13 Revenue's management of suspicious transaction reports

13.1 The Criminal Justice (Money Laundering and Terrorist Financing) Act 2010 (the Act) introduced the requirement for designated persons to submit suspicious transaction reports (STRs) where they have suspicions of terrorist financing or money laundering, including the laundering of the proceeds of tax evasion.[1]

13.2 Designated persons include, inter alia, financial institutions, auditors/accountants and members of the legal profession. The reports must be submitted to the Office of the Revenue Commissioners (Revenue) and to the Financial Intelligence Unit of An Garda Síochána.

13.3 Revenue received approximately 125,000 STRs in the five-year period 2016 to 2020. Examination of STRs potentially provides useful intelligence to Revenue in tackling shadow economy activity.

13.4 This examination looks at the processes in place in Revenue on receipt of an STR, the systems for capturing and reporting on the results of their assessments of STRs, and Revenue's effectiveness in managing the STR process.

Risk rating of STRs

13.5 STRs received are transferred to Revenue's Suspicious Transaction Report Office (STRO). This office matches each STR received to a taxpayer record (where possible) and assigns a risk rating to the report. Reports are then sent on to the relevant Revenue compliance units for review.

13.6 STRO officials initially record STRs on its Integrated Business Intelligence system (IBI).[2] Once a match of the STR to a taxpayer record is completed, the STR is automatically uploaded to Revenue's Case Management (RCM) system — a case working system that records compliance intervention activities.[3] STRs remain on IBI if they cannot be matched to taxpayer record. STRs that are matched to a Department of Social Protection (DSP) only profile remain on IBI.[4]

13.7 Revenue automatically assigns a risk rating to each STR. The automatic risk rating system was developed in 2014. It is based on a formula built into the system which takes into account a range of structured and unstructured data including the monetary amount, key words and the country the funds originated from or are being sent to. The source of the STR does not influence the risk rating. (Over 90% of STRs received are from financial institutions.)

13.8 The risk rating system has not been updated since 2014 and therefore does not take account of new words and technological advances. Revenue stated that a review of the risk rating of STRs was planned to take place in 2020. The review was temporarily suspended due to Covid-19 but has now recommenced.

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1 Irish statute book.

2 IBI is Revenue's principal reporting tool for the capturing and recording of STRs. Prior to electronic submission (September 2020), STRs were manually input into IBI.

3 Prior to June 2020, Revenue used a system called 'ICMLite' for case working all STRs (matched and unmatched). From June 2020, all matched cases (apart from D rated STRs) are automatically uploaded to RCM. Unmatched cases are not uploaded to RCM as they cannot be linked to a compliance unit (in the relevant branch, where the taxpayer's tax affairs are dealt with). However, they can be viewed and case worked through the IBI system.

4 Although STRs matched to a DSP only profile are not transferred to RCM, they are assigned to a relevant branch and have been categorised as matched through this report.

13.9   Risk rating occurs at a number of levels. STRO officials manually review all STRs and may amend the system-generated rating if they feel the rating is too low or too high. This examination compared the automatic rating assigned by the system against the rating assessed by the STRO. This found that the STRO had revised the rating of 8,552 STRs (7%). The revisions were relatively evenly divided, with just over half of cases having the risk rating increased and just under half having the risk rating reduced.

13.10   The final rating applied to each of the 124,988 STRs received in the period 2016 – 2020 is set out in Figure 13.1.

Figure 13.1 Suspicious transaction report ratings, 2016 to 2020
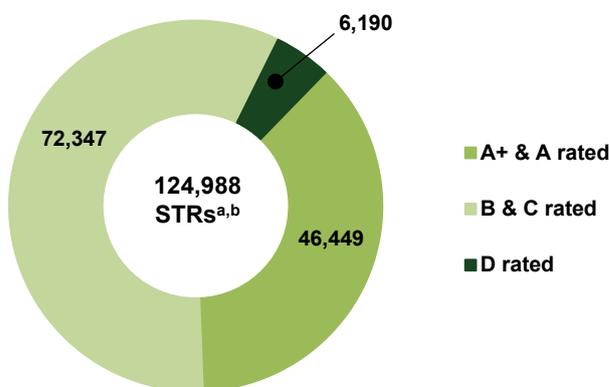
Source:	Revenue Commissioners. Analysis by the Office of the Comptroller and Auditor General.
Notes:	a Two STRs have no rating.
	b In addition, there were 81 STRs received in hard copy that had not been manually input to the system as at April 2021. Revenue confirmed that all cases are on the system as at end August 2021.

