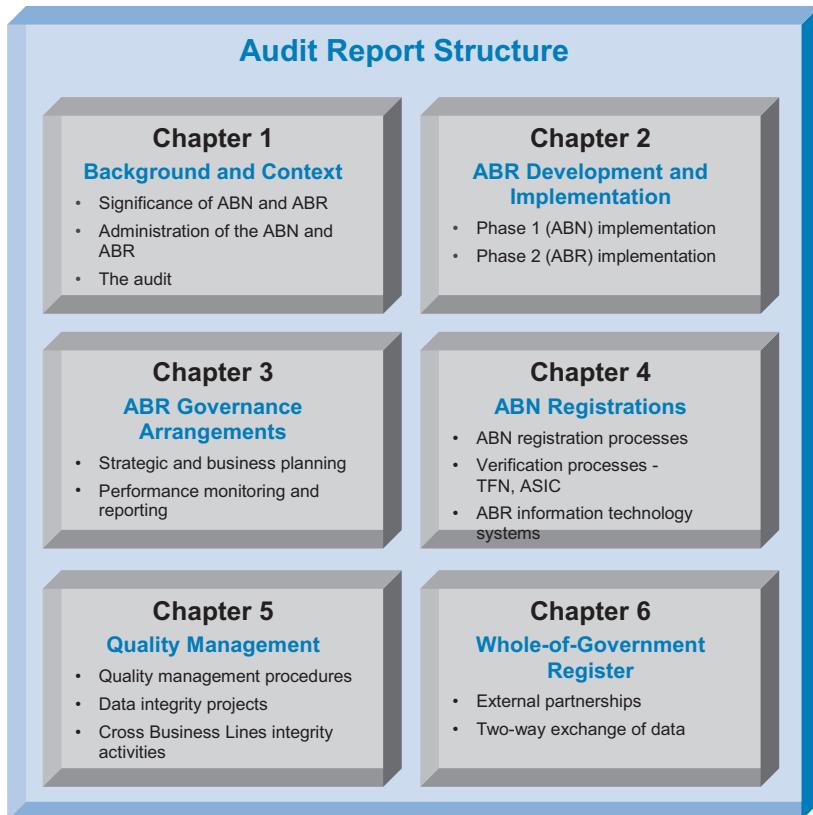
1.27 The ATO recognised it could not develop a whole-of-government product without input from stakeholders. Agencies were invited to place staff on the ABR project development team to provide input and a governance committee, comprising the ATO and several key stakeholders, was established to oversee policy development. This committee continued to undertake this role after the ABR was launched in June 2002.

The audit

1.28 The objective of the audit was to assess the administrative effectiveness of the ABN registration process and the ATO's implementation and management of the ABR. The Australian National Audit Office (ANAO) considered five key areas in addressing the audit objective. These key areas formed the basis of the report, depicted in Figure 2.

¹⁹ Australian and New Zealand Standard Industrial Classification—‘a classification system for identifying and grouping all producing units (of both goods and services) in Australia into industries to permit comparability of data’—Australian Business Register—A Snapshot, Occasional Paper 1369.0, Australian Bureau of Statistics, 2000 p. 20.

Figure 2
Audit report structure



1.29 In reviewing these areas of audit focus, the ANAO had particular regard to the strategic planning, operational and information technology aspects of the ABN functions and the ABR.

Audit methodology

1.30 The audit involved fieldwork in the ATO's National Office, and Brisbane, Chermside, Newcastle, Adelaide, Dandenong and Moonee Ponds offices. In addition to document and file reviews, the audit team interviewed a range of ATO staff responsible for: implementing Phase One and Phase Two of the ABR Project; processing ABNs; managing and maintaining the ABR system; managing the ABN and ABR quality management systems; and developing external partnership arrangements to progress the whole-of-government approach to the ABR.

1.31 In reviewing the information technology aspects of the ABR system, we assessed the system development and change management aspects to ensure that the system was implemented as originally planned. The audit examined also the application security network and the operation of key business rules²⁰ to ensure they were consistent with business requirements. We interrogated the ABR database using data analysis tools to assess the quality of the information held against specific business rules.

1.32 In the course of the audit discussions were had with a range of stakeholders. As part of the audit the ANAO engaged Mallesons Stephen Jaques to provide legal advice where required.

1.33 The audit was undertaken in conformance with ANAO auditing standards and cost \$445 000.

Acknowledgments

1.34 The ANAO would like to thank the ATO officers who assisted in the conduct of the audit for their time, effort and expertise. We also appreciate the co-operation of the other stakeholders consulted during the audit.

²⁰ Business rules are various criteria applied to ensure the quality of the information being recorded on the ABR database. For example, one set of business rules states that Australian address postcodes must be four-digit and fall within a certain range of numbers.

2. ABR Development and Implementation

This chapter discusses the development and implementation of the ABN and the ABR. The chapter focuses particularly on the implementation of the ABR and comments on aspects of project governance and accountability.

Introduction

2.1 The development and implementation of the ABR was managed in two phases. Implementation of Phase One (the ABN Project) was managed through the ATO's Reform Project Office and subject to governance arrangements that applied to all ATO reform projects. While we considered aspects of the implementation of Phase One our primary focus was on the ongoing development and implementation of Phase Two (the ABR Project), which is aimed to address the whole-of-government requirements.

Phase One (ABN Project)

2.2 The ABN Project was implemented from 1 November 1999. The main challenge for the ATO during Phase One was to register the majority of ABN applications prior to the start of *A New Tax System* on 1 July 2000. The ATO used several strategies to coordinate the ABN Project. These included:

- building an electronic registration database within the existing Client Register²¹ to store the ABR data temporarily;
- establishing an infrastructure to support the processing of ABNs;²²
- implementing external and internal communication strategies for initial and ongoing registrations for example, developing the *ABN News* bulletin for tax professionals to provide timely information on important issues and events that affect them, with the focus primarily being on ABN registrations; and

²¹ The Client Register is a key element of the ATO's integrated taxation system. It holds the details required to identify and manage the client information necessary to support ATO core processes and provide effective services to stakeholders. It is also one of the transactional processes that establishes and supports client relationship management information.

²² The ATO's Dandenong (Victoria) office was temporarily dedicated to initial registration processing. During the year, staff numbers in this unit rose from 300 to approximately 1200, to handle business-as-usual work, assist in processing initial ABN registrations, establish specialised teams to deal with large and special clients and deal with progress-of-registration enquiries.

- issuing ABN applicants who could not be registered in time for *A New Tax System*, with a ‘safety net advice’ letter,²³ valid for a period of one month, to give recipients authority to operate under the new tax regime as if they had received an ABN.

2.3 By 1 July 2000, the ATO had processed 99 per cent of all ABN applications lodged before 31 May 2000.²⁴

2.4 Although the ATO succeeded in registering the majority of ABN applications that were lodged prior to the commencement of *A New Tax System*, we noted also that certain operational decisions²⁵ made in Phase One (to expedite the registration process) caused significant additional work for the ATO staff. These decisions had a major impact on the integrity of the ABR data and also on other areas of the tax system such as the GST and PAYG. In Chapter 5 we discuss the nature of the operational decisions, their implications on the data integrity of the ABR, and post-registration measures taken by the ATO to provide assurance on the integrity of the ABR.

Phase Two (ABR Project)

2.5 Phase Two of the ABR Project focussed on the whole-of-government requirements. The challenge for the ATO was to develop an ABR that would provide a whole-of-government registration function and information exchange. The purpose of the ABR Project was to design and build a whole-of-government business register, including its processes, organisational structure, technologies and manner of integration with other government agencies.

Governance and accountability structure

2.6 Implementation of the ABR has involved challenging and unique issues of technology and governance for the ATO. These included:

- the use of web-based technology to provide the Australian community with an on line business register (available 24 hours/day and seven days/week) which processes transactions ‘real time’ and also has a capacity to add other tax functions; and
- ensuring involvement of government agencies at the Commonwealth, State and Local level, because the project was designed to be instrumental

²³ This allowed the applicant to work under *A New Tax System* although they were unable to quote an ABN number (as required by *A New Tax System* legislation). Safety net letters are still used if there is some delay in issuing an ABN.

²⁴ ATO Annual Report 1999–2000, p. 64.

²⁵ To expedite the registration of ABNs before the start of *A New Tax System*, a number of business rules built into the system to provide assurance on the integrity of the process were not applied or were ‘switched off’.

in delivering a whole-of-government business outcome. The ultimate aim of the ABR is to integrate business registration processes across all levels of government to cut red tape to business and reduce government and business compliance costs.

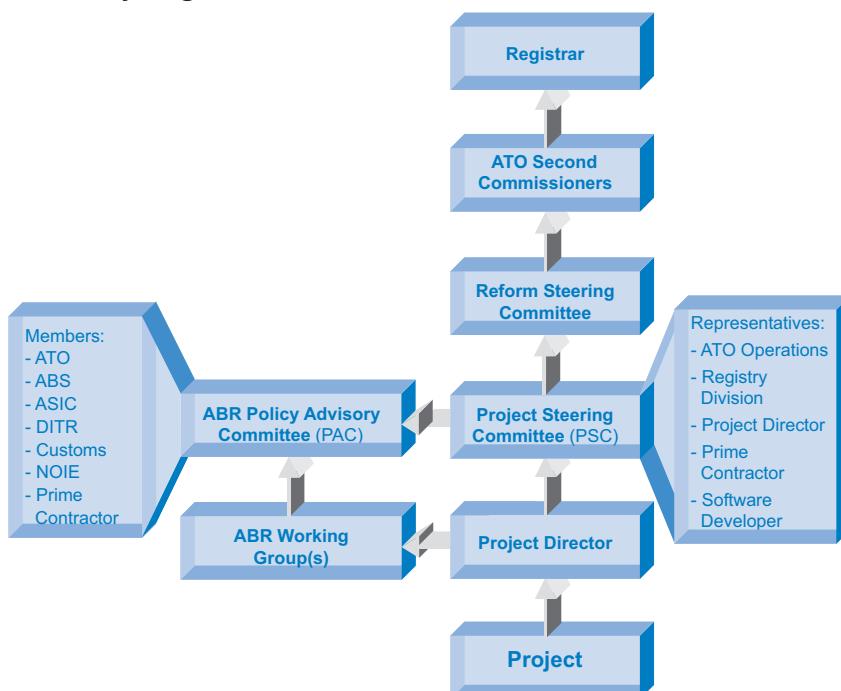
2.7 The ABR Project depended on a number of activities and sub-projects,²⁶ some of which were to be delivered by parties external to the ABR Project Team. Therefore, establishing a sound governance framework was critical in engaging the various stakeholders and providing transparency with regard to achieving the required project outcomes.

Project governance

2.8 Figure 3 provides an overview of the governance structure for the ABR Project as implemented from July 2000. The role and responsibilities of all the committees were detailed in a document titled, *ABR Project Plan and Charter* (Project Plan), with meetings at various levels held in accordance with the Project Plan.

Figure 3

ABR Project governance structure



2.9 The Project Steering Committee (PSC) was the key internal governance body and was responsible for directing the project, approving project deliverables, managing diverse business requirements, sponsoring and championing the project and creating a demand for the project within and outside the ATO. The PSC met on a regular basis and focused on project status, deliverables, progress of related sub projects and monitored project-related issues as they arose. The majority of these meetings were adequately documented, recorded the progress of the project and provided an indication of processes being followed to close off issues that were raised during these meetings.

2.10 As shown in Figure 3, the PSC reported to the Reform Steering Committee. The Reform Steering Committee's role was to oversee all ATO activities in relation to Tax Reform legislative changes. The ANAO noted that the Reform Steering Committee was disbanded in November 2000. The ATO advised that, after the Reform Steering Committee was disbanded, the ABR Project reported directly to a Second Commissioner. The ATO further advised that it later established a Core Process Forum, which assumed responsibility for the project, but the ATO could not provide evidence of these reporting arrangements. Further, we noted other gaps in documentation relating to contract management and the redevelopment of the Client Register which have implications for governance.

2.11 In the spirit of the project being a whole-of-government initiative, an ABR Policy Advisory Committee (PAC)²⁷ was established in July 2000. The PAC comprised representatives from the public sector partners that were involved in the development of the policy and concept of the ABR, the ATO as the agency charged with implementing this policy and the prime contractor engaged by the ATO in its role of assisting the ATO in managing and implementing the ABR Project.

2.12 The PAC initially met on a quarterly basis. Closer to the implementation of the ABR, it met monthly. Meetings of the PAC were well documented and agenda papers circulated prior to the meeting. A number of ABR working groups established during the implementation period were charged with researching and providing authoritative advice on action items raised by the PAC. The ANAO considers that the PAC provided a valuable forum for guiding the project and airing policy issues to ensure whole-of-government support for the project.

²⁷ The PAC's charter included providing a unified whole-of-government direction, providing appropriate action items to the working groups, escalate by exception to the Project Steering Committee conflicts in direction between the ABR and the ATO, sponsor and champion the project, ensure the community was adequately consulted and help create a demand for the project.

Contract management

2.13 The ATO engaged a contractor to assist the implementation of the ABR Project, and the contractor worked as a partner with the ABR Project Team. Although contract management was not a focus of the audit, we did review management aspects of the contract between the ATO and the prime contractor.

2.14 The contract with the prime contractor (and the ABR Project in general) was managed in two phases. The ABR contract with the prime contractor was signed in June 2000 and related to the Strategic Design Phase, which involved defining the scope of the project, developing a strategy and design for the ABR, determining its system requirements and planning its implementation. The contract left open the decision to engage the same prime contractor to also deliver the Implementation Phase of the ABR Project.²⁸

2.15 The prime contractor for the Strategic Design Phase was subsequently engaged to undertake the Implementation Phase of the ABR Project. The ATO initiated work relating to this phase through a change order/variation to the original contract.

2.16 The ANAO made several observations with regard to the ATO's management of the ABR contract. We noted that the Implementation Phase of the ABR contract involved significant investment on the part of the Commonwealth (the relevant change order quoted a fixed price of \$15.7 million), compared to the Strategic Design Phase (negotiated at a fixed price of \$2.9 million—subsequently revised through a change order to \$4.1 million).

2.17 The ATO advised that the decision to proceed to Phase Two was discussed by the Reform Steering Committee at its 16 November 2000 meeting. Following a presentation at this meeting, the Commissioner instructed that the project proceed to the next phase. A proposal to continue with the prime contractor was submitted to a Second Commissioner in early 2001. The ATO advised that this proposal included advice on the existing contract as well as comparisons of estimated effort between the contractor's proposal and metrics available through ATO estimating systems. The submission was subsequently approved and the prime contractor was engaged for the Implementation Phase. However, the ATO was unable to locate this submission. This lack of documentation relating to these issues has meant that the ANAO is unable to comment on whether the ATO fully considered Commonwealth procurement principles, including value for money, in its decision to re-engage the prime contractor.

²⁸ In November 1999, when the ATO issued a Request for Quotation (RFQ), vendors were asked to submit a fixed price for the strategy development component and provide an indicative pricing for the implementation phase. The RFQ stated that the indicative price would be taken account of in the evaluation.

2.18 Twenty-six change orders were initiated against the original contract that was signed in June 2000. A number of these change orders related to work not directly relevant to the ABR Project.²⁹ The ATO advised that since the implementation of ABR Release 2.2 (December 2002) no further change orders have been attributed to this contract. The ANAO also noted that the change orders initiated against the contract with the prime contractor have not been consistently reported in the Commonwealth Purchasing and Disposals Gazette³⁰ or disclosed on the ATO's website in accordance with the Senate Order for Departmental and Agency Contracts.³¹

2.19 The ANAO noted that the ATO's IT Accredited Purchasing Unit, which is responsible for undertaking or assisting the ATO with its purchasing activities,³² had limited involvement in the contract management aspects of the ABR Project. The Unit advised that it does not consider it was involved in the procurement of IT services for the ABR Project at the right stages or to the extent of its role. The ANAO suggests that for future projects the ATO utilise the expertise of its IT Accredited Purchasing Unit. This will help to ensure appropriate accountability and that all Commonwealth purchasing requirements are properly met.

Recommendation No.1

2.20 The ANAO recommends that, to improve accountability in contract management, the ATO implement procedures to ensure key project decisions are adequately documented for future projects. The ANAO considers that the ATO's IT Accredited Purchasing Unit could play a key role in assisting in this regard.

Agency response

2.21 Agreed. It is noted that IT Accredited Purchasing Unit was involved in establishing the contract.

²⁹ Change Order 12 relates to an IT Consolidation Project (\$1.3 million); Change Order 17, Auto-TFN Registration—DIMIA Project (\$2.5 million—this project is referred to as relevant to ABR Phase 3, although it largely relates to the ATO's Client Register Project); and Change Order 23, design and implementation of eBusiness Security solution (this relates to designing and implementing eBusiness Security solution to support web-based transactions including the ABR solution. The scope of work is much broader than the ABR but has been included as a change order to the contract with the prime contractor.)

³⁰ Government purchasing policy requires that all agencies subject to the *Financial Management and Accountability Act 1997* publish open business opportunities, and report contracts and standing offers with a value of \$2000 or more in the Commonwealth Purchasing and Disposals Gazette. This policy is what is generally known as the 'mandatory reporting requirements'. In December 1999, the Commonwealth Government launched the Gazette Publishing website and the Government Advertising website. Together these two websites form the new Commonwealth Purchasing and Disposals Gazette.

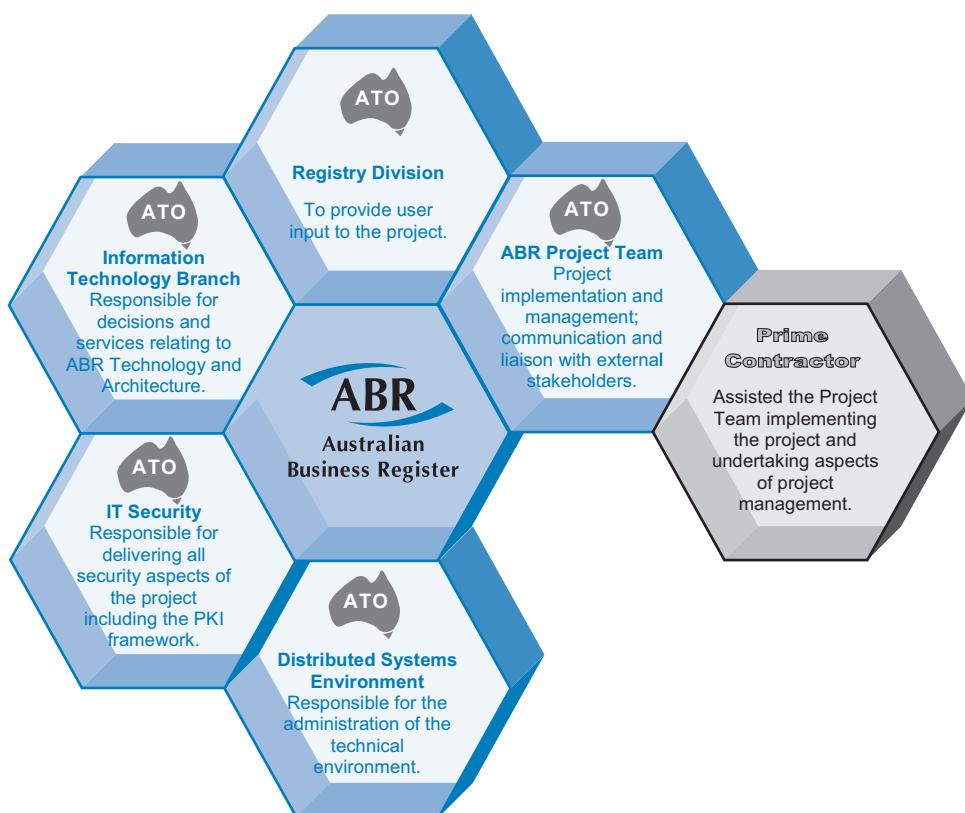
³¹ On 20 June 2001, the Senate agreed to an order requiring each Minister to table a letter of advice that a list of contracts, in respect of each agency administered by that Minister, has been placed on the Internet, with access to the list through the Department's homepage.

³² The role of the Unit includes having specialists to undertake or closely supervise and approve complex or higher risk purchasing processes, and undertake, manage or supervise IT purchases in excess of \$1000.

Project management and delivery

2.22 The ABR Project Team within the ATO was responsible for the coordination, management and delivery of the ABR Project. For the ATO the project was highly visible from an internal and external perspective. There were external stakeholders involved in the project that were closely monitoring its progress because of its far-reaching implications on business. The project was dependent also on a number of other activities and sub-projects that were being managed outside the project area. Figure 4 identifies the ABR Project stakeholders and their broad responsibilities in relation to the ABR Project.

Figure 4
ABR Project stakeholders



Source: ANAO depiction of ATO information.

Project management

2.23 The ABR Project was managed in accordance with project management methodology documented in the ATO's Project Management Handbook. Guiding principles were established at the outset of the ABR Project to define and direct the overall project. The Project Director (an ATO Senior Executive Service officer) who was responsible for managing the implementation of Phase One (ABN Registrations Phase) was assigned also to the ABR Project for its entire duration. This provided continuity to the project and an informed approach to managing the development of the ABR. The ABR Project management was supported by the development of a number of project teams addressing specific areas, including the project development team, project product testing team, architecture release team, and '.NET'³³ framework team.

