

# **Inspector-General of Taxation**

Annual Report 2008-09

September 2009

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**Australian Government**  
**Inspector-General of Taxation**

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18 September, 2009

Senator the Hon Nick Sherry  
Assistant Treasurer  
Parliament House  
Canberra ACT 2600

Dear Minister

I have pleasure in presenting to you the Annual Report of the Inspector-General of Taxation for the year ended 30 June 2009. The Report has been prepared in accordance with section 63 of the *Public Service Act 1999* and section 41 of the *Inspector-General of Taxation Act 2003* ("the Act").

Subsection 41(3) of the Act requires that the Annual Report be tabled in each House of the Parliament within 15 sitting days of receipt.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ali Noroozi', written over a horizontal line.

Ali Noroozi  
Inspector-General of Taxation



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# PART 1: OVERVIEW

## REVIEW BY THE INSPECTOR-GENERAL OF TAXATION



I commenced my role as Inspector-General of Taxation (IGT) on 06 November 2008 taking over from David Vos AM, the first IGT.

I thank David for establishing the office, for his work to ensure its viability and continuity, and for the contribution to improving tax administration that he made during his five years as IGT.

My priorities on commencing as IGT were:

- to progress and complete pre-existing reviews;
- to develop a new forward work program and commence new reviews;
- to consider what factors might underlie the tensions between the Australian Taxation Office (ATO) and taxpayers in developing review findings and potential improvements to tax administration; and
- to establish a positive working relationship with the ATO.

## Pre-existing reviews

At November 2008, four reviews were underway and as at the end of the 2008/2009 financial year they had been progressed as follows:

- a review into the underlying causes and the management of objections to Tax Office decisions (commenced January 2007, completed on 15 April 2009 and released by the Minister on 11 August 2009);
- a review into the Tax Office's administration of public binding advice (commenced November 2007, completed 7 April 2009 and released by the Minister on 7 August 2009);
- a review into the non-lodgement of income tax returns (commenced November 2007, completed and submitted to the Minister on 11 June 2009); and
- a review into aspects of the Tax Office's settlement of active compliance activities (commenced October 2007, and at the draft report stage).

A fourth, summary report on the review of the Tax Office's handling of complex matters arising from the three case study reviews completed during 2007 (commenced June 2007) was completed and publicly released 29 October 2008. A full list and report of all reviews released since the IGT was established is on my website, [www.igt.gov.au](http://www.igt.gov.au).

## Forward work program

To develop my forward work program I consulted widely with business and other taxpayers, tax practitioners (legal and accounting), professional bodies and industry associations about areas of tax administration that could be improved. The Assistant Treasurer, the Joint Committee on Public Accounts and Audit (JCPAA), the Commonwealth Auditor-General, the Commonwealth Ombudsman, the ATO and the Treasury were also consulted. Overall, the consultation process considered over 50 written and oral submissions from the community, which collectively raised over 160 issues.

This process surfaced a wide range of issues and concerns about tax administration that the community considered should be reviewed by the IGT. Some of these issues and concerns had also been raised with the Assistant Treasurer and the ATO.

In response to submissions from concerned taxpayers and at the direction of the Assistant Treasurer, I have commenced a review into the implications of any delayed or changed ATO advice on significant issues. Taxpayers and tax professionals have

cited examples of where they considered that the ATO's views had undergone "U-turns" on significant interpretative matters or on past practices, especially where they had retrospective application. ATO opinions that came after lengthy periods of having no ATO view, but with retrospective application, were also raised as a concern.

In response to an invitation from the Commissioner, I have also commenced a review of the private rulings system. One of the most repeated concerns raised in submissions was the ATO's proposal to withdraw public access to the edited versions of the rulings themselves, held on the public register of private rulings. Having conducted its own consultation process including discussions with the IGT, the ATO decided to retain the register, and suggested that the IGT undertake a broad review of the private rulings system. The issues that this review will consider include productivity, timeliness and the system's future integrity. The use of the register of rulings and the access to edited private rulings will also be examined together with related authoritative (but non-binding) forms of ATO advice such as ATO Interpretative Decisions (ATOIDs).

From the wide range of other issues raised in consultation, I distilled the following further issues that will form my work program for 2009 and into 2010 (subject to any matters of overriding priority that may arise):

- review into the ATO's administration of the Superannuation Guarantee Charge (SGC) (commenced in June 2009);
- review into the ATO's practices for finalising large company audits;
- review into the ATO's compliance focus on Small to Medium Enterprises (SME);
- review into the efficiency of the ATO's compliance and regulatory approaches to Self Managed Super Funds (SMSFs); and
- follow-up review into the ATO's implementation of agreed IGT recommendations (commenced in June 2009). This second follow-up review will focus mainly on the ATO's progress with implementing changes agreed in the IGT's six reviews released between April 2007 and October 2008.

Further information on the forward work program, including a shortlist of reserve topics that I may elevate into my active work program as priorities and resources allow, is at Part 2 of this report and full details are available on my website.

I thank all those in the community who provided input to the development of my forward work program.

## Factors underlying tensions in tax administration

The consultation process outlined above, combined with the reports of previous IGT reviews, have been useful input when considering the deeper issues that might underlie the tensions in tax administration that surface with some frequency in Australia. The principles of good tax administration mentioned in the Explanatory Memorandum to the IGT law – fairness, transparency, simplicity and efficiency – are clearly subscribed to by the ATO. However, these principles are perceived sometimes to succumb to the pressure of other forces such as, resources, capability, complexity, revenue collection and sometimes the design of the system itself.

With the notable exception of the SGC, concerns about tax administration predominantly come from the business sector, especially from medium to large businesses and from those that represent them. This may in part be due to the large business sector being subjected to more compliance action by the ATO, but it may also be due to smaller taxpayers (including individuals) not being as well equipped as the business sector to identify and raise any collective concerns. However, downward trends in individual complaints to the Taxation Ombudsman since the cooling of the mass-marketed schemes period tend to support a view that improvements to tax administration for individuals, support for them from the ATO and the relative simplicity of their tax affairs, underlies the limited number of issues raised by this section of the community. The days of widespread concern over, for example, systemic delays in processing individual income tax refunds and major ATO operational *faux pas* are hopefully long gone.

Tax agents do have concerns, mainly about their operational interactions with the ATO but most acknowledge major steps forward in recent years and this is consistent with positive feedback contained in ATO surveys. Without undertaking a formal review, during 2008/2009 financial year my staff facilitated communication between the ATO and tax agents in Tasmania about their concerns and I have recently published key documents from this exchange on my website.

Underlying concerns from the business sector is the ATO's capabilities and approaches in developing and applying its view of the law in significant compliance issues or on new laws. This fundamental aspect of tax administration has surfaced as a causal factor in several IGT reviews including the *ATO's Management of Litigation*, the three complex issue case studies (*Research and Development Syndicates*, *Living Away from Home Allowances*, *Service Entity Arrangements*) and *Potential Revenue Bias in Private Binding Rulings involving large complex matters*. It has surfaced again as the underlying factor in my major new review directed by the Assistant Treasurer into the *Implications of any Delayed or Changed ATO advice on Significant Issues* (the so called 'U-Turn' Review).

During consultation on my work program, representatives of businesses and the tax profession pointed repeatedly to recent examples of what they saw as delayed ATO views and changes (or perceived changes) to pre-existing views or practices that were applied with retrospective effect. To date over 60 such examples have been raised with me and they include the ATO's approach to service trusts, managed investment schemes and thin capitalisation rules.