13.11   In general, the rating assigned to an STR dictates the extent of review it will receive from Revenue officials.

- A+ and A rated cases are perceived to represent the highest risk and, once reviewed by the Revenue branch that has case ownership, are open for active case management.

- B and C rated cases are categorised as low priority and are worked if resources are available. If the branch that has case ownership does not assign cases for review to staff within 90 days, they are removed from the RCM system but the unworked STRs remain on IBI.

- D rated cases relate to STRs whereby the person is classified as non-resident. The majority of these cases are not acted on.[1]

STRs not matched to a taxpayer

13.12   As at February 2021, over 15,000 (12%) of the STRs received during the years 2016 to 2020 had not been matched to a Revenue profile.[2]

13.13   On average, approximately 20% of unmatched STRs are categorised as high risk each year (see Figure 13.2). In general, Revenue does not follow up or revisit STRs not matched to a taxpayer.

1 Revenue may in certain cases contact the relevant foreign tax administration under 'mutual exchange of information' protocols. Revenue report 646 mutual assistance request in 2020 of which 13 related to STRs.

2 Included in the unmatched STRs is just over 5,600 D rated cases. Revenue stated that based on the information provided in the STR it is not possible to link it to an Irish PPSN.

13.14 However, Revenue commenced an exercise in January 2021 to review unmatched STRs received in 2020 by manually reviewing individuals or companies named in the STR submissions. This exercise, completed in April 2021, matched 2,537 STRs (67%) to Revenue records. Revenue has stated that it plans to revisit years prior to 2020 for unmatched cases when resources allow.

Figure 13.2 Unmatched STRs, 2016 to 2020 as at February 2021
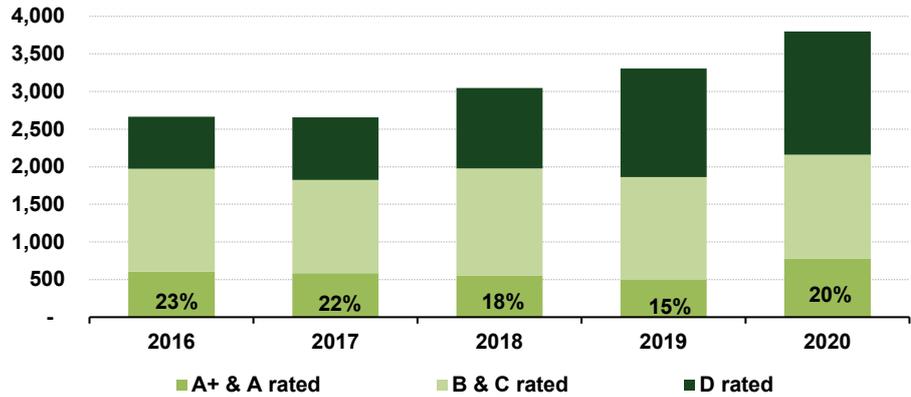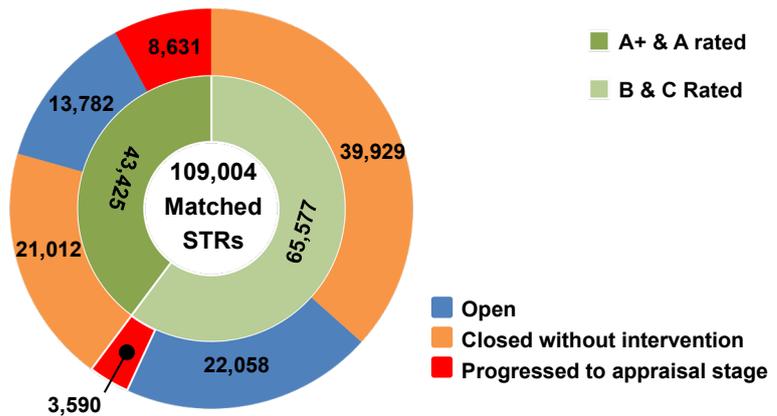

Source: Revenue Commissioners. Analysis by the Office of the Comptroller and Auditor General.

