

APPENDIX A

Submissions and comments

We have consulted with DTF and SRO and we considered their views when reaching our audit conclusions. As required by the *Audit Act 1994*, we gave a draft copy of this report, or relevant extracts, to those agencies and asked for their submissions and comments.

Responsibility for the accuracy, fairness and balance of those comments rests solely with the agency head.

Responses were received as follows:

DTF	48
SRO	52



Department of Treasury and Finance

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D23/67119

Mr Andrew Greaves
Auditor-General
Level 31/35 Collins Street
MELBOURNE VIC 3000


Dear Mr Greaves

PROPOSED REPORT – PERFORMANCE AUDIT: COLLECTING STATE-BASED TAX REVENUE

Thank you for the opportunity to comment on the Proposed Report for the performance audit *Collecting state-based tax revenue* (the Report).

A table outlining DTF's response to the recommendations is attached.

DTF acknowledges that the governance and oversight arrangements between the SRO and DTF could be articulated with more clarity, including as to consistency of nomenclature. However, DTF maintains its position that the current practice is not inconsistent with the *Financial Management Act 1994* or the Standing Directions.

DTF notes the conclusion of the Report that the current arrangements do not hinder the SRO's performance in collecting tax or impact the integrity of the SRO's financial compliance assessment.

DTF is committed to ensuring there is a shared understanding of the SRO's status and that governance roles and responsibilities under the Standing Directions and the Framework Agreement are clarified. DTF is already reviewing and clarifying the governance roles and responsibilities under the Standing Directions and the Framework Agreement.

With respect to the Report's conclusion that the SRO is not able to demonstrate that it is optimising tax collection because it does not regularly measure the 'tax gap', DTF notes the following.

The 'tax gap' is a theoretical estimate of the difference between the amount of tax collected within a jurisdiction and what would have been collected if every taxpayer was fully compliant with the law. As such, it tries to measure what is not fully observable, as some taxpayers don't report their full legal tax obligations correctly. 'Tax gap' analysis is therefore prone to error and is not a reliable performance measure. A 'tax gap' will always exist in any tax collection system.

The SRO already has a robust tax compliance program in place, which was extended in the 2023-24 Budget, to ensure compliance with the tax laws. Where appropriate, the SRO has



undertaken some 'tax gap' analysis and will continue to do so in support of its compliance program.

Thank you again for the opportunity to comment on the Report. I am available to discuss any elements of this response further with you at your convenience.

Yours sincerely

A black rectangular redaction box covering the signature of David Martine.

David Martine

Secretary

5/6/2023

Attachment
Department of Treasury and Finance response table on recommendations in performance audit *Collecting state-based tax revenue*

No.	VAGO RECOMMENDATION	DTF RESPONSE	COMPLETION DATE
1	<p>Department of Treasury and Finance (working with the State Revenue Office) makes sure it and the State Revenue Office:</p> <ul style="list-style-type: none"> • have a shared understanding of the State Revenue Office's status under the <i>Public Administration Act 2004</i> • clarify their governance roles and responsibilities under the Standing Directions 2018 under the <i>Financial Management Act 1994</i> and the Framework Agreement and reflect this in their governance documentation (see Section 2.4) 	<p>Accepted.</p> <p>DTF acknowledges that the governance and oversight arrangements between the State Revenue Office and DTF could be articulated with more clarity, including as to consistency of nomenclature. However, DTF maintains its position that the current practice is not inconsistent with the <i>Financial Management Act 1994</i> or the Standing Directions.</p> <p>DTF is already reviewing and clarifying the governance roles and responsibilities under the Standing Directions and the Framework Agreement.</p> <p>DTF notes the conclusion of VAGO that the current arrangements do not hinder the SRO's performance in collecting tax or impact the integrity of the SRO's financial compliance assessment.</p>	31 December 2023