2.24 The ABR Project was managed in two phases. As part of the Strategic Design Phase, the ABR Project developed documents that provided the way forward, such as the ABR Business Case,³⁴ Business Capability Blueprint³⁵ and the Implementation Plan.³⁶ Systems documentation was also a key deliverable of the project (and a requirement under the prime contractor's quality accreditation) and has resulted in a significantly high volume of documentation within the ABR Project. The ANAO reviewed key components of this documentation and found them to be of a high quality.

2.25 The ATO adopted a structured approach to the project and governance meetings that were held during the development and implementation phases of the project. Standing agenda items for the PSC meetings included an ongoing assessment of project management risks, analysis of issues (business and technology) raised and resolved, and provision of ABR Project status reports. There were also a number of other strategies used to monitor closely the progress of the project as it approached deployment. These included:

- the Deployment Readiness Checklist that presented, in the form of a table, the area of deployment, person(s) responsible, acceptance criteria, critical dates, sign-off progress, risks and dependencies, and contingency plans; and

³³ '.NET' is a Microsoft software product designed to connect disparate computer applications within organisations to each other, and to systems and applications in other organisations, without having to make major changes to existing systems, applications or programming language. The ATO's decision to use '.NET' and the implications for the ABR Project are discussed in Appendix One.

³⁴ The Business Case describes why the project is being undertaken and what are expected as the business outcomes.

³⁵ The Business Capability Blueprint defines what the design of the solution is and sets its scope.

³⁶ The Implementation Plan identifies how the solution will be designed, built and deployed, including all the quality assurance checkpoints and delivery milestones.

- the ABR Dashboard that identified critical dependencies for ABR Release Two and signified their readiness for deployment by assigning it a red, orange or green colour status.

Scope

2.26 The original scope of the ABR Project (as defined in the RFQ issued in November 1999) included the redesign and redevelopment of the ATO's Client Register. The scope was subsequently redefined (at the end of the Strategic Design Phase of the ABR Project) and restricted to the development of the ABR. A decision was made not to redevelop the Client Register at the same time as the ABR (but the ATO did make enhancements to the Client Register to allow it to work with the ABR and with other aspects of *A New Tax System*). The ATO advised that a Second Commissioner approved this decision, but is unable to locate this document.

2.27 Phase Two was made available to users in two releases. Figure 5 shows the scope and releases of Phase Two of the ABR Project as reported to the ATO Reform Steering Committee and the ABR PAC in November 2000, and as documented in the ABR Implementation Plan.

Figure 5

Scope of ABR Phase Two releases as at November 2000

	External Users (Businesses)	Internal Users (ATO/ABR staff)	External Users (Other agencies)
Release 1 (Planned for July 2001)	<ul style="list-style-type: none"> • ABN look up • Request change of details • Personal access 	<ul style="list-style-type: none"> • System support services • Publish change of details 	<ul style="list-style-type: none"> • Agency look up • ABN look up • Receive published change of details
Release 2 (Planned for Dec 2001)	<ul style="list-style-type: none"> • Name, ABN, postcode search • Registration • Authenticated transaction 	<ul style="list-style-type: none"> • Publishing • Agency/SLA management • Evidence of Identification interface • Management reports • Logging and auditing 	<ul style="list-style-type: none"> • Agency online ABR access • ABR Subscriptions • Retailer/ Intermediary support • Name, ABN, postcode search • Registration • Authenticated transaction

Note: The 'look up' facility is agency access to the ABR to locate full ABR details for a client, based on using an authenticated interface for agency users.

Source: ANAO depiction of ATO information.

Release One

2.28 The ANAO noted that the scope of Release One was further refined in early 2001 to provide limited register functionality and limited services to other agencies (agency look-up and browse services). Release One would not support direct updates to the ABR and BEP would continue to provide the Internet access point for business to the ABR. At that stage Release Two was expected to provide the complete package as originally planned.

2.29 However, on implementation in July 2001, Release One was designated as primarily an internal release (that is, within the ATO). Although the scope of Release One was significantly reduced, the plan was for government agencies to have access to the ABR through the look-up facility. Discussions with the ATO identified a number of factors that contributed to Release One being primarily an internal release:

- government agencies were not technologically prepared to take up the ATO's ABR look-up services;³⁷
- government agencies had not signed the Memorandum of Understanding (MOU) to look at the private ABR data; and
- the decision to implement '.NET' architecture in June 2001 (discussed in paragraph 2.41).

2.30 Nevertheless, the ANAO notes that the ATO had not finalised its draft of the proposed MOU in July 2001³⁸ and had not adequately developed its security solution³⁹ to provide government agencies the look-up facility. Despite this, the ATO's 2000–01 Annual Report stated that Release One provided the technological infrastructure for government agencies to interact with the register from their desk-top computers.

2.31 The ANAO considers that the ABR Project did not deliver on a fundamental aspect of the agreed scope of Release One services, namely its capability to provide services outside the ATO. This has had implications for achieving the benefits initially envisaged, as documented in the ABR Business Case (see Chapter 3).

³⁷ The ATO advised that ASIC and BEP were developing the infrastructure on their side but neither was advanced enough to connect to the look-up service. ABS had not started to build the system on its side to connect to the look-up service.

³⁸ The ATO was awaiting comments from the Australian Government Solicitor on a number of clauses in the draft MOU.

³⁹ At the May 2001 PAC the ATO's Security Project Team reported that it did not expect delivery of the security solution for Release One.

Release Two

2.32 The objective of Release Two was to provide the full suite of registration services. The following figure shows the scope of Release Two and what was actually delivered as part of ABR Release Two in June 2002.

Figure 6

Report card on Release Two services planned and offered as at June 2002

Report Card for: <i>Release 2</i>		
Business Services	Agency Services	Registrar Services
Public access ✓	Agency access ✗	Management reports ✗
Business access to:	Agency maintenance ✗	Logging and auditing ✓
- Private records ✗	Change message ✗	Publishing ✓
- Registration ✓	Event message ✗	EOI Interface:
- Maintenance ✗	User administration ✗	- ASIC ✓
- Cancellation ✗		- Client Register ✓
Agent support ✗		

Overall Assessment:

Although the key deliverable of online registration for clients was achieved, the ATO did not achieve many of the other deliverables.

Source: ANAO

2.33 Figure 6 shows that the ABR Project did not deliver publicly on a number of business and agency services that were within the scope for Release Two.

2.34 The change of details, maintenance and cancellation service were core elements of the business services that were to be provided in Release Two. This was to be effected through the use of Public Key Infrastructure (PKI) functionality.⁴⁰ The ATO's IT Security area was responsible for the development

⁴⁰ The provision of certificate-based security arrangement to facilitate the authentication and confidentiality of a business client's interaction with the ABR.

of the PKI functionality. Although provision of this functionality was factored in from the start of the project, the ATO was unable to deliver this service in accordance with the agreed scope and schedule. The PKI functionality was released to the public in December 2002.

2.35 The ATO advised the ANAO that while the infrastructure was in place to deliver all the services within the scope of Release Two, it was an internal ATO decision not to make PKI services publicly available until December 2002. On the issue of management reports, the ATO further advised us that the service was partially delivered. The ATO acknowledged that improvements can be made in the reports being produced and is currently reviewing ABR reporting requirements.

2.36 The ANAO found that the functionalities provided as part of Release Two, such as online registration, and Evidence of Identity (EOI) interface with the Client Register and ASIC, are functioning effectively. However, the ATO provided only some of the services as originally planned and this has had implications on operational efficiency and effectiveness (see Chapter 4).

Project schedule

2.37 When the RFQ was issued in November 1999, the ATO indicated that 'a fully tested system to support the ABR must be ready for implementation by 30 June 2001'. Subsequently, the implementation timeframe was revised in June 2000.

2.38 Release One was delivered according to schedule in July 2001. However, it did so without providing the scope of services initially planned. Release Two was delivered in June 2002, some six months behind the revised schedule of December 2001 and 12 months behind the original schedule of July 2001. Release Two did not deliver the full scope of services as determined in November 2000. Some of the services (that were originally planned as part of Release Two) were provided as part of subsequent releases, for example when the PKI functionality was made available in December 2002.

2.39 The ATO attributed the delay in ABR Project schedule to a number of factors, such as: the initial decision to redevelop the ATO Client Register in parallel with the ABR; the decision to adopt '.NET' architecture for the ABR almost half-way (June 2001) through the ABR Project; and the development of the web-based IT security design and software took much longer than anticipated.

2.40 The decision to redevelop the Client Register at the same time as the ABR was based on the dependencies between the two registers. However, due to the significance of the undertaking and the risk that it might jeopardise the

implementation timetable even further, the ATO took the decision (some six months into the ABR Project) not to redevelop the Client Register at the same time as the ABR.⁴¹

2.41 The ANAO noted that the ABR Project Team began a review of its ‘.NET’ decision in September 2001, to gain assurance that it had used appropriate technologies that could be eventually utilised ATO-wide. The review found that the use of ‘.NET’ had delayed the release schedule and caused a number of substantive issues that required significant amount of extra work on the project. The review also found that the decision to switch to ‘.NET’ was too late in the project cycle. Therefore, the project could not achieve the benefits they originally envisaged. Appendix 1 discusses the ATO’s reasons for adopting the ‘.NET’ architecture for the ABR and its implications on the ABR Project.

2.42 With regard to the development of the web-based security solution, the ABR Project team indicated that communication and co-ordination issues between themselves and the IT Security team were the main factors that contributed to the project delays.

2.43 The delays in implementation have had an impact on progressing the whole-of-government outcomes and caused delays in achieving the benefits/savings as detailed in the ABR Business Case. Without a functioning ABR being available, the stakeholder management team could do very little to promote the merits of the register to potential users.

Project budget

2.44 The ATO was provided funding (to be spent over a period of four years) in the order of \$128.8 million in the 1999–2000 Budget for implementing the ABN and the ABR. The ATO has advised that Phase Two of the ABR Project cost \$68 million and was delivered within budget. However, the ANAO noted, in regard to the budget, that there were delays in the project schedule, as well as issues relating to system functionalities, which are discussed in Chapter 4.

2.45 The ATO advised that, although there was some delay in delivering the full scope of the project in the June 2002 release, the functionality was subsequently rolled into Release 2.1 and implemented in September 2002. As the work to deliver this functionality was undertaken at no additional cost, the ATO considers the full scope of the project was delivered within the budget. Based on the financial information provided by the ATO, the ANAO is unable to form an opinion on the project budget.

⁴¹ The ATO advised that this decision was made at an extraordinary meeting of the PSC held in November 2000. However, as mentioned earlier, there was no documentation made available to the ANAO relating to this decision or meeting.

3. ABR Governance Arrangements

This chapter discusses the governance arrangements introduced by the ATO since June 2002 for the effective and efficient administration of the ABR.

Introduction

3.1 Following the implementation of the ABR in June 2002, the ABR Project Team was disbanded and now forms part of the Registry Division (RD) within the ATO Operations Business Line. The RD is now the custodian of the ABR and is responsible for:

- creating and issuing ABNs;
- maintaining and ensuring the integrity of the ABR for the ATO and whole-of-government use;
- establishing and maintaining external partnerships with agencies that are planning to use the ABR; and
- further developing and implementing the ABR system's functionality.

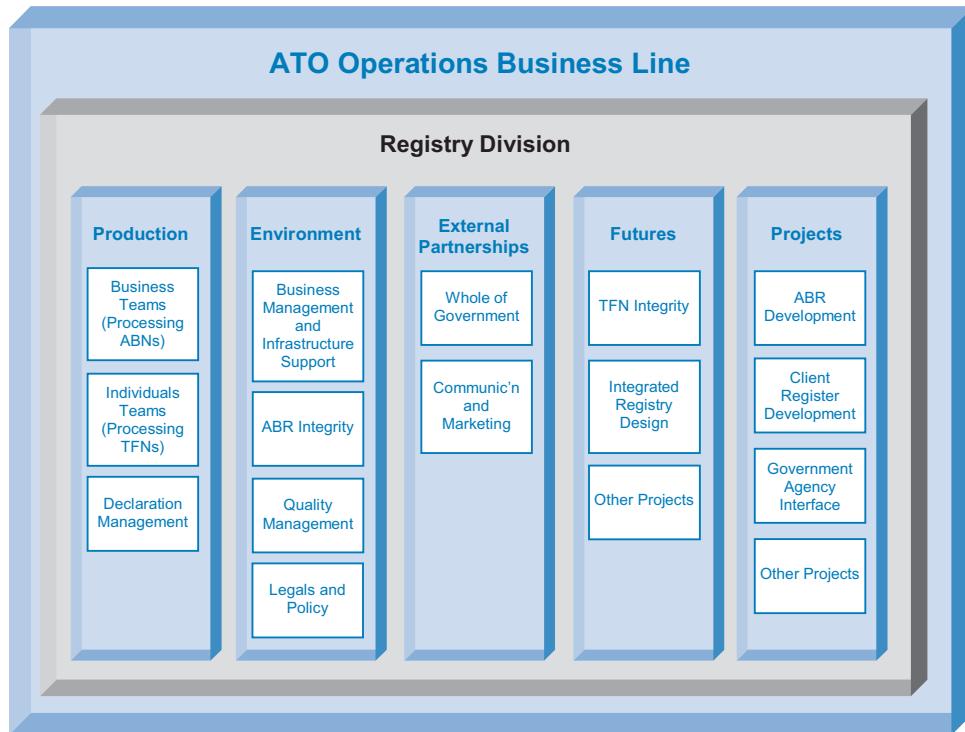
3.2 In addition to being responsible for business registration services, the RD manages the ATO's Individual Client Register and the Declaration Management Centre.⁴² Figure 7 provides a structural overview of the RD and the overall ATO context within which it operates.

3.3 In 2002–03 the Division was allocated \$79.2 million by the ATO for the provision of registration services. While half of the budget allocation relates to maintaining the current standard of registration services, more than a quarter of the budget allocation (\$23.7 million) relates to enhancing the ABR and improving its integrity.⁴³ The RD currently has 915 staff dispersed across 20 sites around Australia.

⁴² This includes creating and issuing TFNs, maintaining and ensuring the integrity of the ATO Client Register of individuals and non-individual entities with tax obligations; further developing and enhancing the functionality of the ATO Client Register Systems, and processing Employment Declaration forms.

⁴³ The rest of the budget is allocated to improving the integrity of the TFN (Individual Client Register) system.

Figure 7
Registry Division operational structure



Source: ANAO depiction of ATO information.

Strategic and business planning

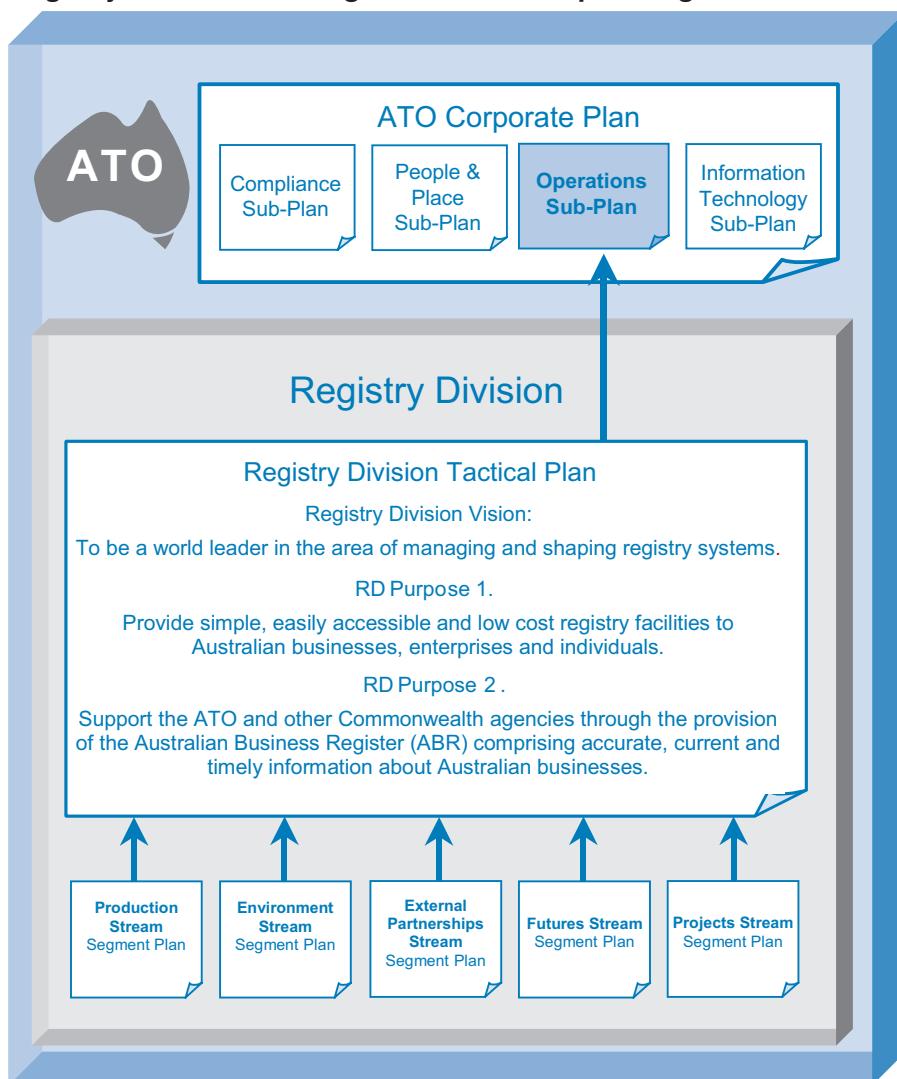
3.4 For 2002–03, the RD developed a Tactical Plan for the registration function outlining its context and operating environment. The plan identifies in detail the Division's priorities, drivers and directions. Figure 8 details RD's vision and its two-fold purpose as identified in its Tactical Plan. It also depicts linkages to the higher-level ATO plans and to the Division's subsidiary/business plans. The subsidiary plans which relate to each segment (Production, Environment, External Partnerships, Futures and Projects) within the RD, detail the respective area's priorities, risk environment, key assumptions, business strategies, performance measures, linkages and dependencies.

3.5 Overall, the ANAO considers that RD's approach to strategic and business planning was sound and reflects its commitment to achieving objectives as stated in the higher-level ATO plans (ATO Operations Sub-Plan). The Tactical Plan aligns also with the activities identified against Registration Services in the ATO's

2002–2005 Output Pricing Agreement (OPA).⁴⁴ In addition, the RD Tactical Plan was adequately developed to provide direction and guidance to its operational areas and form a basis for the development of the supporting business plans.

Figure 8

Registry Division's strategic and business planning framework



Source: ANAO depiction of ATO information

⁴⁴ In line with the Department of Finance and Administration requirements, the ATO undertook an Output Pricing Review to establish an appropriate price for an agreed quantity and quality of outputs to be provided by the ATO in future years. A report was prepared for consideration by government in the context of the 2002–03 Commonwealth Budget deliberations. This led to additional funding being provided to the ATO for 2002–03 onwards and a new outcome output framework for the ATO. The OPA was the outcome of the review and documents the ATO's resource requirements for the next three years to achieve the outputs and deliverables identified in the four ATO sub-plans that make up the ATO Corporate Plan.

Risk management

3.6 In accordance with the overall ATO approach to risk management, RD undertook risk assessments as an integral element of its planning processes. The RD Tactical Plan documents its risk environment, which includes identifying the key areas of risk, strategies to mitigate the risks and consequences of failure to address and/or manage these risks.

3.7 Each of the operational areas also has undertaken detailed risk assessments as part of its business planning process. These risks were identified as part of the RD risk assessment process and address key risk areas relating to:

- shaping, designing and building legislative and administrative systems;
- managing revenue collection and transfers, and
- provision of services to government and agencies.

3.8 The ANAO noted that the risks and mitigation strategies identified through RD risk assessments are sufficiently detailed and identify the segments that are responsible for monitoring and managing the risks. The RD and its individual segments are also required to regularly monitor these risks and report on their management through monthly and quarterly performance reports. This is discussed in the following section.

Performance monitoring and reporting

3.9 The RD is subject to corporate governance reporting requirements that are common to the whole of the ATO and align with the revised ATO planning and output/outcome framework. These include:

- monthly reports provided to the ATO Operations Executive on operational financial and non-financial matters, any significant events and performance against its Tactical Plan;
- quarterly governance reports, which deal with more systemic issues, patterns and trends and overall performance against the Tactical Plan; and
- corporate assurance reports prepared on a half yearly basis to report on RD's compliance with statutory obligations and policies.

3.10 In addition to standard governance reporting requirements, the RD is required to report on progress against the commitments it has made under the ATO's 2002–05 OPA.

Corporate governance reports

3.11 The Environment Segment within the RD is responsible for preparing and co-ordinating the RD's performance and corporate assurance reports. We found on reviewing a sample of monthly reports for 2002–03, that the segments', as well as the RD's, reports adequately covered areas relating to:

- progress against key strategies and outcomes to be achieved. For example, the External Partnerships Segment reports on the level of agency participation, achievements and/or non achievements, emerging issues occurring in the segment, movement of resource, and action to be taken;
- the Division's achievement against quantitative⁴⁵ and qualitative⁴⁶ performance measures; and
- whether prior risks/issues have been addressed, what are the emerging risks and planned strategies to address them.