Management of matched STRs

13.15 Revenue was able to match approximately 109,000 (87%) of the STRs it received in the years 2016 – 2020 to identified taxpayers. Figure 13.3 indicates the status of these cases as at February 2021.

Figure 13.3 Status of suspicious transaction reports received in 2016 — 2020, as at February 2021

Source: Revenue Commissioners. Analysis by the Office of the Comptroller and Auditor General.

Notes: a   Closed without intervention — a reason for closure may include the following; no revenue implications; case closed; low value intelligence; good value intelligence for future use; no material tax at risk, refer to another division.

b   There were two STRs with no rating recorded — one was closed without intervention and the other remains open.

c   518 matched D rated cases are not included.

High risk STRs

13.16 A total of 43,425 (40%) of the matched STRs were assessed as having A+/A risk rating. Of these, almost half (48%) had been closed without intervention by February 2021. 32% were open, and the remaining 20% had progressed to some form of compliance activity — e.g. an appraisal, an aspect query, an audit, an investigation or a profile interview.

13.17 A random sample of 25 A+/A rated STRs that were closed in 2020 was examined to assess whether the action taken by Revenue was consistent with its procedural policies. The review found that

- In ten cases, Revenue undertook some form of compliance activity follow-up.

- In 12 cases, Revenue concluded that a compliance intervention was not necessary, and having reviewed the STR, the examination team concluded that this appeared reasonable.

- In one case, an STR was closed on a legacy Revenue system in April 2020 with a note to reopen in the RCM system, but this was not reopened.

- In two cases, the STRs were considered relevant to other Revenue branch for possible further investigation. However, the cases were closed prior to referral and there is no evidence on file to indicate any activity following referral to the other branch.

Lower priority STRs

13.18 By February 2021, 61% of matched STRs categorised as B and C had been closed without an intervention. Just 5.5% had progressed to an intervention.

13.19 The examination tested 25 STRs rated B/C that had been closed without activity.

- In 20 of the cases examined, the closure reason appeared reasonable based on the detail provided in the STR or in the notes provided by the caseworker.

- In four cases, the STRs were considered relevant to another Revenue branch for possible further investigation. There is no evidence on file to indicate any activity following referral to the other branch.

- In one case involving a disclosed transaction amount of over €31,500, the recorded closure reason was that the STR was 'low value intelligence'. There was no further detail as to why it was considered low value.

13.20 STRs that are considered low priority (B/C), and have not been assigned within 90 days are automatically deleted from RCM. However, they remain on Revenue's IBI indefinitely and linked to the matched taxpayer's profile. As a result, they are used to inform the taxpayer's general risk rating within Revenue's risk based case selection tool — Risk evaluation, analysis and profiling (REAP). Revenue stated that the presence of an STR elevates the risk score assigned to the relevant taxpayer in REAP. These risk scores are then ranked and made available to operational divisions. Managers involved in compliance work review the REAP results and this informs the selection of cases for routine investigation.

Timeliness

13.21   Timely review and action on the information contained in STRs is important. In evaluating timeliness, it is useful to examine the age of STRs currently open in the system.

13.22   In some cases, any potential tax liabilities based on the STR information can only be assessed in the tax year following the receipt of the STR, when the tax return of the customer falls due. This allows Revenue to confirm if tax evasion is in fact occurring or if there is a valid reason for the increased income in the year in question.

Age analysis of open STRs

13.23   The examination reviewed the length of time STRs still on-hand had been open. Nearly 36,000 matched STRs remained open as at February 2021. 31% of open STRs classified as high risk (A+/A) had been open two years or more (see Figure 13.4).