These perceptions will be examined during the new review and business stakeholders will need to support their assertions. Whilst the ATO rejects any instances of changed ATO views being retrospectively applied, the mere existence of such perceptions, compounded by the findings of earlier reviews, suggests dissatisfaction by business taxpayers with the fairness of the ATO's approaches and its ability to act within timeframes that are commensurate with business needs. In a spirit of collaboration, we are forming a joint working group with the ATO, involving practitioners and other business stakeholders, to find solutions and put systems in place so that such instances are minimised in the future.

Related to this concern is a question of how well some features of the tax law which acknowledge complexity in the system – such as *reasonable arguable position* and *general administrative practice* – are being embraced by the ATO to provide fairness and flexibility in its administration in line with its stated approach of trusting taxpayers and giving them the benefit of the doubt. These related questions will also be canvassed in my new reviews and in on-going dialogue with the ATO. For example, we are attempting to resolve our difference of view on the meaning of *general administrative practice* by seeking an independent legal opinion.

The ATO is to be commended for the annual publication of its Compliance Program. However, concerns are still being raised in community consultation about the transparency of its reporting on results of the program, particularly the actual revenue results after compliance actions are fully completed as opposed to the liabilities initially raised, and the relative size and cost effectiveness of compliance results across different case sizes and taxpayer sectors. A number of past and recent IGT reviews have revealed that significant amounts of compliance liabilities originally raised, including penalties, are negated by subsequent disputes and settlements. These reviews have raised the concern that the quality of ATO views of the law taken during compliance actions and uncooperative taxpayer behaviour underlie these reductions.

Reporting the proportion of each type of ATO active compliance action that actually achieves a worthwhile result would also inform public opinion about the focus and balance of investment in the program. Of course, the indirect “voluntary” compliance impact of compliance actions is rightly cited as important. However, it is largely unmeasured and, to the extent that there is a high proportion of relatively

inconsequential outcomes achieved at high cost, it could result in a compliance backlash over time.

Whilst the IGT has not conducted a formal review into the concerns raised above with the ATO's compliance program, the ATO has offered to provide briefings to us in this regard and, if necessary, we may embark on such a review in the future.

Following representations from business organisations a few years ago, improvements to compliance reporting have been made but costs to business of the ATO's income tax and GST active compliance actions are a mounting concern. The costs of the ATO's project to review all SMEs for both income tax and GST has drawn particular criticism and will be the subject of a review in my forward work program. Large business continues to decry the cost impacts of what it sees as the ATO's lack of commercial knowledge, lack of pragmatism, lack of urgency, and tendency to focus on minutiae. Repeated reports of inappropriate ATO actions in the final stages of audits, caused by its inefficient management of the early stages, have led me to include a review of these concerns in my work program as well.

Community concerns that some employers are not meeting their SGC obligations are one example of how concern for fairness in the system in respect of individuals is strong. SGC was an area where, unlike some of the areas discussed above, I received comment that ATO compliance action needed to be increased and re-engineered. Observations made during consultation that compliance with SGC is largely reliant on the least empowered in the system – namely those employees (often at lower levels) prepared to notify the ATO that they believe their SGC has not been paid – have already been strongly reinforced in submissions to my review of SGC compliance. However, the ATO has advised that data is obtained from multiple sources (ie other than employee complaints) in formulating their SGC compliance activities and we will be exploring this issue amongst others. Submissions also expressed the view that the ATO lacks the staffing resources to deliver an adequate level of SGC compliance.

All of the above tensions surfaced during community consultation and they suggest growing perceptions that the ATO should do more to report the full reality of its return on active compliance investment, factor community perceptions into its risk analyses, and potentially re-focus its resources to achieve better voluntary compliance at reduced costs to the community.

During the consultations on my work program, a number of notable groups were also of the view that many of the above concerns could only be addressed by a fundamental change to the ATO governance structure and examples of oversight, management or advisory boards associated with revenue authorities in other jurisdictions were cited as alternatives.

Based on overseas experience, it is difficult to see the role that such boards alone could play in alleviating taxpayer concerns such as revenue bias and so called “U - Turns”. However, they may assist the ATO with its strategic planning and management as well as the reporting of the outcome of its active compliance program resulting in a more efficient and even better run organisation.

While the issue of ATO governance is on my reserved list of reviews, this matter is being considered by Australia’s future tax system review (the Henry Review). Alongside other stakeholders, I have been providing input into this review and we await the outcome of the review panel’s deliberations.

These initial observations of some of the factors that are influencing tax administration in Australia will continue to evolve as a framework for my future reviews and in dialogue with the ATO on what further improvement can be made.

## Relationship with the ATO

I take this opportunity to thank the Commissioner and his Executive staff for welcoming me into my role as the new IGT and making efforts to establish a positive working relationship going forward. The direct involvement of Second Commissioners and other senior staff in my reviews is of great benefit.

I see the role of the IGT in reviews as, in a sense, facilitator and mediator between the taxpaying community and the ATO, bringing perspectives together as a basis for discussing the way forward. The co-operative approach being taken on reviews generally, and the collaboration on finalising the review into settlements and undertaking the new review requested by the ATO into private rulings, reflects this view and my aim of delivering agreed changes based on mutually understood perspectives wherever possible.

It is also fair to say that globally the relationship between the revenue authorities and taxpayers continues to evolve. The aim in Australia should be to continue to develop a more trusting and positive relationship. The role of tax practitioners in fostering such relationships cannot be overstated. Generally, they rightfully assert that representing their clients’ interest is paramount. However, this does not necessarily preclude them from acting as effective mediators between the revenue authority and their clients in settling disputes. This to some extent already happens and where possible I hope to encourage all three parties to further embrace this approach.

## Improvements to tax administration

From the establishment of the role in 2003, IGT reviews have achieved or contributed to a significant number of improvements to tax administration. The Commissioner has agreed wholly or in part to the vast majority of recommendations made in IGT reports to Government as shown in the following table. A follow-up review of the first six reviews showed that, with very few exceptions, the ATO has implemented agreed recommendations. I commenced a second follow-up review in June 2009 to examine ATO progress with implementing agreed recommendations from more recent reviews.

**Table 1: Number of IGT recommendations accepted or partially accepted**

<b>IGT Reviews</b>	<b>Number accepted/total recommendations</b>
Review of remission of general interest charge for taxpayers in dispute with the Tax Office	16/19*
Review of Tax Office administration of GST refunds resulting from the lodgement of credit BASs	12/12
Review into the Tax Office's small business debt collection practices	2/2
Review into Tax Office's administration of penalties and interest arising from active compliance	4/4
Review into Tax Office audit time frames	4/4
Review into the Tax Office's management of litigation	27/32
Case Study — Service Entity Arrangements	10/12
Case Study — Living Away from Home Allowances	2/2
Case Study — Research and Development syndicates	1/2
Review into potential bias of private binding rulings for large businesses	10/10
Review into the Tax Office's administration of GST audits for large businesses	12/14
Report on improvements to tax administration arising from the IGT's case study reviews of the Tax Office's management of major, complex issues	6/6
Review into the non-lodgement of income tax returns	Awaiting public release
Review into the underlying causes and the management of objections to Tax Office decisions	10/12
Review into the Tax Office's administration of public binding advice	6/7
<b>Total recommendations accepted/total recommendations</b>	<b>122/138</b>

\* Findings

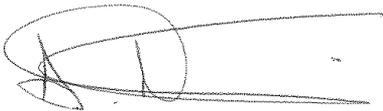
## Public sector stakeholders

The Commonwealth Auditor-General and the Commonwealth (and Taxation) Ombudsman also scrutinise the ATO from their perspectives. The roles of each agency are different and we have sought to communicate with each other regularly to ensure that there is no unnecessary duplication of the reviews conducted by each agency. My office is in contact with these agencies both in respect of developing our respective work programs and on some specific reviews.

