

Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

TREASURY

Australian Taxation Office

(Budget Estimates 30 May 2006)

Question: bet 129

Topic: Audit of financial statements of Australian Government Entities for period ending 30 June 2004-audit report 21 04/05

Hansard page: Written question

Senator Sherry asked:

SUPERANNUATION SURCHARGE

1. EXCEPTION TRANSACTIONS: (pg216, para-6.546) The Audit report uncovered a backlog of exception transactions that has built up over a period of 8 years totalling 10.4m transactions which raises doubts that the ATO revenue estimates can be accurate with the revenue related to the backlog \$323m. There is doubt as to the completeness and accuracy of the data used to calculate the revenue estimates and the ability of the ATO to collect some of these amounts.

- (i) Are you aware of the backlog of exception transactions that appear to date back for 8 years and amount to around 10.4m transactions?
- (ii) The ATO itself estimates this backlog to be worth \$323m in uncollected revenue. Is this an accurate and up-to-date estimate?
- (iii) What steps have been taken clear the backlog?
- (iv) What percentage of the \$323m does the ATO expect to collect?
- (v) What effect does this have on the accuracy of ATO revenue estimates?

Answer:

- (i)-(v). These questions were asked of the Minister for Revenue and Assistant Treasurer, by Mr Fitzgibbon on 27 February 2006, in Question on Notice 3119. The response was tabled on 10 May 2006.

Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

TREASURY

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2. UNFUNDED DEFINED BENEFIT SUPER SCHEME: (pg 216, para-6.548) Allows a super fund to defer payments of the surcharge until the benefit is paid to the member. Super funds are required to keep a surcharge debt account for each member and the ATO must recognise this as revenue in its financial statements. The 2002/03 comparisons of ATO records showed significant variances, and the ANAO were assured this would be rectified. To date this has not occurred.

- (i) Can you explain the nature of the discrepancy uncovered by the ANAO in Audit Report 21 04/05 relating to the unfunded defined benefit super scheme?
- (ii) What is the nature of the discrepancy?
- (iii) Does this discrepancy still exist?
- (iv) What affect does this have on the ATO financial statements?
- (v) What steps have been taken to address the discrepancies and ensure they do not reoccur?

Answer:

- (i) Under surcharge legislation, the unfunded defined benefit (UDB) superannuation funds are required to maintain a surcharge debt account for each member. The Tax Office is not required to maintain a surcharge debt account for each member. However, in the Tax Office's financial statements the surcharge revenue and corresponding receivable must be brought to account. This requires a calculation, done at a fund level, of the balance of the fund at the end of the financial year (taking into account assessments issued and payments received from the funds). Interest is then applied to the balance, at the 10 year Treasury Bond rate, as per the legislation. At the end of the financial year the Tax Office writes to each UDB superannuation fund, on behalf of the ANAO, requesting the balance of the fund including interest. The balances are then compared.
- (ii) There are a range of valid reasons why such differences may exist including timing differences in recording of superannuation surcharge runs over the end of financial years, timing differences in recording payments over the end of financial years, and differences in estimates of interest calculations. For example, when a fund receives a payment from a member they have 28 days to submit this payment to the Tax Office. If the fund received a payment in June and recorded it on the member's account but did not submit the payment to the Tax Office until July, the Tax Office would calculate interest on a higher balance. Another example of a timing difference would be if assessments associated with the May assessment run are not received by the fund until late June they may not be entered onto the members' accounts until July. In this instance, the Tax Office's balances will include the May assessments and be higher, again resulting in a higher interest calculation.
- (iii) The discrepancy still existed at 30 June 2005.
- (iv) Surcharge revenue could be overstated by an amount less than the full discrepancy amount, depending on the nature of the timing difference. In

Senate Economics Legislation Committee

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TREASURY

Australian Taxation Office

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2003-04 the discrepancy amounted to less than 1.5% of total surcharge revenue.

- (v) The Tax Office has comprehensively addressed the original audit finding around lack of compliance activities associated with UDB Funds. Coverage of audit activity in this area is now significantly higher than other superannuation funds recognising the unique legislative arrangements in place for this type of fund.

