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AUDITOR-GENERAL SPECIAL REPORT No. 38

IMPLEMENTATION OF GOODS AND SERVICES TAX (GST) IN GOVERNMENT AGENCIES AND LOCAL GOVERNMENT ENTITIES

November 2001

Presented to both Houses of Parliament in accordance with the provisions of Section 57 of the Financial Management and Audit Act 1990

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28 November 2001

President
Legislative Council
HOBART

Speaker
House of Assembly
HOBART

Dear Mr President
Dear Mr Speaker

PERFORMANCE AUDIT NO. 38
IMPLEMENTATION OF GOODS AND SERVICES TAX (GST) IN GOVERNMENT AGENCIES AND LOCAL GOVERNMENT ENTITIES

This report has been prepared consequent to examinations conducted under section 44 of the Financial Management and Audit Act 1990, for submission to Parliament under the provisions of section 57 of the Act.

Performance audits seek to provide Parliament with assessments of the effectiveness and efficiency of public sector programs and activities, thereby identifying opportunities for improved performance.

The information provided through this approach will, I am sure, assist Parliament in better evaluating agency performance and enhance Parliamentary decision making to the benefit of all Tasmanians.

Yours sincerely

A J McHugh
AUDITOR-GENERAL

LIST OF ACRONYMS AND ABBREVIATIONS

ABN	Australian Business Number
ANAO	Australian National Audit Office
ANTS	*A New Tax System (Goods & Services) Act 1999*
AP	Accounts Payable
ATO	Australian Taxation Office
BAS	Business Activity Statements
DETYA	Department of Education, Training and Youth Affairs (Federal)
DoE	Department of Education
DHHS	Department of Health and Human Services
DIER	Department of Infrastructure, Energy and Resources
FMAA	*Financial Management and Audit Act 1990*
FMIS	Financial Management Information System
GCC	Glenorchy City Council
GR14	Guidance Release No. 14 – Grants of Financial Assistance
GST	Goods and Services Tax
Guidelines	Guidelines for Effective Cash Management in Agencies
IGA	Intergovernmental Agreement
ITC	Input tax credit
NTRA	*National Taxation Reform (Commonwealth-State Relations) Act 1999*
PAYG	Pay-As-You-Go
RCTI	Recipient Created Tax Invoices
SGC	State Grants Commission
TAO	Tasmanian Audit Office
TI	Treasurer’s Instructions
Treasury	Department of Treasury and Finance
WIP	Works-in-progress

INTRODUCTION

Under the provisions of section 44(b) of the *Financial Management and Audit Act 1990* the Auditor-General may

> 'carry out examinations of the economy, efficiency and effectiveness of Government departments, public bodies or parts of Government departments or public bodies'.

The conduct of such audits is often referred to as performance auditing.

This report relates to a performance audit carried out by the Tasmanian Audit Office (TAO) during the period May to October 2001.

The objectives of this performance audit were:

- To ascertain the extent of compliance with Goods and Services Taxation (GST) legislative requirements, having regard to particular aspects of the tax considered by the Australian Taxation Office (ATO) to have a strong risk of non-compliance; and
- To ascertain the effectiveness with which the GST was implemented by Tasmanian public sector departments and local government entities according to centrally and locally initiated plans and procedures.

To achieve this objective a review of the efficacy of the planning and implementation process, the controls implemented and the level of compliance with GST requirements was conducted.

The approach taken in this audit was to conduct field visits to a number of government departments and one local government entity.

AUDIT OPINION

Report Title	The implementation of Goods and Services Tax in government agencies and local government entities
Nature of the Audit	The objective of this performance audit was to ascertain the extent of compliance with GST legislative requirements, having regard to particular aspects of the tax considered by the ATO to have a strong risk of non-compliance. A further objective was to ascertain the effectiveness with which the GST was implemented by Tasmanian public sector departments and local government entities according to centrally and locally initiated plans and procedures.
Responsible Party	Department of Education (DoE) Department of Health and Human Services (DHHS) Department of Infrastructure, Energy and Resources (DIER) Glenorchy City Council (GCC)
Mandate	This audit has been carried out under the provisions of section 44(b) of the *Financial Management and Audit Act 1990* which provides that: *'The Auditor-General may carry out examinations of the economy, efficiency and effectiveness of Government departments, public bodies or parts of Government departments or public bodies.'*
Applicable Standards	This audit has been performed in accordance with Australian Auditing Standard AUS 806 'Performance Auditing' which states that: *'The objective of a performance audit is to enable the auditor to express an opinion whether, in all material respects, all or part of an entity's activities have been carried out economically, and/or efficiently and/or effectively.'*

Limitation on Audit Assurance

Audit procedures were restricted to interviews with entity representatives and sample examination. A checklist approach was adopted for sample testing. The evidence provided by these means restricts the audit assurance to a moderate level.

Audit Criteria

The assessment of the effectiveness of the implementation of GST in the government agencies and local government entities selected was ascertained under the following criteria:

1. Effective Agency Controls have been Implemented

Assessment included:

- Systems and policies;
- Knowledgeable staff;
- Accounting system;
- Daily compliance activity;
- Identify compliance failures;
- Abreast of changes;
- Management reporting;
- Internal record keeping;
- Monitor and review; and
- Contact with ATO.

2 A High Level of Compliance with GST Requirements

Specifically examined:

- Grants administration;
- Valuation of works-in-progress spanning 1 July 2000;
- Preparation of Business Activity Statements (BAS);
- Classification of expenditure and revenue items; and
- Recording of appropriations.

3 An Effective Planning and Implementation Process was Used

Examination of each stage:

- Project scoping, planning and management;
- Identification of business changes;
- Project implementation;
- Evaluation and testing; and
- Post implementation review and compliance activities.

Opinion and Conclusions

Based on the evidence collected, I conclude that:

1. Effective Agency Controls have been Implemented

- Generally the entities audited exhibited adequate systems and controls to ensure compliance with GST requirements. High staff turnover within agencies was seen by Audit as the highest risk of non-compliance. It has therefore been recommended that agencies be fully committed to the education of new staff as well as provide refresher training where required.

2 A High Level of Compliance with GST Requirements

- Little evidence of non-compliance was found in regard to BAS preparation, the valuation of contracts spanning 1 July 2000 and the valid classification of expenditure and revenue items for GST purposes. Some recommendations have been made in regard to the classification of some grant payments and receipts that will require a Private Tax Ruling from the Australian Taxation Office (ATO).

3 An Effective Planning and Implementation Process was Used

- The significant focus on meeting GST requirements both from a Department of Treasury and Finance (Treasury) perspective and the departments and Council audited demonstrated a commitment to a quality planning and implementation process. Auditees had adequately scoped, planned and managed the lead up to implementation and followed this through with effective monitoring and review processes.

Audit concludes that the management of the implementation process and establishment of internal systems and controls has been effective in ensuring substantial compliance with GST requirements.

AUDIT OBJECTIVES, APPROACH AND COST

Audit Objective

The objective of this performance audit was to ascertain the extent of compliance with GST legislative requirements, having regard to particular aspects of the tax considered by the ATO to have a strong risk of non-compliance. A further objective was to ascertain the effectiveness with which the GST was implemented by Tasmanian public sector agencies according to centrally and locally initiated plans and procedures.

Scope of the Audit

The scope of this audit included an examination of the departments of Education, Health and Human Services, and Infrastructure, Energy and Resources as well as the GCC. The audit was restricted to an examination of the controls implemented within these organisations, the level of GST compliance and the effectiveness of the implementation process.

Audit Criteria

The following criteria were used in our performance assessment of the departments and Council:

- Effective agency controls have been implemented;
- A high level of compliance with GST requirements; and
- An effective planning and implementation process used.