## Statutory statements

Pursuant to subsection 41(2) of the *Inspector-General of Taxation Act 2003* (the Act) the Assistant Treasurer made one direction to the Inspector-General under subsection 8(2) of the Act during the year. This direction was to review the implications of any delayed or changed ATO advice on significant issues as described above.

In setting my work program, I have taken into account the requirements of subsection 9(2) of the Act and have consulted with the Commonwealth Ombudsman and the Commonwealth Auditor-General.

A handwritten signature in black ink, appearing to read 'Ali Noroozi', written over a horizontal line.

Ali Noroozi  
Inspector-General of Taxation

## CORPORATE STATEMENT

### Role, function, outcome and output structure

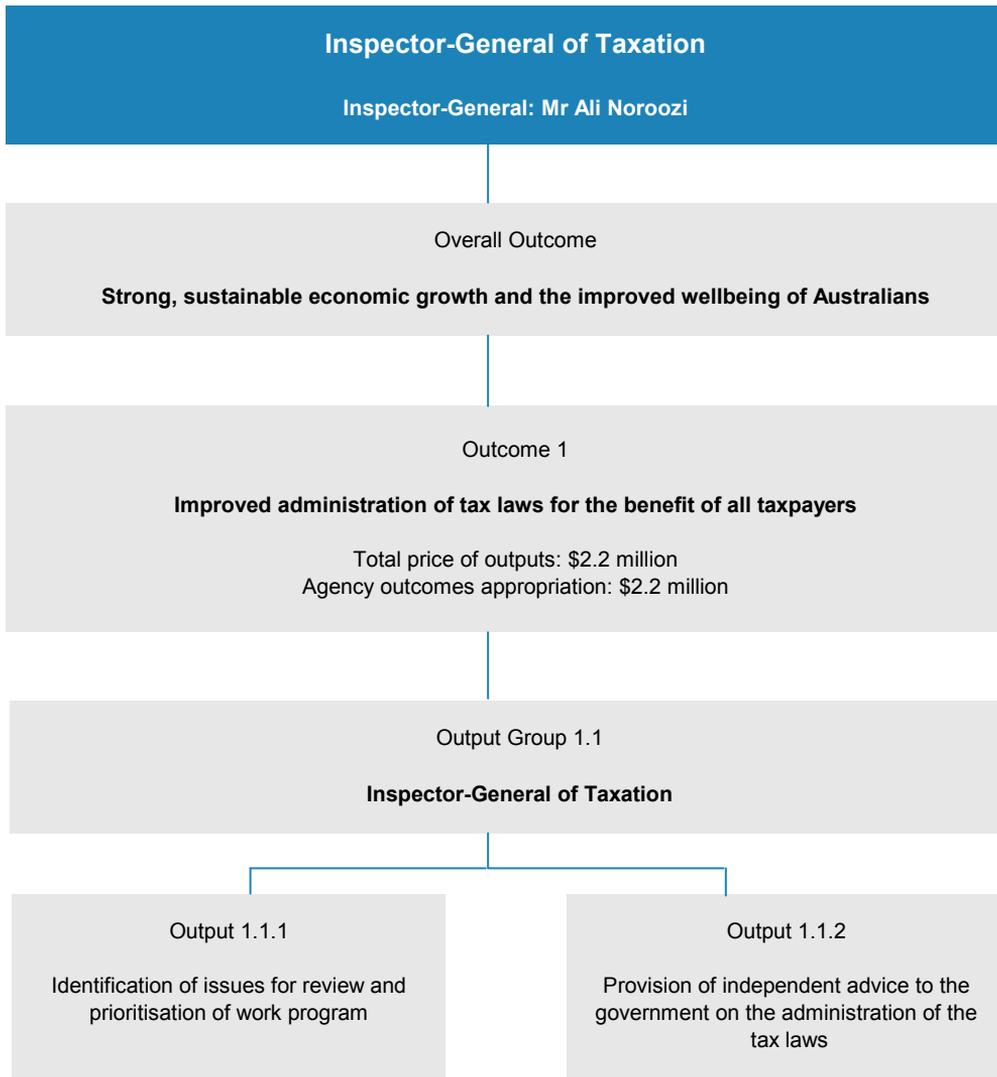
The *Inspector-General of Taxation Act 2003* established an independent statutory agency to review:

- systems established by the Australian Taxation Office to administer the tax laws; and
- systems established by tax laws in relation to administrative matters.

The Inspector-General seeks to improve the administration of the tax laws for the benefit of all taxpayers. This is to be achieved by identifying systemic issues in the administration of the tax laws and providing independent advice to the government on the administration of the tax laws.

To ensure that reviews undertaken reflect areas of key concern to the Australian community, the Inspector-General develops a work program following broad-based consultation with other stakeholders including taxpayers and their representatives, the Commonwealth Ombudsman, the Commonwealth Auditor-General and the Commissioner of Taxation.

Figure 1: Outcome and output structure



**Figure 2: Inspector-General of Taxation management structure**

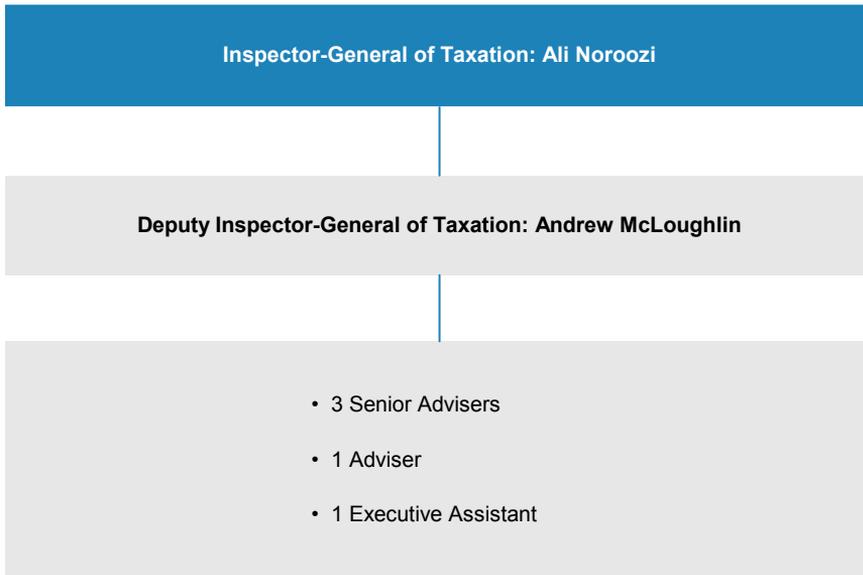


Table 2: Resources for Inspector-General of Taxation outcomes

	Budget 2008-09 \$'000	Actual 2008-09 \$'000	Budget 2009-10 \$'000
<b>Revenue from Government</b>			
Output Group: Inspector-General of Taxation			
Output 1.1.1 - Identification of issues for review and prioritisation of work program	108	108	110
Output 1.1.2 - Provision of independent advice to the Government on the administration of the tax laws	2,059	2,059	2,080
<b>Total revenue from Government contributing to the price of departmental outputs</b>	<b>2,167</b>	<b>2,167</b>	<b>2,190</b>
<b>Revenue from other sources</b>			
Output Group: Inspector-General of Taxation			
Output 1.1.1 - Identification of issues for review and prioritisation of work program	3	3	4
Output 1.1.2 - Provision of independent advice to the Government on the administration of the tax laws	48	56	48
<b>Total revenue for departmental outputs</b> (Total revenues from Government and other sources)	<b>2,218</b>	<b>2,226</b>	<b>2,242</b>
<b>Price of departmental outputs</b>			
Output Group: Inspector-General of Taxation			
Output 1.1.1 - Identification of issues for review and prioritisation of work program	117	104	112
Output 1.1.2 - Provision of independent advice to the Government on the administration of the tax laws	2,101	1,981	2,130
<b>Total price of departmental outputs</b>	<b>2,218</b>	<b>2,085</b>	<b>2,242</b>
<b>Total estimated resourcing</b> (Total price of outputs and administered expenses)	-	141	-
<b>Average staffing level (number)</b>	<b>7</b>	<b>7</b>	<b>7</b>