Figure 13.4 Age analysis of open STRs as at February 2021
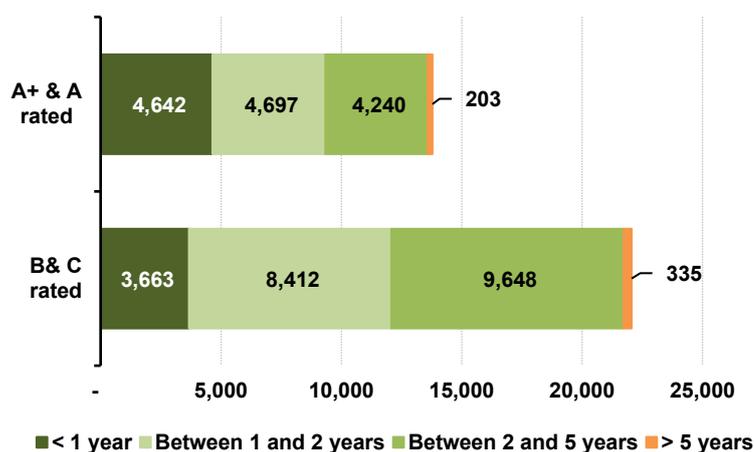
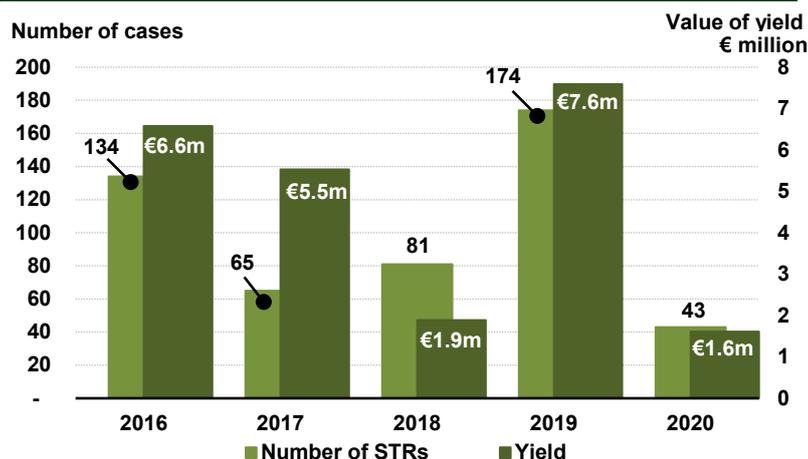Source: Revenue Commissioners. Analysis by Office of the Comptroller and Auditor General.

13.24   Revenue's Personal Division carried out a project in 2020 to review aged STRs that had been referred to it for attention.[1] The project sought to evaluate the risks relevant to the Division that were highlighted by the STRs while also case working the cases assigned. A total of 2,771 taxpayers with 4,411 related STRs were reviewed. Key findings from the project include

- the STRs received identified genuine risks that are relevant to the Division

- the risks identified were not typical to the work of the Division, and included risks related to trading activity and shadow economy risk.

13.25   The review concluded that a protocol was needed to manage the transfer of some STRs to other divisions where a real time visit to the tax entity may be needed to check the risk identified.

13.26   The results were reported in May 2020 to the divisional management team and a written report was submitted and discussed at the principal officer business management executive team meeting in October 2020. Due to the impact of Covid-19, the work on devising a protocol for transferring STRs between divisions has not yet advanced.

1 The Personal Division is responsible for the management and development of service, compliance and audit functions for individuals with PAYE income only and entities with no trade or professional income such as trusts, charities, sporting bodies.

STRs subject to an intervention

13.27   As at February 2021, Revenue had carried out compliance activity on 12,221 cases — 10% of all STRs reported to Revenue in the five-year period 2016 – 2020. Of these, only a small proportion resulted in additional tax yield being identified. Revenue calculated that 497 cases (4% of those subject to compliance interventions) returned a yield of €23.2 million (see Figure 13.5).

**Figure 13.5 Yield directly attributable to STRs by year reported, 2016 to 2020**

Source: Revenue Commissioners. Analysis by Office of the Comptroller and Auditor General.

Note: From 2016 to 2018 yield is calculated manually. For 2019 and 2020, the yield is extracted from RCM and is considered more accurate.

13.28   Analysis of STR cases closed by Revenue after an intervention indicates there was a significant jump in the number of cases closed in 2020, when over 7,000 cases were finalised (see Figure 13.6). The next highest number of cases closed after an intervention was in 2017, when just over 2,000 cases were closed. However, the yield returned in 2020 represented only 7% of all yielding cases in the 5-year period. The cases closed in 2020 had the highest proportion of high risk cases when compared to other years.