3.12 The ANAO reviewed the first quarterly performance report prepared by the RD for 2002–03. The quarterly report systematically reviews progress against the strategies and quantitative performance measures identified in the RD Tactical Plan. It reports on the key processes that form the basis of the RD's funding under the OPA for 2002–03. The report indicates that the RD is expected to meet its annual registrations (1.74 million), record maintenance (3.20 million) and new business registrations free of core data error (85 per cent) targets. However, the report alludes to the risk that some of the RD targets specified in the OPA (relating to development of whole-of-government approach) might not be achieved. RD's performance against its targets is discussed in each of the relevant chapters of this audit report.

3.13 The RD conducts Board⁴⁷ meetings as part of its governance process. The RD Board meetings cover issues such as positioning the Division to implement the ABR and other releases, understanding RD's vision and engaging staff to work towards the vision, dealing with workforce adjustments over the oncoming months and so on. The RD views its Board meetings as an opportunity to gain a strategic perspective on the Division's operations and an internal governance mechanism. The ANAO reviewed the minutes of several RD Board meetings and considers that these reflect the intent and purpose of the Board.

⁴⁵ For example, the number of ABN registrations completed, the number of tax roles creations and the number of registrations maintained (all types).

⁴⁶ For example, the number of ABNs issued within the Taxpayers' Charter standards, ANZSIC accuracy level and the percentage accuracy of ABR database.

⁴⁷ Members of the RD Board include all Segment Leaders and the Head of the Registry Division.

Output Pricing Agreement

3.14 The RD's resource requirements are presented in the ATO's OPA, which makes specific reference to undertaking the following ABR-related activities:

- maintaining the current standard of work on the ABR;
- developing the ABR to deliver a whole-of-government approach to the business register;
- improving the integrity of the ABR for use as a unique identifier by all levels of government; and
- delivering whole-of-government use of the ABR by establishing and maintaining partnerships with agencies at all levels of government for the use of the ABN as a unique identifier.⁴⁸

3.15 The ANAO noted that the RD has developed a framework to monitor and report on all activities that are funded under the OPA. The RD Tactical Plan makes reference to these activities as key outcomes and has developed strategies and performance measures to achieve and assess their implementation. At the August 2002 RD Board Meeting, RD segments were provided guidance on how to track their progress against OPA requirements. The RD proposes to align allocated resources with results. Its monitoring strategy includes:

- recording the use of RD resources in the ATO's human resources management and the financial management information systems;
- maintaining a documented audit trail of activity, costs, benefits, measures and timelines; and
- reviewing progress and explaining variances.

3.16 The RD proposed to implement reporting arrangements on a monthly and quarterly basis to monitor progress against the OPA and these arrangements are currently being implemented. The ANAO noted that the quarterly governance reports submitted by the Projects and External Partnerships Segments referred to progress against the OPA activities. However, the reports did not cover progress in achieving the 2002–03 savings target. For example, the ATO states in the OPA that a high integrity ABR will return tangible cost savings to all levels of government, business and tax agents, estimated to be in the order of \$24 million in 2002–03 to \$71 million in 2010–11.

⁴⁸ ATO OPA 2002–05.

ABR Business Case

3.17 In justifying its resource requirements and approach to the measures proposed in the OPA, the ATO quantified the benefits of maintaining a high integrity ABR. It also indicated in the OPA the expected levels of agency participation for the next three years. The assertions in the OPA were based on the ABR Business Case that was prepared in November 2000 during the Strategic Design Phase of the ABR Project.

3.18 The Business Case was prepared to provide an analysis of the costs and benefits to be realised in the implementation of the ABR. It would also provide a means:

- by which the success of the implementation of the ABR could be measured;
- to ensure that the project delivers expected benefits; and
- to assist in communicating and ‘selling’ the ABR.

3.19 The Business Case identifies the potential benefits to government, business and tax agents arising from the implementation of the ABR and attempts to quantify those benefits over a period of ten years, using a number of assumptions. Some of the assumptions included that:

- there would be cross-agency system development to support new ABR processes to meet the needs of participating agencies, rather than these agencies continuing to conduct their transactions in their own organisational/legal ‘silos’. That is, the ATO would be able, for example, to record an address change for a company and pass this on to ASIC and vice versa;
- appropriate identification arrangements (and adequate security, authentication, PKI and privacy measures) would be in place to enable online authentication of transactions; and
- the agency participation rate was calculated on the basis of a December 2001 implementation of the ABR.⁴⁹

3.20 The ATO quoted the potential benefits/savings in the OPA in justifying its ABR resource requirements. There were delays in the implementation of the ABR and the delivery of a number of system functionalities (both these issues were discussed in Chapter 2);⁵⁰ and in signing up partnership arrangements with Commonwealth agencies (discussed in Chapter 6). These have had

⁴⁹ The expected agency participation as stated in the OPA (and based on the ABR Business Case) was approximately 50 in 2001–02, with 240, 500 and 1000 forecast for 2002–03, 2003–04 and 2004–05.

⁵⁰ The PKI Security functionality to facilitate changes to details was implemented in December 2002, similarly the interface between ATO and ASIC (to communicate changes in details from ASIC’s database to the ABR) is not implemented.

implications for the progress of whole-of-government approach and on the timing of the delivery of benefits. The ABR Business Case has not been reviewed or updated since November 2000. Therefore, some of the ABR-related assertions in the OPA were sourced from an out-of-date document.

3.21 The ATO advised that the potential cost savings projected in the ABR Business Case (the basis for the targets contained in the OPA) refer to those savings that may be realised across the whole-of-government, by the business community and by intermediaries (including tax agents). These potential savings were based on certain assumptions, including the progressive delivery of full functionality and an anticipated level of agency participation in the ABR system over a ten-year time span.

3.22 Further, the ATO acknowledges that there was some delay in delivering the level of functionality assumed in the Business Case, as well as a lower than expected level of agency participation to date. As a result, the ATO considers it is too early to report progress in achieving the savings target for the first year of full operation.

3.23 The ATO has advised that it has instigated a review of the ABR Business Case. As part of the Business Case review activity, the ATO is currently developing a system for reporting against the savings target. The review is due for completion in the first half of 2003.

Recommendation No.2

3.24 The ANAO recommends that, as part of its assessment of the success of the implementation of the ABR, the ATO should review and update the ABR Business Case.

Agency response

3.25 Agreed. Work to review and update the ABR Business case is currently in progress and is well advanced.

4. ABN Registrations

This chapter discusses the ABN registration processes, from both the perspective of the client (that is, whether registration is simple and easily undertaken in a timely manner), and of the ATO.

The ABN application process

4.1 To obtain an ABN, businesses must apply to be registered on the ABR. ABN applicants must provide the Registrar with the required information, which is then subject to various ABR checks before ABNs are issued to applicants. The ATO's checking procedures are largely automated, being part of ABR systems, and make use of data from other ATO systems and, in the case of company applicants, from external sources (ASIC).

Eligibility

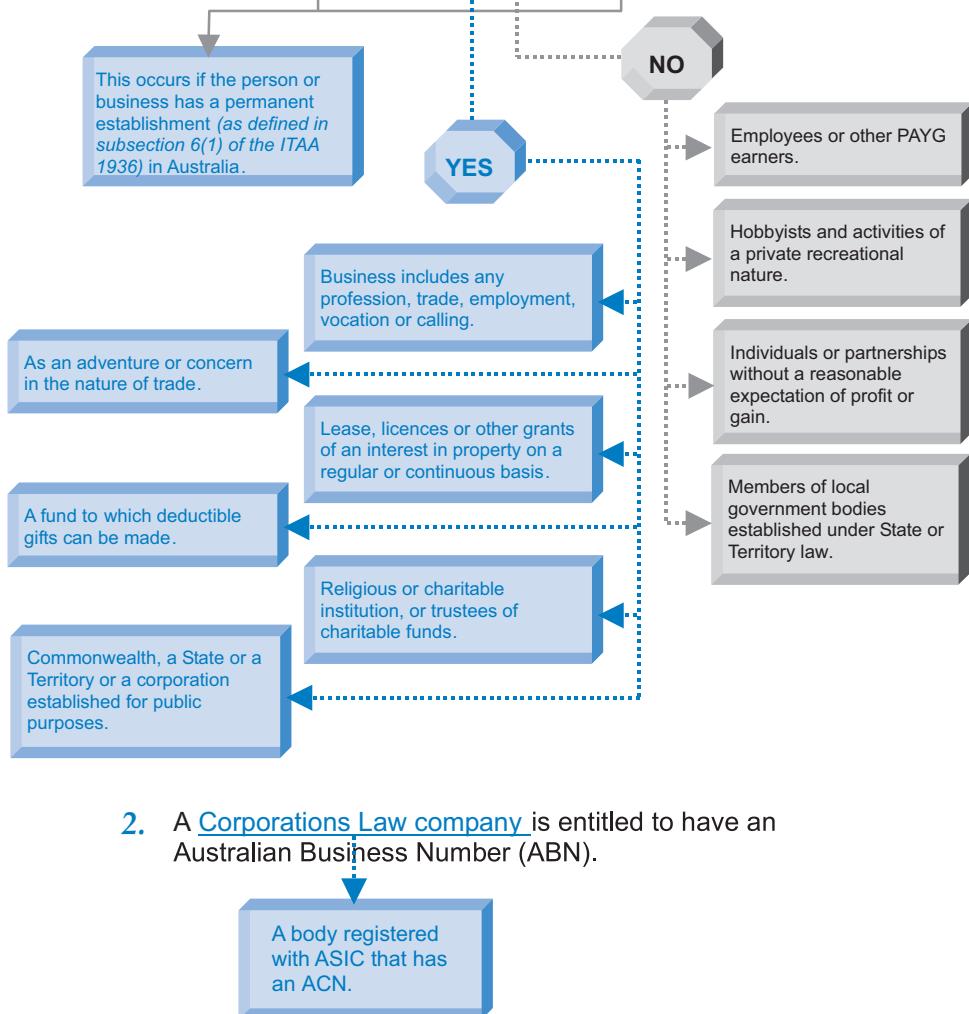
4.2 The Act is specific in defining who is entitled to an ABN (and so for registration on the ABR). The eligibility criteria are shown in Figure 9. As shown, the main requirement for obtaining an ABN is that the applicant actually be undertaking some form of business activity or, as the legislation states, be 'carrying on an enterprise in Australia'. What constitutes carrying on an enterprise is broadly defined, and there are specific exclusions from eligibility for an ABN; the most significant being employees and other PAYG earners.

4.3 To assist prospective ABN applicants to determine their eligibility, the ATO has developed a variety of information resources. These resources vary from specific ABN/ABR-related documents, such as the instructions accompanying ABN applications, to general information on the recent tax reforms, such as that in the *Guide to registering for The New Tax System* (the Guide). The information provided by the ATO in its paper documents is mirrored in various ATO Internet pages, including those at the specific ABR website.

Figure 9
Eligibility criteria for obtaining an ABN

The legislation (s.8) says that ...

1. You are entitled to have an Australian Business Number (ABN) if
 - a) you are carrying on an enterprise in Australia.
 - b) in the course or furtherance of carrying on an enterprise, you make supplies that are connected with Australia.



Source: Prepared by the ANAO from the legislation.

4.4 A feature of several of these information resources is the inclusion of a checklist to enable applicants to decide whether they are entitled to an ABN (see Appendix 2). By using a series of eight steps, the checklist takes the applicant through the main requirements of the legislation.

4.5 The ANAO reviewed the checklist and the other primary ABN-related information sources. Although we found the documentation comprehensive and generally easy to use and understand, we also identified issues of concern in relation to the ATO's application of the legislative requirements on eligibility. These concerns are discussed, commencing at paragraph 4.17.

Lodgement

4.6 An ABN application may be lodged by sending the ATO a completed application form, through a tax agent using the Electronic Lodgement Service (ELS), or via the Internet at the ABR website. From the perspective of the applicant, the channel through which an application is lodged can affect the time in which it takes to receive an ABN.⁵¹

4.7 Paper forms are sent to the Albury ATO office where they are scanned. The data, now in electronic format, is transferred to the ABR. Inherently this channel has the longest lead-time for the applicant.⁵²

4.8 ELS and Internet applications are quicker to process, both being submitted already in an electronic format. However, the Internet application has the advantage for the applicant that, if all the requirements of the ABR business rules are met, an ABN will be issued immediately. For both paper and ELS applications, letters are sent to applicants informing them of their ABNs.

4.9 Not surprisingly, the proportion of ABN applications flowing through each channel has changed over time. Before June 2002, when the ABR went 'live', there was no immediate registration possible; Internet applications through the BEP were merely an electronic version of the standard application form that were then sent to the ATO for normal processing. With the introduction of the ABR, and the ability for an immediate response to the application, paper and ELS lodgements have declined significantly. This is shown in Figure 10.

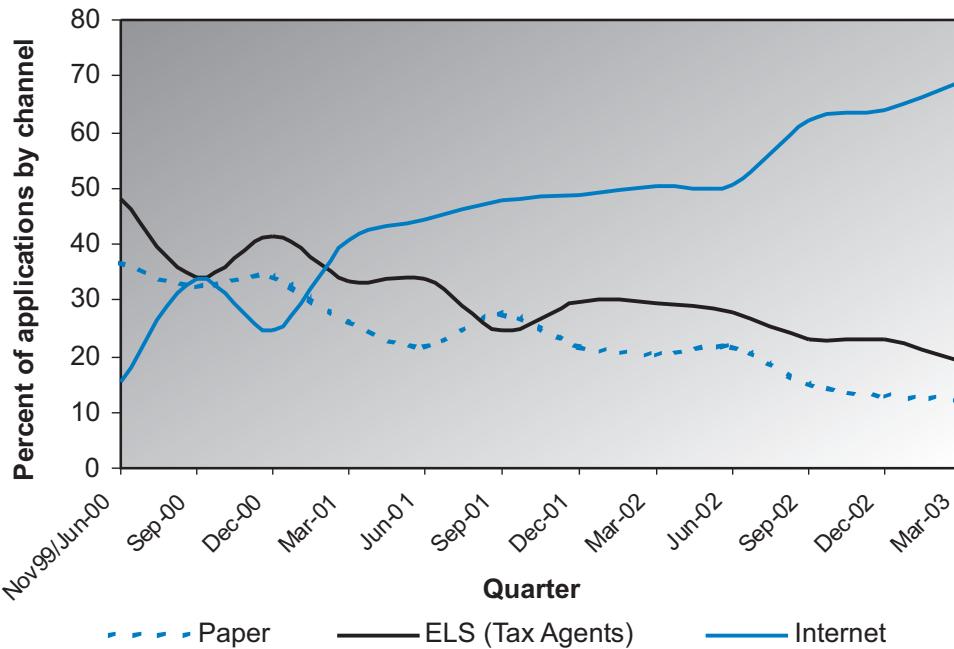
4.10 By March 2003, the ATO was processing approximately 12 000 new ABN applications a week, of which nearly 70 per cent were lodged via the Internet.

⁵¹ The ATO sets performance targets, including those contained in the Taxpayers' Charter, for registering applicants for new ABNs. These are the *maximum* times to be taken by the ATO. Depending on which way the application is lodged with the ATO, applicants could be registered in significantly less time than the standards demand.

⁵² As with all applications, paper applications are still subject to ATO performance standards. These are measured from when the ATO actually receives the application; there might be delays in mail delivery that affects the applicant.

Of these applications, around 50 per cent passed through the system without error and the applicant was issued an ABN immediately.⁵³

Figure 10
Changes in ABN application channel over time



Source: ANAO prepared from ATO data.

Processing of ABN applications

4.11 When ABN applications enter the ABR system, certain automated checks are undertaken before an ABN is issued. Figure 11 shows an overview of this process.

4.12 The ABR checking procedures aim to see whether information provided by applicants meets ATO's requirements, by testing that information against various ABR business rules. Of importance are the checks demanded by the legislation.⁵⁴ The Act⁵⁵ states that the Registrar must register an applicant if satisfied that the applicant:

- is entitled to have an ABN or is likely to be entitled to have an ABN by the date specified in his/her application (*a test for eligibility*);

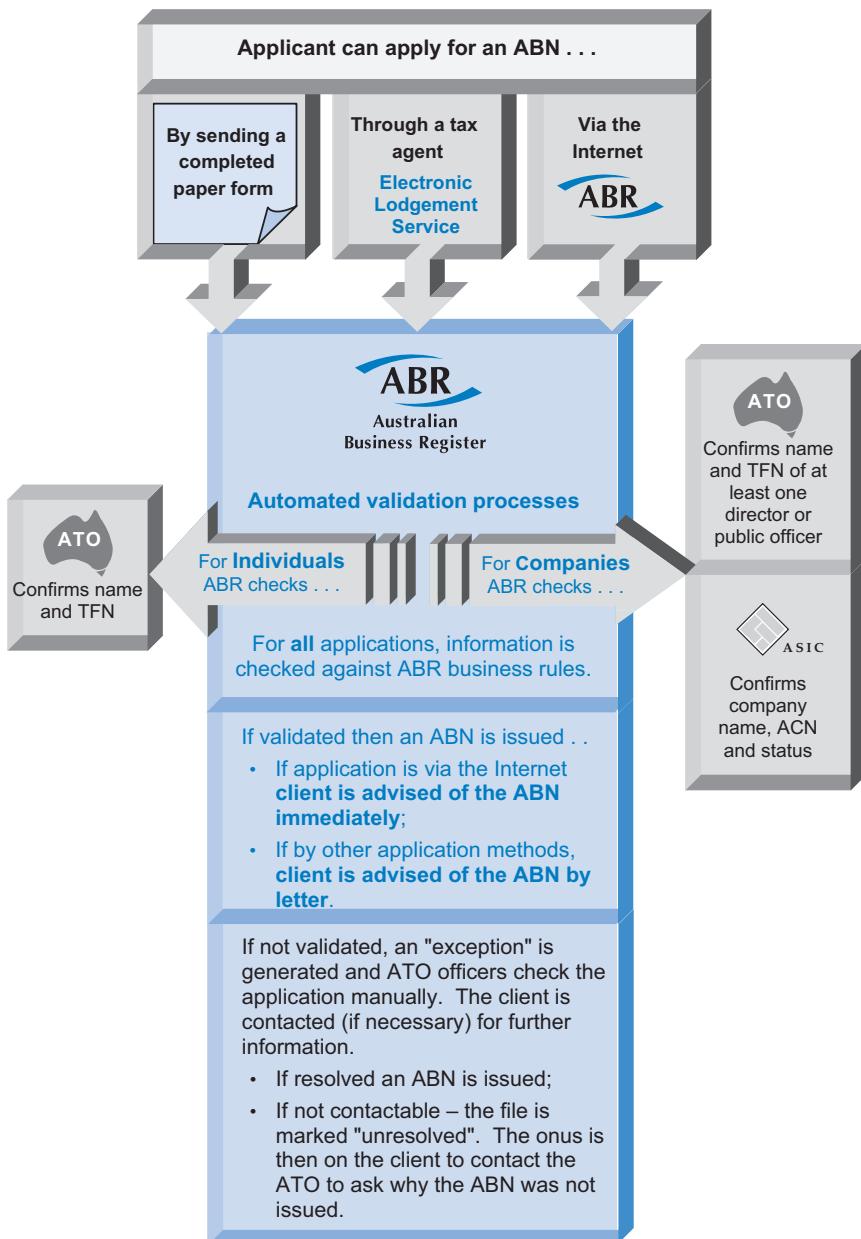
⁵³ These applications, where the ABR system checks the information provided and automatically issues an ABN without any involvement of ATO officers in the process, are called 'clean skins' by the ATO.

⁵⁴ Business rules, whilst important, generally are data integrity checks; to ensure, for example, that the applicant has provided information in all mandatory fields and that all questions have been answered.

⁵⁵ S10(b).

- has established his/her identity (*a test for existence*); and
- is not already registered in the ABR (*a test for duplication*).

Figure 11
The ABN registration process



Source: ANAO depiction of ATO information.

Test for eligibility — the enterprise test

4.13 The basic requirement for eligibility to an ABN is that the applicant is actually undertaking a business in Australia. This requirement is known as the ‘enterprise test’.

The ATO’s approach to assessing eligibility

4.14 The RD advised the ANAO that the ABN registration process is based on a ‘self-assessment’ approach. The ATO undertakes little up-front checking of information provided by applicants. RD advised that although it is possible to incorporate up-front checks into its systems, the present approach is to make the ABR application process as simple as possible for external users.

4.15 Through this approach the onus is on applicants to determine their eligibility for an ABN by using a checklist. Before lodging an application, applicants must also:

- declare that they are carrying on an enterprise; and
- certify that the information they give is accurate and complete.

4.16 In taking its current approach, the ATO relies on applicants making an honest assessment of their eligibility. The ATO also undertakes certain automated checks before an ABN is issued. These checking procedures aim to see whether information provided by applicants meets ATO’s requirements, by testing that information against various ABR business rules. The ATO also undertakes post registration integrity checks both on a random and risk-related basis (see also Chapter 5).

Data quality concerns of this approach

4.17 The ANAO had some reservations about the ATO’s approach to assessing eligibility based on limited up-front checking. Some RD officers expressed concerns to the ANAO about the number of apparently ineligible registrants being identified by ATO quality assurance and data analysis initiatives.

