

Mr Tony Smith
Chair of JCPAA
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Dear Mr Smith

Thank you for the invitation to appear before the JCPAA on Friday 23rd June. In preparation for this review of the ANAO Report No. 17: 'Administration of the Superannuation Lost Members Report' I enclose an update of the Tax Office progress in implementing the relevant recommendations. Five of the eight recommendations have been completed and we have made good progress on the remaining three.

You will note that in our response to the ANAO in October 2005 we indicated that where recommendations involved system changes we may have been unable to implement them in the way proposed. For the next three years the Tax Office system resources are fully committed to implementing new policy, the Change Program and to maintaining existing systems and undertaking urgent remediation work. In addition the government has funded an additional forty million dollars to redevelop superannuation systems linked to the Change Program initiatives. Where recommended system changes involved work to a legacy system under redevelopment or were not cost effective they were considered a lower priority.

Since we responded to the recommendations the government has announced a proposal for the simplification of superannuation. This proposal includes changes to the Lost Members Register (LMR). We are currently reconsidering our overall superannuation rebuild priorities in the light of these proposals. Our approach will be firmed up once the overall superannuation simplification policy is finalised by government. The systems changes from these ANAO recommendations will be reconsidered as part of this process.

For your information the Tax Office is not proposing to make an opening statement at our appearance.

Yours sincerely

Jennie Granger
Second Commissioner of Taxation

AUDIT REPORT NO. 17 : ADMINISTRATION OF THE SUPERANNUATION LOST MEMBERS REGISTER

Progress against recommendations as at 31 May 2006

Reference	Recommendation and ATO response	Progress as at 31 May 2006
<p>No.1 Para 2.32</p>	<p>The ANAO recommends that, to improve the transparency and accountability of the financial sector levy, the ATO:</p> <ul style="list-style-type: none"> ● revisit the existing model used to estimate LMR costs with a view to implementing a robust methodology for determining LMR costs; and ● provide relevant information to the Australian Prudential Regulation Authority to allow it to report on the ATO's cost in administering the LMR as part of the disclosure requirements under the Government's cost recovery policy. 	<ul style="list-style-type: none"> ● Costing for the LMR is now undertaken corporately and has been developed in accordance with the Tax office's overall costing methodology. This part of the recommendation is now complete. ● The Tax Office will provide actual cost information to APRA in August this year for inclusion by APRA in their annual report. In addition in April we provided forecasts of next year's financial costs to APRA. ● The Tax Office is also reviewing its Memorandum of Understanding with APRA to formally include the provision of reporting this information.
<p>No.2 Para 3.17</p>	<p>The ANAO recommends that, to improve the efficiency and effectiveness of the lost member data capture and identity-matching process, the ATO identity-match all lost member accounts prior to their inclusion on the Lost Members Register.</p>	<ul style="list-style-type: none"> ● Completed. At the time of completion of the ANAO report No 17 all data on the LMR was matched with ATO identity information on a monthly basis. Whilst the system redevelopment work to implement this ANAO recommendation is not a current priority, since the report completion we : <ul style="list-style-type: none"> ○ have identity matched all existing records on the LMR through our identity matching system ○ put processes in place to identity match all new LMR data within one week of receipt. This means the LMR register is updated in a timely way with current tax office identity information ○ rematched all unmatched records on a quarterly basis through our identity matching system.
<p>No.3 Para 3.24</p>	<p>The ANAO recommends that, to provide adequate assurance that the LMR is operating as intended and in accordance with the LMR legislation, the ATO:</p> <ul style="list-style-type: none"> ● compile a complete set of baseline specifications to document the LMR system; and ● introduce a robust system of controls to maintain the currency and completeness of the LMR baseline specifications. 	<ul style="list-style-type: none"> ● Completed. ● As provided in our initial response to the ANAO the Tax Office will not compile a complete set of baseline specifications to document the LMR as it is not cost effective. ● However we do have robust controls in place so that any changes to the LMR are fully documented as part of our assurance processes. ● Further any rebuild of LMR as part of the overall Change Program will include development of comprehensive documentation.