Audit Advisory Committee

The Audit Advisory Committee consisted of representatives from the departments of Treasury and Finance; Education; Health and Human Services; and Infrastructure, Energy and Resources as well as a representative from the GCC and an industry representative. The committee provided guidance on the terms of reference, the audit criteria and the audit methodology. The committee also met to comment on the findings of the draft audit report.

Audit Methodology

Audit examined the control environment and assessed the self-regulatory systems and procedures in place within the departments and Council audited. The availability of guidance and general information to those responsible for GST-related transactions was assessed as was the level of staff knowledge of GST requirements, Financial Management Information System (FMIS) compliance and the monitoring and reporting mechanisms in place. Further, consideration was given to the level of initial and ongoing staff training and development, including the minimisation of the ‘key person’ syndrome.

Compliance testing was performed in the areas of BAS preparation, grants administration, works-in-progress (WIP) contract management over the transitional period and the valid classification of expenditure and revenue items for GST purposes.

Audit examined the effectiveness of the application of a project management approach to the implementation of GST. This review assessed the extent to which agencies and the National Tax Reform Unit of Treasury clearly identified and monitored necessary business changes and key milestones having regard to the short timeframe in which to implement changes. Further, the ongoing coordination by Treasury of additions to *A New Tax System (Goods & Services) Act 1999* (ANTS) Division 81 exceptions was assessed.

At the completion of the audit, draft audit reports were distributed to auditees for comment. This final audit report includes auditee responses to the audit findings, conclusions and recommendations.

Audit Resources and Timing

Planning for the performance audit commenced in May 2001. Testing at departments occurred from June 2001 to September. The report was finalised in October 2001.

The total cost of the audit, including the cost of Tasmanian Audit Office staff but excluding report production costs, is estimated at $45 552.00.

BACKGROUND

Legislation

The Commonwealth government's *A New Tax System (Goods & Services) Act 1999* (ANTS) commenced on 1 July 2000. All levels of government are subject to GST, are required to pay GST on goods and services purchased and are entitled to claim input tax credits (ITCs) in the same way as non-government organisations.

The signing of the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA) in June 1999 by Heads of Government saw Financial Assistance Grants to States cease from 1 July 2000 with States receiving all the revenue raised by the GST. The Commonwealth government has guaranteed that no State or Territory will be worse off as a result of the new arrangements. Clause 5(v) of the IGA provides that:

'*The Commonwealth will continue to provide Specific Purpose Payments (SPPs) to the states and territories and has no intention of cutting SPPs as part of the reform process set out in this Agreement, consistent with the objective of the state and territory government being financially better off under the new arrangements.'*

Additional changes are outlined in Appendix A of the IGA.

The GST legislation is only one part of the Commonwealth's National Tax Reform that also includes changes to fringe benefits tax and the Pay-As-You-Go (PAYG) system.

The State government established the *National Taxation Reform (Commonwealth-State Relations) Act 1999* (NTRA) and has attached the IGA to this legislation thus requiring state and local government entities to comply with GST law. *The National Taxation Reform (Commonwealth-State Relations) Miscellaneous Amendments Act 2000* amends the NTRA to allow the Minister to determine if a Local Government Authority has not complied with GST legislation and for the State Grants Commission to determine the level of unpaid GST.

Through the IGA, a National Tax Equivalent Regime was implemented on 1 July 2001.

What is GST?

The GST is a broad-based tax levied on the supply of most goods and services at a rate of 10 per cent. The consumer bears the cost of the GST and businesses offset the GST paid on their inputs (referred to as ITCs) against the GST collected from sales. This tax is a private consumption tax rather than a business tax. GST is applied to government services in much the same way as the private sector although some items such as health, education, child care and water and sewerage services are GST-free. Some agencies may provide both GST-free and taxable goods and services.

A supplier is input-taxed when they do not accumulate ITCs for purchases contributing to the supply of goods and where the customer does not pay GST on the final supply. Examples of supplies input-taxed include financial supplies (loans, shares, superannuation), sale of used residential premises and the lease, hire, rent or license of residential accommodation. Activities performed as an employee are not subject to GST.

The ANTS legislation requires all entities, as defined in the GST legislation, to register for the purpose of GST. Registration for GST forms part of the broader registration process for an Australian Business Number. The GST legislation defines “government entity” and allows for, but does not require, the separate registration of government entities at a level lower than the Crown.

Registration for the Tasmanian Government is at the agency level, with any sub-entities of agencies (eg schools) registering separately, where necessary, subject to the Treasurer’s approval. Any proposals by agencies to group or branch for GST purposes are submitted to the Treasurer for approval.

The ANTS legislation requires that BAS returns be lodged by registered agencies with the ATO on the twenty first day of the month or quarter depending on annual turnover. *Treasurer’s Instruction 518* (TI 518) requires government departments to endeavour to lodge their monthly BAS returns by the fifteenth day of the month in order to minimise the cash flow implications of the GST on government finances.

Cash Flow Implications of GST

Cash flow implications arise from the lag time between the payment of the GST and the receipt of the corresponding ITC from the ATO. Interest earnings by the Government on the GST amount paid are forgone for the period between the payment and the receipt of the corresponding ITC from the ATO. This requires careful cash flow management by all entities.

Briefing from Australian Taxation Office (ATO)

The ATO's GST Training Module highlights the following areas likely to be audited by the ATO:

- Tax invoices held in support ITC claims;
- Correct classification of supplies (taxable, GST-free, input taxed and non taxable supplies);
- Output tax payable and ITCs attributed to the correct tax periods;
- Correct method of accounting adopted;
- Right GST tax period adopted;
- Time of supply rules correctly applied in the transition period;
- Tax invoices comply with requirements;
- Correct application of the reverse charge rule;
- GST appropriately applied to vouchers and barter transactions;
- Recording of transactions with related entities; and
- Application of GST to goods sold by a creditor in satisfaction of a debtors debt

Many of the above auditable areas were incorporated into the testing program for this audit. In addition, a briefing provided by the ATO suggested three areas of risk to government agencies that could be considered. These were:

- Transitional valuation of WIP for head contractors in the building or civil engineering industries (contracts spanning 1 July 2000);
- Administration and grossing-up of grants of financial assistance; and

- Determining the extent of creditable purpose for providers of financial supplies.

Points one and two above have been incorporated into the audit compliance testing program, the third point was eliminated from the program as the auditees were not classified as providers of financial supplies.

Training on GST issues was provided to TAO auditors by the ATO in May 2001. This training was divided into two segments, the first designed to provide financial auditors with a basic overview of GST requirements and the second to provide specific training on state government issues to a selection of senior auditors. The second segment covered the GST treatment of appropriations, grants, transitional contracts and financial supplies and was extremely beneficial in assisting with the development of the audit program for this performance audit.

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

This section of the report deals with our findings, conclusions and recommendations made in relation to the audit criteria.

Performance Against Audit Criteria

1. EFFECTIVE AGENCY CONTROLS HAVE BEEN IMPLEMENTED.

1.1 Systems & Policies

Reduce the risk of non-compliance

The establishment of systems and policies assists in ensuring processes are controlled and risk of non-compliance is minimised. The existence of a policy framework makes a clear statement of commitment to compliance by the entity and establishes a consistent platform from which to manage daily activities.

Audit examined the internal systems in place within the audited entities, this examination included the perusal of manuals, policies, guidelines and procedures.

In addition to the legislative and guidance information available from the ATO, the guidance releases and instructions issued by Treasury provide a basic framework for the management of GST-related issues to government departments although each department has specific GST issues related to their business.

Audit Findings:

Adequate systems and policies existed within DoE, DHHS and DIER to ensure that GST coding was correct and that the BAS return was prepared in accordance with GST requirements although in all cases Internal Audit had suggested some areas for improvement aimed at minimising coding error rates.

… need to improve reference materials

It was noted that the DoE *'School and College Levies Guidelines for 2001 and beyond'* referred briefly to the GST tax changes although it did not give specific details. Specific GST details such as DoE instructions and ATO Tax Rulings are available through other information sources although they may not be readily available to school and college administration officers or bursars. It is imperative that this information be readily available to these officers in order to assist schools in complying with these rulings.