4.18 For example, the ATO has identified an increasing propensity in job advertisements for employers to require applicants to have an ABN. The effects of this trend are being reflected by several ATO indicators including:

- a perceived leakage of employees out of the PAYG system, as employees become ‘contractors’ instead of staff;
- analysis of ABR data that shows a significant increase in the proportion of new ABN registrations coming from individuals. In September 2000, individuals comprised 36 per cent of ABN registrants; by October 2002

they comprised 42 per cent. Similarly, the GST registrations rate⁵⁶ for individual ABNs has fallen; it was 62 per cent in September 2000 and by October 2002 it was 44 per cent; and

- data quality testing of ABR data by the ATO has identified registrants that appear to be employees rather than businesses.

4.19 The ANAO confirmed, through our observations of classified advertisements in newspapers, that some employers require prospective employees to have ABNs. We noted that, in all the instances observed in newspapers, the employer was in a building-related activity. As part of this audit, the ANAO obtained a copy of the ABR database as at 28 September 2002 and tested the data. Our testing included attempts to identify potential employees in the data; as mentioned previously employees are specifically excluded by the legislation from having an ABN. Examples obtained from our testing of ABR data appear in the case study on the following page.

4.20 The ANAO acknowledges the difficulties that the ATO would face in assessing manually each ABN application, and the similar difficulties in developing a system sufficiently robust in its testing procedures to both ensure that the eligibility criteria are met and that significant numbers of applications are not unduly delayed.

4.21 While acknowledging the difficulties for the ATO in developing a system to address all application eligibility situations likely to be experienced, the ANAO considers that the ATO could increase up-front checking procedures to identify, for further investigation before registration, the more obvious categories of apparent ineligibility. Additional up-front checking might also assist RD to address, in part, some of the current data quality difficulties discussed in the next chapter.

4.22 The ATO advised that it has now prepared a Concept Brief to investigate the introduction of an enterprise test for certain categories of applicants.

⁵⁶ That is, the proportion of ABN applicants that also seek registration for GST. There is a strong link between carrying on an enterprise and registration for GST. Most enterprises will use, in their own business activities, some resources purchased from other enterprises. They will wish to claim the input tax credits for these. This can only occur if the enterprise is registered for GST.

Case study—labourers and apprentices

We undertook a query of the ABR data to determine the numbers of registrants that described themselves as either 'labourers' or 'apprentices'. We found:

- 8 889 persons described as some type of labourer or giving labouring as their main activity description;
- a further 1 419 described themselves as contract labourers;
- 205 persons stated that they were some type of apprentice; and
- of these, 116 described themselves as apprentice jockey or similar.

Some of the more problematical activity descriptions provided by applicants included:

'Casual labourer currently unemployed registered with CES.'

'I wish to seek employment as a labourer and have been told I need an ABN.'

'I am in Year 10 at school and work casually as a labourer on weekends.'

'Full time casual building labourer few days in year drive a taxi as hobby.'

'I am currently employed as an apprentice—PAYG.'

'Working for wages as an apprentice carpenter.'

'I don't have a business, I am employed as a labourer.'

The ANAO considers that those persons describing themselves as employees appear, by their own admission, to be ineligible for an ABN and, at the very least, would require further investigation by the Registrar before he issued an ABN on the basis of the information provided.

Those registrants described as 'labourers' and 'apprentices' also appear to warrant investigation. The former group would appear to be not carrying on a business but are engaged as employees. The latter group would appear to be incapable of undertaking a business in their own right until they finished their apprenticeships.

Legislative requirements

4.23 As a result of our review of the ATO's current approach to registration, we sought independent legal advice to clarify whether the Registrar was meeting his obligations under s.10(b) of the Act.

4.24 The ANAO's legal advice expressed the view that the Act states specifically the Registrar must satisfy himself on eligibility before registering the applicant on the ABR. The legal opinion noted that the ABN entitlement checklist appears designed simply to assist applicants to decide whether or not they are eligible to apply for an ABN. The applicant completes and submits the ABN application to the Registrar, and it is the information contained therein that is available to the Registrar in reaching a decision whether or not to register the applicant. The checklist in the Guide and other supportive material will not impact on the Registrar's decision.

4.25 Therefore, the Registrar has an obligation to assess the eligibility of applicants on the basis of information he receives from applicants. The advice to the ANAO was that the Registrar may use a computerised system to assess eligibility for an ABN, and that computerised system may be backed up by random audit checks after registration. However, the Registrar may only adopt this method of assessment (that is, by a computerised system) where the Registrar has reasonable grounds to be satisfied that the programs underlying the computer system will correctly assess the entitlement. Our legal advice concluded that, based on their understanding of current ATO procedures, the Registrar might not be fulfilling his legislative obligations under the Act in some cases because the system used to assess ABN eligibility is not sufficiently rigorous.

4.26 For example, the application contains no straightforward threshold question addressing the legislative criteria in its entirety. There is missing a link between question 11 (on whether the applicant is engaged in business) and question 15 (on where in Australia the applicant has a business location). An applicant might operate a business in New Zealand while being employed by a different business in Australia. On the current wording of the application form, the applicant may well consider that their place of employment is a business location for the purpose of question 15. Clearly linking question 15 to the business referred to in question 11 could address this deficiency.

4.27 The ATO advised us that if a purposive interpretation is taken of the ABN legislation then, against the policy intent⁵⁷ of the law, the ATO considers the better view is that the Registrar is meeting his legislative requirements.

⁵⁷ The ATO suggests that the intent of the legislation is best shown in Second Reading Speeches for the Act and in the Treasury White Paper, *Tax Reform, Not a New Tax, a New Tax System*.

4.28 Further, the ATO's considers that the legislative requirements of the ABN enable the Registrar to provide to an enterprise an ABN where, on the face of a request by the enterprise, it is appropriate to do so. Such an approach is consistent with the self-assessment system of taxation which provides the backdrop to the ABN law. The ATO considers the current application forms and processing method accurately determine whether an applicant is entitled to an ABN in the majority of cases.

4.29 The ATO indicates that, in relation to concerns about the adequacy of some questions on the ABN application form and any suggested improvements, these might be unnecessary when regard is given to the explanatory materials included with ABN application forms. The ATO said that, nevertheless, they will consider this issue.

4.30 The ANAO considers the issue of eligibility to an ABN significant enough to warrant review of current registration procedures and ABR business rules, to determine whether these are sufficient to meet the legislative requirements. If appropriate, advice to government regarding amendment to the relevant legislation might also need to be considered.

Recommendation No.3

4.31 The ANAO recommends that, to enhance current registration procedures for issuing ABNs, the ATO:

- extend current up-front checking procedures to detect, for further investigation before registration, the more obvious categories of apparently ineligible applicants being identified by ATO quality assurance and data analysis initiatives;
- review current registration procedures and ABR business rules to determine whether these are sufficient to meet the legislative requirements; and
- if appropriate, provide advice to government on any necessary amendments to the legislation.

Agency response

4.32 Agreed in principle. A review of the ABN registration process is planned, it will include a focus on actively seeking opportunities to enhance the registration process.

Test for existence

4.33 The second requirement placed on the Registrar is that he be satisfied that the applicant's identity has been established. For this test the ABR relies on data matching an applicant's information to TFN information on the ATO's Individual Client Register (for individuals, partnerships and trusts), and uses ASIC data to confirm the existence of companies and other registered bodies. Although the ATO is undertaking these activities, issues arise as to their effectiveness.

Individuals and partnerships

4.34 When an applicant quotes a TFN, this is checked (along with name and date of birth) to the Individual Client Register. However, a particular difficulty facing the ATO when the ABN was introduced (and envisaged using the TFN as part of the checking process) was that the robustness of TFNs as a Proof of Identity (POI) mechanism has developed over many years.

4.35 The ATO introduced TFNs in their current format in 1976 and these were issued as taxpayers lodged income tax returns—there was no requirement that the taxpayer provide POI to the ATO beforehand.

4.36 Since the present TFN legislation came into effect in 1989 the ATO requires that new clients provide POI before issuing TFNs, and these clients have a status of 'confirmed' in the Individual Client Register. Existing ATO clients were exempted from the POI requirement and had a status of 'unconfirmed' placed against their TFN.⁵⁸

4.37 The significance of unconfirmed TFNs on the ABR is that, if an applicant uses a TFN as POI, the ABR requires a *confirmed* TFN before it can issue the ABN. At the time the Act came into effect, taxpayers with an unconfirmed TFN status made up 65 per cent of the ATO's client base. Since that time the ATO has run two 'data fixes' to change the status of unconfirmed TFNs to 'deemed confirmed', if taxpayers met a certain set of criteria.⁵⁹

⁵⁸ The ATO decided not to require existing clients provide POI because of the number of taxpayers involved and the degree of disruption that would occur for taxpayers. Another reason was the ATO would need to commit significant resources to undertake such an exercise. Also it should be noted that the relevant sections of the *Income Tax Assessment Act 1936* (ss.202B-BB) do not require POI from persons that already have a TFN, only applicants for a new TFN.

⁵⁹ Basically the taxpayer had to be an active ATO client, be traceable and have a valid address, and be reasonably up to date in lodging his/her income tax returns. The extent of the changes made by these data fixes was significant. The data fix in mid 2000 converted around 11.6 million records to 'deemed confirmed' status, while another in July 2002, using slightly modified criteria to the first, changed the status of 455 050 records. Despite these improvements an estimated 3.2 million TFN records still have an 'unconfirmed' status attached.

4.38 The result from these data fixes is that more ABN applications from individuals (that use TFNs as their POI source) can process through the ABR and have the ABNs issued automatically.

Other TFN quality issues

4.39 Other problems with the TFN system have been identified for a number of years. The ANAO's audit of TFNs⁶⁰ and the subsequent Parliamentary Committee inquiry report, *Numbers on the Run*,⁶¹ identified a number of integrity issues with the ATO's TFN procedures.

4.40 Although these reports were made in 1999 and 2000, the ATO advised that it has not yet implemented a number of recommendations from the ANAO and Committee's reports due to resource constraints. However, as a result of the recent OPA funding allocation to improve the integrity of the TFN system, \$13 million in 2002–03, these issues now are being addressed through the RD's TFN Integrity Project.

4.41 However, the ATO is also aware that the existing POI framework increases its exposure to multiple TFNs (and thereby multiple ABNs) being issued, or TFNs fraudulently being used to obtain multiple ABNs. The ATO is considering several initiatives to validate, in addition to collecting, POI information during the TFN process.⁶² These initiatives are being undertaken in the context of the developing whole-of-government approach to addressing POI requirements across all government agencies. The ATO advised that such revised POI procedures will be introduced from April 2003. Appendix 4 provides information on the whole-of-government POI approach.

Company applicants

4.42 For company ABN applicants the ATO places significant reliance on ASIC data. The ATO checks the ASIC database to validate the Australian Company Number (ACN) and the legal name of the company, but does not check details for directors and public officers.

⁶⁰ *Management of Tax File Numbers*, Audit Report No.37 1998–99.

⁶¹ *Numbers on the Run, Review of the ANAO Report No.37 1998–99 on the Management of Tax File Numbers*, House of Representatives Standing Committee on Economics, Finance and Public Administration, August 2000.

⁶² The procedures to confirm identity used by the ATO, and most other agencies, requires new clients to provide a set of acceptable documents, similar to those listed in Appendix 3 for TFN applications. These documents are generally accepted on face value, without the accepting agency confirming with the issuing authority that they are valid documents. For example, an agency provided with a birth certificate normally does not seek confirmation from the issuing Registry that the particular certificate is valid and current. Validation of POI documents back to their source is identified as one of the key future advancements needed to address identity fraud.

4.43 Given the reliance of the ATO on ASIC information before registering company ABN applicants (and, by implication, the ATO's reliance on ASIC procedures to register, and then regulate, companies), the ANAO sought to understand the ASIC registration procedures.

4.44 Our discussions with ASIC determined that there are limited integrity checks undertaken prior to companies being registered. An applicant submits the application form to create a new company and ASIC does some pre-registration checking.⁶³ Once the registration process is completed, and the required fees are paid, the new company is registered. ASIC undertake no background checks on the information provided by the applicant before registration. For example, ASIC does not undertake up-front checks before incorporation to identify disqualified directors.

4.45 ASIC advised that while not undertaking robust up-front checking before registration, it does have a suite of compliance measures that it undertakes post incorporation, these include:

- various lodgement requirements, such as annual reports, company statements and details of changes of directors and secretaries;
- using late fees, penalties and prosecution to gain compliance;
- requisitioning information if insufficient information is provided in annual returns or otherwise; and
- deregistration of the company as a last resort.

Checking to ASIC data by the ABR

4.46 Verification of applicants' information to ASIC data is done immediately through a dedicated connection to the ASIC database. The ANAO notes that currently only limited checking of ASIC data is undertaken before issuing an ABN and there is potential for the ATO to make use of other ASIC data, such as the names of directors and company addresses, during the registration process of company ABN applicants. We also note that reforms to company legislation envisaged under CLERP 7⁶⁴ will remove some of the current ASIC compliance

⁶³ This checking is to ensure the form is complete; the company name is available; and the application includes:

- a registered office;
- the principal place of business; and
- addresses for all directors.

⁶⁴ **Corporate Law Economic Reform Program Proposal 7.** 'CLERP 7 is a set of proposals to reform the law by removing the obligation to lodge an annual return and streamline the process to notify ASIC about changes to company particulars on a timely basis. It also provides for a simplification review of the Corporations (Fees) Regulations.'—*InFocus*, Australian Securities and Investments Commission, May 2000.

requirements and this might affect the benefits of any increased use by the ABR of ASIC data.

4.47 However, in the 2002–03 Budget the Government provided specific funding of \$3 million to enable ASIC and the ATO to combine the ABN application and ASIC registration into one process. This initiative aims primarily to save businesses time and money, by simplifying procedures for business registrations and removing duplication, but the ANAO considers that it also provides opportunities to better align registration requirements between the two agencies.

4.48 Although the ATO is undertaking checking to determine the existence of ABN applicants, the ANAO concludes that such checks might not be sufficiently robust. There are unresolved issues surrounding TFN data in the ATO's Individual Client Register that is used to check individual, partner and trust ABN applications. As well, there are limitations in ASIC's company registration processes for company applicants. ASIC procedures are primarily focussed on the requirements for company registrations and are limited with regard to the ATO's ABN registration requirements.

Test for duplication

4.49 The final requirement on the Registrar is to ensure that the applicant is not already included on the ABR.⁶⁵ To ensure that businesses are not issued more than one ABN, the ATO relies on the application of system controls within the ABR to undertake checks.

4.50 The ANAO noted these controls in action during fieldwork at RD sites. By observing the processing of work exception items the ANAO was able to confirm that possible duplicate applications are being rejected by the ABR checking procedures and are appearing in the Work Allocation System (WAS) for investigation by RD staff. These observations were reinforced by the findings from ANAO testing of the ABR data and of ABR business rules. The ANAO found that the likelihood of duplicated ABNs, or registrants having more than one ABN, is low.

⁶⁵ The *Guide* states that it is the *entity* that receives an ABN, and that an entity will receive one ABN regardless of the number of commercial activities or enterprises it undertakes. If several different entity types undertake an enterprise, then each entity requires its own ABN. However, under normal circumstances, most businesses will only need the one ABN.

Operation of application controls and business rules

4.51 Most of the testing of ABN applications that occurs relies on the effective operation of the ABR system and the application of its business rules. Therefore, the ANAO wished to determine whether the ABR system design would ensure that key business rules and related controls had been implemented and that those business rules and controls were consistent with business requirements.

4.52 In addition to reviewing the ABR project documentation, the ANAO undertook its own testing of the ABR data. Overall, the ANAO considers the system design and implementation was consistent with the ABR business requirements, and that key controls and business rules were operating as intended. Data holdings within the ABR were found to be generally reliable and consistent with implementation of the business rules.

4.53 However, the ANAO did identify data quality issues relating to the migration of ABN data from the ATO Integrated System (AIS) to the ABR⁶⁶ where data do not satisfy ABR business rules. The ABR Project had acknowledged these issues as a risk to be managed from the outset, and had implemented a process to (progressively) correct the data when records are updated. Data quality issues are discussed in Chapter 5.

Management of registration workflows

4.54 The ABR includes systems and procedures to deal with applications that do not meet business rules. Items that fail business rules are exceptions that are transferred to the WAS within the ABR for investigation and correction by RD staff.

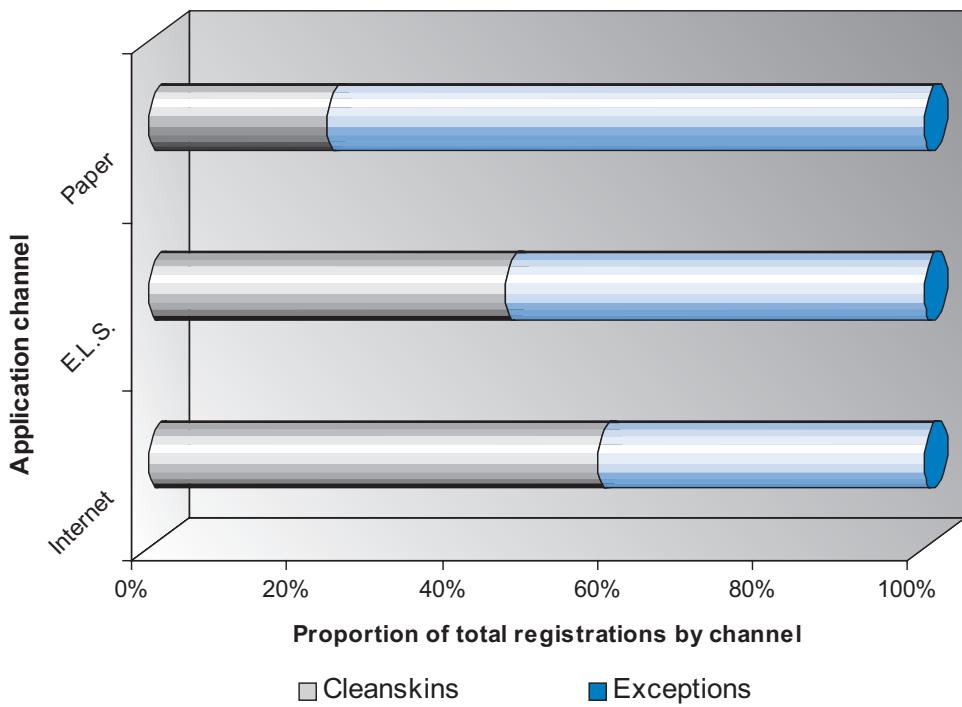
4.55 The channel through which the application enters the ABR system can influence the level of automated acceptance that occurs. Figure 12 shows the proportion of the total registrations for the period July 2002 to March 2003 processed automatically by the ABR system without operator intervention, referred to by the RD as ‘cleanskins’.

4.56 As shown in Figure 12, Internet applications have the best success rate for meeting business rule requirements and proceeding through the registration process. This can be attributed in part to the applicant being able to change incorrect information immediately during the Internet session. Paper applications provide the most difficulty for automatic processing, partly because the scanning technology is not always able to recognise hand-written characters accurately.

⁶⁶ To allow businesses to operate under *A New Tax System* the ATO has issued ABNs since December 1999; this was initially done through the existing AIS. Before the ABR system commenced in June 2002, the ABN-related data on the AIS was transferred to the ABR system.

Figure 12

Proportion of applications passing automated checking procedures by channel July 2002–March 2003



Source: ANAO prepared from ATO data.

4.57 When the information in Figure 12 is taken in the context of the increasing use of the Internet for lodging applications (shown in Figure 10),⁶⁷ the significance of the Registrar's reliance on the ABR system to check the eligibility of applicants and the need for reviewing the adequacy of existing tests becomes apparent.

Work Allocation System

4.58 The ABR WAS presents exceptions to RD staff for corrective action. The WAS provides information on the business rule(s) that failed and, by implication, what action is needed to make the correction. There can be multiple items to correct in the one application and all need to be adjusted satisfactorily before the system will accept the application and issue an ABN.

⁶⁷ For example, for October 2002 the ATO received 46 649 ABN applications. Of these, 29 614 came via the internet/BEP, 10 071 through tax agents/ELS and 6964 were paper applications.

4.59 Exception items in WAS are allocated daily to ATO production sites by the Production Scheduling Team at the RD Dandenong site. The allocation process involves some operator intervention but this also allows the operator to set specific parameters for allocating exceptions to RD production sites.⁶⁸

4.60 The WAS is specially designed to handle workflow. However, at present this only relates to new registrations' exception processing. Maintenance items, that is changes of existing details such as addresses, tax roles, names and so forth, are not managed by the WAS. These items are mainly paper-based and are monitored through the ATO's correspondence monitoring system, FLOCS.⁶⁹ The mixture of systems being used⁷⁰ complicates the monitoring of processing and makes the processes manually resource intensive.

Management reports to manage workflow

4.61 The ABR system does not have an in-built management-reporting module. Management reports are currently produced by various methods including the use of COGNOS 'Cubes'⁷¹ and queries run against the ATO data warehouse.⁷² These methods usually do not produce data immediately, and many have significant lead times and use a lot of staff time to prepare them. In some cases data might not reflect the current situation, for example work on hand to be processed might not be shown accurately.

4.62 RD advised that a management information system was not incorporated in the ABR system to avoid slowing an operations system. However, the RD has identified the need for better management reporting capability and is currently looking at making improvements in this area.