## APPENDIX 1 — AGENCY RESOURCE STATEMENT

Table A1: IGT resource statement for 2008  
as at Budget May 2008

	Estimate of prior + year amounts available in 2008-09 \$'000	Proposed at Budget = 2008-09 \$'000	Total Estimate 2008-09 \$'000	Estimated Appropriation Available 2007-08 \$'000
<b>Ordinary Annual Services</b>				
<b>Departmental outputs</b>				
Departmental outputs	1,882	2,167	4,049	2,178
s31 Relevant agency receipts		52	52	52
<b>Total net resourcing for agency</b>	<b>1,882</b>	<b>2,219</b>	<b>4,101</b>	<b>2,230</b>

# PART 2: PERFORMANCE REPORT

## OUTCOME 1 IMPROVED ADMINISTRATION OF TAX LAWS FOR THE BENEFIT OF ALL TAXPAYERS

The role of the IGT is to improve the administration of the tax laws for the benefit of all taxpayers.

Key strategies to achieve Outcome 1 are:

- undertake community consultation, research and other processes to identify and prioritise areas of tax administration that can be systemically improved;
- call for submissions to review and to stimulate input by, for example, issuing terms of reference and similar materials;
- maintain a positive public profile for the IGT through participation in conferences and seminars;
- build on approaches that increase the ATO's involvement and contribution to review processes and outcomes;
- selectively engage external expertise and undertake overseas comparisons to enhance capabilities and objectivity for appropriate reviews; and
- review identified areas and provide independent advice and recommendations to Government on improvements to the administration of the tax laws.

The IGT's two outputs derive from the statutory functions. These outputs involve the identification of systemic issues for inclusion in the work program and the provision of independent advice to Government on the administration of the tax laws.

The scope of the work program is determined by the IGT. However, the *Inspector-General of Taxation Act 2003* also provides that the Minister may direct that a matter be included on the work program, and that the IGT considers requests to conduct reviews from:

- the Minister (separate from the direction provision);
- the Commissioner of Taxation;
- a resolution of either House, or both Houses, of the Parliament; or
- a resolution of a committee of either House, or both Houses, of the Parliament.

The Commissioner of Taxation has statutory independence in his administration of the tax laws. The IGT does not hold any powers to direct the Commissioner of Taxation in the administration of the tax laws.

The way in which the IGT's advice to government contributes to the achievement of the outcome of improved administration of tax laws varies. In some instances, the provision of advice to government may lead to legislative change to address an identified systemic issue. However, more commonly, the Commissioner of Taxation may independently address a systemic issue identified by the IGT either during a review, following the release of a review report by the Minister or the publication of an issues paper or work program by the IGT. Improved administration of tax laws can also be achieved without formal advice to government by direct interaction between the IGT and the ATO.

## **OUTPUT 1.1.1**

### **IDENTIFICATION OF ISSUES FOR REVIEW AND PRIORITISATION OF WORK PROGRAM**

In 2008-09 the IGT established a new work program for 2009-10 and beyond through a broad-based community consultation process. Broad-based community involvement in the identification of issues and the opportunity for all stakeholders to provide submissions ensures that reviews undertaken are relevant and timely for all stakeholders.

### **Performance information**

Following his appointment, the IGT consulted widely with business, taxpayers, tax practitioners (legal and accounting), professional bodies and industry associations about areas of tax administration that could be improved. The Assistant Treasurer, the Hon Chris Bowen MP, Joint Committee on Public Accounts and Audit (JCPAA), the Commonwealth Auditor-General, the Commonwealth Ombudsman, the ATO and the Treasury were also consulted. Overall, the consultation process considered over 50 written and oral submissions from the community, which collectively raised over 160

issues and concerns about tax administration that the community considered should be reviewed by the IGT.

At the direction of the Assistant Treasurer and in response to submissions from concerned taxpayers, the IGT included in his work program a review into the implications of any delayed or changed ATO advice on significant issues. Taxpayers and tax professionals cited examples of where they considered that the ATO's views had undergone "U-turns" on significant interpretative matters or on past practices, especially where these had retrospective application. ATO opinions that came after lengthy periods of having no ATO view (at times perceived to be inconsistent with policy intent), but with retrospective application were also raised as concerns.

In response to an invitation from the Commissioner, the IGT also included a review of the private rulings system in his program. One of the most repeated concerns raised in submissions to the IGT was the ATO's proposal to withdraw public access to the edited versions of rulings held on the public register of private rulings. Having conducted its own consultation process including discussions with the IGT, the ATO decided to retain the register and access, and suggested that the IGT undertake a broad review of the private rulings system.

From the wide range of other issues raised in consultation, the IGT distilled the following further issues that will form his work program for 2009 and into 2010 (subject to any matters of overriding priority that may arise):

- review into the ATO's administration of the SGC. Submissions questioned the adequacy of the ATO's efforts to improve employer compliance with their SGC obligations, the consequences for employees and the ATO's timeliness in collecting unpaid SGC.
- review into the ATO's practices for finalising large company audits. Stakeholders applauded the ATO's commitment to finalising large company audits within two years. However, a number of concerns were raised particularly in relation to initial delays resulting in truncated processes being adopted towards the end of the two years in order to achieve the targeted timeframe.
- review into the ATO's compliance focus on SME taxpayers and their advisers cited unmanageable and at times unnecessary costs and workloads caused by the ATO's approach to its current compliance focus on all SMEs in the \$100 million to \$250 million turnover range.
- review into the efficiency of the ATO's compliance and regulatory approaches to SMSFs. Discussions with industry representatives indicated that the ATO has made good progress in relation to SMSFs and that relationships are generally good.

However, a number of submissions and tax professionals cited the heavy compliance workloads and processes, and opportunities for improved efficiency.

- follow-up review into the ATO's implementation of agreed IGT recommendations. This second follow-up review will focus mainly on the ATO's progress with implementing changes agreed in the IGT's 6 reviews released between April 2007 and October 2008.

Other strong candidates for review topics came forward from the consultation process and some were shortlisted for review but have not yet been included in the active work program. In several cases this is because they are being considered elsewhere, including through the Henry review or through direct stakeholder work with the ATO. The IGT will monitor progress with these potential review topics and may elevate them into his active work program as priorities and resources allow. These reserve topics include:

- issues of concern with the ATO's outsourcing of aspects of collecting tax debts;
- the ATO's administration of income tax refunds;
- the appropriateness of the ATO's dual role of regulator and tax administrator for charities;
- ATO governance and appropriate level of independent oversight; currently we are addressing this issue by providing input to the Henry Review.
- the role and capacity of the ATO's Tax Counsel Network (TCN);
- the ATO's use of its formal information gathering powers;
- opportunities for efficiencies and cost savings through more flexible use of the Commissioner's substituted accounting period (SAP) discretion;
- the extent to which the ATO's Change Program will deliver improvements to taxpayer services including taxpayer accounts, assessment notices and objections handling;
- the potential for proactive use of the Commissioner's general powers of administration to make it easier for taxpayers to meet their obligations; and
- the reasons why a substantial proportion of penalties raised by the ATO is conceded at objection, settlement or litigation.

The IGT thanks all those in the community that provided input over recent months to the development of his work program.

As well as assisting in the development of a work program, consultation and maintaining a community profile is used to assist the conduct of the IGT's reviews. During the year, a significant number of organisations have been consulted and reference groups of interested taxpayers and their representatives have provided input to specific reviews.