Figure 13.6 Timeliness of STRs closed with activity 2016 – 2020[a]
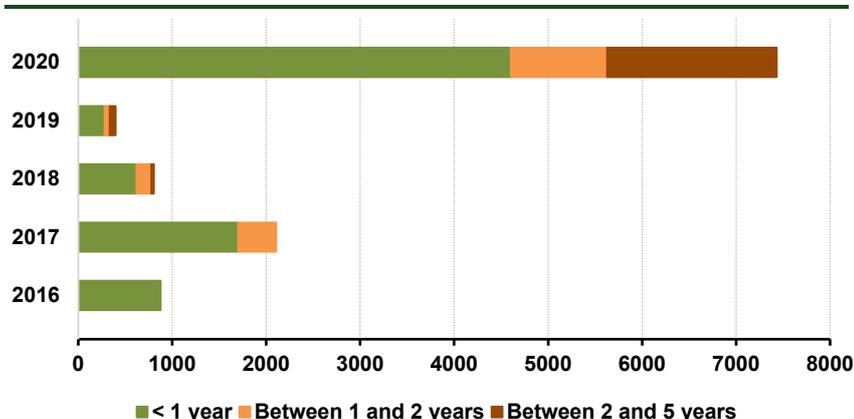
Source: Revenue Commissioners. Analysis by the Office of the Comptroller and Auditor General.

Note: a   Activity includes compliance activity carried out by Revenue such as appraisal, audit or profile interview.

13.29   The examination reviewed the process in Revenue for reporting the yield associated with STR investigations. For the years 2016 – 2018 (inclusive), Revenue was unable to provide a listing of cases to support the yield figure reported. As a result, the examination team was unable to pick a sample to confirm that the yield reported was attributable to an STR and whether the yield was correctly calculated.

13.30   Revenue stated that since 2019, the data informing the reported yield figure is extracted from RCM.

13.31   A random sample of ten yielding STRs from 2019 and 2020 was selected for examination. This found that the yield reported in each case was directly linked to an STR, and had been correctly calculated.

Management of STRs

13.32   A 2015 OECD report on the access of tax administrations to STRs for both criminal and civil matters, based on survey data obtained from 28 countries, highlights a number of instances of good practice in maximising effectiveness in the use of STRs. Revenue's practice in relation to each area is summarised in Figure 13.7.

Figure 13.7 Good practice — maximising effectiveness in the use of STRs

Area	Detail	Revenue practice
Engage closely with the financial institutions and other reporting entities	An outreach or education program to designated bodies can add significantly to the quality of the reporting received.	During 2020, Revenue participated in three anti-money laundering webinars, primarily aimed at designated bodies hosted by other Departments and/or accountancy bodies. Revenue also engage with designated bodies directly to provide assistance where difficulties in submissions arise.
Technical capacity	The effective use of ICT to facilitate the matching of STRs to taxpayer information can free up human resources to focus on analysing the narrative contained in STR reporting.	The automation of the STR process has removed the requirement for manual input of STRs. Staff involved in this process are/were based in the STRO. However, they were not involved in profiling/case working STRs. Staff that revised the STR risk rating carried out minimal profiling of the information contained in the STR.
Training	Training staff in the analysis and use of STRs can make the consideration of the narrative section in the STR (the more time consuming element) more efficient.	Revenue do not have a dedicated training programme solely for working STRs. Comprehensive training has been provided to staff covering Revenue compliance intervention procedures which fully embraces the issues that might arise in an STR context and is grounded in the tax and duty manuals.
Tax assessment	STRs can assist in identifying new cases of serious crimes, including tax evasion and tax fraud, for investigation.	Revenue consider STRs important risk indicators as part of Revenue's overall risk profiling of the tax base.
Debt recovery	STRs can support debt recovery through the identification of previously unknown bank accounts and sources of funds.	While access to the information can be very useful to inform the collection/enforcement strategy, due to the confidential nature of STR reporting, STRs are never referred to as part of Revenue's debt management process/engagement.

Source: *Improving Co-operation between Tax and Anti-Money Laundering Authorities,* OECD, 2015. Adapted by the Office of the Comptroller and Auditor General.

