

JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT

INQUIRY INTO THE ADMINISTRATION OF COMMONWEALTH REGULATIONS

ANSWERS TO QUESTIONS ON NOTICE

Agency: Australian Taxation Office
Topic: Management and oversight of fraud control arrangements for GST

Questions:

1. The ATO agreed to develop an alternative fraud benchmark and in its submission stated it was on schedule for implementation by 18 December 2024¹. What is the alternative benchmark and how does it compare to the benchmark used previously?
2. In 2023, the ATO itself found compliance of senior responsible officers with the external fraud CEI was partly effective². The ATO agreed to a recommendation that it clarify and document roles and responsibilities; redesign the external fraud conformance process, and update the external fraud CEI³. In its submission, the ATO stated it was scheduled to complete this by 24 December 2024⁴. Can you update the Committee on how:
 - a) roles and responsibilities for fraud prevention, detection and treatment have been clarified
 - b) the external fraud conformance process has been redesigned to deal with the shortcomings identified in the audit, including the number of business lines selected and their frequency
 - c) the CEI for external fraud has been updated.
3. Describe the lessons learned from Operation Protego and how processes and procedures have been amended as a consequence, including the Fraud Surge Response Strategy for Large-Scale Fraud Events.
4. The ATO itself identified there was a lack of clarity regarding accountability for GST fraud control, despite two years of committee discussion. A risk assessment on fraud in the GST system along with a deep dive on fraud in the GST system were to be completed in early 2024⁵.
 - a) How has the ATO progressed work on clarifying accountability for GST fraud control?
 - b) What did the ATO find during its deep dive on fraud in the GST system, and what changes did this precipitate?
5. The audit found a disconnect between external fraud risk assessments and fraud and corruption control plans. It recommended the ATO ensure fraud control and corruption plans were based on identified fraud risks⁶. In its submission, the ATO stated it was

¹ Auditor-General Report No.15, 2023–24 Performance Audit, Australian Taxation Office’s Management and Oversight of Fraud Control Arrangements for the Goods and Services Tax, paragraphs 4.32–4.33; ATO, *Submission 7*, page. 5.

² Auditor-General Report No.15, 2023–24 Performance Audit, Australian Taxation Office’s Management and Oversight of Fraud Control Arrangements for the Goods and Services Tax, paragraph 2.17

³ Auditor-General Report No.15, 2023–24 Performance Audit, Australian Taxation Office’s Management and Oversight of Fraud Control Arrangements for the Goods and Services Tax, paragraphs 2.19–2.20.

⁴ ATO, *Submission 7*, page. 5.

⁵ Auditor-General Report No.15, 2023–24 Performance Audit, Australian Taxation Office’s Management and Oversight of Fraud Control Arrangements for the Goods and Services Tax, paragraphs 2.22, 2.46–2.47, 3.33., page 53.

⁶ Auditor-General Report No.15, 2023–24 Performance Audit, Australian Taxation Office’s Management and Oversight of Fraud Control Arrangements for the Goods and Services Tax, paragraphs page. 25, paragraph 2.51–2.52.

updating its fraud and corruption control plan to incorporate identified fraud risks⁷. How has the ATO established correspondence between identified external fraud risks and the fraud and corruption control plan?

The ATO runs a dispersed GST fraud risk management approach: the GST is administered by business lines structured around taxpayer types; each business line is required to identify, assess and manage GST fraud risks within its area of responsibility; each business line maintains its own risk register and risk treatment plans; there is no centralised register of controls used to detect potential GST fraud, these are dispersed across business lines⁸. What are the benefits of a dispersed over a centralised fraud risk management approach?

6. Internal ATO assessments have found: key risk artefacts like risk assessments and reviews, treatment strategies and evaluation results have not been maintained by business lines; six endemic GST risks are allocated to four business lines, but risks also relate to responsibilities of a different business line; governance and accountabilities for GST fraud risk are not clear⁹. How is the ATO ensuring it has an holistic and contemporary view of GST fraud risks?