Inadequate formal policies

The GCC has recognised the inadequacy of their existing formal written policies and procedures and have placed priority on the re-development of these. Audit noted that although formal written policies and procedures did not exist in some areas, adequate systems and informal procedures had been implemented to ensure compliance with GST requirements.

Timing issues

The three departments and one Council audited all expressed concern about the requirement that GST ITCs are attributed to the period in which the payment is made or when the invoice is received. This concern related to the likely scenario that where there are processing delays the ITCs are not recognised within the period in which they fall due therefore resulting in each BAS being incorrect as they exclude the ITCs for the unprocessed invoices. The amounts claimed in the BAS would therefore be for the previous period. Auditees were concerned that where an overclaim of credits is made in a particular period due to this timing issue the ATO may choose to apply penalties, either now or in the future if retrospective ATO compliance audits are conducted. The ATO's response to this concern is detailed below:

> *'In the situation where an entity is entitled to claim an ITC in an earlier period, but for one reason or another did not do so, that entity can claim the ITC on any subsequent BAS, which is in fact to their detriment. In this situation we will not be penalising the entity for overclaiming in that later period.*

Whilst a strict application of the law says that the entitlement to the ITC occurred in the previous period and that is when the ITC should be claimed, any compliance activity uncovering such action would look favourably upon the situation.'

The ATO provided Audit with a copy of the ATO Fact Sheet titled 'Correcting GST Mistakes' detailing the process to correct a BAS return. When correcting BAS mistakes correction limits exist, these are detailed below:

Correction Limits	
Less than $20 million	*Less than $1000*
$20 million to less than $100 million	*Less than $5000*
$100 million to less than $500 million	*Less than $15000*
$500 million to less than $1billion	*Less than $30000*
$1billion and over	*Less than $50000*

The ATO also advised that

'…if the correction limits are exceeded, an entity must revise the earlier BAS (in effect amending it). This can be done either over the telephone, depending on the complexity of the issue (the number is 13 24 78).

Alternatively, the entity can ask the Commissioner to revise the earlier BAS in writing, giving details as to why it wishes the revision to take place.'

Recommendation

DoE should update the 'School and College Levies Guidelines for 2001 and beyond' with specific guidance on GST issues and include references to GST information sources.

All entities should adhere to the ATO requirements for correcting or amending BAS returns.

Treasury should take the timing issue up with the ATO to ensure that departments are not penalised for technical breaches which confer no financial advantage.

DoE Response:

The GST impacts on a number of areas of school operations. The GST regulations that schools need to be aware of are extensive, with GST guidelines and rulings potentially affecting multiple operations in schools. Rather than developing and maintaining many separate sets of information outlining the impact of the GST on individual areas of operation, the Department has established a comprehensive GST manual that covers all aspects of the GST in schools. The GST manual is updated as information is received and it is available on the Intranet at http://info.tased.edu.au/gst/.

With regards to levies, the Department's guidelines for school levies are currently being updated. The draft *Guidelines for School Levies 2002* contains the following reference to the GST:

What effect does the Goods and Services Tax (GST) have on levies?
While the vast majority of levy components are GST free, there are some items on which GST is payable and schools need to be fully aware of the GST guidelines when levy rates are being set.

The Commonwealth introduced the GST on 1 July 2000. While the GST has only a minor effect on school levies, overall it does impact on a number of areas of school operations. The Department has established an Intranet site that covers all GST implications for the educational sector and this should be referred to for information about levies and the GST.

GCC Response:

Recommendation accepted.

1.2 Knowledgeable Staff

The existence of knowledgeable staff is important for the following reasons:

- Ensures that agencies have an experienced officer to oversee the management and accounting for GST as it relates to the services delivered and acquired;

- Ensures that employees performing day-to-day processing tasks have adequate knowledge enabling them to efficiently and effectively perform the functions of their position; and
- Knowledgeable officers are available to provide practical education and training to employees as part of the corporate induction and ongoing training process.

The level of knowledge held by existing staff and the framework in place to ensure new employees were inducted adequately in the area of GST was assessed.

Audit Findings:

Appropriate level of knowledge held but …

Audit concluded that those responsible for overseeing GST management and accounting held appropriate and adequate knowledge of GST requirements. These officers were available to provide training in this area to new employees although this did not often extend to divisional business units. Internal audit reports for DHHS, DoE and DIER revealed a small percentage of coding errors that will need to be given further attention by departments in order to reduce this error percentage.

risk of processing errors

Audit identified the risk of processing errors occurring when positions were occupied by temporary or new officers. The DIER internal audit report specified the need for further refresher training for staff involved in GST-related transaction processing.

Given the move to decentralise transaction processing to DHHS Divisional units, staff within these units will need to receive further training. Inaccurate data entry and the incorrect use of GST account codes on the FMIS could result in the production of an inaccurate BAS return and therefore lead to non-compliance with GST legislation.

Recommendation:

Entities should commit to educating new employees and providing refresher training for existing employees on GST-related issues, particularly those in Divisional units, to ensure that they have a full understanding of the GST coding requirements.

This recommendation could be achieved through an initial discussion as part of the induction process, the preparation of quick reference guides and the provision of easy to use coding materials.

DoE Response:

The Department conducts training programs on an on-going basis for new staff who require knowledge of GST coding requirements.

DHHS Response:

The Agency has initiated a project to ensure that all divisions receive training to update their GST knowledge on a regular basis and that new employees receive appropriate GST training on commencement.

GCC Response:

Recommendation accepted.

1.3 Accounting System

Accounting system compliance with GST requirements minimises manual processes and accordingly reduces the risk of error. In addition, accounting system compliance can ensure efficient processing and production of GST-related returns and reports, providing that data input is accurate and reliable.

Audit Findings:

The full upgrade of FMISs appeared to be a priority within the departments and Council audited. Technology One, the founder of the Finance One FMIS, developed a standard GST compliant upgrade for Finance One and negotiated upgrade implementation with each client department separately, namely DoE and DHHS. Each agency was responsible for the implementation and testing of this upgrade. The Finance One user group also addressed any GST compliance issues.

Coding structures accurate

The audit verified that the FMIS coding structures and process for completing BAS returns within audited departments and the GCC accurately recorded GST transactions.

Prior to the planned installation of Finance One in January 2001 DIER adopted interim measures to ensure GST compliance. An internal audit conducted at this time concluded that the interim measures met GST legislative requirements.

Substantial FMIS compliance but …

system calculation errors detected

One system error was identified by DIER in the processing of Finance One expense claims where the last line of expense costing in some transactions with multiple lines of costing was excluded from the GST calculation for that claim. A system implemented at the time of GST introduction whereby Accounts Payable staff check that the GST calculation for each claim is correct prior to completing the transaction processing has ensured the risk of error is minimised. Action has been taken by DIER to have Technology One rectify this problem. In the meantime, additional checks have been built into the BAS reconciliation process. The other departments audited did not appear to have encountered this Finance One calculation error.

The nominated officer within GCC was involved in the Fujitsu user group although the GST compliant upgrade was not available for uploading onto the GCC FMIS until the night before GST implementation.

1.4 Daily Compliance Activity

Australian Standard AS3806-1998 states that

> *'…as part of normal operations, the requirements of laws, regulations, codes and organizational standards need to be integrated into the organization's day-to-day operating procedures.'*

Audit examined the extent to which GST legislative requirements were integrated into normal operations within departments and the Council audited.

Audit Findings:

Adequate systems integrated into daily activities

Audit determined that adequate systems had been implemented into daily activities to ensure reasonable compliance with GST requirements. Each of the auditees had compiled reference materials for those staff processing transactions on a daily basis and these appeared to be effective.