Management information

13.33   The STRO provides monthly statistics to management (principal officer and assistant secretary) which detail the number of STRs received in the month. The reports do not include information that would be considered useful for the management of STRs and to allow an assessment of performance, such as

- how many remain open and for how long

- how many were closed without an intervention and the reason

- analysis of the source of the STR

- detail on the level of compliance activity conducted in the period and the outcome

- learnings from worked cases to help inform the risk rating process

- feedback from case workers on the detail contained in STRs to help improve the reporting process from designated persons

- targets or benchmarks to access performance.

13.34   In late 2020 and early 2021, Revenue introduced dashboard reporting relating to STRs from both its RCM and IBI systems. The dashboard reports allow users to now access information on the number of open and closed cases along with the closure reason. Information on the source of the STR is also captured.

External reporting

13.35   On an annual basis, Revenue publishes details relating to the value of compliance interventions that can be directly linked to an STR.

Conclusions and recommendations

13.36   Financial institutions and other statutorily-designated bodies transmit a significant number of suspicious transaction reports to Revenue each year. Over the five-year period 2016 to 2020, Revenue received an annual average of 25,000 STRs. The outcome of the STRs managed by Revenue in the period 2016 to 2020 is set out in Figure 13.8.

Figure 13.8 Outcome of STRs received 2016 to 2020, as at February 2021
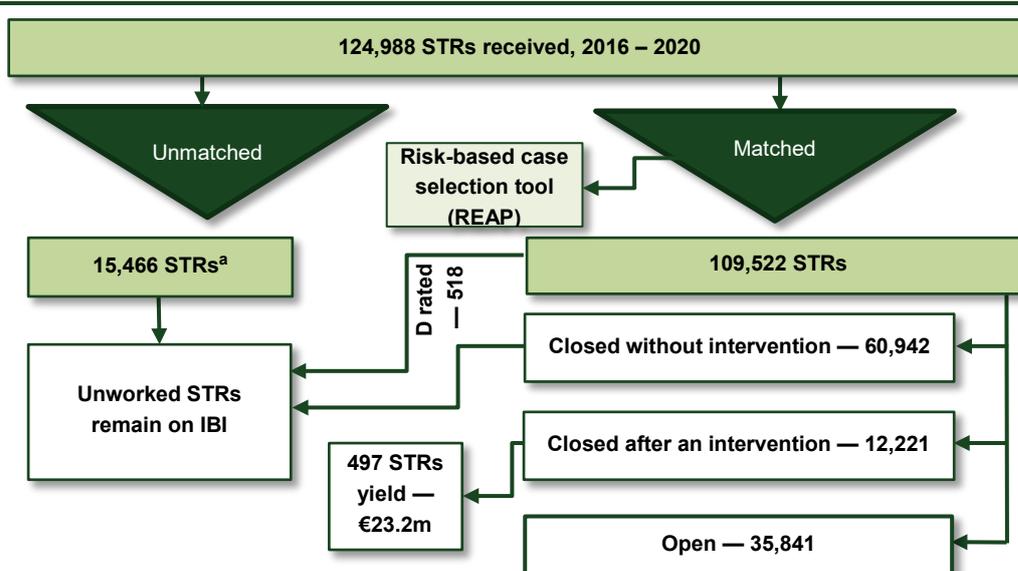
13.37   About one in ten STRs received each year resulted directly in a compliance intervention. Of these, just 497 STRs — 0.4% of the reports received — resulted in direct additional tax yield. However, the existence of an STR in a matched case also has an impact on the taxpayer's subsequent risk rating and likelihood to be subject to a Revenue audit or other compliance intervention.

Matching and risk rating of STRs

13.38   On receipt, Revenue seeks to match STRs to identified taxpayers' records where possible. Analysis of cases received in the period shows that 12% of all STRs received were not initially matched to a taxpayer. However, a special project to review the 2020 unmatched cases carried out by Revenue in 2021 succeeded in finding a match for two-thirds of the previously unmatched cases. As a result, around 90% of the STRs received in the period 2016 to 2020 were capable of further analysis and follow up.

13.39   Using an automated system, risk ratings are automatically applied to STRs when received. Subsequent routine validation reviews by Revenue officials resulted in 7% of the ratings being revised. The automatic risk rating system was devised in 2014 based on a formula consisting of key words, and monetary value. The system has not been updated since to take account of technological advances and new words and phrases associated with the shadow economy that may be relevant to STRs and the risk rating process. In addition, knowledge gained from STR case workers is not used to inform and/or refine the automated risk rating system.