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No.	VAGO RECOMMENDATION	DTF RESPONSE	COMPLETION DATE
2	<p>Department of Treasury and Finance (working with the State Revenue Office) makes sure its Budget Paper 3: Service Delivery performance measures meet the <i>Resource Management Framework's</i> requirements by:</p> <ul style="list-style-type: none"> • reviewing the State Revenue Office's annual revenue collection target to: <ul style="list-style-type: none"> ○ reflect the State Revenue Office's performance over 12 months ○ be transparent about the period of performance ○ accurately describe the type of revenue the State Revenue Office reports on (collected, accrued or assessed revenue) (see Section 2.2) • making sure the measures assess all the State Revenue Office's key initiatives, including voluntary compliance initiatives, to deliver the Department of Treasury and Finance's Budget Paper 3: Service Delivery output (see Section 2.3) • ensuring that the cost to collect \$100 measure assesses the State Revenue Office's cost to collect tax (see Section 3.1) • reviewing if the cost to collect \$100 measure can assess the State Revenue Office's performance and efficiency over time (see Section 3.1) 	<p>Accepted in principle</p> <p>As part of DTF's annual review and assessment of the Departmental Performance Statement, DTF will continue to work with the SRO to ensure BP3 performance information remains relevant and robust, as per the requirements outlined in the Resource Management Framework.</p>	2024-25 Budget

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Mr Andrew Greaves
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MELBOURNE VIC 3000
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Dear Mr Greaves

PROPOSED REPORT – PERFORMANCE AUDIT: COLLECTING STATE-BASED TAX REVENUE

Thank you for the opportunity to comment on the Proposed Report for the performance audit Collecting state-based tax revenue.

The VAGO Report places very little emphasis on the fact that the period largely covered by the audit, being 2021/2022 and prior, was characterised by the SRO moving some of its staff from collecting revenue and debt to providing covid relief measures.

The Proposed Report contains six recommendations. In relation to recommendations 1&2 contained in the Performance Audit, the SRO accepts that the language used to describe the governance and oversight arrangements between the SRO and DTF should be more consistent.

It should be noted that the SRO has an Internal Audit Committee which has three external members plus a VAGO representative. The SRO is not required to have its own Audit Committee but considers it to be good governance, considering the amount of revenue it collects. Further, the SRO is also one of the only revenue collections agencies in the world to have ISO 9001 Quality Certification accreditation and so is subject to extensive auditing on a regular basis.

In relation to recommendation 3, the SRO does not fully accept that, because it is not regularly measuring the tax gap, it is not optimising revenue for the state. The VAGO Report places an inordinate level of importance on tax gap analyses. The SRO does conduct tax gap analyses from time to time and has just completed analyses on both Payroll Tax and Land Tax, however most jurisdictions around the world do not conduct regular tax gap analyses as they are unreliable and should only be used as a tool to support other compliance mechanisms. This is the case at the SRO. In fact, the 2017 OECD report on taxation administrations states “limitations of tax gap estimates mean that they are not a good basis for explicit performance targets”.

Regarding recommendations 4 and 5, the SRO is currently reviewing its measures to ensure that they are clearly aligned to its strategic goals. Concerning the finding about the cost to collect \$100, this measure is subject to vagaries surrounding the different types of taxes collected across states and territories as well as changes to rates, thresholds and the addition or removal of taxes.

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DOC-16-287791

Therefore, it is difficult to measure as a trend over time or as an interjurisdictional comparison. However, the measure is one of many that the SRO and all other jurisdictions in Australia use as a measure of performance, so it has some utility.

The SRO accepts parts of recommendations 5 and 6 in principle.

A table outlining the SRO response to recommendations 3-6 is attached.

Yours sincerely,



Paul Broderick

Commissioner of State Revenue

5 June 2023

State Revenue Office response table on recommendations in performance audit *Collecting state-based tax revenue - 2023*

No.	VAGO RECOMMENDATION	SRO RESPONSE	COMPLETION DATE
3	<p>The SRO builds on its previous tax gap analyses, particularly for high-risk taxes, to get a regular and more detailed understanding of the tax gap to help it optimise how it collects tax (see Section 2.1)</p>	<p>Partially accepted.</p> <p>The SRO has conducted Payroll Tap Gap analyses in 1998, 2005, 2016 and in 2023.</p> <p>The Tax Gap analysis is highly theoretical, and its value and importance has been significantly overstated by VAGO in this performance audit.</p> <p>VAGO observed in this performance audit (Page 3):</p> <p><i>“It is difficult to accurately calculate the tax gap because:</i></p> <ul style="list-style-type: none"> • <i>Tax gaps are made up of unknown amounts that people and businesses do not report</i> • <i>Data may not readily be available.”</i> <p>These shortcomings have led to most tax administrators nationally and internationally choosing not to conduct a regular tax gap analysis. In fact, very few OECD countries currently report the measure on a regular basis.</p> <p>As a far more robust methodology, the SRO uses sophisticated data matching and analysis, revenue line profiling, and experienced investigators to inform both front-end and back-end compliance.</p> <p>In 2021-22, SRO compliance officers assessed more than \$911m in revenue that otherwise may not have been identified.</p>	31 December 2023