1.5 Identify Compliance Failures

Australian Standard AS3806-1998 states that:

> *'A compliance program is an important element in the corporate governance and due diligence of an organization, and should –*
>
> *(a) aim to prevent, and where necessary, identify and respond to, breaches of laws, regulations, codes or organizational standards occurring in the organization;*
>
> *(b) promote a culture of compliance within the organization; and*
>
> *(c) assist the organization in remaining or becoming a good corporate citizen.'*

The existence of a systematic process to identify and rectify actual and potential compliance failures was investigated and records of action taken were viewed in order to assess the level of appropriateness of this action.

Audit Findings:

Structured process

Each of the auditees demonstrated a structured process for identifying compliance failures, reviewing processes and procedures and taking appropriate action to rectify failures. Good relationships were maintained with the ATO and Internal Audit and in all but one case Internal Audit had conducted a review of GST transaction processing and these recommendations were being considered for implementation.

At DIER several reviews had been conducted these included a full BAS review, a quality assurance report for the GST project and, most recently, an internal audit examination of all GST issues.

1.6 Abreast of Changes

GST requirements are continually being refined by the ATO, it is therefore imperative that managers keep abreast of these changes and ensure that systems and processes are adapted to ensure continued compliance and staff training. In recognition of this importance, an analysis of the framework in place for keeping abreast of these changes and the provision of additional training was conducted.

Audit Findings:

High level of knowledge

Auditees demonstrated an excellent understanding of the avenues from which to obtain updates on changes to GST requirements. This was reflected by the level of knowledge held by each of the officers responsible for the management and accounting for GST.

1.7 Management Reporting

Management reporting is a critical part of the planning and monitoring process and is an effective control mechanism. It provides a means for managers to make informed decisions, is a useful source of information for performance measurement and evaluation, and provides a platform for service benchmarking. Management information therefore needs to be relevant, valid and reliable.

AS3806-1998 recommends that internal reporting mechanisms identify all

> '…*actual and potential compliance failures and ensure these are rectified in an appropriate way, report systemic and recurring problems of non-compliance* …'.

In order to ensure appropriate management supervision Audit considered the adequacy of existing management reporting frameworks to ensure that management has a full understanding of GST compliance.

Audit Findings:

Specific reporting unnecessary

Audit found that the management reports of audited entities reported revenues and expenditures exclusive of GST in accordance with accounting standards. With the exception of internal audit reports, no specific reports aimed at informing management of the impact of GST on the agency were prepared although other than the cash flow and transaction processing impact there was little other impact on auditees. GST management issues appeared to have been dealt with and resolved prior to the implementation of GST after which time reports on the impact of GST had ceased. Internal audit reports on the level of GST compliance were provided to the appropriate managers for consideration.

Inaccurate estimates of GST expenditure

A question was put to Treasury regarding the substantial differences in departmental estimates of GST expenditure in comparison to the actual expenditure for the 2000/01 financial year and whether or not this has had any budgetary impact. Treasury provided the following response:

> ‘*Guidance Release No. 8 "Implementation of the GST - Budget Paper Disclosure" and Guidance Release No. 9 "Implementation of GST – Accounting Issues" were prepared to assist agencies with the presentation of GST estimates in the 2000-01 Budget Papers. As you are aware a number of other guidance releases were prepared in relation to specific issues that had whole-of-government issues and the ATO has produced many rulings and guidelines to assist entities in understanding and implementing the GST. Agencies are responsible for preparing GST estimates in accordance with the GST legislation and in accordance within the policy framework established by the Government.*
>
> *This approach is consistent with the preparation of other budgetary estimates where it is the responsibility of the Head of Agency to ensure estimates and data are provided in an appropriate format and within any legislative or policy framework.*

It should be noted that the estimates were prepared by agencies in April 2000. As you would be aware, agencies were still working through GST implementation issues at this time. Further, there were a number of key issues affecting government which the ATO had not issued final rulings at this stage (eg grants, appropriations and PAYG). It is likely that these factors affected the accuracy of the GST estimates prepared by agencies.

Further, many suppliers external to government would not have finalised their own GST implementation and pricing policies at this stage, creating further uncertainty. It should also be noted that any changes in agency expenditure will also affect the GST estimate.

As issues relating to the GST settle down it can be expected that variances between budgeted and actual GST estimates will become less significant.

Importantly, GST is a flow concept with any actual GST expense likely to be minor.'

1.8 Internal Record Keeping

The ATO require that records be kept on the amount of GST paid on taxable supplies, the amount of ITCs claimed for creditable acquisitions, the amount of withholding tax as well as other tax details (i.e. wine equalisation, luxury car tax). These records usually consist of a valid tax invoice or adjustment notes for increases in consideration for an acquisition.

Audit examined the existence of supporting documentation such as GST compliant tax invoices and records supporting any adjustments made to BAS returns.

Audit Findings:

Supporting documentation retained

The results of audit testing verified that suitable records were kept by auditees and that these records complied with GST legislative requirements.

Finance One issue

Audit noted that the BAS generation log from Finance One created a new worktable for each monthly BAS return and replaced the previous month's worktable, eliminating any audit trail. There is a risk that these worktables may, in the future, be required for internal/external reconciliation purposes or compliance testing. The three departments using Finance One demonstrated some concern about this issue and considered the worktable to be an important part of the BAS audit trail.

Recommendation:

Departments using Finance One should ensure that a full audit trail of GST worktable information is available for future reference.

DoE Response:

Agreed

DHHS Response:

At the Agency's request, Tech[nology] One developed a program to safely store prior BAS monthly worktables. The program is operational, but requires further involvement from Tech[nology] One.

DIER Response:

… the data supporting the worktable remains in Finance One. It is just not as readily accessible as it is in the worktable format. More effort would be required to retrieve the data if required.

1.9 Monitoring & Review

An extension of the compliance program is the continual monitoring and review of existing processes and procedures to ensure ongoing relevance. A monitoring and review framework also ensures that action is taken to rectify systemic and recurring problems and that remedial action is monitored and reviewed.

The extent to which departments and the Council audited continually monitored and reviewed existing processes and procedures was examined.

Audit Findings:

Monitoring and review processes in place

Audit found that review processes were in place within each of the departments audited and to a lesser extent at GCC. The departments appeared to place a heavy reliance on the internal audit program for the review of GST-related issues. DIER, in particular, demonstrated a commitment to a quality assurance process. GCC Internal Audit had not been requested to conduct a review of GST compliance.

1.10 Contact with ATO

The ATO has established a communication protocol and allocated officers to assist government departments and local government authorities with GST inquiries. Agencies and Councils have unlimited access to this free resource to assist them in achieving GST compliance. This is also the appropriate avenue to pursue Private Taxation Rulings.

Audit assessed the key Financial Officer's awareness of ATO Key Client Managers and extent of use by agencies and the Council of ATO of contact officers to clarify GST issues.

Audit Findings:

Active liaison with ATO

The officers responsible for overseeing the management and accounting for GST within agencies and the Council were aware of the allocated ATO Key Client Managers and appeared to contact these Key Client Managers when necessary. In particular, DoE and GCC received regular visits and information from the ATO.

Private Tax Rulings required

Agencies commented that often advice from different officers within the ATO was inconsistent and therefore it was necessary to request Private Tax Rulings to be fully confident in the ATO response provided. All auditees demonstrated an understanding of the process for seeking Private Tax Rulings.

Conclusion – Audit Criterion 1

Generally, the entities audited demonstrated that they had implemented adequate systems and controls to ensure compliance with GST requirements. High staff turnover within agencies was seen by Audit as the highest risk of non-compliance. It has therefore been recommended that agencies be fully committed to the education of new staff as well as providing refresher training.