There are 32 UDB funds. Eight funds were audited in 2004-05 which represented 35% of UDB revenue. No major discrepancies or breaches of legislation were found in these audits. A further six funds were audited in 2005-06 which represented 30% of UDB revenue. Areas addressed in these audits included:

1. Individual surcharge debt accounts (ISD a/c) are established correctly;
2. Surcharge liabilities are applied correctly to the ISD a/c;
3. Amendments to previous liabilities were applied correctly to the ISD a/c;
4. Interest was imposed correctly;
5. Payments (both voluntary and exit generated) were applied correctly to the ISD a/c;
6. Payments (both voluntary and exit generated) were remitted to the Commissioner within one month; and
7. Voluntary payments were acknowledged and the member advised of the revised balance of their ISD a/c.

The issue of the difference between Tax Office records and fund records is also being addressed. The Tax Office initiated discussions with the chief financial officer of a large fund with a discrepancy to investigate causes of possible variances. This "reconciliation" exercise is currently in progress and early indications are that timing differences are the main reasons for the variances.

3. NEW SUPERANNUATION GUARANTEE SYSTEM: (pg217 para-6.551) Due to major errors in the new superannuation guarantee system introduced in Nov 93 the ATO has been unable to issue assessments since FEB 04 or make super guarantee payments to employee's funds since Nov 03.

- (i) What are the "major errors" in the new superannuation guarantee scheme that have prevented the ATO from issuing assessments since Feb 04, and making superannuation guarantee payments into employees superannuation funds since November 03?
- (ii) How many employees have been affected by the failure of the ATO to adequately address the problems with the New Superannuation Guarantee System?
- (iii) The revenue and expenses assessed by the ATO relating to the superannuation guarantee system stands at \$381m and \$499m respectively. Are these assessments accurate?

Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

TREASURY

Australian Taxation Office

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- (iv) How do you answer the ANAO's concerns regarding the accuracy and completeness of the data used in your financial statements?
- (v) What steps has the ATO taken to address the concerns raised by the ANAO in the 04/05 audit report?

Answer:

- (i) In November 2003 the quarterly superannuation guarantee system was implemented into production. Due to various problems with the data that had been migrated from the legacy system and some design and system issues, the application experienced major problems and was not able to operate normally.

Examples include:

- The system was not correctly calculating interest components on superannuation guarantee charge amounts, and
- The existence of data errors on employer accounts.

Issues have been progressively addressed since then.

- (ii) The Tax Office estimates that around 270,000 employees have been affected by the delays and may be entitled to a compensation payment amount to their fund. A system has been developed to calculate the entitlements, and the first payments were issued in September 2005. The ATO is progressively working to issue remaining payments to employees or their funds.
- (iii) The revenue estimate of \$381m was compromised of three components.
 - (a) Revenue of \$229m that had been assessed through the system to end of November 2003 (before the new quarterly system problems).
 - (b) \$66m of assessments that had been finalised on the new system but were unable to be issued because of system problems.

The Tax Office believes these assessments on the business systems were reliable.

- (c) Draft assessments totaling \$86m that were calculated using actual data from employers.

The Tax Office monitored these draft assessments when they were issued during 2004-05 and verified the estimate.

The estimate of \$499 million superannuation guarantee expenses was higher in 2003-04 than previous years due to a change of accounting policy. In 2003-04 the Tax Office changed its accounting treatment for superannuation guarantee expenses from a cash to an accrual basis. This means that a provision for disbursements to individuals is brought to account in the financial statements as an expense at the time the superannuation guarantee assessments are raised.

Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

TREASURY

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The estimation of part of the 2003-04 superannuation guarantee revenue thus had a flow on effect to the expense accrual.

The change in policy resulted in an additional expense of \$286m in the 2003-04 financial year, but this includes the effect of the change on past years.

The Tax Office makes the payments to the employees' fund once the superannuation guarantee assessments have been paid by the employer.

- (iv) The ANAO was unable to verify or confirm the superannuation guarantee estimates in 2003-04 and hence the inclusion of this item in the qualification. The Tax Office took the qualification very seriously and established a dedicated task force to address the issues (please refer to the response at V below). The Tax Office's 2004-05 Financial Statements were not qualified, but superannuation guarantee remained an "A" finding. The superannuation guarantee issues have now been resolved to the satisfaction of the ANAO and there is no finding regarding superannuation guarantee in the recently tabled 2005-06 Interim Audit Report.
- (v) A dedicated task force was established in July 2004 to rectify the issues in the superannuation guarantee system. Accounts which were identified as having issues were quarantined and quantified. This action ensured that data used to prepare financial statements was not flawed. Those accounts not in error were moved through the system under business as usual processing.