No.	VAGO RECOMMENDATION	SRO RESPONSE	COMPLETION DATE
		<p>While recognising its inherent limitations, the SRO will continue to conduct tax gap analyses on selected revenue lines to assist compliance activities.</p> <p>The SRO does not support the contention that not conducting a tax gap analysis has a consequential impact on the optimisation of revenue collection.</p>	

No.	VAGO RECOMMENDATION	SRO RESPONSE	COMPLETION DATE
4	<p>The SRO improves its set of performance measures to monitor and analyse cost efficiencies over time and transparently reports on them (see Section 2.2)</p>	<p>Accepted in principle.</p> <p>The SRO will continue to work with DTF to ensure BP3 performance information remains relevant and robust.</p> <p>The latest figure on the cost to collect \$100 (a BP3 measure) has dropped from 55c in 2020/2021 to 47c in 2021/2022. Although this looks like a significant improvement in efficiency it is not a reliable measure of efficiency as it is far too dependent on factors outside of the control of revenue offices. This is acknowledged by the OECD in their most recent Tax Administration Comparison report 2022 pg. 146.</p> <p>While there are some benefits in this measure, changes to the tax system, including new revenue lines or changes to thresholds and rates, can make benchmarking difficult. Further, the value of comparisons with other jurisdictions can be misleading with functions and responsibilities varying greatly.</p>	30 June 2024

No.	VAGO RECOMMENDATION	SRO RESPONSE	COMPLETION DATE
5	<p>The SRO continues to develop specific project-based performance measures for its voluntary compliance initiatives to:</p> <ul style="list-style-type: none"> • evaluate changes in taxpayers' behaviour and awareness of their tax obligations • quantify its initiatives' return on investment where possible, including assessing if its initiatives are reducing its operating costs (see Section 2.3) 	<p>Accepted in principle.</p> <p>The SRO uses sophisticated data analytics to inform its compliance activities. It follows an annual planning process which identifies potential non-compliance through environmental analysis and profiling.</p> <p>It should be noted that the SRO is not aware of any taxing jurisdiction around the world that has been able to effectively and regularly measure the effects of actions to improve voluntary compliance.</p> <p>The SRO will review its internal corporate measures (Balanced Scorecard) but will not spend much time trying to quantify a ROI on voluntary compliance initiatives as this is not considered to be an effective use of taxpayers' money.</p>	30 June 2025

No.	VAGO RECOMMENDATION	SRO RESPONSE	COMPLETION DATE
6	<p>The SRO reviews its: tax objection process to:</p> <ul style="list-style-type: none"> • minimise allocation times • make sure it measures the time it takes to resolve an objection from the date it receives it (see Section 3.3) <p>complaint and feedback systems to make sure it categorises and analyses all feedback to improve its current processes (see Section 3.2)</p> <p>revenue line profiles to make sure:</p> <ul style="list-style-type: none"> • its controls manage identified risks • it assesses and manages residual risks accordingly (see Section 3.2). 	<p>Accepted in principle.</p> <p><i>Objections</i></p> <p>SRO accepts that we should minimise allocation times and will continue to review its processes to ensure that objections are allocated in a timely manner.</p> <p>The current BP3 target in relation to timely handling of objections is considered appropriate. SRO will continue to review and monitor the existing measure and amend where relevant and appropriate.</p> <p><i>Complaint Feedback</i></p> <p>As advised to VAGO during the audit, the SRO has undertaken an extensive Voice of the Customer program since May 2022 and will use the outcomes of the program to improve its customer service and complaints collection and handling.</p> <p><i>Revenue line profiles</i></p> <p>SRO accepts that the risk-based approach adopted in the Revenue Line Profile process could be enhanced and is committed to improving the management of compliance risks and the processes that support the RLPs.</p>	30 June 2024