2. A HIGH LEVEL OF COMPLIANCE WITH GST REQUIREMENTS.

2.1 Grants Administration

The ATO’s Taxation Ruling on Grants of Financial Assistance (GSTR 2000/11) states that GST is payable in respect of a grant, so long as the grant meets Section 9-5 of ANTS. Section 9-5 of ANTS states that for a supply to be a taxable supply it must meet the following four criteria:

- The supply is for consideration;
- The supply is made in the course or furtherance of an enterprise carried on by the supplier;
- The supply is connected with Australia; and
- The person making the supply is registered, or required to be registered.

Usually if the grant agreement requires the grantee to use the grant in a particular manner the grant will constitute consideration for a supply and as a result will be subject to GST. Supply is not limited to a good or service but may include a right, obligation, undertaking or the provision of advice or information although this must be legally binding.

The provision of information or other supplies that are incidental to the purpose for which the grant has been made, such as accounting for the grant or the preparation of financial statements, alone does not constitute the supply for which the grant is consideration.

Grossing-up of grants

Treasury *Guidance Release No. 14* (GR14) instructs departments to gross-up grants paid to registered entities by an amount equal to the ITC so that the after-tax funding to the grant recipient is not reduced. Grants paid to GST-registered entities are usually grossed-up by 10 percent, the entity making the grant claims an offsetting ITC for the GST component of the grant.

Treasury GR14 states that departments should not make a grant payment until the appropriate tax invoice is received. The ATO require that a tax invoice for the payment of grants is received by the grantor and therefore the grantor will often issue Recipient Created Tax Invoices (RCTI) themselves. GST Tax Ruling 2000/10 states that government entities are permitted to issue RCTIs without seeking approval from the commissioner of taxation. In the event that the grantor is performing an input taxed activity, such as providing financial services or residential accommodation they cannot claim the full ITC.

If the entity receiving the grant is not registered, or required to be registered, that entity is not required to remit GST on the grant payment to the ATO. In such cases, there will be no negative impact on the funding provided to the organisation. Similarly, as no GST is payable on the grant, the agency providing the grant will not be entitled to an ITC in respect of the grant.

Gifts

Gifts to non-profit bodies are not taxable supplies if:

- Transferred voluntarily and is not the result of a prior contractual arrangement; and
- The grantee does not receive any material advantage in return for the gift.

A gift can still have conditions attached to it provided that no material benefits flow to the provider of the gift or an associate.

Sponsorship

Sponsorship arrangements generally fall into two categories, monetary sponsorship and non-monetary sponsorship. Monetary sponsorship will usually be regarded as payment for services. As such, the organisation supplying the service (such as advertising) will be required to remit GST to the ATO and the organisation providing the sponsorship will be entitled to claim an ITC.

The importance of accurately classifying a payment cannot be overstated, particularly when the payment is grossed-up for GST purposes. In the circumstance where the entity making the payment classifies the payment as a grant and therefore grosses-up the grant up by 10% and the grant recipient classifies the grant as a gift, the result is that the 10% GST amount grossed-up is not remitted to the ATO by the recipient. The entity making the grant payment has therefore expended more funds than necessary and may be claiming ITCs in the following BAS return falsely.

Treasury GR14 states that grants should not be paid until the appropriate tax invoice is received and, if complied with by departments, should alleviate the issue of inconsistent treatment of the grant payment by the grantor and grantee. Appendix 1 provides a flow chart overview of grants procedures.

Audit selected a sample of incoming and outgoing grants to determine if the grant had been classified correctly. In addition, Audit took into consideration the ATO rules for renewable contracts to ensure that GST was applicable to the grant contract.

Audit Finding 1: DoE:

Grant subject to GST?

DoE has a scheme that provides for interest subsidy payments on loans held by non-government schools. DoE describes this subsidy in its annual financial statements as follows:

'Division 3 of the Education Act 1994 *provides for interest subsidy payments on certain loans raised by non-government schools. In order to qualify for the subsidy, the loans must be for the purpose of meeting capital expenditure incurred in the provision, alteration, or extension of teaching or residential accommodation for students.'*

Division 3 of the *Education Act 1994* states that:

> *66. (1) The governing body of a registered school may apply for a subsidy in respect of interest paid on an eligible loan.*
>
> *(2) An application for a subsidy is to be -*
>
> *(a) in a form approved by the Secretary; and*
>
> *(b) accompanied by -*
>
> *(i) a certified copy of the agreement relating to the eligible loan; and*
>
> *(ii) a statutory declaration in a form approved by the Secretary that the loan is wholly or partly for the purpose of eligible capital expenditure; and*
>
> *(c) lodged with the Secretary.*
>
> *(3) The Minister may -*
>
> *(a) grant the application for a subsidy, with*
>
> *or without any conditions; or*
>
> *(b) grant the application only in respect of that part of the eligible loan which relates to eligible capital expenditure; or*
>
> *(c) refuse to grant the application.*

From the information provided above, it is difficult to ascertain whether or not this payment represents consideration for supply. Audit therefore requested additional information from DoE as well as from the ATO.

The written response received from DoE stated that:

> *'We based our GST treatment of grants to non-gov schools on both the Treasury Guidance Release and the ATO ruling on GST and Grants of Financial Assistance.*
>
> *The Treasury Guidance Release states that "generally, a grant provided will be subject to GST if the organisation receiving the grant is registered and either:*
>
> - *there is a supply of goods and services in return for the grant, OR*
> - *the grant has some condition attached to it.*
>
> *The requirement for the grant recipient to provide some form of reporting or accountability to the Gov for use of the grant may be sufficient for the grant to be subject to GST..."*
>
> *The second condition above is clearly met by the fact that schools are required to provide accountability certificates to us to verify that the money was spent for the purpose it was intended. In relation to the first condition, the provision of the accountability certificate is the supply in return for the grant. The definition of supply within the GST legislation is very broad and includes "the provision of advice or information". The accountability certificate is the provision of information.*
>
> *The Treasury Guidance Release goes on to say that the only grants that will not be subject to GST are genuine gifts to an organisation (ie. unconditional payments with no accountability requirements) and grants made to unregistered entities.*
>
> *The changing nature to capital grants shouldn't affect the GST treatment as there will still be conditions attached to the grants in the form of accountability certificates.'*

The ATO's response to this query stated:

> *'Grants or subsidies paid without any conditions do not give rise to a GST liability, because there is no supply to the recipient. However, if a grant is paid for a specific purpose or subject to conditions, this is treated as a payment for a supply by the recipient. The GST will be 1/11 of the grant. GSTR 2000/11 provides specific examples between paragraphs 108 to 114 relating to whether an obligation exists.*
>
> *As provided in your e-mail, Division 3 of the Education Act 1994 provides "the loans must be for the purpose of meeting capital expenditure incurred in the provision, alteration, or extension of teaching or residential accommodation for students." GST will not apply if the only condition is purely peripheral to the grant. The grant is not consideration for the supply unless the grantor receives some benefit from the supply.*
>
> *From the information provided in this case, there does not seem to be a supply by the grantee because there is no binding commitment to provide the service. An expectation to provide the service only exists. However, if you require a definite answer you can request a Private Binding Ruling providing a copy of the subsidy agreement.'*

There was therefore a risk that grant recipients were not remitting the amount of GST paid by the department.

Recommendation:

DoE should obtain a Private Taxation Ruling from the ATO in order to clarify the treatment of loan interest subsidy payments.

DoE Response:

Not agreed.

The Department carefully considered the correct GST treatment of its activities during the GST implementation project, assisted by Treasury Guidance Releases, ATO publications and advice and also external consultancy advice. With regard to grants, the rulings clearly state that grants should be subject to GST if the organisation receiving the grant is registered for GST and there is either a supply of goods or services or there are some conditions associated with the grant. The Department’s view is that all grants generally have in fact both supply and conditions attached. For example, Non-Government schools provide an educational service to the Government, through the Department of Education, in educating students and providing educational facilities and there are also conditions attached such as the provision of accountability documentation to the Department with regard to the application of the funds. Further, the Loan Interest Subsidy Scheme is also in the process of being phased out and replaced by the Capital Assistance Scheme which is similar to other grant programs.