Answers:

Question 1

The ATO has conducted research of potential alternative benchmarks but has not been able to identify a suitable external benchmark. As a result, the ATO is intending to implement a benchmark that is internally derived. The benchmark will be based on the ATO's historical EFI data, adjusted where appropriate for known anomalous events.

The External Fraud Indicator (EFI) is part of a broader suite of metrics the ATO uses to understand the level of fraud in the tax system. The EFI measures the number of suspected fraud incidents reported by ATO staff to the ATO's Fraud and Criminal Behaviours business line (in accordance with the External Fraud Chief Executive Instruction) as a proportion of the total number of lodgments.

In the past the ATO has used an externally derived benchmark to compare the EFI to. The benchmark was based on examples from various organisations in the UK and other countries. However, the benchmarks are not a like-for-like comparison and also includes government payment fraud, not just tax system fraud.

Question 2

- a) Roles and responsibilities

On 31 January 2024, the ATO Executive endorsed new governance arrangements for external fraud management.

⁷ ATO, *Submission 7*, page. 5.

⁸ Auditor-General Report No.15 2023–24 Performance Audit, Australian Taxation Office's Management and Oversight of Fraud Control Arrangements for the Goods and Services Tax, paragraphs 2.22, 2.46–2.47, 3.33.

⁹ Auditor-General Report No.15, 2023–24 Performance Audit, Australian Taxation Office's Management and Oversight of Fraud Control Arrangements for the Goods and Services Tax, paragraphs 4.14–4.15.

b) Conformance

We have redesigned our conformance reporting process to incorporate the ATO External Fraud Governance Roles and Responsibilities, as recommended by the ANAO, and have combined the process with the external fraud risk assessment process. The redesigned process allows us to obtain a much broader scope of conformance information aligned to 10 external fraud sub risks as well as ATO business lines with specific external fraud accountabilities.

For the period 1 January to 30 June 2024 conformance evidence and assurance was sought from and provided by the Senior Officer responsible for each of the identified (10) external fraud sub-risks.

Conformance assessment of the ATO business lines with specific external fraud accountabilities for the period up until 30 December 2024 will be undertaken in the first quarter of 2025.

The conformance assessments for all external fraud sub risks and business lines with fraud accountabilities will continue to be undertaken on at least an annual basis.

The conformance process, the assessment of conformance and the compliance of the identified senior responsible officers with their reporting obligations are evaluated by the External Fraud Integrity Committee, chaired by the External Fraud Risk Owner. The External Fraud Risk Owner reports the conformance outcomes to the ATO's Risk Committee as well as the independently (to the ATO) chaired Audit and Risk Committee.

Artefacts supporting the conformance and the annual external fraud risk assessment process outcomes are now maintained centrally by the External Fraud Risk Owner.

c) External Fraud CEI

Revisions to the CEI comprise of:

- inclusion of the new external fraud specialist roles and responsibilities for senior executive staff (including specialist fraud committees)
- greater clarity in relation to reporting suspected fraud for all employees and contracted individuals in the Australian Charities and Not-for-profits Commission and Tax Practitioners Board
- additional requirements to reflect updated Commonwealth Fraud and Corruption Control Framework requirements (eg: the requirement to consider external fraud at the time of developing or implementing new measures or significant changes to systems and processes)
- general improvements to improve usability.

The final CEI has gone through an extensive consultation process and was published on 9 December 2024.

Question 3

Operation Protego demonstrated the need for revenue agencies to identify and respond to systemic scaled fraudulent changes in taxpayer behaviour closer to real time.

Lessons learned include:

- **Risk knowledge** - GST fraud risk assessments must become more holistic, evidence-based, and adaptive to emerging threats, supported by a structured approach to aggregating and analysing early warning signals.
- **Response capability** - clear documentation of risk appetite, thresholds, and action plans is essential to balance fraud risk tolerance with refund obligations and enable swift, coordinated responses.
- **Monitoring and dissemination** - integrated threat assessments, timely information sharing, and clear prioritisation of emerging issues are needed to improve monitoring and escalation processes.
- **Action and resolution** - proactive strategies and innovative approaches are required to replace reactive, manual controls and address large-scale digital fraud efficiently.