Service standards

4.63 Part of the need for an effective information system derives from the need to ensure ABN applications meet ATO customer service standards.

4.64 The ATO sets performance standards for processing all registration applications (that is, applications for TFNs and ABNs, TFN employment

⁶⁸ Exception items are ranked by complexity and priority; this ranking is used to ensure work items are allocated to staff with sufficient competency to action the item.

⁶⁹ File Location System.

⁷⁰ Currently ABN-related work occurs on the ABR and AIS with most maintenance items monitored using FLOCS.

⁷¹ A proprietary, system-independent software to extract management information from data.

⁷² The ATO data warehouse is a copy of transactional data from ATO operational systems structured to easily allow for querying and reporting by ATO staff.

declarations⁷³ and so forth). These standards are part of the Taxpayers' Charter with the specific registration standard being 28 days from ATO or Centrelink's⁷⁴ receipt of the application.

4.65 A similar requirement for processing ABN applications expeditiously is contained in the Act. In the case of the legislation, if the Registrar has not decided an application for registration within 28 days after the application is made, the applicant may, at any time, give the Registrar written notice that he/she wishes to treat the application as having been refused.⁷⁵ Rejected ABN applications are appealable decisions to the Australian Administrative Tribunal.⁷⁶

4.66 As a result of these requirements the ATO has given priority to the processing of new registration applications. Figure 13 reflects the ATO's performance since 1 July 2000, and shows that the ATO generally has met its target of 91 per cent of applications within the 28-day standard. The ATO did not meet its targets for the period July to September 2000 because of the last minute influx of ABN applications with the commencement of *A New Tax System* and the GST.⁷⁷

⁷³ TFN declarations (formerly known as employment declarations) help payers work out the correct amount of tax to deduct from wages by informing them of an employee's eligibility for such things as the tax-free threshold, Family Tax Benefits, zone and dependent allowances, and any Higher Education Contribution Scheme (HECS) or Financial Supplement debts.

⁷⁴ Centrelink accepts TFN applications from its clients on behalf of the ATO.

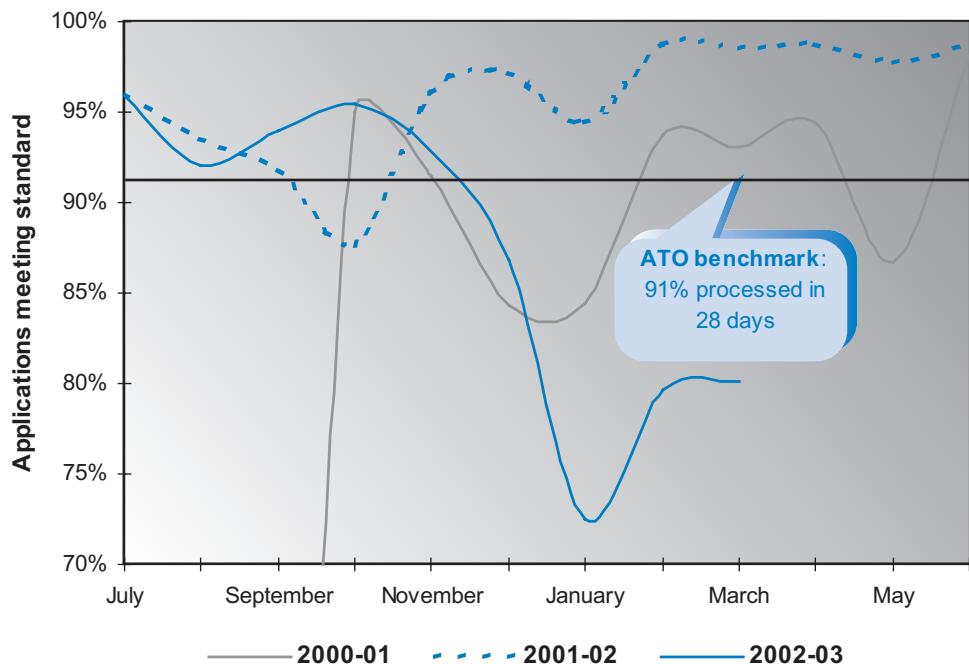
⁷⁵ s. 13(2).

⁷⁶ s. 21(1)(b).

⁷⁷ Other troughs where performance was below target were caused by various factors including:

- reductions in non-ongoing staff following ABR Phase One;
- leave requirements over the Christmas period; and
- the delayed or non-arrival of, and training for, inexperienced staff.

Figure 13
Proportion of applications processed within standards



Source: ANAO prepared from ATO data

4.67 These results relate to the processing of new applications only. The RD has experienced periodic difficulties in processing maintenance items in a timely manner. For example, the January 2002 *ABR Data Quality Measures* reported that:

As production staff struggled to maintain ABN processing, certain lag indicators were significantly affected.

Processing and maintenance performance in RD has declined sharply since the August (2001) Report. . . . Since June (2001), the Charter current performance (for cancellations) has declined to 35.88% from 87.8%.

4.68 The report goes on to state that significant staff movements in the preceding months was the main cause of these processing lags and that the ATO was implementing strategies to improve performance and reduce the backlogs. Although this did occur, the ANAO noted during fieldwork that the RD had two maintenance teams at Dandenong working on other priority ATO activities, and again this significantly affected processing of maintenance items.

4.69 For example, for the week ending 2 August 2002, there were 89 269 ABN related items waiting processing, including 29 573 cancellations, 14 106 changes of address and 15 111 changes of other business registration details. While the

ATO implemented strategies to reduce the backlogs, these were likely to increase again with the Christmas break and production staff taking leave.

4.70 The ANAO acknowledges that, because of the requirements of the Act and the Taxpayers' Charter, the ATO has given priority to processing new applications. However, delays in processing maintenance items can also seriously affect ATO clients⁷⁸ and lead to complaints.

4.71 The ANAO notes that PKI services became available publicly in December 2002 and registrants now have the ability to change their own details via the Internet. This ability might affect the processing of maintenance items.

Complaints handling

4.72 The ATO has well-developed procedures for handling complaints received through Call Centres and the Problems Resolution Service (ATO Complaints).

4.73 The majority of complaints pertaining to the ABR relate to processing delays; for example, applicants not receiving their ABN within the 28-day standard. The ATO regards these as 'urgent requests' rather than true complaints and gives them processing priority. The ATO also has procedures in place to escalate actual complaints. Service standard targets for handling complaints are set and monitored.

4.74 The ANAO noted that the level of ABN-related complaints received by the ATO is relatively small, averaging 166 per month. Urgent requests tended to be higher; averaging 1500 per month. The ANAO noted that around 75 per cent of complaints and 37 per cent of urgent requests are resolved within the targets set by the RD.

4.75 The ANAO also approached the Taxation Ombudsman to determine the level of complaints relating to the ABR and the ABN that his Office might have received. We were informed that the Taxation Ombudsman received approximately 550 ABN-related complaints⁷⁹ between 1 July 1999 and 30 September 2002.

4.76 The information provided by the Taxation Ombudsman disclosed that the majority of complaints appear related to difficulties clients experienced in the early period of *A New Tax System*. They included the inability to have ABNs

⁷⁸ For example, delays in processing changes of address might lead to ATO clients not receiving Activity Statements; failure to lodge might lead to non-compliance follow-up action from the relevant ATO area located outside the RD. Similarly, ABN cancellation requests, if not processed expeditiously, might lead to compliance action by other areas of the ATO.

⁷⁹ This represents nine per cent of the total number of complaints about the ATO received by the Taxation Ombudsman.

deregistered after the client had registered unnecessarily for GST,⁸⁰ and problems surrounding the redeemable GST certificate initiative.⁸¹

Determining systemic problems from analysing complaints data

4.77 In addition to addressing client complaints, the RD, in April 2002, created an Analysis Cell to look at complaints analytically and determine the cause of any systemic problems. The Analysis Cell undertakes several tasks including:

- reporting on complaints to RD management on a weekly basis;
- undertaking quality assurance activities to ensure that complaints are actioned well; and
- developing processes and a database to allow analysis of the complaints being received.

4.78 For the last activity, the Cell undertakes analysis by the numbers of complaints (week to week trends) and by causality (to identify patterns). Through this work specific issues can also be identified, for example some ambiguities in the ABN cancellation form were identified that lead to changes being made to that form.

4.79 As a result of this work, the Analysis Cell makes recommendations for improvements that are then provided to the RD Board for consideration. However, issues identified can relate to activities undertaken by other ATO areas outside of the RD. Feedback arrangements to the Analysis Cell are not well developed and Cell staff often do not know whether the analyses they undertake produce valid results that can be used by other ATO areas.

4.80 Overall, the ANAO considers that the ATO generally is managing ABN related complaints well. We believe that the process could be enhanced by the ATO implementing effective mechanisms to ensure adequate feedback occurs on the work undertaken by the Complaints Analysis Cell.

⁸⁰ This resulted from an oversight in the legislation that did not allow deregistration within twelve months of registration. As a result of the difficulties being experienced by clients the legislation was later amended to correct this oversight and allow deregistration within the twelve-month period.

⁸¹ This initiative was one of the elements of the Government's GST assistance program. Every small and medium sized business and community sector organisation that registered for the GST before 31 May 2000 received a \$200 GST certificate. These certificates could be used to purchase GST-related products and services, such as IT hardware, accounting software, legal advice and training services, to help recipients adjust to a GST environment.

Security of ABR information

4.81 An important aspect of the ABR is that the information stored is used only as allowed by the legislation, and that adequate security arrangements are in place to ensure that this occurs.

ABR system security

4.82 The ATO has implemented a multi-layered security framework to isolate internal ATO applications from direct external access involving:

- allowing only approved network services through the external firewalls;
- managing network security in accordance with gateway certification documentation and the ATO IT Security Policy;
- scanning firewalls regularly for configuration integrity; and
- deploying and monitoring network-based intrusion detection systems according to agreed service levels.

4.83 Similarly, access to the ABR system and data by ATO staff is controlled through a hierarchy of industrial standard system controls. The level of access allowed to each staff member is directly related to the requirements of his/her job activities.

4.84 Based on the testing undertaken, the ANAO considers that an appropriate security infrastructure relating to the ABR has been implemented. The security infrastructure exhibits all the necessary components of sound security management. In addition, the security framework is hosted in the 'highly protected' network that is continually monitored.

4.85 The ANAO also considers that the ATO has implemented an appropriate risk management strategy. This strategy identified external and internal risks of the ABR project at key points and, as part of the risk management strategy, regular reviews are scheduled at two yearly intervals. However, the ANAO considers that the ABR system is still being refined as facilities are being expanded and new ones added. The risk management strategy needs to include a reassessment of risks when any significant changes to ABR applications or infrastructure occur outside of the normal review period.

Privacy issues

4.86 The Act requires the Registrar to collect information from businesses. The legislation also specifies what information can be supplied to stakeholders outside the ABR, and in what circumstances and to whom that information can be provided. Some information is made available to the general public through the public register (the public register is known as *ABR Public*).⁸²

4.87 Other ABR information (non-public data) is limited to authorised users, and is available only through the restricted access section of the ABR, known as *ABR Secure*. Access to this information by user agencies authorised by legislation only occurs after those agencies have met certain requirements, including signing a MOU with the Registrar on the use of ABR data.⁸³

4.88 The ANAO noted that the Federal Privacy Commissioner had raised privacy issues relating to the use of ABR information in the early period of *A New Tax System*. These issues eventually lead to amendments to the legislation that clarified further the access provisions to non-public ABR data.

4.89 Since that time RD has met as necessary with the Office of the Federal Privacy Commissioner to discuss privacy issues relating to the use of ABR information. Similarly, we note the RD, as part of its efforts to promote the use of the ABR by State agencies, holds discussions with relevant State privacy authorities to ensure that access to ABR information allowed to State agencies, in addition to meeting Commonwealth requirements, conforms with any State privacy legislation.

4.90 The ANAO consulted some professional associations to determine whether their members had raised any significant issues with operations of the ABR or ABNs. We noted that associations had raised concerns over privacy issues when *A New Tax System* commenced. However, none of the associations we approached raised any current concerns.

4.91 Overall, the ANAO found that the ATO systems and procedures are designed to address adequately the security and privacy aspects of the ABR.

⁸² Information available through the public register is restricted to the business' name(s), the postcode for the business premises, and whether the business is registered for GST or is a tax-deductible charity.

⁸³ Use of ABR data by agencies other than the ATO and the use of MOUs are discussed in Chapter 6, *Whole-of-Government Register*.

5. Quality Management

This chapter outlines the importance of the quality assurance procedures undertaken by the ATO to ensure the integrity of ABR information.

Introduction

5.1 The Act does not prescribe how the Registrar is to maintain the ABR; it does, however, require registrants to keep their details accurate and current. The legislation states registrants must notify the Registrar within 28 days where information that they have previously provided is no longer correct.⁸⁴ Not to comply with this requirement is an offence under s.8C of the *Taxation Administration Act 1953*, which could lead to the registrant being subject to prosecution and penalties.

5.2 At present the ATO does not enforce these penalty provisions, relying instead on a mixture of education, information dissemination and quality assurance activities. In addition, the ATO made a conscious decision to limit the amount of up-front checking that occurs (to make the registration process simple for applicants), relying instead on a self-assessment process and post-registration review. As a result, the RD's post-registration quality assurance procedures are an important component in ensuring the integrity of ABR data.

5.3 The RD recognise the importance of maintaining data quality. This is shown in its Statement of Purpose, which states that the Division will:

Support the ATO and other Commonwealth agencies through the provision of the Australian Business Register (ABR) comprising accurate, current and timely information about Australian businesses.

Registry Division quality assurance methodology

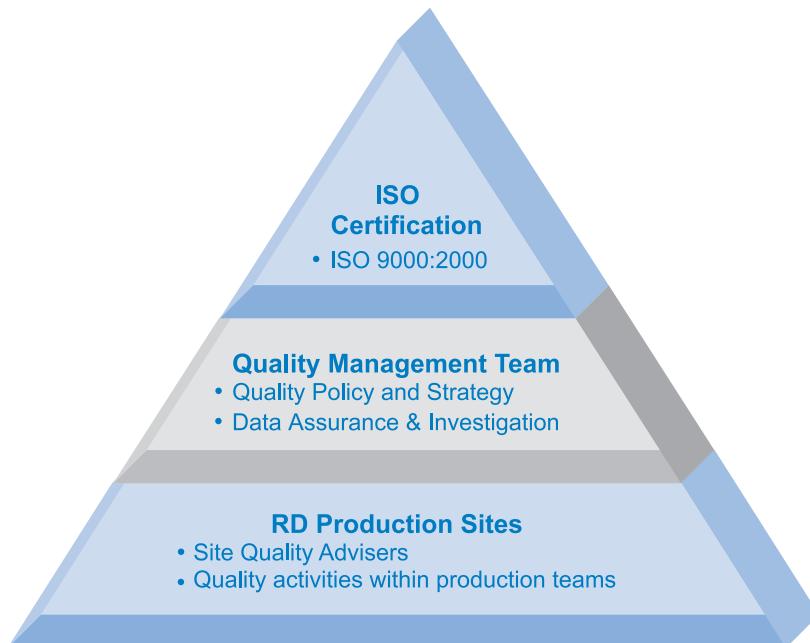
5.4 The ATO, through the RD, has invested significant effort and resources in developing its quality assurance program for business registrations. The RD advised the ANAO that benchmark studies suggest organisations with mature systems expend between two and four per cent of resources on quality assurance-related activities;⁸⁵ currently the Division expends 2.8 per cent of its resources on such activities.

⁸⁴ s. 14(1).

⁸⁵ Quoted in *Cost Management*, Hansen D.R. and Mowen M.M., 2nd Edition, 1997, p. 907.

5.5 The Division has implemented a multi-levelled approach to quality assurance activities, comprising International Organization for Standardization (ISO) Certification, a dedicated resource for developing and implementing quality-related policies and procedures, and the involvement of site production teams in quality assurance activities. Figure 14 illustrates this structure.

Figure 14
ATO Registry Division quality assurance structure



Source: ANAO prepared from ATO information.

5.6 As part of its quality assurance, the RD has gained accreditation to ISO 9000:2000 quality standard for its Business Registrations function and is currently expanding this certification to include the Individuals Registration function. Certification to ISO standards means that the Division must implement systems and procedures that meet ISO criteria, and be subjected to periodic quality audits by an accredited quality assurance auditing organisation. Efforts made by the RD to obtain, and then maintain, ISO certification show a clear commitment to addressing quality issues.

5.7 The overall responsibility for quality assurance within the RD rests with the Quality Management Team (QMT). Comprising a staff of 26 officers and a budget for 2002–03 of \$1.75 million, the QMT is located at the ATO Newcastle office. The QMT is divided into two sections:

- Quality Policy and Strategy that has overall responsibility for formulating policies and procedures for quality-related activities; and

- Data Assurance and Investigation that has a co-ordination role, assisting RD production sites to undertake quality assurance activities and in identifying potential improvements to processes.

5.8 The QMT also undertakes a liaison role:

- with the independent ISO auditors for the periodic certification audits; and
- with the ABS, by providing quality assurance reports against agreed performance targets for ANZSIC coding (discussed later in this Chapter).

5.9 Each RD production site has responsibilities for quality issues at the local level. Most sites have a quality adviser whose role is to co-ordinate quality assurance procedures, act as a conduit for disseminating information and be a mentor for production staff on quality-related issues. Within production teams there are quality coaches to disseminate information into teams and also act as another source of information.

5.10 Through a program of regular telephone hook-ups amongst quality advisers, known as the Quality Forum, information on quality issues and better practice is disseminated and shared across production sites.

5.11 The RD makes extensive use of the ABS to assist it in the quality management process. The QMT uses the ABS' advice on statistical methodologies in its testing program and survey work. The ABS also provides training and technical assistance to RD operational staff on general statistical methods and specific topics, such as monitoring the quality of ABR data, especially through its quality testing of ANZSIC coding.⁸⁶

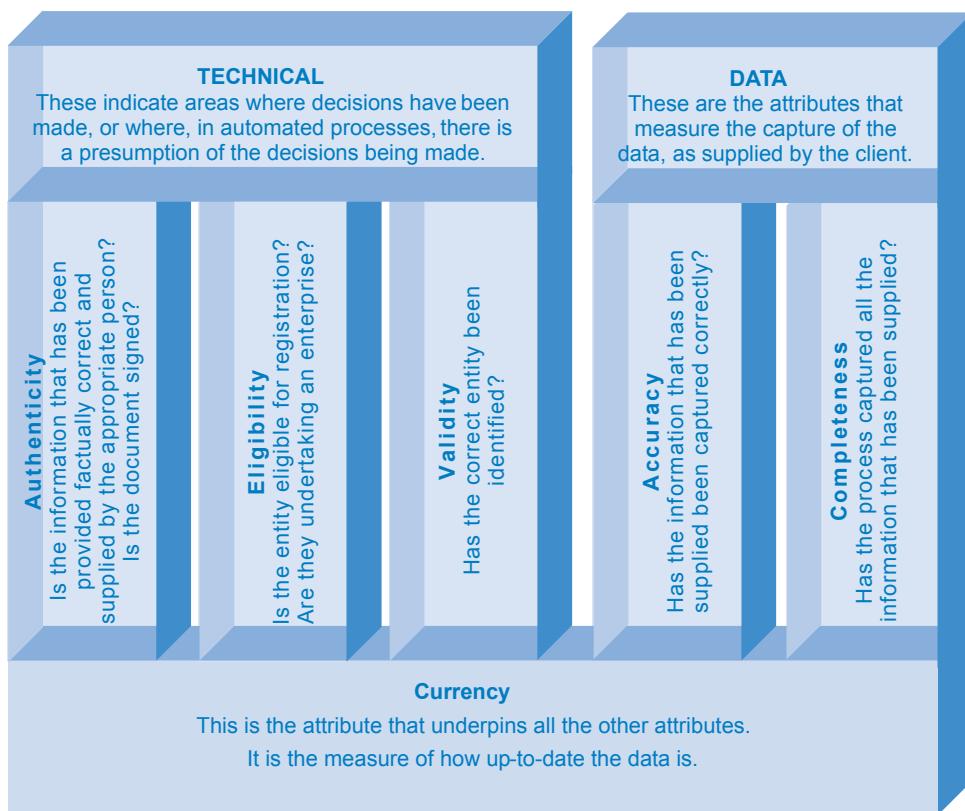
Quality Management Team activities

Policies and procedures

5.12 The QMT has developed an extensive suite of policies and procedures that provide the context within which the quality assurance activities are to take place. There is an overarching data maintenance strategy that has been developed in consultation with the ABS. The data maintenance strategy includes the development of a data quality matrix that uses cost-benefit analyses and contains a suite of possible treatment strategies. The QMT has also defined data quality attributes to enable existing data to be measured against these attributes. The data quality attributes are shown in Figure 15.

⁸⁶ The ABS has a particular interest in ANZSIC coding as this information is used to develop statistics on Australian businesses.