In this regard, the Department does not wish to change the GST accounting arrangements associated with the Capital Assistance Scheme/ Loan Interest Subsidy Scheme and therefore considers an ATO opinion unnecessary. The Department considers uniformity and consistency important in grants management processes. Further, the Department and Non-Government schools are successfully accounting for GST associated with the grants and there has been no negative feedback from schools in this regard.

Audit Finding 2 - GCC:

Grant or gift?

In the 2000/01 financial year GCC grants to community and non-profit organisations and individuals were grossed-up for GST purposes unless the recipient was not registered for GST. If not registered for GST the recipient was required to submit an ATO Statement by Supplier (i.e. stating that activity was in pursuit of private recreation or hobby).

Upon the cheque being produced, a letter was forwarded to the grant recipient stating the condition of payment was that a written reply be provided to GCC verifying receipt of the payment and that the payment was expended for the purpose for which it was intended. A note was also enclosed with this letter stating whether or not the grant had been grossed-up for GST purposes. Although desirable, the grant conditions were not enforced by GCC.

It was for this reason that the grants appeared to be gifts rather than consideration for supply thus increasing the risk that non-profit grant recipients did not remit the GST amount.

Recommendation:

GCC should obtain a Private Taxation Ruling from the ATO on this issue.

GCC Response:

Recommendation accepted.

2.2 Valuation of Works-In-Progress Spanning 1 July 2000

Transitional matters associated with the introduction of the GST were provided for under ANTS, this provision included the treatment of contracts that extended past 1 July 2000. Appendix 2 provides a flow chart overview of the contract assessment process for GST purposes.

Generally, ANTS provides that any goods or services supplied after 1 July 2000 will be taxed, even though the contract was entered into before 1 July 2000. However, there are exceptions dependent upon:

- The date the contract was entered into;
- Whether the contract or agreement is reviewable or non-reviewable;
- Whether the contract or agreement is with a buyer who would be entitled to a full ITC; and
- Whether the contract or agreement involves the supply of goods or real property or services.

Where it is determined that GST is applicable to a construction contract that spans 1 July 2000, special rules for construction contracts were developed for valuing the proportion of the contract completed prior to GST implementation and not subject to GST.

Under these rules, a valuation needed to be undertaken at 1 July 2000 of all the work and materials permanently incorporated on the site in accordance with the contract. The valuation could be ascertained from records, if these clearly identified the value of the supply, or by using an independent registered valuer or quantity surveyor. GST applies to the extent that the supply exceeded the value of work performed before 1 July 2000.

Supplies made under contracts or agreements that provide for a supply to be made for a period, or progressively over a period that spans 1 July 2000, are viewed as being made continuously and uniformly throughout the period. Therefore the value of the supply made after 1 July 2000 will be subject to GST.

Assessed the identification of contracts spanning 1 July 2000 and valuation method

Audit assessed the process by which departments and the Council had firstly identified contracts spanning 1 July 2000 and then examined the method of valuing the service up to 1 July 2000. For construction contracts this examination included the valuation of work and materials permanently incorporated or affixed to the construction site as at 1 July 2000.

Audit Finding:

Appropriate classification of contracts and contract clauses

Auditees created contract registers as part of the GST implementation process. Appropriate classifications of these contracts were made at the initial implementation stage and in some cases the contract registers were in the process of being updated. In most cases, auditees had sought legal advice in the redrafting of contract clauses to include reference to GST. The sample revealed that appropriate GST clauses were being incorporated into new contracts.

… risk of non-compliance

Within the GCC, contract preparation is restricted to two Council officers who are aware of GST contractual requirements. Audit noted that there was a risk that other GCC officers preparing contracts on a one-off or infrequent basis may not be aware of these requirements.

Recommendation:

Departments and the GCC should consider reviewing their existing contracts register to ensure that renewable contracts are reviewed.

GCC should promulgate a contracts policy that includes instructions for the registration of contracts through the Contract Register coordinator and include reference to GST as it relates to contractual payments and provides a standard GST clause to be included in all contracts.

DoE Response:

As mentioned above, the Department carefully considered the correct GST treatment of its activities during the GST implementation project, assisted by Treasury Guidance Releases, ATO publications and advice and also external consultancy advice. Accordingly, all contracts which spanned 30 June 2000 were reviewed and work was classified into pre and post 30 June 2000. The Department recently had a visit from the ATO regarding possible advance payments made prior to 30 June 2000 and the ATO was satisfied that there were no outstanding GST obligations.

DHHS Response:

A review of the contract register has been conducted and staff are in the process of updating the register.

GCC Response:

Recommendation accepted.

2.3 Preparation of Business Activity Statements (BAS)

The BAS is an ATO form for the reporting of:

- Tax obligations;
- Entitlements;
- Wine equalisation tax;
- Luxury car tax;
- Pay-As-You-Go instalments and amounts withheld;
- Deferred company and fund instalments; and
- Fringe benefits tax instalments.

The BAS must be lodged on a monthly basis unless the annual turnover of the organisation submitting the BAS is less than $20 million.

The BAS return and any payment due must be received by the ATO on or before the twenty first day of the month if the tax period ends during the first seven days of the month after the BAS period ends. *Treasurer's Instruction 518* (TI 518) instructs departments to lodge a monthly BAS to the ATO by the fifteenth of the following month although there are two exceptions to this instruction. BAS lodgement can be by mail or electronic using the ATO's internet-based electronic commerce system. The ATO undertakes to pay any amounts owing to the organisation submitting the BAS within fourteen days from the date of BAS lodgement.

Audit examined the BAS preparation, lodgement and recording process undertaken within departments and the Council to determine the level of compliance with ATO requirements. Assessment of departments against TI 518 was also conducted, this instruction does not apply to Councils. ATO electronic lodgement facilities give departments more flexibility in the lodgement of BAS returns.

Audit Finding:

Systematic framework

Audit found that a systematic framework for preparing BAS returns existed within the departments and Council audited and that adequate controls and checks were built into the preparation process. Satisfactory levels of supporting documentation were also maintained. BAS returns had been submitted on time through electronic lodgement.

The departments audited were attempting to comply with TI 518 and lodging their BAS returns by the fifteenth of each month.

Early refund from ATO

GCC were considering early submission of their monthly BAS return in order to obtain and earlier refund from the ATO.

Recommendation:

Where refunds are due and BAS accuracy can be assured, entities should aim to lodge their BAS returns as soon as possible after the end of the BAS period to ensure early receipt of the ATO refund.

DoE Response:

Agreed

DHHS Response:

The Agency nets off its monthly GST refund against its PAYG liability. This means that the BAS is often lodged well prior to the 15^{th} of each month.

DIER Response:

Agreed.

GCC Response:

Recommendation accepted.

2.4 Classification of Expenditure and Revenue Items - Glenorchy City Council

Expenditure and revenue items can be classified as taxable supplies, GST-free or input taxed supplies. GST-free supplies are supplies where no GST is charged on the supply although the supplier can claim ITCs, examples include basic food, health and educational supplies, registration and application fees. Input-taxed supplies are supplies where the supplier does not have GST liability in respect to the supply and ITCs on the acquisitions of goods and services cannot be claimed. Examples of input-taxed supplies include residential rent and premises, financial supplies, fund-raising events by charities.

PAYG withholding tax is held at a rate of 48.5% of the invoice total for non-ABN suppliers. To avoid the 48.5% withholding tax suppliers who do not possess an ABN can complete an ATO 'Statement by a supplier (Reason for not quoting an ABN to an enterprise)' stating the reason the supplier does not hold an ABN. An example is where the activity resulting in supply could have been a private recreational pursuit or hobby for the supplier, thus not requiring the supplier to have an ABN and therefore the PAYG withholding tax requirement does not apply.