Speakers have been provided for key business, tax, accounting and legal conferences, and other opportunities have been taken to meet with taxpayers and their advisers. A list of key speaking engagements is at Table 3.

**Table 3: Key speaking engagements**

Date	Organisation	Type of function	Location
29 August 2008	KPMG	GST Briefing	Melbourne
4 September 2008	ICAA	Corporate Tax Conference	Sydney
5 September 2008	TIA	National GST Intensive	Sydney
1 October 2008	CPA Australia	Discussion Group	Sydney
14 October 2008	Corporate Tax Association	GST Big Day & a Half Conference	Manly, NSW
17 November 2008	Law Council Tax Committee	Discussion Group	Sydney
3 December 2008	PriceWaterhouseCoopers	Indirect Tax Forum	Sydney
3 December 2008	ABC Lateline Business	TV Interview	Canberra
8 December 2008	KPMG	Financial Services Forum	Sydney
16 December 2008	PriceWaterhouseCoopers	Senior Tax Executive Dinner	Sydney
18 February 2009	Law Institute of Victoria	Discussion Group	Melbourne
16-18 April 2009	UNSW / ATAX	GST & Indirect Tax Workshop	Noosa, Qld
23 April 2009	Victorian Tax Bar Association	Seminar	Melbourne
30 April 2009	PriceWaterhouseCoopers	Tax Director Forum Dinner	Melbourne
7 May 2009	PriceWaterhouseCoopers	Indirect Tax Forum	Melbourne
18 May 2009	Tonkin Corporation	Annual Corporate Tax Forum	Sydney
21 May 2009	National Institute of Accountants	Public Practice Symposium	Sydney
25 May 2009	PriceWaterhouseCoopers	Tax Director Forum	Sydney
28 May 2009	CPA Australia	Victorian Public Accountants Convention	Lorne, Vic
29 May 2009	Minter Ellison	Senior Executive Taxation Boardroom	Melbourne

Table 3: Key speaking engagements (continued)

Date	Organisation	Type of function	Location
4 June 2009	CPA Australia	Qld Public Practice Conference	Gold Coast
10 June 2009	Northern Beaches Discussion Group	Discussion Group	Dee Why, NSW
16 June 2009	Corporate Tax Association Convention	Conference speech	Melbourne

## OUTPUT 1.1.2

### PROVISION OF INDEPENDENT ADVICE TO THE GOVERNMENT ON THE ADMINISTRATION OF THE TAX LAWS

Reports resulting from the IGT's reviews, outlining findings and recommendations, are submitted to the Government after providing the Commissioner of Taxation with the opportunity to make a submission. Once the IGT has given a report to the Government, the report must be published, either by tabling in both Houses of the Parliament or otherwise within 25 sitting days of receipt.

#### Performance information

During 2008-09, the IGT completed four reviews and at end June 2009 has five reviews underway.

##### Reviews completed during 2008-09:

- review into the non-lodgement of income tax returns - (submitted to the Minister on 11 June 2009);
- review into the underlying causes and the management of objections to Tax Office decisions - (submitted to the Minister on 15 April 2009 and publicly released on 11 August 2009);
- review into the Tax Office's administration of public binding advice - (submitted to the Minister on 7 April 2009 and released publicly on 7 August 2009); and
- a fourth, summary report on the review of the Tax Office's handling of complex matters arising from the three case study reviews completed during the year - (publicly released on 29 October 2008).

### Reviews underway at 30 June 2009:

- review into the Tax Office's administration of the SGC – (commenced 2 June 2009);
- review into the implications of any delayed or changed ATO advice on significant issues - (commenced 21 April 2009);
- review into the Tax Office's administration of private rulings - (commenced 6 April 2009);
- follow-up review into the ATO's implementation of agreed IGT recommendations - (commenced 24 June 2009). This second follow-up review will focus mainly on the ATO's progress with implementing changes agreed in the IGT's 6 reviews released between April 2007 and October 2008; and
- Tax Office approaches to settling and finalising issues with taxpayers - (commenced 12 October 2007 and expected to be completed in September 2009).

## Outcomes

The Commissioner of Taxation has accepted fully or in part most (122 of 138) of the recommendations of reviews published since the inception of the IGT – refer Table 1. In several reviews completed in 2008-09, the IGT considered that systemic improvements could not be made by the ATO alone under present tax laws. The IGT therefore made several recommendations to the Government to consider changes to the tax laws that underpinned the administrative systems.

The outcomes of these reviews, combined with feedback from community stakeholders and the ATO, provide clear evidence that the role of the IGT is achieving its objectives and is improving aspects of tax administration for the benefit of all taxpayers.



## PART 3: MANAGEMENT AND ACCOUNTABILITY

### CORPORATE GOVERNANCE

In 2008-09 the IGT maintained established governance arrangements. Governance processes continued to be based on many of the well-established policies and processes in place in the Department of the Treasury.

The IGT has two distinct roles. As a public office holder, he reports, and is accountable to, the Assistant Treasurer and the Treasurer for meeting his statutory role. As the CEO of the Office of the IGT (the agency), the IGT is responsible for the operation and performance of the operation of his Office.

The corporate governance practices of the Office of the IGT are designed to take into account that the agency is quite small and that it is inextricably linked with the governance processes of the Treasury. This is as a result of the service level agreement (SLA) entered into by the two agencies. The SLA with Treasury was re-negotiated during 2008-09.

The IGT as CEO and the Deputy IGT as the CFO together act as the agency Executive. They have developed a full range of governance policies and procedures appropriate to the situation of the agency comprising seven people in a single office location.

### Audit Committee

Pursuant to section 46 of the *Financial Management and Accountability Act 1997*, the IGT continues to maintain an Audit Committee with an independent chair. The Audit Committee met twice during 2008-09.

### Remuneration Committee

The IGT and the Deputy IGT comprise the Remuneration Committee. The IGT has entered into Australian Workplace Agreements (AWAs) or employment contracts with all employees which provide for performance and remuneration review processes.

The IGT's performance management system provides for performance being reviewed formally on an annual basis and informally on a six monthly basis. The size of the agency allows for regular and continual discussion of performance with all staff members. Since all staff directly report to both the IGT and the Deputy IGT, employees are provided ongoing informal feedback on their performance.

## Corporate planning and reporting

The *Inspector-General of Taxation Act 2003* provides a clear statement of the role and activities of the IGT. The work program shapes and determines the activities of the agency.

Administratively, the agency draws heavily on the facilities of the Treasury under the SLA. All day-to-day account processing is undertaken by Treasury utilising its accounting system infrastructure. However, a financial controller (part-time) is employed on a contract basis and reports directly to the CFO (Deputy IGT).

The Deputy IGT is responsible, with input from the IGT, for settling portfolio budget statements, ongoing maintenance of cash flow and monthly reporting of financial position.

## Risk management

Under the *Financial Management and Accountability Act 1997*, the Office of the IGT meets its specific risk management requirements through an integrated framework. The following are the key components of the risk management framework:

- Chief Executive Instructions (CEIs) provide the policy and procedural framework for financial management in the IGT's office and put into effect the requirements of the *Financial Management and Accountability Act 1997*. The IGT's CEIs were reviewed and updated during 2008-09.
- Physical security risk reviews continue to be arranged, and the office design and associated access security meet required standards and have been reviewed and approved by ASIO Group 4.
- Risk assessments are to be reviewed annually as part of the process of applying for insurance renewal. The programme is based on the Risk Management Standard AS/NZS 4360:2004 and will measure the IGT's performance in implementing risk management processes and policies against the national benchmark.

During the year, the IGT also maintained comprehensive Business Continuity and Fraud Control plans. The Audit Committee periodically reviews these plans.