Recommendation 13.1

Revenue should periodically review and update the automatic risk rating system which assigns a rating to each STR. The update should include revision of existing keywords to reflect developments in the shadow economy and the results of manual reviews of automated risk rating.

Accounting Officer's response

Agreed.

In 2020, Revenue established a cross divisional review group with a view to updating the risk rating system. The work of the group was delayed due to the impact of Covid-19. However, the group is now actively working on introducing a new risk rating system, which is scheduled for delivery in 2022.

Management of STRs

13.40   Revenue's process allows for STRs to be closed without an intervention taking place. The examination reviewed a sample of 50 cases to ensure the appropriate course of action was taken and in nearly 85% of cases reviewed no issues were identified.

- In six cases, the STRs were considered relevant to other Revenue branches for possible further investigation. However, the cases were closed prior to referral and there is no evidence on file to indicate any activity following referral to the other branch.

- In one case, an STR was closed on a legacy Revenue system in April 2020 with a note to reopen in the RCM system, but this was not reopened.

13.41   Individual Revenue divisions are responsible for deciding on the appropriate course of action required for each matched STR referred to them. Findings from a review of aged cases carried out by Revenue's Personal Division noted the need for a protocol to manage the transfer of STRs to other divisions to be developed. Covid-19 has impacted work in this area and progress in devising a protocol has stalled.

Recommendation 13.2

Revenue should ensure through the required protocol that all cases which are referred for follow up are actively case managed within the case management system and ensure follow up is undertaken

Accounting Officer's response

Agreed.

Revenue is currently developing a protocol to manage the transfer of STRs to other divisions and follow up activity as appropriate. This will be completed by end of 2021.

Timeliness and yield

13.42   STRs are a useful source of information and provide new ways to assess risk and to target tax audits. They also allow resources to be focused more effectively.

13.43   Nearly 36,000 STR cases remained open at February 2021. 14,426 (40%) are open more than two years, and of these, over a third are categorised as high risk.

13.44   There was a significant spike in 2020 in the number of STR cases closed following an intervention. Those cases had the highest proportion of aged cases and high risk cases yet had the lowest yield when compared to other years. This could indicate there is a risk that delay in finalising investigation of an STR leads to a lower chance of recovery of tax due.

Recommendation 13.3

Similar to the review conducted by Personal Division, Revenue should conduct divisional reviews of assigned STRs to evaluate the risks relevant to the division and consider actions required for aged STRs to ensure the value of the intelligence is not lost with time.

Accounting Officer's response

Agreed.

Revenue will undertake a further review of aged STRs.

Effectiveness of STR processing

13.45   Revenue complies generally with international good practice in the management of STRs. There is a small number of areas in Revenue practice that could be improved with a view to increased effectiveness in that regard.

- Revenue do not undertake specific outreach programmes with designated bodies in relation to the quality of STRs received.

- Revenue do not undertake STR specific training with staff on the effective use of STRs.

Recommendation 13.4

As part of Revenue's management of STRs, it should consider the instances of good practice in maximising effectiveness in the use of STRs and in particular the areas of training and engaging with designated bodies.

Accounting Officer's response

Agreed.

Engagement with designated bodies commenced as part of the change management programme for the introduction of the automated STR system in 2020. The STRO will continue to develop this relationship and engage on a more formal and regular basis.

Revenue's compliance training programmes already include instruction on the management of 3rd party information, including STRs. The training programmes are continually updated to take account of emerging trends or issues as they arise, including in respect of STRs.

13.46   The STRO is not involved in the case working of STRs. It provides monthly statistics to management which details the number of STRs received in the month. The information provided does not include information that should be useful for the management of STRs or necessary to assess the value of the STRs or the effectiveness of Revenue's follow-up. The divisions working on the STRs do not as standard provide management information on the cases worked.

Recommendation 13.5

Revenue should put in place management information reporting to ensure adequate oversight of the management of STRs and to allow for an assessment of effectiveness in the management of STRs.

Accounting Officer's response

Agreed.

The development of an STR dashboard has already provided improved oversight of the management of STRs. The RCM dashboard also provides management oversight of case interventions where the risk was identified as being STR driven. Revenue will continue to develop and enhance its suite of compliance management information systems to ensure continued oversight and management of risk.