Tests were conducted at GCC to ensure that the correct treatment of each GST category was appropriate. Examination was first conducted of the taxation category matrix prepared by GCC prior to the implementation of GST and was then expanded to sample testing of recent debtor invoices and creditor payments. In addition, the treatment of PAYG withholding tax was also assessed.

Audit Finding:

Accurate classification

The GCC coding guide, which had not been updated since the implementation of GST, was found to be accurate as was the coding of debtor invoices and creditor payments tested. GCC also demonstrated a systematic approach to the assessment of non-ABN suppliers in order to ascertain whether or not withholding tax of 48.5% was required. The GCC maintained accurate records to support these coding decisions.

2.5 Recording of Appropriations

Appropriations from one Australian government agency to another Australian government agency are not subject to GST. An appropriation from a government agency to a government related entity (eg an appropriation from DIER to Metro Tasmania) is also not subject to GST.

The methods used to determine the correct accounting for these payments was investigated and a small sample of appropriations made to departments and the Council was tested.

ATO advised that it is the recipient’s responsibility to ensure that the appropriation is accounted for correctly and therefore if the recipient considers that the payment made is a grant rather than an appropriation it is the recipient’s responsibility to obtain an ATO Private Tax Ruling on the correct accounting for the GST on the payment received.

Audit Finding:

Satisfactory results

The recording of appropriations was tested in each of the audited departments and the GCC with satisfactory results. Where there was any confusion as to the classification of appropriations auditees were able to present documentation from the payer advising of the appropriate treatment for GST purposes.

Conclusion – Audit Criterion 2

Evidence of substantial compliance was found in regard to Business Activity Statement (BAS) preparation, the valuation of contracts spanning 1 July 2000 and valid classification of expenditure and revenue items for GST purposes. Some recommendations have been made in regard to the classification of some grant payments and receipts which will need to be determined by the ATO.

3. AN EFFECTIVE PLANNING AND IMPLEMENTATION PROCESS WAS USED.

Effective project management techniques are critical to the success of any implementation process and usually involve a number of stages. These stages include: project scoping, planning and management; the identification of business changes; project implementation; evaluation and testing; and post-implementation review and compliance activities.

Audit examined the project management techniques applied within the departments and Council audited as well as by Treasury in order to determine that effective techniques had been utilised in the implementation of GST.

3.1 Project Scoping, Planning and Management

The development of project plans detailing project goals, objectives and constraints as well as the establishment of a project team with responsibility for the GST implementation project was assessed. Further, the communication strategy developed by the project team and the written material (paper and electronic) made available to those involved in the management and processing of GST transactions was also examined.

Consideration was also given to the identification of GST issues specific to the organisation and the assessment of the effects of GST implementation on the inputs and outputs of the organisation.

Audit Finding:

Adequate resources allocated

Audit found that, given the significance of the GST implementation project, all auditees appeared to have allocated adequate resources to the scoping, planning and management of the program. There also appeared to be significant interest in the project progression by senior management.

DIER Response:

The Manager Financial Services indicated that he did not think the audit finding sufficiently demonstrated the keen focus senior management had in the successful implementation of GST.

3.2 Identification of Business Changes

An assessment of the adequacy of the reviews conducted by auditees of business and accounting systems, existing policies, practices and procedures as well as pricing structures was conducted. Furthermore, any transaction flow analysis undertaken by departments or the Council and the identification of tax planning opportunities to minimise the transaction cost were assessed.

Audit Finding:

Reviewed business procedures and accounting systems

Auditees differed in their approach to the identification of business changes although examination of existing records identified that all had reviewed existing business and accounting systems and procedures as well as identified tax planning opportunities in order to minimise the transaction cost. These approaches were sound.

3.3 Project Implementation

By the project implementation phase departments and the Council should have finalised their processes and operating procedures, communication strategies and staff training program. Revised documentation and stationery should have been available in order to comply with GST requirements from 1 July 2000 and the review of existing contracts should have been completed.

Audit Finding:

Thorough implementation

Audit observed thorough implementation of GST legislative requirements within all audited departments as well as at GCC.

3.4 Evaluation and Testing

Evaluation and testing prior to implementation is imperative in ensuring compliance prior to ‘going live’ with new processes and procedures and upgraded FMIS. Agencies and Councils should have conducted testing of process changes and user tested FMIS changes in order to make necessary adjustments before 1 July 2000.

Audit Finding:

Evaluated and tested.

The majority of auditees were able to test and evaluate systems and procedures prior to the 1st of July 2000 although GCC stated that they did not receive the completed Fujistu FMIS upgrade until the night before 1 July 2000. This delay left GCC little opportunity to test proposed procedures. Correspondence received by GCC advised that the GST compliant upgrade had been tested prior to rollout.

3.5 Post Implementation Review and Compliance Activities

Continual review and compliance testing ensures continuous improvement, the realisation of efficiencies and compliance with legislative requirements. In order to make an assessment of auditees' ability to achieve these results the extent to which departments and the Council monitor GST compliance, conduct post implementation reviews of systems and conduct follow-up training was examined.

Audit did not find it necessary to examine the implementation process undertaken by the Treasury National Tax Reform Unit due to the satisfactory level of implementation adopted by the departments and Council audited. Audit did give consideration to the effectiveness by which Treasury's ongoing role in the coordination of additions to the ANTS Division 81 exemptions was managed.

Audit Finding:

Satisfactory levels of review and compliance

Audit found evidence of satisfactory levels of review and compliance activity by auditees. In many cases Internal Audit had a role in this review function but, in addition, systematic reviews had been built into the monthly processing of BAS statements, involvements on committees and continual discussions with the ATO.

Aware of process for changing Division 81

Auditees were aware of the process for making changes to the ANTS Division 81 exemptions and had established suitable internal processes for reviewing these. Treasury outlined the process of coordinating the revision of the ANTS Division 81 as follows:

'The Division 81 list is reviewed twice a year.

Commonwealth Treasury provides the current list to state treasuries. In Tasmania, Treasury writes to all agency heads and the Local Government Association of Tasmania attaching a copy of the current list and requesting that Treasury be informed of any changes, additions or deletions.

The updated list is then provided to the Commonwealth. The Commonwealth compiles a revised list of all fees and charges and distributes the list to state treasuries for checking. The list is discussed at two Working Party meetings if required. The list is considered by the Goods and Services Tax Administration Sub-Committee (composed of representatives of each state treasury and the ATO). The final list is then sent to the Ministerial Council (comprised of Treasurers of each jurisdiction) and formally agreed to by all members in writing. A determination as to the Government taxes, fees and charges that are not subject to GST is then made by the Commonwealth Treasurer.

The determination is published on Commonwealth Treasury's website (a link is provided on Treasury's website).

It is intended that a seminar for State Agency representatives responsible for updating their agencies portion of the list be held in the future to again reiterate the above process.'

Treasury should formally advise agencies of Division 81 date of effect

One auditee suggested that Treasury formally advise agencies of the effective date of each successive determination thus enabling advice to be disseminated throughout each agency.