Additionally, the Office of the IGT has a number of strategies in place to ensure risks associated with the delivery of information technology services are identified and managed. This is against a background of the nature of the IGT's work and flexible operating environment, creating a relatively low-risk environment. The IGT utilises the IT infrastructure and support systems of the Treasury under a service level agreement. Components of the Treasury information technology governance are listed below:

- The IT Disaster Recovery Plan sets out the strategies and processes to restore services if a complete or partial loss of the Treasury central computing infrastructure occurs. The plan aims to restore services within an appropriate timeframe.
- Business Continuity Plans apply to all of the Treasury IT application systems. IGT staff could continue to operate effectively from temporary work locations with portable computing equipment.
- The IT Security Policy developed by Treasury addresses the requirements to protect information holdings and secure operation of the IGT's IT resources. The policy is based on the protective security policies and standards in the Australian Protective Security Manual, the Draft Australian Communication Security Instruction – Electronic Security Instructions 33 (A).
- The Treasury Internet and Email Acceptable Use Policy sets out individual user's responsibilities for the appropriate use of the internet and email facilities and services. This policy refers to the Australian Public Service Values and Code of Conduct, the *Public Service Act 1999*, other relevant Australian Government legislation and the IT Security Policy.
- Website Development Standards and Guidelines are based on ISO 9001 and ACSI 33 International Standards Organisation and Defence Signals Directorate Guidelines. The standards ensure compliance with best practice in relation to website security.
- IT Change Control Guidelines are an internal IT management tool which assists with quality assurance control over proposed changes to the IT technical environment and facilities. This change control process involves reviewing proposed variations and clearing them before releasing changes in the production environment.

- An IT Risk Management Strategy has been developed in accordance with Defence Signals Directorate Guidelines and identifies technical risks associated with IT infrastructure and IT management practices.

Staff awareness of risk management policies and procedures is maintained through training programmes and staff notices circulated to Treasury and IGT officers and also made available through access to the Treasury intranet.

## Ethical standards and accountability

The IGT's values embrace the Australian Public Service (APS) values. In particular, the IGT Employment Conditions refer prominently to the current APS values.

The IGT has taken steps to establish and maintain ethical standards through developing policies such as the CEI's and by actively adapting relevant policy documentation developed by Treasury. This includes such matters as the use of the internet email, conflict of interest guidelines, consultant engagement and management guidelines.

## Senior Executive Service remuneration

Remuneration of senior executive staff is determined by reference to a pay model identifying pay points. Allocation to a pay point is determined on the basis of experience and performance review.

At 30 June 2009, there was one Senior Executive Service employee in the Office of the IGT and he has an Australian Workplace Agreement in place.

## EXTERNAL SCRUTINY

### Audit

Other than annual financial statement audit activity, there have not been any audits of the Office of the IGT undertaken by the Australian National Audit Office.

### Internal audits

The service level agreement with the Treasury includes for provision of internal audit services. No internal audits of the Office of the IGT were undertaken during 2008-09. The Audit Committee established by the IGT regularly seeks input from the Treasury

internal audit on any matters relevant to the Office of which there were none in 2008 – 2009.

## Reports by the ANAO, the Ombudsman and others

Administration of the Office of the IGT was not mentioned in any reviews undertaken by the ANAO that were tabled in 2008-2009. There have not been any comments by the Commonwealth Ombudsman on administrative matters within the Office of the IGT in 2008 – 2009.

## Judicial decisions

In 2008-09, no matters relating to the Office of the IGT were the subject of judicial proceedings or tribunal hearings.

## MANAGEMENT OF HUMAN RESOURCES

The Office of the IGT consists of a small number of staff and provides a good environment for staff to develop through their work and participation in a broad range of agency activities and corporate obligations. The nature of the work does provide for a clear sense of achievement and satisfaction in performing an important community role. However, given its small size and relative stability, staff are recruited on the basis of their current competence with the expectation that career progression will generally occur in the wider public service/professional environment. They are encouraged and supported to provide their best performance while in the service of the IGT.

## Performance management

The Performance Management System is based on an annual performance cycle with a formal annual review and a less formal half-yearly review.

The Office of the IGT has utilised the design features and infrastructure of the Treasury Performance Management System in the establishment of the Performance Management System. An important feature is transparency in the process used by the Executive in measuring performance and communicating to each individual staff member. All staff report directly to both members of the Executive. Within a very small office environment, monitoring and assessing performance on an individual basis is relatively straightforward. Conversely, it is more difficult to evaluate individual performance against the wider population of people in similar roles.

## Australian Workplace Agreements

All Office of IGT staff are employed under either Australian Workplace Agreements or employment contracts. The employment terms and conditions are consistent for all staff within the Office of IGT. Employment conditions and remuneration are determined by reference to the Employment Guidelines which incorporate a pay model (see Tables 6 and 7 for salary scales for SES and non-SES staff). The employment arrangements do not provide for payment of performance pay. This arrangement provides underlying consistency for all employees while providing flexibility in recognising individual circumstances.

The Office of the IGT Australian Workplace Agreements and employment contracts specifically refer to the Australian Public Service Values in the context of setting out expected performance and behaviour.

## Workplace relations

The IGT consults with employees on matters in the workplace.

## Recruitment and succession planning

The IGT recruits staff based on merit. The ability to make an immediate contribution to the role of the Office is very important. The opportunity exists under the *Inspector-General of Taxation Act 2003* to second staff to the Office.

## Training and development

The Office of the IGT's Employment Guidelines reinforce the IGT's commitment to staff development. As well as providing internal staff training on an ad hoc basis, the IGT financially supports individual staff members who wish to complete post-graduate courses or attend specific development opportunities.

## Staffing information

Table 4 details the number of staff employed by the Office of IGT, by category and gender. All staff are employed under the *Public Service Act 1999*. However the IGT is a statutory appointee.

Table 4: Operative and paid inoperative staff by classification and gender  
(as at 30 June 2009)

Classification	Male	Female	Total
APS4		1	1
EL1	1		1
EL2	2	1	3
SES Band 2	1		1
Inspector-General	1		1
<b>Total</b>	<b>5</b>	<b>2</b>	<b>7</b>

Note: IGT staff are employed on an ongoing full-time basis.

## Remuneration of SES staff

Table 5: Salary scales — SES

Classification	6 September 2008	
	Minimum	Maximum
	\$	\$
SES Band 2	200,633	234,833

SES officers also have access to airline lounge membership, mobile phones, and some home office facilities.

The IGT has his remuneration package determined by the Remuneration Tribunal.

## Remuneration of non-SES staff

Table 6: Salary scales — non-SES

Classification	6 September 2008	
	Minimum	Maximum
	\$	\$
APS4	54,903	57,776
EL1	81,954	104,451
EL2	100,883	127,584

The IGT may provide alternative remuneration arrangements in specific circumstances.

## PROCUREMENT AND ASSETS MANAGEMENT

### Procurement

The Office of the IGT has adopted Treasury procurement policies and utilises services under a service level agreement. For example, all IT procurement is undertaken by the Treasury IT Procurement Unit. These policies and procedures are consistent with the Office of the IGT's CEI and the Commonwealth Procurement Guidelines.

To maintain procurement expertise and procedural compliance with the guidelines, all internal procurement documentation is available to the Office of the IGT's staff on the Treasury intranet.

Treasury regularly updates the intranet site to incorporate contemporary procurement practice such as the Better Practice Principles outlined in ANAO reports, *Engagement of Consultants, Senate Order of June 2002 (February 2003)*, and the use of confidentiality provisions in Commonwealth contracts.

### Assets management

The Treasury, for and on behalf of the Office of the IGT, manages both current and non-current assets in accordance with the guidelines set out in the IGT's CEI and the Australian Accounting Standards.