Figure 15
Data quality attributes

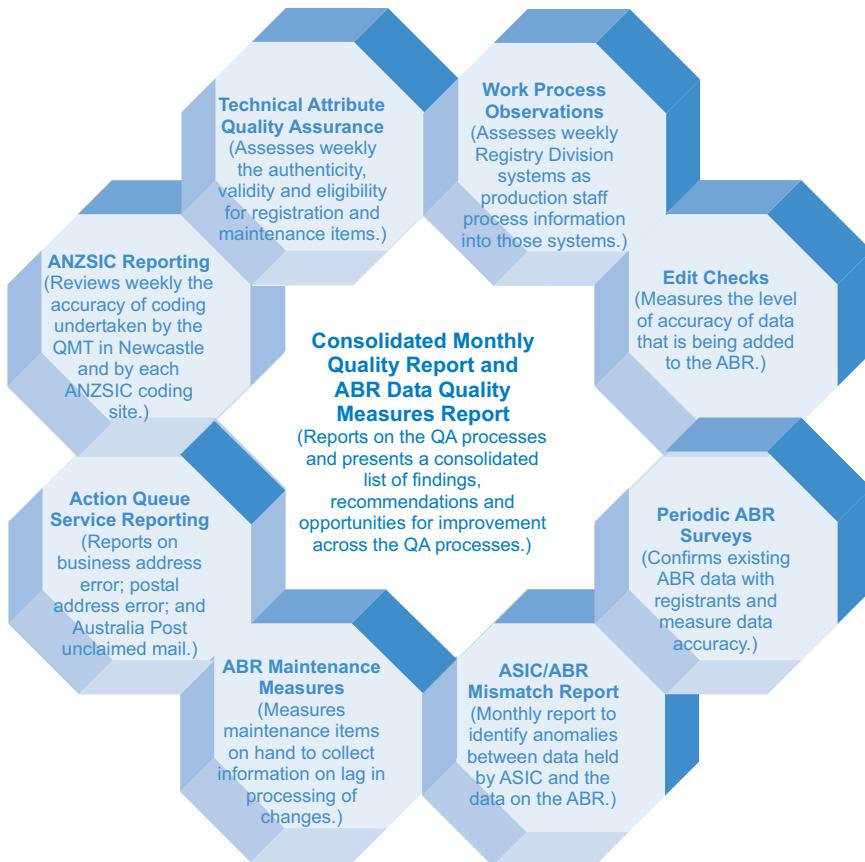


Source: ATO Quality Management Team (ANAO modified).

5.13 The ANAO considers the policies and procedures developed by QMT provide a sound basis for undertaking quality assurance activities.

Quality assurance activities

5.14 The QMT has developed a series of quality assurance activities to maintain the integrity of ABR data. Production sites generally undertake the review activities, consolidate local results and return these to the QMT for analysis. The QMT collates the site results into a Consolidated Monthly Quality Report that is provided to the RD Board, and other relevant ATO stakeholders, for consideration. The following figure provides an overview of the ABR-related quality assurance activities that are currently being undertaken and the mechanism through which the findings are reported.

Figure 16**Quality activities that input to the Consolidated Monthly Quality Report**

Source: ATO Quality Management Team (ANAO modified).

5.15 The ANAO reviewed the main quality activities undertaken by the ATO. We observed issues relating to the overall effectiveness of some of these processes; these issues are discussed below.

Periodic ABR surveys

5.16 The periodic ABR Survey involves drawing a sample of businesses from ABR data and confirming with the registrants that the details contained on the register are still accurate and current.⁸⁷ Table 2 shows the results of the surveys up to survey five (July 2002). The survey results in July 2002 vary from 80.9 per cent accuracy for business address up to 95.9 per cent accuracy for the main name.

⁸⁷ The survey checks items such as main and trading names, postal and business addresses, e-mail address, public officer details and whether the business activity description has changed.

Table 2**Survey results by data component**

	Percent of information correct/not requiring amendment				
	Feb–01	Jun–01	Oct–01	Apr–02	July–02
Main name	97.3	96.2	86.6	87.1	95.9
Trading name	93.3	90.0	87.9	83.9	91.4
Postal address	90.7	89.6	84.8	80.1	88.1
Business address	87.0	81.6	82.0	74.0	80.9
E-mail address	84.6	78.7	75.4	95.2	92.2
Public officer	91.7	94.3	93.7	95.4	94.3
Unchanged business activity description	n.a.	n.a.	n.a.	92.3	93.4

Source: ATO.

5.17 The survey is useful in enabling the ATO to quantify the natural decay rate of its data; this is reported to be within the expected range of no more than 17 per cent decay per year.

5.18 ABR Surveys have highlighted some specific issues that the RD need to address; these include:

- the updating of information between the ABR and ATO systems. The ATO is finding that its systems (NTS and AIS)⁸⁸ are overwriting correct information on the ABR with erroneous material. Although some incorrect changes might be identified by the ABR system if they fail business rules (and so will be corrected automatically), it is creating additional work to correct many of these errors; and
- partnership name construction remains a problem for registrants and the ATO. At registration, the ATO checks the details of individual partners (to the Individual Client Register data) and constructs its own partnership name based on member partners. ABR Survey results consistently show that registrants often do not recognise the ATO partnership construct and believe this an error. Further, anecdotal information received by the ATO shows some dissatisfaction by registrants over this issue. They claim that the ATO is unable, or appears unwilling, to accept the order that is determined by the partners to the business. This remains a challenge that the ATO needs to address.

⁸⁸ National Taxpayer System and the ATO Integrated System.

5.19 Another significant factor identified by the surveys is that, although ABN legislation requires registrants to advise the Registrar of changes of detail, there is a significant number who do not; 57.9 per cent of survey four errors were attributed to this failure. Such results assist RD to determine strategies to address this data decay.

5.20 RD is building on its experience with the ABR Surveys in undertaking a 'targeted refresh' survey of particular businesses identified as having a high risk of inaccurate information. The targeted refresh project is targeting around 120 000 non-individual registrants who are not lodging Activity Statements and have not recently advised of change of details. This initiative forms part of the ATO strategy to periodically refresh ABR data as outlined in the OPA.⁸⁹

Technical Attribute Quality Assurance

5.21 Technical Attribute Quality Assurance (TAQAs) is aimed at testing the technical attributes of authenticity, validity and eligibility shown in Figure 15.⁹⁰ The ATO sets a performance target of 95 per cent accuracy for TAQA reviews; reported performance at October 2002 was 100 per cent accuracy for cancellations and name changes.

5.22 The sampling for TAQAs is based on statistical methodology developed with the assistance of the ABS. However, due to the lack of QMT access to the actual ABR data,⁹¹ the weekly TAQA sample for new registrations' exceptions is drawn from data that reflects processing done on the particular day when the sample is drawn, rather than all of the records processed during that week.

5.23 In addition, since the introduction of the ABR system in June 2002, QMT has been unable to undertake separate TAQA reviews on 'cleanskins' as a distinct stream of registrations. This is because the ABR system cannot identify cleanskin registrations from other registrations once these have been automatically

⁸⁹ The OPA suggests that one third of the ABR data would be refreshed each year for three years. Since the Agreement was finalised, the ATO has undertaken further work to develop strategies to actually implement a refresh strategy for ABR data. Rather than refreshing a set proportion of the data each year, the ATO is attempting to develop more efficient strategies that will gain the best outcomes for the resources expended.

⁹⁰ TAQAs involve drawing a sample of new registrations or registration changes and a reviewer determining whether the particular request met the attributes. The review is undertaken at the production site that processed the registration or change of detail.

⁹¹ RD staff advised that QMT could not access ABR data for several reasons including:

- the cost involved in downloading all ABR data to the data warehouse, the different data structures being used in the ABR and the limited resources (then) available in the ATO data warehouse;
- the need to avoid slowing the ABR system for production staff processing clients' registrations and maintenance items; and
- a perception that QMT's need to access and download ABR data might not have been included adequately in the planning phase of the ABR Project.

processed and are in the ABR database.⁹² The ATO advised that QMT is drawing TAQA samples from AIS but the ANAO views the use of AIS to draw TAQA samples as an interim solution. To maintain the integrity of the TAQA process, samples need to be drawn directly from ABR data, and adequate strategies developed to include testing of cleanskins.

5.24 Overall, the ANAO considers that RD has developed a sound basis for its quality assurance activities and generally those activities are effective. However, current limitation on access to data and the absence of a strategy to include registrations that are processed automatically by the ABR system (cleanskins) affects the effectiveness of the quality assurance program.

Recommendation No.4

5.25 The ANAO recommends that, to improve the effectiveness of the quality assurance function for the ABR, the Quality Management Team:

- be given access to the relevant ABR data required to implement fully its quality assurance program; and
- once this access is provided, the Quality Management Team develop strategies to include in its quality assurance process testing of registrations that are processed automatically by the ABR system.

Agency response

5.26 Agreed. However, as allowing the Quality Management Team to directly access production data would contravene our security and access guidelines, other access that meets their needs will be provided.

Testing eligibility

5.27 The extent to which the TAQA process can test the application of the eligibility criteria (eligibility is one of the TAQA tests) is in question by some RD staff. There is a perception in some production areas that the test of eligibility is superfluous, or at the least difficult to apply, because of the perceived 'self assessment' nature of the registration process. The ability to test eligibility is further limited by the lack of any independent source of information to verify eligibility. The reviewer must determine eligibility on the basis of information already held by the ATO.

⁹² Registrations that require production staff intervention sit in a queue in the WAS until cleared and so can be identified for TAQA sampling. The queues are cleared daily, this is why TAQA samples at present can be drawn from only one day's worth of processing.

5.28 As there are concerns about the eligibility of a significant, and rising, proportion of ABN registrants, the TAQA test of eligibility is an important one to ensure the ongoing integrity of the ABR data. The QMT recognises the need for eligibility to be part of TAQAs testing and has undertaken activities to reinforce this need to operational staff. The ANAO considers that such efforts need to be enhanced, to ensure that staff are both competent and confident to apply eligibility tests to registrations.

ANZSIC coding

5.29 With the commencement of *A New Tax System* the ABS, from July 2002, took the opportunity to improve the efficiency and accuracy of its business register, and now uses the ABN to satisfy its statistical requirements for the majority of businesses. The ATO provides information on businesses contained in the ABR to the ABS for maintaining the ABS business register, which provides the survey frames for business surveys.

5.30 A crucial component of this data, from an ABS perspective, is the classification of businesses by industry type. The ABS has introduced the use of ANZSIC codes for all businesses where ATO data are used, and RD staff now assign these codes in the ABR. The ABS will not initiate from within its own processes further change to the ANZSIC codes assigned by the ATO.

5.31 From the introduction of the ABN in June 2000, until the ABR was implemented in June 2002, all ANZSIC coding was a manual process. RD staff determined the correct ANZSIC code with the assistance of a desk-top coder developed by the ABS. As part of the ABR Project an automatic coder (the ANZSIC autocoder) was developed by the ATO to code the first two digits as registrations processed through the system. Registrations for which the autocoder cannot determine a two-digit code, and errors found in the automatic coding during the quality assurance process, are corrected manually. All full coding (that is, to the ABS four-digit code) is also done manually.

5.32 The importance of accurate ANZSIC coding is recognised by both the ATO and the ABS, through the performance targets set for the activity. For businesses not employing staff (non-employing entities) the target is 80 per cent accuracy at the two digit level; for those that do employ staff (employing entities) the target is 90 per cent accuracy at the four-digit level.

Monitoring the accuracy of ANZSIC coding

5.33 The ATO's performance against ANZSIC coding targets is measured and closely monitored by both the QMT and the ABS. The QMT undertakes regular checking of ANZSIC coding accuracy at the four-digit level; results of this are

provided on a monthly basis to the ABS, and to other ABR stakeholders through the PAC meetings held roughly every quarter.⁹³ In addition, the ABS also undertakes its own independent checking of ANZSIC coding. This involves the ABS independently validating a sample of registrations coded by the ATO.⁹⁴

5.34 Since the ABR system was implemented in June 2002, results have shown that the ATO is achieving performance targets for four-digit level coding for employing units. Accuracy of around 90 per cent is achieved consistently. The accuracy of manual coding to two-digit level is also achieving results over the 80 per cent target. However, to date the ANZSIC autocoder has not met the target. Its results are around 50 per cent accuracy. This is directly attributed to problems with the autocoder.

5.35 The ABR Project Team has been developing 'patches' to correct deficiencies in the autocoder and results have been slowly improving. However, despite these efforts results from the autocoder remain below the target set for two-digit level coding. Given the importance of ANZSIC coding to the development of national statistics, the ABS offered assistance to the ATO in redeveloping the autocoder. Agreement has been reached for the ABS to redevelop and maintain the autocoder and the autocoder is likely to be in production in the near future.

Delays in ANZSIC coding

5.36 RD sets a target of two to three weeks to add ANZSIC codes to new registrations. However, current processing delays mean that it is taking the ATO four to five weeks to code new registrations. This delay is causing some concern to the ABS. To meet its statistical needs, the ABS hoped for a nine-day processing lag and an 80 per cent accuracy for the ANZSIC autocoder.

5.37 The delay in undertaking deferred ANZSIC coding also affects the results from the (separately undertaken) QMT and ABS quality checking activities. Since the ABR was implemented in June 2002, the two activities have reported differing results. The differences have been directly attributed to these processing delays.

5.38 The ABS and the QMT agreed as an interim measure that the ABS would, in its ANZSIC quality checking, provide separate results for those samples selected that had not been manually coded to four-digit level at the time of the quality checking. However, additional work needs to be undertaken by the ATO to improve further its performance with ANZSIC coding.

⁹³ Assurance of coding accuracy to two-digits is performed at the local level and results are made available to QMT. Since June 2002 QMT has also been regularly assessing the autocoder's performance.

⁹⁴ This is done by the ABS' staff coding the sampled registrations using the same information and then comparing the results to the original coding done by the ATO.

ATO data integrity projects

5.39 Over time all data decays and data custodians need to develop strategies to capture such changes. In addition, for the ABR, decisions taken as part of Phase One have left ABR data quality issues for the ATO to address.

5.40 The imperative to issue ABNs to businesses before 1 July 2000 meant that some business rules were switched off. The effect of this was that applications that would otherwise be rejected by the system were allowed through, but would create exceptions that would be reviewed after registration by RD staff. In addition, the ATO found some of the business rules contradicted others and had to be overridden. RD advised that some 900 000 interim ABNs were issued (where not all information provided was correct), but these were subsequently reviewed and processed fully over the following 12 months.

5.41 RD advised the ANAO that the decision to switch off certain business rules was approved by senior management and that the business rules switched off during Phase One had been documented. However, during the audit the ANAO was unable to ascertain the full extent of business rules that might have been switched off during Phase One or evidence that subsequent ATO actions had made all necessary corrections to records affected.

5.42 The ANAO expressed concerns that the ATO appeared not to have details of the business rules that might have been switched off during Phase One, and the number of records that might require corrective action. As a result, there was no area responsible for ensuring all affected records are identified and reviewed and knew how much work was involved.

5.43 Subsequently, the ATO provided additional information that the Phase One business rule changes were documented as part of the process of changing the system and that there was not a need to quantify the records affected because they were either self-correcting or dealt with at a different part of the process.

5.44 For example, in relation to the exceptions generated by the switching off of the business rule to test for confirmed status on TFNs quoted by applicants, the ATO advised that updates to the deeming process⁹⁵ have reduced the number of ABNs linked to unconfirmed TFNs. The ATO has continued to run deeming processes and is currently looking into running another to match ATO internal records with other records that have EOI checks done that are independent of those for the TFN process. Once the next deeming process is completed, the ATO plans to run a process to establish the size of the population remaining and will then put in place a system that allows them to verify the status on linked individuals.

⁹⁵ This is the data fixes undertaken by the ATO to change the unconfirmed status of TFNs to 'deemed confirmed' discussed in Chapter 4.

Recent changes to ABR business rules

5.45 The ANAO noted that the RD in October 2002 again switched off one of the ABR business rules because of operational difficulties. RD found that a significant amount of information coming from the AIS⁹⁶ was not meeting ABR business rules and was generating an increasing amount of work for staff. As a temporary measure, RD has bypassed the business rule relating to the ABR validating information coming from the AIS before it is accepted and the ABR database updated. RD advised that the rule will be reactivated 'when necessary' but could not provide a firm timeframe.⁹⁷

5.46 The ANAO has concerns that this initiative, although it addresses a perceived short-term operational need, has the potential to further exacerbate the ABR's data quality problems. Similar action taken in 2000 has not yet been fully corrected.⁹⁸

5.47 RD further advised that the recent arrangements were fully documented. As a separate record of the ABNs affected is being kept, it would be a simple process for the ATO staff to review and make the necessary changes when resources permit. The ATO advised in May 2003 that correction of the affected records will be scheduled into the ABR Integrity Program for 2003–04.

5.48 The ANAO considers that before switching off existing business rules the full ramifications of such a decision needs to be known, including the likely magnitude of records affected and the extent and type of corrective actions that would need to be made. The ANAO believes that the RD actions in this respect, for previous alterations to business rules, have not been in the best interest of maintaining strong system controls.

⁹⁶ The ABR and the AIS update information between the respective systems each day.

⁹⁷ This change also was justified because treating data from the AIS in this manner (that is, accepting it without validation) was consistent with ABR's treatment of data coming from other agencies. However, the ANAO notes that before other agencies' data are so treated, as part of the MOU process, the ATO requires agencies to agree that they will provide data of a high quality that meets ABR standards. There is no MOU between, what are currently, two areas of the ATO—the ABR and the AIS. In addition, given the difficulties being experienced, it could be argued that AIS data currently do not meet ABR standards.

⁹⁸ Significantly, RD analysis of affected records requiring the current business rule to be removed determined that most are for ABN records that do not have satisfactory POI requirements. This issue, which arose from the removal of business rules in Phase One, is already known to the ATO but is not yet fully addressed.

Recommendation No.5

5.49 The ANAO recommends that, to maintain the integrity of ABR data, the ATO ensure that, in the future before business rules are switched off, comprehensive strategies are developed and implemented to systematically identify and redress records affected.

Agency response

5.50 Agreed. The ATO will continue to follow this process for any alteration of business rules including discontinuation.

ABR Integrity Project

5.51 As part of its submission to the Government for its current OPA the ATO made a case for specific funding to ensure ongoing integrity of the ABR data. The Government approved this proposal, providing funds of \$16.7 million for 2002–03, and further funding in the following two years. The ATO now has developed a detailed strategy that outlines its approach to using the funds allocated to this project for 2002–03.

5.52 The ANAO considers the ABR Integrity Project contains a comprehensive suite of strategies to address ABR integrity. However, based on the ATO's past experience, we consider that the ATO faces a number of challenges to effectively implement these strategies. These include:

- the need for improved co-ordination between RD and other areas in the ATO. For example, the GST Business Line recently undertook to cancel some 80 000 GST registrations, but failed to review the validity of the ABNs at the same time. This has meant that the RD has to now review the cancelled GST registrations to determine whether the corresponding ABNs also need to be cancelled (the lack of co-ordination issue is discussed further commencing at paragraph 5.54);⁹⁹
- a perceived lack of interest in compliance aspects of the ABR by some other ATO areas unless it affects directly the tax that they are administering. Therefore, there is limited exchange of information with the RD (discussed commencing at paragraph 5.54);
- the limited up-front checking that makes the task of improving the integrity a very slow and difficult process;

⁹⁹ Despite them being on the one application form, registration for an ABN and for GST are separate activities. Applicants to register for GST must have an ABN but the reverse is not the case, and ABN registrants do not necessarily have to register for GST. So while registrants might be incorrectly registered for GST (and have those registrations cancelled), they might still have a legitimate reason to retain their ABNs. Therefore, the assessment of the ongoing eligibility to retain an ABN is separate from consideration of GST eligibility.

- the problems with the interface between the ABR and ATO systems creating additional work for RD staff; and
- the extent of integrity-related work needed has not been actually defined; a number of the identified problem areas are not quantified. Difficulties in accessing ABR data, for example by QMT, appear to be the main cause for the work requirements not being quantified.

5.53 The ANAO has made a number of recommendations in this report aimed at addressing these impediments.

Cross lines integrity activities

5.54 Co-ordination across ATO business lines is important both for the integrity of the ABR data and for assisting compliance and fraud investigation efforts undertaken outside the RD. There is a co-reliance between the ABR and other ATO activities so the RD needs to keep the details contained in the ABR up to date. For example, cancellations and changes of address need to be processed in a timely manner to ensure the effective management of the Activity Statements processes. Conversely work undertaken by field staff in lodgement, compliance and fraud investigations areas can provide useful intelligence and feedback to the RD on the ongoing eligibility of ABN registrants.

Risk assessments

5.55 As well as the quality assurance processes, the RD undertakes risk assessments, in part to compensate for limited up-front checking prior to registration. These risk assessments include efforts to determine the magnitude of the exposure in areas such as ABN eligibility and the potential impact on revenue collection.¹⁰⁰

5.56 The risk assessments are seen as a compliance measure and, on completion, are referred to the relevant area of the ATO for action. However, there is no systematic process to use the findings of the risk assessment projects to improve the integrity of the ABR. The relevant ATO staff advised the ANAO that there is little, if any, feedback on any action arising from the risk assessments. The ANAO believes that such feedback is necessary to ensure that the ATO realises the full

¹⁰⁰ The results from these activities are providing a useful snapshot of the characteristics of registrants in the ABR. Some of the more significant results obtained to date include:

- a significant proportion of individuals approached by the Risk Assessment Team indicate that they do not require an ABN, having either registered in error or changed their plans to commence business. Extrapolating these results the Team has estimated that between 110 000–150 000 potentially excess ABNs are currently in the system; and
- potential compliance issues being identified, such as taxpayers using ABNs for aggressive tax planning.

benefits from undertaking risk assessment activities and that risk assessments remain focussed on activities that will assist to maintain ABR data integrity.

