

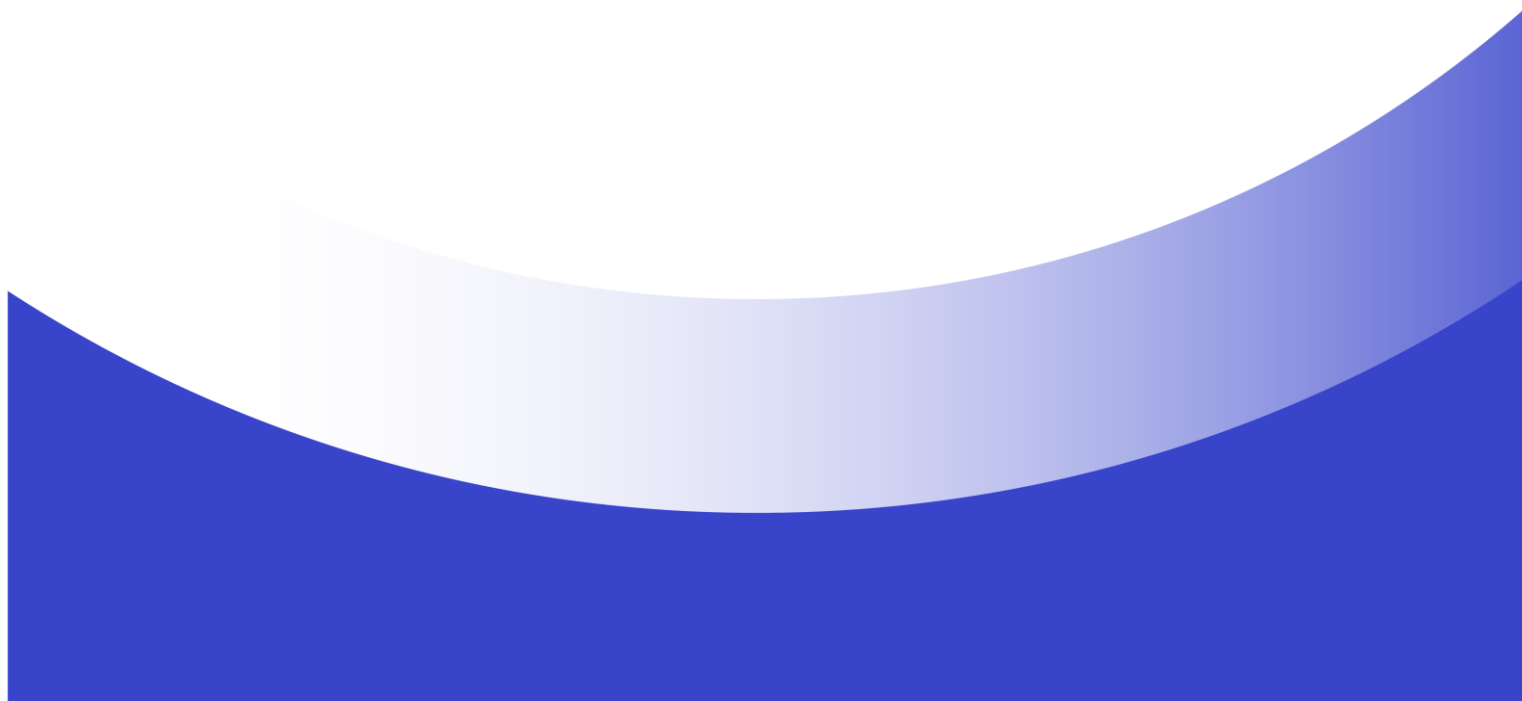


**Australian Government**  
**Australian Taxation Office**

# ATO Submission

## Inquiry into Commonwealth Financial Statements 2022–23

8 April 2024



## Introduction

1. The Australian Taxation Office (ATO) welcomes the opportunity to make a submission to the Joint Committee of Public Accounts and Audit's inquiry into the ***Auditor-General Report No. 9 of 2023-24: Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2023.***
2. In connection with the 30 June 2023 financial statements audit, the ATO received a new significant (Category A) audit finding, related to IT Change Management, and an unresolved moderate (Category B) audit finding, related to Uneconomic to pursue debt and re-raises.
3. The ATO acknowledges the significance of these audit findings and is committed to a rapid remediation of the identified issues. The ATO provides regular updates to the ANAO and the ATO's Audit and Risk Committee on the progress of remediation activities associated with these findings.
4. This submission provides contextual information and actions being progressed by the ATO to remediate and resolve the audit findings.