Non-current assets are subject to an annual stocktake to ensure the accuracy of asset records.

## CONSULTANCIES

Consistent with the CEI and the Commonwealth Procurement Guidelines, the Office of the IGT engages consultants and contractors on the basis of:

- value for money;
- open and effective competition;
- ethics and fair dealing;
- accountability and reporting;
- national competitiveness and industry development; and
- support for other Australian Government policies.

Typically, consultants are engaged to carry out defined research, provide independent advice or provide information or creative solutions to assist the IGT complete particular reviews or for him to undertake his statutory function. The most common reasons for engagement of consultancy services are:

- unavailability of specialist in-house resources in the short timeframe available;
- the need for an independent study or review; and
- specialist skills and knowledge are not available in-house.

Providers of consultancy services are selected through open tender, select tender, direct sourcing or panels.

During 2008-09 no new consultancy contracts were entered into involving expenditure over \$10,000. This amount includes GST.

## WORKPLACE DIVERSITY

While needing to recruit a specialist and numerically small workforce, the IGT has ensured that merit-based recruitment processes recognise gender, age and ethnicity issues. In this regard, a reasonable balance has resulted. Broader community involvement is encouraged, with staff members being supported in their professional association activities.

Table 7: Operative and paid inoperative staff by EEO target group (as at 30 June 2009)

Classification	Female	Born Overseas	ESL	AATSI	Disability
APS 4	1				
EL 1					
EL2	1	1	1		
SES Band 2		1			
Inspector-General		1			
<b>Total</b>	<b>2</b>	<b>3</b>	<b>1</b>	<b>0</b>	<b>0</b>

## Disability Action Plan

The IGT has evaluated the Treasury Disability Action Plan and will continue to consider options available to a small agency.



**PART 4:**  
**FINANCIAL STATEMENTS**

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## INDEPENDENT AUDITOR'S REPORT

To the Assistant Treasurer

### Scope

I have audited the accompanying financial statements of the Inspector-General of Taxation for the year ended 30 June 2009, which comprise: a Statement by the Chief Executive Officer and Chief Financial Officer; Income statement; Balance sheet; Cash flow statement; Statement of changes in equity; Schedules of commitments, contingencies and Notes to and forming part of the financial statements, including a Summary of significant accounting policies.

### *Responsibility of the Chief Executive Officer for the Financial Statements*

The Inspector-General of Taxation is responsible for the preparation and fair presentation of the financial statements in accordance with Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, including Australian Accounting Standards (which include Australian Accounting Interpretations). This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditor's Responsibility*

My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with Australian National Audit Office Auditing Standards, which incorporate Australian Auditing Standards. These auditing standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Inspector-General of Taxation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Inspector-General of Taxation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness

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of accounting estimates made by the Inspector-General of Taxation, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

***Independence***

In conducting the audit, I have followed the independence requirements of the Australian National Audit Office, which incorporate the requirements of the Australian accounting profession.

**Auditor's Opinion**

In my opinion, the financial statements of the Inspector-General of Taxation:

- (a) have been prepared in accordance with Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, including Australian Accounting Standards; and
- (b) give a true and fair view of the matters required by the Finance Minister's Orders including the Inspector-General of Taxation's financial position as at 30 June 2009 and its financial performance and cash flows for the year then ended.

Australian National Audit Office



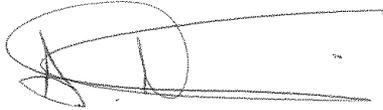
P Hinchey  
Senior Director  
Delegate of the Auditor-General

Sydney  
27 August 2009

## Inspector-General of Taxation

### Statement by the Chief Executive Officer and Chief Finance Officer

In our opinion, the attached financial statements for the period ended 30 June 2009 have been prepared based on properly maintained financial records and give a true and fair view of the matters required by the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, as amended.

A stylized signature consisting of a large circle on the left and several horizontal lines extending to the right.

Ali Noroozi  
Inspector-General of Taxation  
27 August 2009

A cursive signature that appears to read 'Andrew' followed by a long horizontal flourish.

Andrew McLoughlin  
Chief Finance Officer  
27 August 2009

**Income statement**  
for the period ended 30 June 2009

	Notes	2009 \$	2008 \$
<b>INCOME</b>			
<b>Revenue</b>			
Revenue from government	3A	2,167,000	2,178,000
Rental income	3B	51,843	51,843
Other revenue	3C	7,216	3,003
<b>Total revenue</b>		<b>2,226,059</b>	<b>2,232,846</b>
<b>Gains</b>			
Sale of assets	3D	-	955
Other gains	3E	18,000	18,000
<b>Total gains</b>		<b>18,000</b>	<b>18,955</b>
<b>TOTAL INCOME</b>		<b>2,244,059</b>	<b>2,251,801</b>
<b>EXPENSES</b>			
Employee benefits	4A	1,213,794	1,200,397
Suppliers	4B	821,181	867,787
Finance costs	4C	3,734	3,865
Depreciation and amortisation	4D	46,361	73,249
Write-down and impairment of assets	4E	-	7,906
<b>TOTAL EXPENSES</b>		<b>2,085,070</b>	<b>2,153,204</b>
<b>Surplus</b>		<b>158,989</b>	<b>98,597</b>

The above statement should be read in conjunction with the accompanying notes.

## Balance sheet

as at 30 June 2009

	Notes	2009 \$	2008 \$
<b>ASSETS</b>			
<b>Financial assets</b>			
Cash and cash equivalents	5A	77,025	70,000
Trade and other receivables	5B	2,177,855	1,932,711
<b>Total financial assets</b>		<b>2,254,880</b>	<b>2,002,711</b>
<b>Non-financial assets</b>			
Infrastructure, plant and equipment	6A,6C	69,617	57,960
Leasehold improvements	6B,6C	247,462	33,156
Other non-financial assets	6D	1,863	23,958
<b>Total non-financial assets</b>		<b>318,942</b>	<b>115,074</b>
<b>Total Assets</b>		<b>2,573,822</b>	<b>2,117,785</b>
<b>LIABILITIES</b>			
<b>Payables</b>			
Suppliers	7A	29,686	40,996
Other payables	7B	70,415	110,772
<b>Total payables</b>		<b>100,101</b>	<b>151,768</b>
<b>Provisions</b>			
Employees	8A	238,929	263,597
Other provisions	8B	202,723	69,245
<b>Total provisions</b>		<b>441,652</b>	<b>332,842</b>
<b>Total Liabilities</b>		<b>541,753</b>	<b>484,610</b>
<b>Net Assets</b>		<b>2,032,069</b>	<b>1,633,175</b>
<b>EQUITY</b>			
Contributed equity		1,573	1,573
Reserves		247,589	7,684
Retained surplus		1,782,907	1,623,918
<b>Total equity</b>		<b>2,032,069</b>	<b>1,633,175</b>
<b>Current assets</b>		<b>2,256,743</b>	<b>2,026,669</b>
<b>Non-current assets</b>		<b>317,079</b>	<b>91,116</b>
<b>Current liabilities</b>		<b>314,373</b>	<b>356,255</b>
<b>Non-current liabilities</b>		<b>227,380</b>	<b>128,355</b>

The above statement should be read in conjunction with the accompanying notes.