5.57 The ATO advised that risk assessment information is now being included in the RD's Consolidated Monthly Quality Report. Further, they advised that the inclusion of the eligibility issues within the ABR Integrity Project is directly related to the outcome of the risk assessment results.

Fraud Intelligence

5.58 The ATO Fraud Intelligence Section provides a number of fraud detection and prevention services to support operational staff, provide advice on fraud issues to ATO management and liaise with police and other agencies. Therefore, its work has the potential to assist the RD in identifying instances where ABNs might be misused or where individuals are not entitled to an ABN.

5.59 Although the Fraud Intelligence Section made assertions about the problems with ABNs, and the ABR system in general, during discussions with the ANAO, it was unable to provide us with any evidence. The Section also advised that although feedback to the RD occurs, there are no formal protocols for regular feedback, and that any feedback tended to be on specific cases rather than on identifying and reporting systemic problems.

Small Business Line

5.60 The ATO Small Business Line has also been undertaking ABN integrity work. All new ABN applications are processed through a risk assessment process to identify potential cases for compliance work. In addition, Small Business have undertaken other ABR-relevant activities including data matching activities (matching other agencies' data to that held by the ATO) and tax-specific reviews, such as movements out of the PAYG system.

5.61 Although these activities have a strong compliance focus, they raise issues directly relevant to the integrity of ABR data. Effective communication channels between Small Business and the ABR are therefore needed to ensure that the ATO gains the full benefits from such activities.

Registry Division cross lines initiatives

5.62 The RD acknowledges the importance of gaining cross-business lines co-ordination of activities and recently reinitiated its Cross Stream Team. This Team has overall responsibility for facilitating such co-ordination from the RD side and towards this end meetings with the GST and Small Business Lines have already been held. Although progress to date has been slow in achieving

tangible results, in principle agreement that the main business lines will co-ordinate their activities with the RD has been achieved.

5.63 Overall, the ANAO concludes that because there are limitations in the current internal communications and procedural arrangements, the ATO is not realising the full potential benefits of compliance and intelligence activities being undertaken that could assist in maintaining the integrity of ABR data.

Recommendation No.6

5.64 The ANAO recommends that the ATO give high priority to formalising communications and liaison arrangements across business lines to share ABR-related information with the Registry Division. This should have the benefits of achieving broader outcomes from its compliance and intelligence activities and improving the quality of ABR data.

Agency response

5.65 Agreed.

6. Whole-of-Government Register

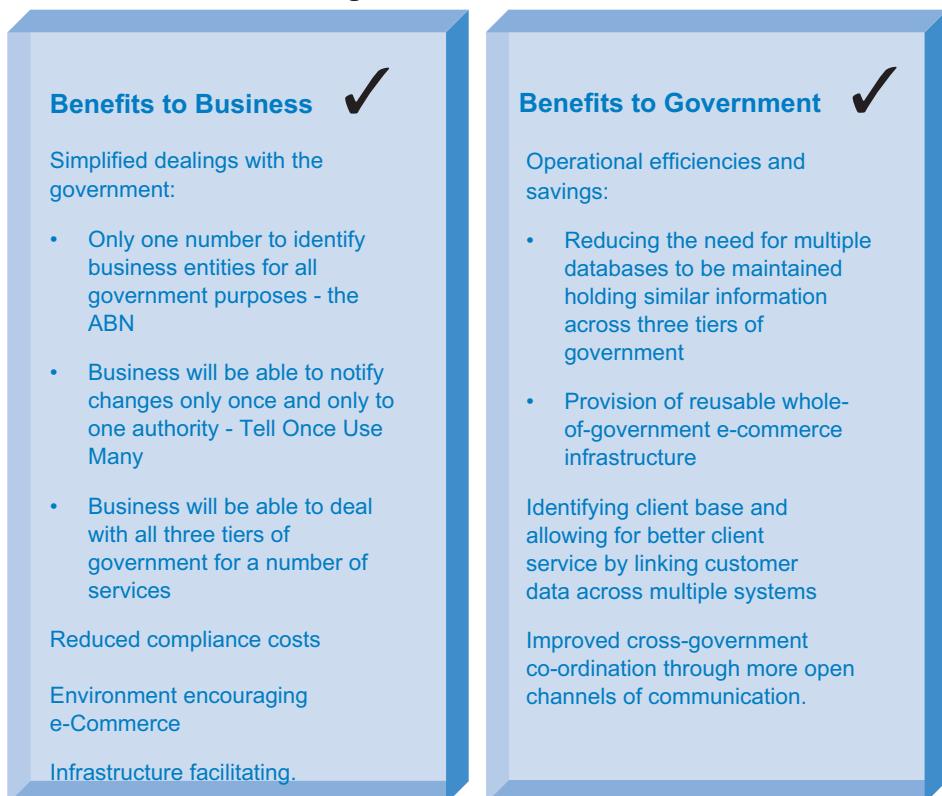
This chapter discusses the ATO's progress towards achieving the whole-of-government outcomes for the ABR.

Introduction

6.1 The ABR was primarily developed to make it easier for business clients to transact business, initially with Commonwealth Government agencies, and eventually with the three levels of government. Aside from the benefits to business of cutting red tape and reducing compliance costs, government agencies are expected to benefit through the administrative savings, improved customer focus, improved cross-government co-ordination and rationalisation of register infrastructure in agencies.¹⁰¹ The ABR is meant to facilitate simpler and cheaper interaction with government by providing information and services online. The ABN legislation provides for the ABN (both public and private) data to be shared with other government agencies within the provisions of the legislation. Figure 17 illustrates the anticipated benefits to business and government agencies from the ABN and the ABR.

¹⁰¹ *ABR Communication Strategy*, prepared by ATO Corporate Affairs and Marketing and the ABR Project, 10 January 2002.

Figure 17
Benefits to business and government



Source: ANAO depiction of ATO information.

Business client needs

6.2 The ATO recognised from the inception of the ABR Project (in developing the ABR Business Case), that for businesses and agencies to realise the benefits (as shown in Figure 17), the ABR would have to provide certain key transactions and services.

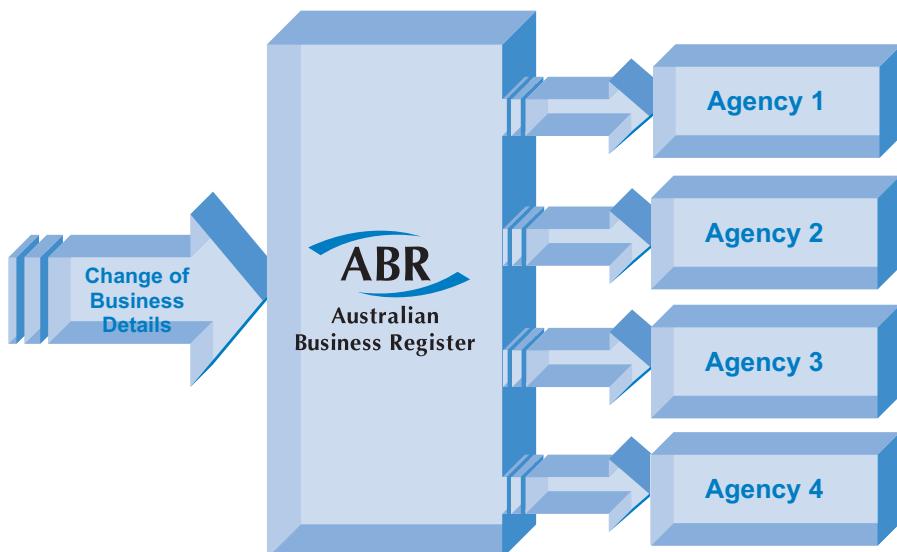
6.3 In Chapter 4 we discuss the efficiency and effectiveness of the ABR registration system. While the ATO delivered a business registration system in June 2002, there were significant delays in delivering some core functionalities that were necessary to realise the expected benefits to businesses and agencies, for example the PKI functionality (discussed in Chapter 2).

6.4 The ATO recognised also that without a properly accredited whole-of-government authentication system, the use of the ABR would be limited. In that context the National Office for the Information Economy (NOIE) was involved

in the ABR Project from the beginning (the Business Authentication Framework (BAF) is yet to be implemented).¹⁰²

6.5 ‘Tell Once Use Many’ was one of the key themes for the design of the ABR. Once the services to be offered by the ABR are readily available, businesses will be able to update their details as needed. These records will be maintained by the ATO, but made available to other government agencies. Therefore, agencies will have the benefit of gaining access to up-to-date information on all Australian businesses. Through a unique identifier (the ABN), businesses will be able to update their details through one channel (the ABR) with the knowledge that other agencies will be notified of changes relevant to their operations. The following figure illustrates the ‘Tell Once Use Many’ principle.

Figure 18
Tell Once Use Many



Source: ANAO modification of ATO information.

6.6 For the ‘Tell Once Use Many’ principle to be effected:

- relevant government agencies that are likely to use the ABR data are required to sign a MOU with the Registrar. This will enable agencies to subscribe to the ABR data and receive changes relating to business information from the ABR; and

¹⁰² The ATO in consultation with NOIE and BEP is working on the BAF. The BAF will provide a centralised facility that will verify the online identity of business users and is equivalent to a whole-of-government PKI. This service will facilitate secure business-to-government e-commerce transactions. The BAF will allow businesses to require only one online identity in their dealings with government agencies, thereby reducing both cost and inconvenience to businesses and agencies. This service was scheduled for operation in 2002.

- there needs to be a two-way exchange of data between agencies. This will mean that any changes to business details can be conveyed to a particular agency, which can then publish this information to the ABR.

External Partnerships

6.7 Currently the onus is on the ATO to progress the whole-of-government initiative to realise the anticipated benefits. Establishing and maintaining ‘external partnerships’ is the basis to flexible delivery of services, increased performance and efficiency levels and thereby progressing steadily towards achieving an effective whole-of-government outcome. By developing these partnerships with other Commonwealth, State and Local government agencies the ATO can promote the use of the ABR as a whole-of-government register.

6.8 In justifying its 2002–05 resource requirements for its OPA, to progress the whole-of-government approach to the ABR, the ATO stated that:

failure to adequately fund this whole-of-government approach will lead to:

- loss of confidence in the ABR;
- slow or no participation of agencies in adopting the ABN as their identifier; and
- reduced cost savings and benefits to government and participating agencies.

6.9 In that context, the ATO was specifically funded under the OPA against the following commitment:

. . . that the expected agency participation is currently approximately 50, with 240, 500 and 1000 forecast for 2002–03, 2003–04 and 2004–05 respectively.

6.10 The ANAO considered the extent to which the whole-of-government approach to the ABR is being implemented, through developing and maintaining partnerships with agencies at all levels of government, for the use of the ABN as a unique identifier.

ATO initiatives

6.11 The ABR Project was established as a cross-agency initiative. The ATO involved a number of public sector partners, such as ASIC, BEP (DITR) and the ABS as the first agency ‘clients’ to build the infrastructure of the ABR. The ATO was also working closely with NOIE on related issues such as the Business

Authentication Framework and ABN-DSC—a multi-use digital signature¹⁰³ and with the Office of the Federal Privacy Commissioner on privacy matters.

6.12 The ATO also consulted widely, particularly with State agencies¹⁰⁴ responsible for business registration functions, business transactions and maintaining databases of businesses, to determine the best use of the ABR to achieve efficiencies and streamlining for government.

6.13 Some of the initiatives specifically undertaken by the ATO to build and develop external partnerships include:

- establishing the ABR PAC in July 2000 (referred to in Chapter 2) to provide unified ‘whole-of-government’ direction to the ABR Project. Subsequent to the implementation of the ABR, the role and charter of the PAC was reviewed and revised. The PAC is now responsible for, amongst other things, sponsoring and championing the ABR within individual agencies and to the wider government community and providing unified whole-of-government input to the direction and future development of the ABR;
- establishing a Stakeholder Management Team as an integral part of the ABR Project Team to develop strategies to communicate and interact with internal and external ABR stakeholders. The Team commenced developing relationships with Commonwealth and State agencies around Australia during 2001–02;
- establishing the External Partnerships Segment within the RD (the External Partnerships Segment evolved from the Stakeholder Management Team). External Partnerships is now responsible for managing the ABR communication and marketing activities as well as the establishment and maintenance of relationships with government agencies to meet the objectives of the Act; and
- developing standard MOUs and Service Level Agreements (SLA) as primary mechanisms to give effect to partnerships that are formed with Commonwealth and State government agencies.

¹⁰³ The ABN-DSC is a Digital Signature Certificate that will be issued for use with the Commonwealth Government and will be the primary type of digital certificate that businesses will use to deal online with Commonwealth agencies. An ABN-DSC that has been issued for use with one Commonwealth agency will be able to be used to deal with other agencies that offer online transactions based on digital signature certificates. This may also extend later to State, Territory and Local government agencies.

¹⁰⁴ Consultation has focused primarily on agencies such as Offices of State Revenue, WorkCovers, Fair Trading, State Development bodies and so forth, but interest has also been high from many other government agencies.

Memorandum of Understanding

6.14 The MOU is an agreement between an agency and the Registrar, setting out the agency's entitlement, obligations and level of access to ABN data. All agencies that wish to obtain ABN data (both public and non-public) will be required to enter into a MOU with the Registrar.¹⁰⁵

6.15 The MOU has specific ties to the *Privacy Act 1988*, which is of particular importance when dealing with State and Local government agencies, who might not have State privacy requirements/legislation.¹⁰⁶ The MOU clearly articulates the expectations of the Registrar in relation to the Act and the information privacy principles set out in the *Privacy Act 1988*.

6.16 The ATO recognises that the MOUs are not legally binding but aim to formalise relationships between the Registrar and other government agencies regarding the use of the ABR. Each agency that seeks access to ABR data is required to lodge an application with the Registrar.¹⁰⁷ If the Registrar is satisfied with the request, he requires the agency to become a signatory to a MOU.

6.17 The assessment process is meant to provide the Registrar, and in turn the entities whose details are on the ABR, with confidence in the MOU process. There are clauses in the MOU in which the Registrar reserves the right to audit the systems, procedures and security safeguards of an agency to maintain and protect the confidentiality of ABN records. The MOU also details the process in relation to privacy complaints from individuals. Another important aspect of the MOU is that it guides an agency in making its employees aware of the requirements placed on the agency head for privacy and confidentiality in relation to ABN records.

6.18 The operational aspects of the partnership are contained in the SLAs, which specify the requirements of the Registrar and the Head of the Agency relating to aspects such as security, access and privacy requirements, data requirements, and process and organisation requirements.

6.19 The ANAO noted that since 2001, the ATO has been working closely with government departments and agencies at the Commonwealth and State level, and is in negotiations with a number of agencies that will be involved with the ABR in different ways. Table 3 shows ATO's progress in establishing partnerships with government agencies, against the targets specified in the OPA.

¹⁰⁵ In late 2001, the Registrar approved the Federal and State MOUs.

¹⁰⁶ The MOU was reviewed by the Office of the Federal Privacy Commissioner.

¹⁰⁷ The application requires the agency to outline the purpose for which they are intending to use the data and state that the purpose is within the scope of their legislation (they must specify the Acts) and/or the objectives of the (ABN) Act.

Table 3**Performance against partnerships targets specified in the OPA May 2003**

Agency Participation*				
	OPA Target 2001-02	Actual Performance	OPA Target 2002-03	Current Performance
Number	50	15	240	198
Partnership Analysis				
MOUs signed (number)		5		11
MOUs in progress (number)		10		13
Initial contact (number)		-		174

* Defined as being agencies showing an interest in potentially using the ABR, not agencies that have actually signed up to use the ABR.

Source: ANAO depiction of ATO information

6.20 As the table indicates, the ATO made limited progress in 2001–02 and did not meet the targets, as specified in the OPA. There is significant work to be undertaken for the ATO to progress towards achieving the targets specified for 2002–03. The ANAO found that the process of generating interest in potential user agencies has been hampered by the delays in implementing the ABR system. Although the system is now ‘live’ there have been significant delays in providing all the planned functionalities (for example, the security solution; and customer support facilities for user agencies’ staff, that is, a ‘help desk’). The External Partnerships Segment recognised in its September 2002 quarter performance report, that:

not having a complete product for Agencies to view and test, along with delays in communicating and promoting the product may seriously affect future agency participation rates in the short to medium term.

6.21 A further impediment that has contributed to the limited progress achieved by the ATO in establishing partnerships with agencies has been reluctance by some agencies to enter into a MOU with the ATO. At the time of audit fieldwork, only six agencies had signed a MOU with the Registrar. The ATO advised that by May 2003, 11 agencies¹⁰⁸ have signed a MOU with the Registrar and another 13 MOUs are in progress. In addition, presentations have been given to 81 agencies that have expressed interest in using the ABR system. Initial contact has also been made with another 93 agencies.

¹⁰⁸ Agreements have been entered into with WorkCover Queensland, WorkCover New South Wales, Queensland Department of State Development, Victorian Department of State and Regional Development, Centrelink, Office of the Employment Advocate, DITR (BEP), AUSTRADE, Department of Defence, South Australian Department of Business Manufacturing and Trade, and Tasmanian Audit Office.

6.22 We note that agencies such as ABS and ASIC that were extensively involved throughout the ABR Project are yet to sign the MOU relating to the use of ABR's both public and private data. Despite lengthy negotiations the parties have been in dispute over legal aspects of the proposed MOUs. This has related to the inclusion of liability and indemnity clauses.¹⁰⁹ However, the ATO believes that this issue is now close to resolution and advised in May 2003 that the liability clauses have been re-written as 'responsibility' clauses and have been forwarded to several key agencies for consideration.

6.23 The ANAO considers that the ATO's current approach to establishing and developing external partnerships with Commonwealth and State agencies to promote the use of the ABR is achieving limited results. The ANAO further considers that achievement of an effective whole-of-government outcome for the ABR depends on the ATO bringing to the Government's attention any impediments to that outcome that require governmental consideration. As the ATO is now behind its targets for achieving agencies' participation, the ANAO suggests that the ATO needs to advise the Government of the delays and options to progress the whole-of-government outcome.

Recommendation No.7

6.24 The ANAO recommends that, in order to increase Commonwealth agencies' participation in the ABR, the ATO bring to the Government's attention the delays and possible options required to achieve the whole-of-government outcome.

Agency response

6.25 Agreed in principle. The ATO is currently undertaking a review of the ABR Business Case and the strategies used to engage agencies. A revised strategy will then be put in place with a range of options for achieving increased participation across Government agencies including at the cross agency Chief Information Officer Committee (CIOC). The ATO will consider raising this to Government level once the work outlined above has been undertaken. It is noted that current legislative frameworks and existing co-operative arrangements have allowed participation by various key agencies (for example, by the ABS through existing arrangements between the Commissioner of Taxation and the Australian Statistician under taxation legislation) while the ATO has been working towards formalising MOUs, therefore the operation of the ABR has not been hindered in the interim.

¹⁰⁹ Broadly, the liability and indemnity clause indicates the responsibilities of the Registrar and agency in instances where an action is brought by a third party concerning the use of ABR records.

Two-way exchange of data

6.26 Fundamental to the success of the ABR is the two-way exchange of data between the ABR and all levels of government. The concept of the ABR was based on the principle of publish and subscribe. This means that amendments to business client's details:

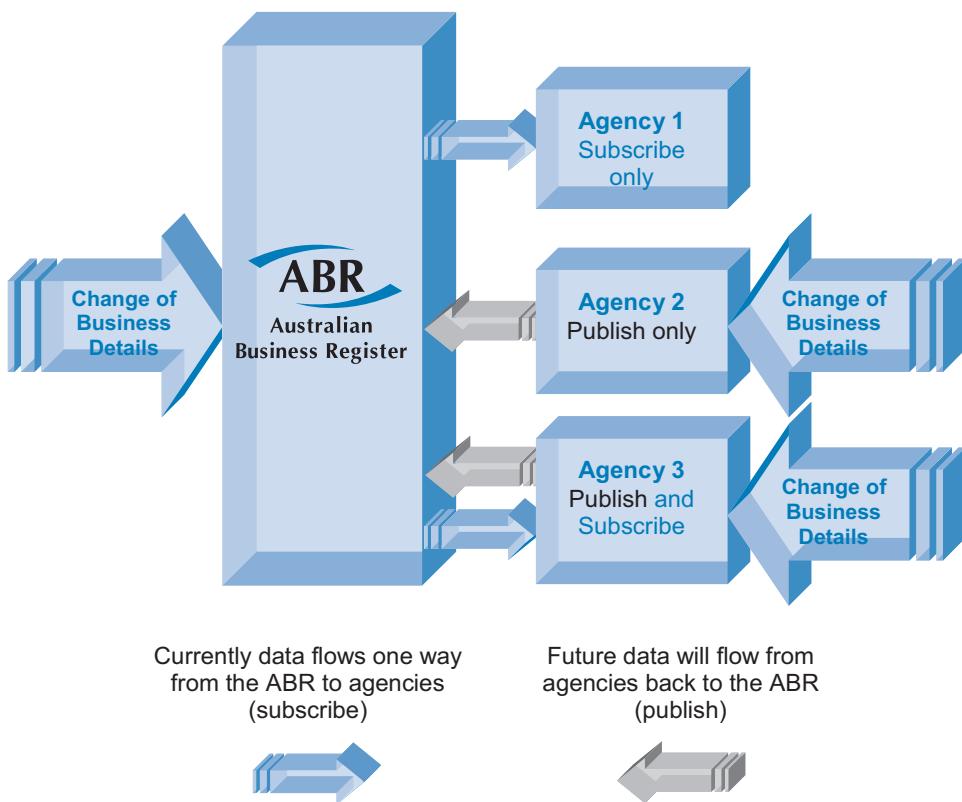
- received by the ABR and published to subscribing agencies are based on predefined subscriptions contained in the MOU and SLA between the agency and the ABR;
- initiated via the agency site, then received and processed by the ABR and details of the amendments are published to subscribing agencies; and
- initiated by the agency, are then published to the ABR with details of the amendments, once validated, sent to subscribing agencies.