Reference	Recommendation and ATO response	Progress as at 31 May 2006
No.4 Para 4.19	<p>The ANAO recommends that to properly manage the completeness of lost member data lodgements, the Superannuation Business Line improve the functionality of the LMR system to record relevant compliance information not presently captured. Importantly, this should enable it to:</p> <ul style="list-style-type: none"> • obtain a comprehensive understanding of the number of providers that transfer their lost members to eligible rollover funds; and • maintain an up to date listing of non lodgement advices (NLAs). In this regard, the ANAO considers the ATO should give consideration to making NLAs mandatory (as permitted by s.23 (1)(e) of the LMR legislation). 	<ul style="list-style-type: none"> • Overall there is a relatively small number of funds which account for the majority of superfund members – for instance 500 funds account for approximately 95% of superfund members. Our analysis shows that at 30 June 2005 we had approximately 310 funds providing data to the LMR who account for 92% of superfund members. • The tax office takes a risk based approach to our compliance –where our focus for the LMR is in ensuring compliance of those funds with larger numbers of members. • Our current analysis indicates that if NLA's were made mandatory that a further 8450 funds (approx.) would have an impost to lodge – increasing their compliance costs but with minimal benefit to data holdings on the LMR (note Self Managed superfunds are not required to provide data to the LMR). We expect to finalise our position on this matter through our superannuation risk committee in the near future.
No.5 Para 4.38	<p>The ANAO recommends that, to improve the quality of data stored on the Lost Members Register, the Superannuation Business Line implement a systematic approach to matching lost member data with other superannuation data sets received from superannuation providers.</p>	<ul style="list-style-type: none"> • Completed. As indicated in our response to the ANAO our primary focus is to match against data which maximises matching the account holder with a TFN. We find the most effective process is to match against our tax return identity information. Currently 27% of LMR data received has a TFN. After our identity matching this increases to 83% of data matched with a TFN. • We are also piloting the use of other data steams – such as electoral data. Any further matching against other superannuation data sets, such as RBL, will be considered as part of implementing the superannuation simplification changes. • As mentioned at recommendation 2, we continue to rematch unmatched data on a quarterly basis using our identity matching system.
No.6 Para 4.45	<p>The ANAO recommends that, to improve the reporting of unclaimed superannuation monies by providers, and the quality of data stored on the Lost Members Register, the ATO establish comprehensive data sharing arrangements with all state and territory holders of unclaimed superannuation. This will also allow holders to properly address potential compliance risks relating to the transfer of unclaimed superannuation.</p>	<ul style="list-style-type: none"> • Progress is being made on this recommendation. The Tax Office has been confirming legal requirements about the level of detail that can be provided. We are now determining how best to provide this data and information to the states and territories on an annual basis.

Reference	Recommendation and ATO response	Progress as at 31 May 2006
No.7 Para 5.27	<p>The ANAO recommends that to improve the timeliness of Super Match exercises, the ATO identify match all Super Match input records before matching these against details stored on the LMR.</p>	<ul style="list-style-type: none"> • Completed. As stated in our response to the ANAO report this would involve the redevelopment of a legacy system. • Where a TFN is provided as part of the Super Match input by the superfunds it does facilitate both a better and more timely match. For instance where a TFN is provided the time to match is at least three times faster. We are already seeing an improvement in the provision of TFN's from superfunds in Member Contribution Statement information (now approx. 75% contain a valid TFN). We anticipate this should increase substantially under the proposals announced as part of the government's superannuation simplification package.
No.8 Para 5.39	<p>The ANAO recommends that to measure the effectiveness of Super Seeker access by members, the ATO measure and report on the proportion of Super Seeker enquiries that result in a match with ATO records. This should also differentiate matches that relate to the Lost Members Register, as opposed to the Superannuation Guarantee system or the Superannuation Holding Accounts Reserve.</p>	<ul style="list-style-type: none"> • Completed. As stated in our response to the ANAO report this recommendation would involve system redevelopment work to a legacy system. The priority of this change will be revisited as part of the considerations to implement the superannuation simplification package.