In response, process and procedure improvements undertaken by the ATO include:

- a) established an Early Warning System from 1 July 2023 enabling rapid identification of changes including in business registrations, lodgment trends, and the promotion of fraud through avenues such as social media.
- b) organisational authority given to the Deputy Commissioner of Fraud and Criminal Behaviours (FCB) business line to call a fraud event which brings together a rapid whole of organisation response to scaled fraud events.
- c) established a System Integrity Program within the FCB business line to identify system vulnerabilities and harden the system through contemporary control design.
- d) strengthened our relationships with shared risk owners including through our recent membership of the Australian Financial Crime Exchange and closer working relationships with State Law Enforcement agencies.
- e) established External Fraud Integrity and Treatment Committees which ensure contemporary risk assessments (including for GST fraud) are undertaken and aligned to an actively managed treatment plan.
- f) endorsed a Responsible, Accountable, Consulted and Informed (RACI) framework which clearly documents fraud management roles and responsibilities.
- g) strengthened our internal fraud and corruption control framework to closely monitor risk and intelligence from external fraud events, which has improved our maturity level in identifying any potential integrity issues for the ATO.

The ATO acknowledges that a very small proportion of ATO employees participated in Protego fraud and swift action was taken, including criminal charges in appropriate cases.

In addition, the ATO is supporting other Commonwealth agencies where Commonwealth employees are suspected of Protego fraud, through the disclosure of information as a part of the Operation Protego Integrity Taskforce.

Question 4

- a) In March 2024, the GST Leadership Group agreed the GST fraud risk roles and responsibilities, including the identification of a GST Fraud Risk Owner, after interim roles and responsibilities had been agreed in September 2023.
- b) The deep dive on fraud in the GST system undertaken during the 2024 GST Fraud Risk Assessment found that while the ATO has improved its management and oversight of GST fraud risks since the Operation Protego fraud event, there continues to be increasing environmental pressures that can lead to and facilitate fraudulent behaviour. These include, advances in technology and the increased sophistication of fraudsters that allow them to exploit system vulnerabilities.

Question 5 and 6

The ATO Fraud and Corruption Control Plan (FCCP) for 2025 has been finalised and will be published on the ATO website.

Given the nature of the ATO's operations, it is inappropriate to publicly detail control information in the externally published FCCP as this would make control information available to fraudsters.

The ATO's External Fraud Integrity Committee has endorsed the ATO's approach to documenting controls, which will occur at 2 levels:

- a) the FCCP
- b) controls are documented at the enterprise risk level (via the External Fraud Risk Assessment) and in targeted risk assessments at the sub-risk level (per the Commonwealth Fraud and Corruption Control Guidelines).

By documenting controls as part of risk assessments, a direct link is made between the risks and the relevant controls.

While the ATO's Risk Management Framework and Chief Executive Instruction govern and guide the ATO's approach to risk management, operational management of risks operates under a dispersed model. Individual business lines and groups are responsible for identifying, assessing, and managing risks within their areas.

This approach applies for GST fraud risk. This decentralised approach leverages the expertise and insights of those closest to the risks, ensuring tailored treatments, while remaining aligned with the overarching ATO risk management principles and governance. It is supported by comprehensive governance and oversight, including a GST risk register that provides a consolidated, organisation-wide view of GST risks.

A holistic GST fraud risk assessment was completed in 2024. In the future, in accordance with the Commonwealth Fraud and Corruption Control Framework, these will be undertaken at least every 2 years, or when there are substantial or emerging changes.

A holistic GST intelligence strategy has also been designed to enhance the collection, integration, and dissemination of intelligence across the organisation. It incorporates continuous improvement practices. The GST Intelligence Working Group facilitates collaboration and aligns intelligence efforts across business lines.