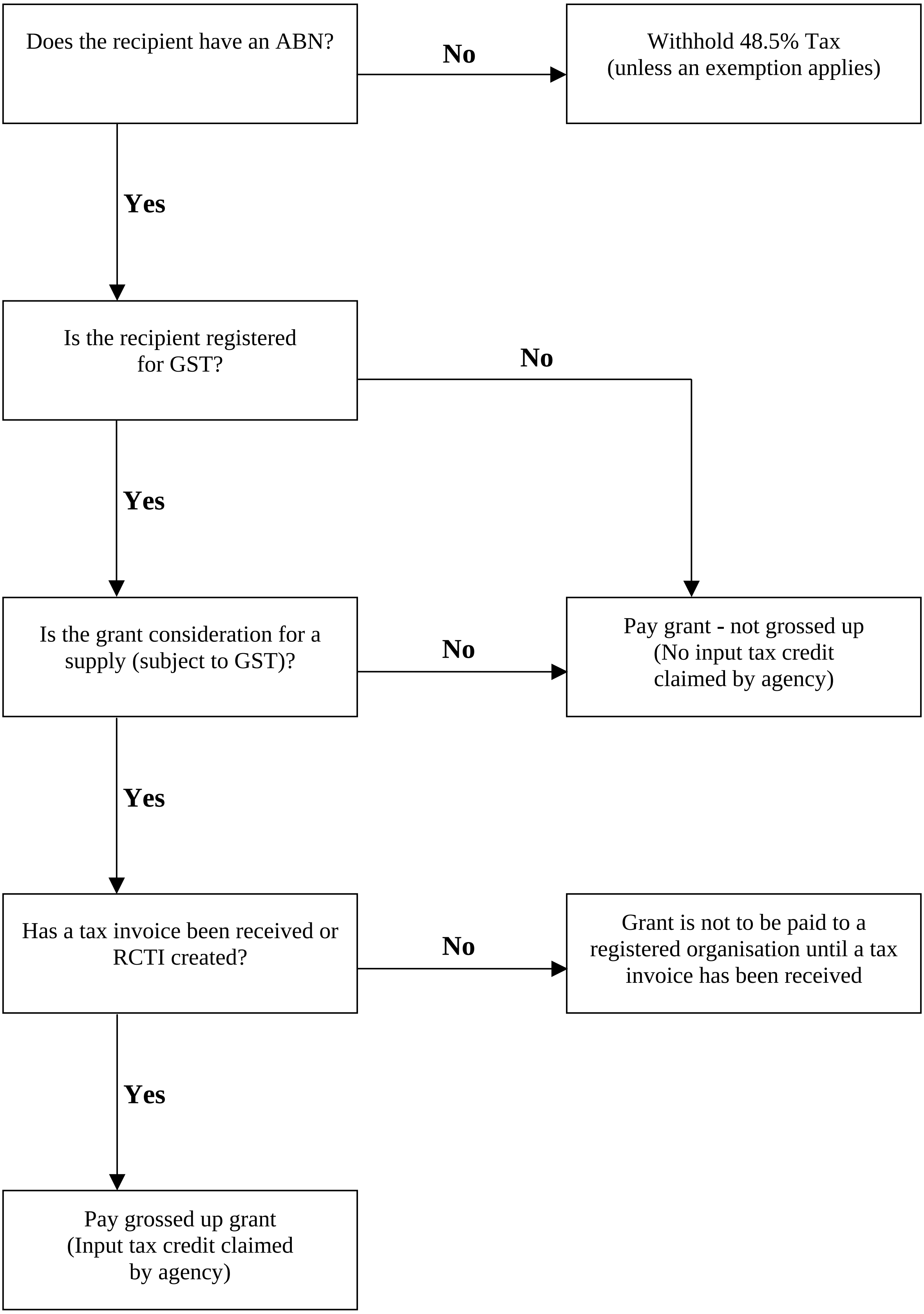
Conclusion – Audit Criterion 3

The significant focus on meeting GST requirements both from Treasury (acting as the central agency) and the departments and Council audited demonstrated a commitment to a quality planning and implementation process. Auditees had adequately scoped, planned and managed the lead up to implementation and followed this through with monitoring and review processes.

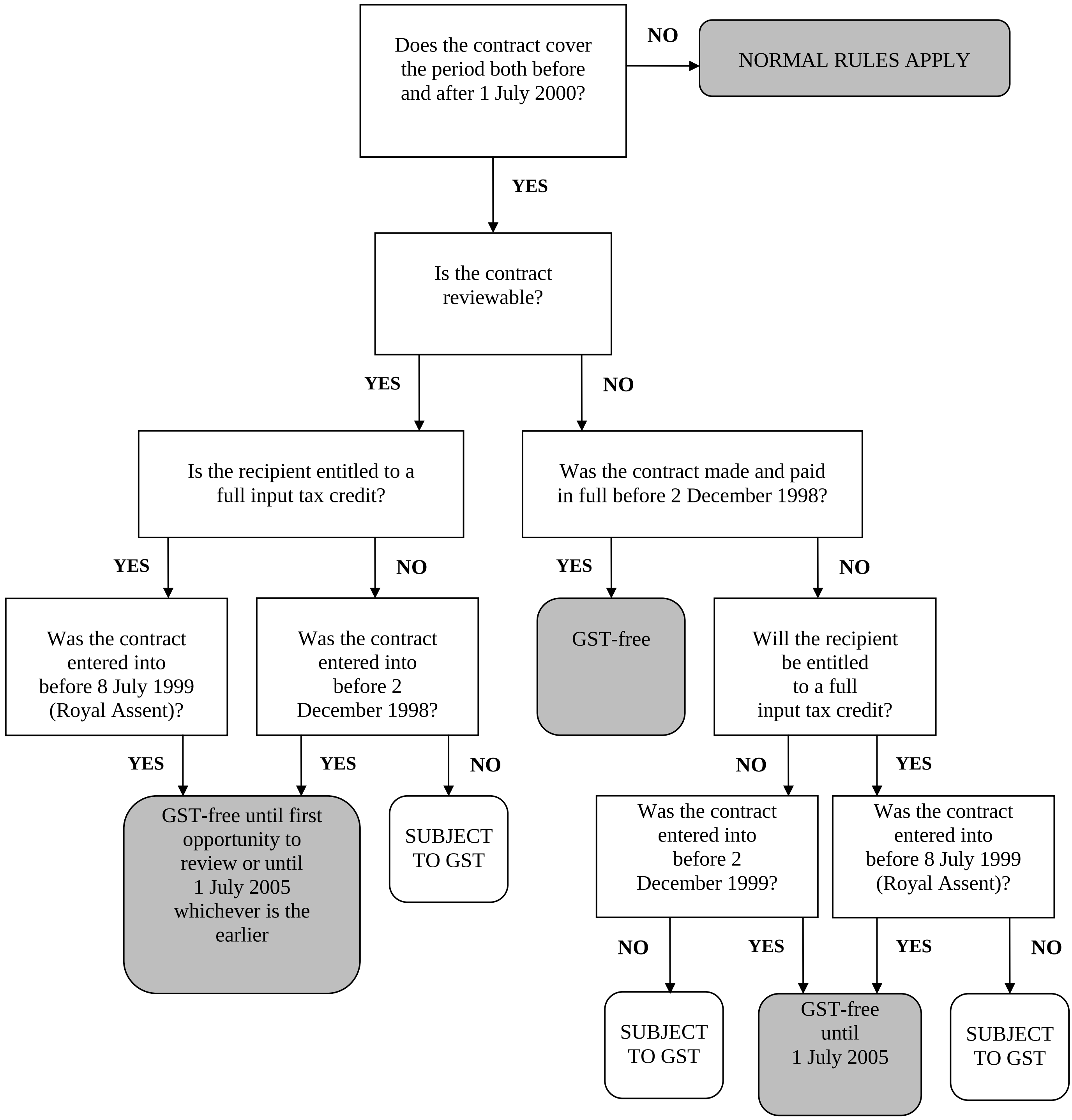
OVERALL CONCLUSION

Audit has found substantial compliance with GST requirements by the three departments and one Council audited and concludes that the management of the implementation process and establishment of internal systems and controls has been effective.

Appendix 1 – Flow Chart Overview of Grants Procedures



Appendix 2 – Flow Chart Overview of Contract Procedures



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2001	**SPECIAL REPORT NO. 35**	**SOFTWARE LICENSING**
2001	**SPECIAL REPORT NO. 36**	**COLLECTION OF RECEIVABLES AND LOANS IN TASMANIAN GOVERNMENT DEPARTMENTS**
2001	**SPECIAL REPORT NO. 37**	**ARCHIVES OFFICE OF TASMANIA**

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