## New significant (A) audit finding

### Enterprise Change Management

5. During the 2022-23 financial statements audit, ANAO testing of the ATO's change controls identified inconsistencies between IT Change Management policies and practices, and capture of appropriate evidence within the IT Service Management system.
6. The ANAO raised a new significant (Category A) audit finding Enterprise Change Management and made the following recommendations to improve the ATO's change management controls:
  - policy alignment throughout ATO's business operations
  - all changes are recorded in the approved system in line with ATO policy
  - all changes have effective, system enforced segregation of duties in place.
7. The ANAO was required to undertake significant additional testing to obtain assurance over the reliability of reports generated to support financial statements balances. The result of the additional testing was that ANAO was able to obtain the evidence and assurance required to sign off the ATO's financial statements.
8. The ATO agreed with the findings and recommendations, and has already enhanced its governance controls to ensure evidence is consistently captured within the IT Service Management system. Specifically, the ATO has:
  - Uplifted Change Advisory Board controls to ensure all IT system changes have an appropriate change record and supporting evidence.
  - Implemented enhancements to the IT Service Management system to embed workflow improvements and alignment to change management policy and practices.
  - Completed reconciliation of system change logs to change records to evidence that no unauthorised or untested changes have been deployed to critical ATO systems across the 2023-24 financial year.
9. The ATO are working with the ANAO on the pathway to closure of this finding, in delivering an enduring solution.

## Unresolved moderate (B) audit finding

### Uneconomic to pursue debt and re-raises

10. During the 2021-22 financial statements audit, the ANAO raised a new moderate (Category B) audit finding -uneconomic to pursue debt and re-raises. The ANAO identified two issues associated with the ATO's treatment of non-pursued debt:
  - timeframe where the automatic offsetting functionality was switched off
  - use of exclusionary criteria to prevent certain categories of non-pursued debts from being re-raised to enable offsetting.
11. The ANAO recommendations, which the ATO agreed to, were:
  - a) Review and update ATO policies in relation to the recognition and management of non-pursued debt to ensure they confirm with the legal requirements of the *Taxation Administration Act 1953* (TAA).
  - b) Implement system processes and changes to ensure full law conformance with the TAA.
  - c) Develop a process for the identification of debts considered irrecoverable.
12. The ATO has delivered actions that address the recommendations and achieve law conformance. The remediation plan was discussed with both the ANAO and the ATO's Audit and Risk Committee.
13. In response to recommendation a above, the ATO has taken the following actions:
  - The review of policies and practices was completed by 30 June 2023.
  - An amendment was made to the Practice Statement Law Administration PSLA 2011/17, to ensure it now conforms with the law.
14. In response to recommendation b above, law conformance is progressing through the following actions:
  - The ATO's automated system application of offsetting credits against debts placed on hold recommenced from 6 June 2022, at which time long-held exclusionary criteria remained in place.
  - The population subject to system offsetting against debts placed on hold was further expanded through the gradual removal of the exclusionary criteria that have historically prevented credit offsetting against non-pursued debts for distinct client groups. The exclusionary criteria that have been removed are:
    - clients over 70 years of age (removed December 2022)
    - individual clients with taxable income less than \$50,000 (removed December 2022)
    - if the non-pursued debt is less than \$2,500 (removed June 2023)
    - if the credit available for offsetting is less than \$1,600 (removed June 2023).
  - The Commissioner has exercised his discretion to temporarily defer recovery of debts placed on hold prior to 1 January 2017. The deferral delivers law conformance and enlivens the Commissioner of Taxation's discretion not to offset available credits against these debts, pursuant to subsection 8AAZL(3) of the TAA, whilst longer term options for debts placed on hold prior to 2017 are considered.
    - In readiness for the removal of the remaining exclusionary criteria which prevented offsetting against debts placed on hold prior to 1 January 2017, the ATO commenced an

extensive awareness letter campaign to inform all clients and agents that these debts remained due and payable and would soon be visible on their accounts.

- Community concerns were raised regarding the age of certain debts, the enduring lack of visibility to date and difficulties clients would have in locating records to verify them.
- The ATO has now paused all action in relation to debts placed on hold prior to 1 January 2017 whilst it reviews and develops a pragmatic and sensible way forward in response to the concerns raised by the community.

15. In response to recommendation c above, the ATO has taken considerable steps to ensure any debts on hold that should instead be considered irrecoverable at law are identified and remediated prior to being available for future actions such as credit offsetting and visibility, including:
  - identification and remediation of uneconomic non-pursued debts of de-registered companies. These debts were appropriately remediated to be irrecoverable at law.
  - Identification and remediation of uneconomic non-pursued debt that were less than 5 cents. These debts were appropriately remediated to be irrecoverable at law.
  - Identification and remediation of General Interest Charge only and Failure to Lodge penalties by a process of remission.
16. Work is ongoing to consider any other categories of uneconomic non-pursued debt that might require a more tailored approach and next steps.

## Conclusion

17. The ATO is available to respond to any questions the Committee may have and will attend a hearing as required.
18. The ATO looks forward to the outcomes of this inquiry.