6.27 The publish and subscribe facility is expected to improve cross-government co-ordination and help maintain the integrity of the information stored on the ABR. The main benefits to business are expected to come as a greater number of government agencies start to use the ABN as the unique business identifier and use the ABR as a method of updating their client records as the changes occur. Figure 19 demonstrates the operation of the ABR publish and subscribe model.

6.28 The ATO's efforts are largely directed in the first two dot points at paragraph 6.26. This is because there are currently legislative impediments to the two-way exchange of information. The ATO indicated that the ABN legislation currently provides for one-way flow of information that is, provision of information from the ABR to subscriber agencies under s.30 of the Act. The ABN legislation is silent with regard to the provision of the publish facility.

6.29 Similarly, a number of Commonwealth and State agencies are bound by their respective legislation and could not disclose or publish business information to the ABR that might be more up-to-date (scenario three referred to in paragraph 6.26). For example, the ABS advised that it cannot provide identifiable information that it collects under the authority of the *Census and Statistics Act 1905* to other agencies because this legislation prohibits the provision of such information.

Figure 19
How ‘publish and subscribe’ will work with the ABR



Source: ANAO modification of ATO information.

6.30 Currently ASIC is the only Commonwealth agency with which the ATO is attempting to implement a two-way exchange of data (between the ASIC database and the ABR). This arrangement will facilitate company names to be maintained ‘real time’ between the two databases. Any changes in the ASIC database will result in the ABR being automatically updated. The ATO recently completed building a connection for the instantaneous exchange of ABN/ACN data (referred to in Chapter 4), which facilitates the two-way exchange of data between the two databases. However, the ANAO was advised during the audit that the operation of this connection was on hold because of failure (on the part of ATO and ASIC) to reach an agreement on the terms and conditions of the MOU.

6.31 Therefore, there is no cross-agency system development at the Commonwealth or State level to effectively implement the ‘Tell Once Use Many’ principle. As well, there is no formal inter-governmental machinery established to oversee and progress the ABR as a whole-of-government register. While the

PAC's role has been reviewed and revised, progress has been slow on widening the scope of its work and the membership.

6.32 The ANAO understands that the RD's Legal Team is proposing to review and propose amendments to the ABN legislation to facilitate the two-way exchange of data. In doing so, it needs to take account of the diversity of agency interaction with the ABR.

6.33 The ATO is also working with the WorkCover Queensland (currently one of the agencies that has a MOU with the Registrar and subscribes to the ABR) to assess the quality of common data stored by each agency and explore the possibility of implementing the publish facility. The ATO is aware that there are quality-control issues that will need to be addressed to implement the notion of multiple sources of feedback to the ABR.

6.34 The impediments to the two-way exchange of data are to a large extent outside the control of the ATO. The ANAO considers that for the two-way exchange of information to work as was originally envisaged, further consideration needs to be given to the adoption of a whole-of-government approach by government agencies at the Commonwealth, State and Territory level to address a number of outstanding issues. These relate to:

- possible amendments to legislation to provide for the two-way exchange of information, taking account of the diversity of agency interaction with the ABR;
- a whole-of-government approach to be adopted by government agencies at the Commonwealth, State and Territories level towards publishing information to the ABR; and
- consideration of establishing formal inter-governmental machinery of relevant Commonwealth and State policy-making agencies to oversee and progress the ABR as a whole-of-government register.

Recommendation No.8

6.35 The ANAO recommends that, to effectively implement the ABR's whole-of-government objectives, the ATO consider the benefits in establishing formal inter-governmental machinery of relevant Commonwealth and State policy-making agencies to oversee and progress the ABR as a whole-of-government register.

Agency response

6.36 Agreed. The ATO has already established the ABR Policy Advisory Committee as part of its governance structure. The future role of this committee is currently being reviewed and discussed with agency representatives.



Canberra ACT
27 June 2003

Oliver Winder
Acting Auditor-General

Appendices

Appendix 1

‘.NET’ Implementation Decision and Implications on the ABR Project

In late March 2001, during the analysis stage of the ABR Project, specialist Enterprise Architects from Microsoft Redmond conducted a review of the ABR’s overall solution design. The review concluded that the ABR solution was best delivered using Microsoft ‘.NET’ framework.

‘.NET’ is a Microsoft software product designed to connect disparate computer applications within organisations to each other, and to systems and applications in other organisations, without having to make major changes to existing systems, applications or programming language. The ‘.NET’ framework would offer significant strategic and technical benefits. The review also recommended that:

- the ABR and Control Layer (COLA) projects consider moving their implementation to the Microsoft ‘.NET’ framework; and
- a small joint team be established consisting of personnel from the ATO, the prime contractor and Microsoft Redmond Enterprise Solutions Group to commence fast tracking of a ‘.NET’ ABR and COLA.

In late May, ATO, the prime contractor and Microsoft conducted a short evaluation of ‘.NET’ in Redmond, to assess the impact and risks of solution development using ‘.NET’. The evaluation concluded that the ABR Project and the ATO as a whole would benefit from using the ‘.NET’ Framework because:

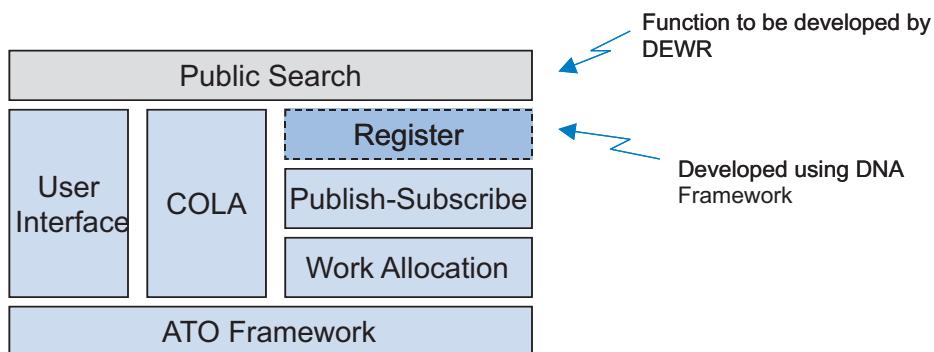
- the quality of the user interface would be improved;
- the development, maintenance and operation costs of future applications would be reduced; and
- the ATO would realise the first release of an ATO Framework that could enable the future business directions strategy, and could be re-used across other self-service or community based solutions (open systems that are web-based).

The evaluation also proposed a number of options to effectively implement the ‘.NET’ framework. The ABR Project recognised that it needed to select an option that would minimise the impact on cost and project schedule to meet the whole-of-government stakeholder commitments.

In early June 2001, the ABR Project Team ultimately decided on an option that would involve partial ‘.NET’ implementation of the ABR. The Project would implement the User Interface, Publish-Subscribe and Work Allocation

components using the '.NET' technologies and the ATO would deliver a '.NET' Framework to support the ABR Project, including COLA and authorisation components. However, the register would be developed using the DNA Framework (see the following figure). Adopting this option would cost the ATO an additional \$1.5 million and cause four-week delay in the 'sand-pit'¹¹⁰ release. No delays were forecast to the December 2002 implementation of Release Two.

Implementation of '.NET' Framework



Source: ATO

In September 2001, the ABR Project initiated a review of the '.NET' Implementation decision. The rationale for the review was to assure the ATO that the ABR Project was using Microsoft technologies appropriately as the basis for an enterprise scale solution.

The review found that the '.NET' Implementation had caused the ABR Project a number of substantive issues, which have resulted in: a delay to the release schedule; a significant amount of overtime on the project; and developer frustration.

The review identified the main cause of these issues as incorrect assumptions made while choosing to use '.NET' for the ABR Project. The review indicated that the benefits to future '.NET' projects within the ATO were much stronger than the specific benefits to the ABR project itself.

The review identified a number of lessons learnt from this exercise. These included:

- the decision to switch to '.NET' was made too late in the project life cycle—an earlier decision would have proved greatly beneficial;

¹¹⁰ The Government Agency Interface Team (known as the 'sandpit') is responsible for planning and conducting operational readiness testing with agencies wanting to deal on-line with the ABR. Specific responsibilities of the team include planning the testing, ensuring environment access, conducting the testing and analysing results.

- there was no formal review of the '.NET' decision prior to implementation; and
- the initial Framework and ABR Project plans were not sufficiently detailed—impacts were under-estimated (especially the parallel development of the ABR solution and the '.NET' Framework; and the learning curve of the project team).

Appendix 2

ABN Entitlement Checklist

Are you entitled to an ABN?

Step 1. Are you a:

- company incorporated under corporations law
- charitable institution or trustee of a charitable fund
- deductible gift recipient, or
- religious institution?

Yes Go to step 7. No Go to step 2.

Step 2. Do you believe your activity is carried out in the:

- form of a business
- nature of trade, or
- form of a regular or continuous grant of a lease, licence or interest in property?

Yes Go to step 3. No Go to step 8.

Step 3. Is your activity carried out as an employee or in connection with earning payment as a company director, office holder or under a labour hire arrangement?

Yes Go to step 8. No Go to step 4.

An employee is a person who receives a salary or wage in return for work or services rendered.

You are not considered an employee for ABN registration purposes if you have your own business but also receive a salary or wage from an activity related to your business.

Step 4. Is your activity a private recreational pursuit or hobby?

Yes Go to step 8. No Go to step 5.

Your activity must be more than the enjoyment of a recreational pursuit or hobby. The activity should have the characteristics of a business.

Step 5. If you are an individual or a partnership consisting only of individuals, is there a reasonable expectation of a profit being made?

Yes Go to step 6. No Go to step 8.

It is important that you can show that your activity has a reasonable expectation of profit. This will be the case even though you may not make a profit in the short term. It is not sufficient that you believe you will make a profit. The test is whether a reasonable person, having regard to all the facts and circumstances, would believe that your activities may result in a profit.

Step 6. Is your activity conducted as a member of a local government body, for example, as an elected member of a city, town or shire council?

Yes Go to step 8. No Go to step 7.

Step 7. You are entitled to an ABN.

Step 8. You are not entitled to an ABN.

Source: *Guide to registering for The New Tax System*

Appendix 3

TFN Proof of Identity Documents

Proof of identity documents

When you lodge your application at a Tax Office you must show documents from the category A and category B lists which prove your identity.

You must show **original** documents, not photocopies. We will only accept documents that are unaltered in their original form.

We will not accept a document that has been corrected or changed and initialled.

If you post your application and proof of identity documents, we will return your documents by registered post.

If an original proof of identity document is in a language other than English, provide a written translation, certified as a true and correct copy by an authorised translation service such as the Department of Immigration and Multicultural and Indigenous Affairs, an appropriate embassy or a professional translation service.

From the lists of category A and category B documents on this page, you must provide **full** proof of identity which is:

2 different category A documents **A** **A**

OR

1 category A document plus

1 category B document

OR

3 different category B documents **B** **B** **B**

If any of the documents are in a previous name, you must provide an additional document which shows how your name was changed—for example, a marriage certificate.

If you are under 16, you need only provide one document from category A or B.

If you are 16 years of age or older you must sign this application yourself. If you are between 13 and 15 years of age, you **OR** a parent or guardian must sign this application. If necessary, you **must** answer question 14 indicating your authority for the Tax Office to speak to your parent or guardian about this application. If you are 12 years of age or younger, your parent or guardian **must** sign this application on your behalf. If you are a parent or guardian completing this application on behalf of the applicant you **must** answer question 14 and insert your own details.

Where a person signs on behalf of the applicant, they **must** provide their own proof of identity documents **plus** the applicant's proof of identity **plus** another proof of identity document that shows the relationship, such as the applicant's birth certificate or guardianship papers.

Completing a TFN application on behalf of the applicant does not mean that you have authority to ask about other tax matters for the applicant. Please call **13 28 61** for further advice.

Category A documents

A01 current Australian passport

A02 current overseas passport with evidence of Australian immigration status

A03 certificate of Australian citizenship

Only one of the following 4 documents that is less than 1 year old and was issued from an Australian State education authority, examination authority, university, college or school

A06 a degree or diploma

A07 an examination certificate or record of achievement

A08 a school/examination report

A09 a current student identification card with photo—a travel concession card is not acceptable

Please note: If any of these are provided B16 to B18 are not acceptable.

A10 certificate of identity issued by the Australian Department of Foreign Affairs and Trade

Category B documents

B01 full Australian or overseas birth certificate

Please note: Overseas certificates must be translated

B03 Australian pension concession card or notice or advice of Australian pension—where name and address match those on this application

B04 current Australian driver's licence or learner's permit with photo—where name and address match those on this application

B07 marriage certificate

B08 Australian adoption papers

B09 maintenance agreement registered with the Australian Family Court or Magistrates Court

B10 Certificate of Evidence of Australian Citizenship

B12 property rates notice **less** than 1 year old, issued for an Australian property. The name and Australian address must match those on this application

B15 title or deed to Australian real estate, or registered mortgage papers on an Australian home or property

Only one of the following 3 documents that is **more** than 1 year old and was issued from an Australian State education authority, examination authority, university, college or school

B16 a degree or diploma

B17 an examination certificate or record of achievement

B18 an examination report

Please note: These are not acceptable if A06 to A09 are supplied.

Only one of the following 3 documents. The name and Australian address must match those on this application

B19 a current home contents or property insurance policy

B20 a current life insurance policy

B21 a current car insurance policy

Only one of the following 4 documents that is **less** than 1 year old. The name and Australian address must match those on this application

B23 a bank account statement

B24 a building society account statement

B25 a credit union account statement

B26 a finance company account statement

Please note: The statement must be issued by an Australian branch of a financial institution.

One or 2 different types of Australian legal documents that are **less** than 1 year old, from this list:

B27 summons

B28 bail paper

B29 restraining order

B30 police order

B31 discharge certificate from a prison

B32 parole order

Source: ATO form—*Tax file number application or enquiry for an individual*.

Appendix 4

The TFN Integrity Project and Whole-of-Government POI Initiatives

TFN Integrity Project

The TFN Integrity Project is a direct response to recommendations contained in the ANAO audit report and the Parliamentary Committee inquiry (see Chapter 4). RD has in progress a number of projects to improve the integrity of the TFN system, these include date of birth rectification project, multiple TFN clients project and fact of death data project.

The TFN Integrity Project activities are largely IT-based and so have needed to be prioritised by the RD and added to the ATO IT Plan. This has been done and work on these projects has commenced. In the meantime, the existing risks relating to fraudulent TFNs are being managed through a mixture of increased quality assurance and internal data matching (to identify fraud) processes.

Whole-of-government POI initiatives

Many of the issues the ATO faces in establishing a reliable POI framework for both the TFN and the ABN are not unique to the ATO. Identity fraud, where persons create a totally fictitious identity, and identity theft, where persons fraudulently use another person's identity, are of increasing concern to many agencies in Australia and overseas.¹¹¹ The gravity and extent of the problem increasingly suggest that a whole-of-government approach is needed to meet this challenge and the Attorney-General's Department is overseeing activities in this regard for the Commonwealth.¹¹²

The ATO advised that it is consulting with other relevant agencies in developing more robust procedures to address identity fraud and POI requirements. The ATO's efforts have included facilitating workshops between Commonwealth and State agencies on POI issues.

The Attorney-General's Department confirmed that ATO is also liaising with it to ensure that ATO activities complement the thrust of whole-of-government initiatives. The Department acknowledged the contribution of the ATO in raising the awareness of the risks posed by identity fraud.

¹¹¹ For example, *Numbers on the Run* contains discussion of identity fraud and some statistics on the extent of this kind of fraud in Australia.

¹¹² The Attorney-General's Department, in consultation with relevant Commonwealth agencies, completed a major study on the management of identity fraud risks and produced a report entitled *Who Goes There?* This was distributed to participating agencies and examined false identity risks, assessed the effectiveness of existing controls and recommended approaches to enhance existing efforts to combat identity misuse.

The Management Advisory Committee, through its Authentication of External Clients Working Group, also has involvement in developing improved POI procedures. The Working Group has developed a suite of suggested actions to further progress towards a whole-of-government approach on the POI issue.¹¹³

The ATO advised that from April 2003 it is implementing a revised POI process for individual TFNs that is aligned to cross agency work on POI.

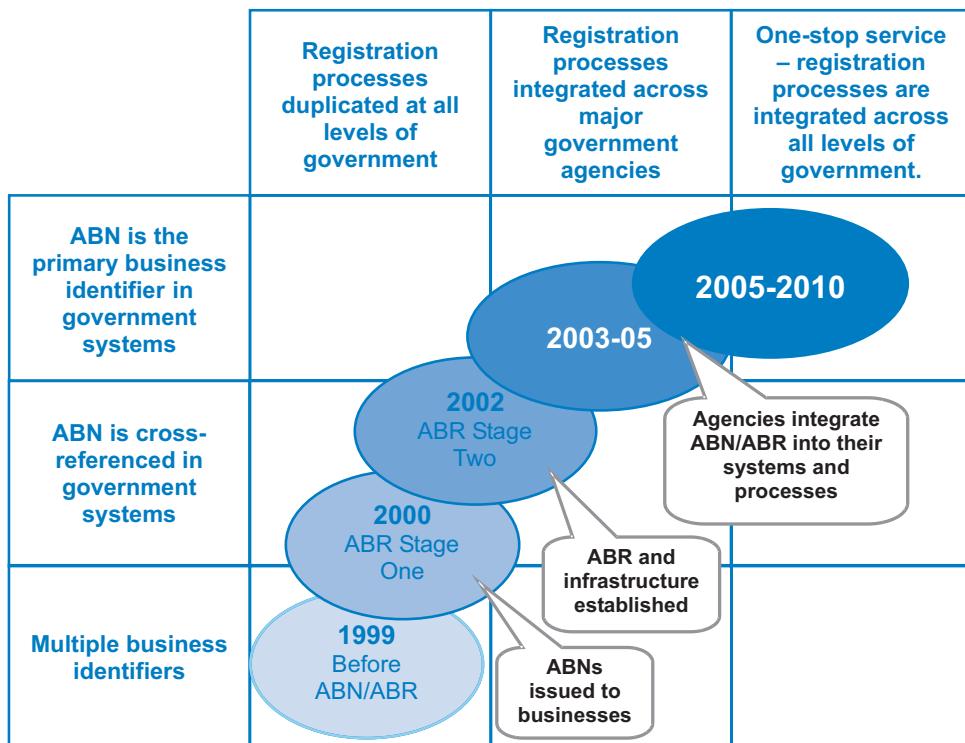
¹¹³ *Australian Government Use of Information and Communications Technology*, Management Advisory Committee, 2002.

Appendix 5

ABR Future Development

The concept of ABR was based on the progressive development of the register as illustrated in the following figure.

Progressive development of the ABR to the year 2010



Source: ANAO modification of ATO information.

The ABR was to provide an infrastructure over a period of time that helps integrate processes for business. To improve efficiency and service to stakeholders, the ATO has identified a program of successive releases to enhance the scope and functionality of the ABR. The ATO has been specifically funded (\$5 million in 2002–03) through the OPA for developing the ABR. Its scope of work includes:

- maintaining the built ABR systems, agency accesses and help desk services;
- providing business analysis and design work to support the developing environment,
- implementing progressive enhancements to ABR business systems and processes; and

- improving the capability and functionality of built systems by facilitating Business Register data model, introducing ‘true data sharing’ by using business register data for other agencies’ transactions and dealings and responding to system change requests from participating agencies.

The Futures Segment within the RD (as shown in Chapter 3, Figure 7) has a dedicated team that aims, amongst other activities, to identify and develop options for the future development of the ABR. The segment is responsible also for progressing development relating to the TFN Integrity Project and other improvement projects.

The activities of the Futures Segment aim to develop a view on a particular issue and, after consultation, progress this to an ATO view. In forming these views the Futures Segment consults with key internal stakeholders, such as GST, Small Business, Large Business and International, and Information Technology, and, where appropriate, external stakeholders, such as the PAC in the case of ABR issues. Projects identified by the Futures Segment are prioritised and then presented to the appropriate area of ATO management for consideration and further development into actual plans for implementation.

Although the current focus of the Futures Segment has been heavily on preparing the groundwork for the various components that comprise the TFN Integrity Project, it has also been involved in further refining the ABR in the light of emerging issues. Similarly the Futures Segment is looking at the possibility of tailoring ABN application processes to the needs of external users by adding questions to capture information required by other agencies. Although the ability of the ABR to be customised to the needs of user agencies is presented as a feature to encourage agencies to use the ABR, in practice it is yet to happen.

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