## Cash flow statement

for the period ended 30 June 2009

	Notes	2009 \$	2008 \$
<b>OPERATING ACTIVITIES</b>			
<b>Cash received</b>			
Appropriations		1,923,751	1,892,664
Rents		37,419	51,895
Other cash received		7,216	3,003
GST received from the Australian Taxation Office		66,107	61,050
<b>Total cash received</b>		<b>2,034,492</b>	<b>2,008,612</b>
<b>Cash used</b>			
Employees		(1,232,560)	(1,165,494)
Suppliers		(794,907)	(844,072)
<b>Total cash used</b>		<b>(2,027,467)</b>	<b>(2,009,566)</b>
<b>Net cashflows from or (used by) operating activities</b>	9	<b>7,025</b>	<b>(954)</b>
<b>INVESTING ACTIVITIES</b>			
<b>Cash received</b>			
Proceeds from sales of property, plant and equipment		-	954
<b>Total cash received</b>		<b>-</b>	<b>954</b>
<b>Net cashflows from or (used by) investing activities</b>		<b>-</b>	<b>954</b>
<b>Net increase or (decrease) in cash held</b>			
Cash and cash equivalents at the beginning of the reporting period		70,000	70,000
<b>Cash at the end of the reporting period</b>	5A	<b>77,025</b>	<b>70,000</b>

The above statement should be read in conjunction with the accompanying notes.

Statement of changes in equity  
for the period ended 30 June 2009

	Accumulated Results		Asset revaluation		Contributed equity		Total equity	
	2009	2008	2009	2008	2009	2008	2009	2008
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Opening Balance</b>								
Balance carried forward from previous period	1,623,918	1,525,321	7,684	-	1,573	1,573	1,633,175	1,526,894
<b>Income and Expenses</b>								
Revaluation adjustment	-	-	166,926	7,684	-	-	166,926	7,684
Re-statement of 'Make Good'	-	-	72,979	-	-	-	72,979	-
<b>Subtotal income and expenses recognised directly in equity</b>	-	-	239,905	7,684	-	-	239,905	7,684
Surplus for the period	158,989	98,597	-	-	-	-	158,989	98,597
<b>Total income and expenses</b>	158,989	98,597	239,905	7,684	-	-	398,894	106,281
<b>Closing balance at 30 June</b>	1,782,907	1,623,918	247,589	7,684	1,573	1,573	2,032,069	1,633,175

The above statement should be read in conjunction with the accompanying notes.

## Schedule of commitments as at 30 June 2009

	2009	2008
	\$	\$
<b>BY TYPE</b>		
<b>Commitments Receivable</b>		
Sublease rental income <sup>3</sup>	242,512	38,043
GST recoverable on commitments	103,097	31,279
<b>Total Commitments receivable</b>	<b>345,609</b>	<b>69,322</b>
<b>Other commitments</b>		
Operating leases <sup>1</sup>	927,292	175,401
Other commitments <sup>2</sup>	206,776	168,667
<b>Total other commitments</b>	<b>1,134,068</b>	<b>344,068</b>
<b>Net commitments by type</b>	<b>788,459</b>	<b>274,746</b>
<b>BY MATURITY</b>		
<b>Commitments receivable</b>		
<b>Operating lease income</b>		
One year or less	63,984	38,043
From one to five years	178,529	-
<b>Total operating lease income</b>	<b>242,512</b>	<b>38,043</b>
<b>Other commitments receivable</b>		
One year or less	31,935	30,538
From one to five years	71,162	741
<b>Total other commitments receivable</b>	<b>103,097</b>	<b>31,279</b>
<b>Commitments payable</b>		
<b>Operating lease commitments</b>		
One year or less	247,900	167,247
From one to five years	679,392	8,154
<b>Total operating lease commitments</b>	<b>927,292</b>	<b>175,401</b>
<b>Other commitments</b>		
One year or less	103,388	168,667
From one to five years	103,388	-
<b>Total other commitments</b>	<b>206,776</b>	<b>168,667</b>
<b>Net commitments by maturity</b>	<b>788,459</b>	<b>274,746</b>

Commitments are GST inclusive where relevant.

Note	Nature of lease	General description of leasing arrangements
1	Leases for office accommodation	The agreement allows annual fixed rental increases. There are no options to renew
1	A lease in relation to office equipment — photocopier	The agreement is a fixed rate over the term.
Note	Description	General description of the agreement
2	Service Agreement for the provision of office services	The agreement is at a fixed rate over the term.
3	Agreement for sub-lease of office accommodation	The agreement allows annual fixed rental increases.

The above schedule should be read in conjunction with the accompanying notes.

Schedule of contingencies  
*as at 30 June 2009*

	<b>2009</b>	2008
	<b>\$</b>	<b>\$</b>
<b>Contingent liabilities</b>	-	-
<b>Contingent assets</b>	-	-
<b>Net contingent liabilities</b>	-	-

The above schedule should be read in conjunction with the accompanying notes.

## Notes to and forming part of the financial statements for the year ended 30 June 2009

### Note 1: Summary of significant accounting policies

#### 1.1 Objectives of the Inspector-General of Taxation

The Office of the IGT is an Australian Government controlled agency. The objective of the IGT is to improve the administration of the tax laws for the benefit of all taxpayers. The IGT has one outcome:

‘Improved administration of tax laws for the benefit of all taxpayers’.

Agency activities contributing toward this outcome are classified as departmental. Departmental activities involve the use of assets, liabilities, revenues and expenses controlled or incurred by the agency in its own right.

The *Inspector-General of Taxation Act 2003* (the Act) established an independent statutory agency on 7 August 2003 to review:

- systems established by the Australian Taxation Office to administer the tax laws; and
- systems established by tax laws in relation to administrative matters;

for the purpose of reporting and making recommendations to Government on how those systems could be improved.

IGT’s departmental activities are identified under two Outputs relating to Outcome 1. Output 1.1.1, Identification of issues for review and prioritisation of work program and Output 1.1.2, the provision of independent advice to the Government on the administration of the tax laws.

The continued existence of the agency in its present form, and with its present programs, is dependent on government policy and on continuing appropriations by Parliament for the agency’s administration and programs.

#### 1.2 Basis of Preparation of Financial Statements

The financial statements and notes are required by section 49 of Schedule 1 of the *Financial Management and Accountability Act 1997* and are a General Purpose Financial Report.

The Financial Statements and notes have been prepared in accordance with:

- Finance Minister's Orders (FMOs) for reporting periods ending on or after July 2008; and
- Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

The financial report has been prepared on an accrual basis and is in accordance with the historical cost convention, except for certain assets at fair value. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

The financial report is presented in Australian dollars and values are expressed in whole dollars.

Unless an alternative treatment is specifically required by an Accounting Standard or the FMOs, assets and liabilities are recognised in the Balance Sheet when and only when it is probable that future economic benefits will flow to the Agency or a future sacrifice of economic benefits will be required and the amounts of assets or liabilities can be reliably measured. However, assets and liabilities arising under Agreements Equally Proportionally Unperformed are not recognised unless required by an Accounting Standard. Liabilities and assets that are unrecognised are reported in the Schedule of Commitments and the Schedule of Contingencies (other than unquantifiable or remote contingencies, which are reported at Note 10).

Unless alternative treatment is specifically required by an Accounting Standard, revenues and expenses are recognised in the Income Statement when and only when the flow, consumption or loss of economic benefits has occurred and can be reliably measured.

### **1.3 Significant accounting judgements and estimates**

In the process of applying the accounting policies listed in this note, there are no judgements that have a significant impact on the amounts recorded in the financial statements.

No accounting assumptions or estimates have been identified that have a significant risk of causing a material adjustment to carrying amounts of assets and liabilities within the next accounting period.

## 1.4 Changes in Australian Accounting Standards

### Adoption of new Australian Accounting Standard requirements

No accounting standard has been adopted earlier than the application date as stated in the standard. No new accounting standards, amendments to standards and interpretations issued by the Australian Accounting Standards Board that are applicable to the current period, have had a material financial impact on the Office of the IGT.

### Future Australian Accounting Standard requirements

No new standards, amendments to standards or interpretations that have been issued by the Australian Accounting Standards Board and are effective for future reporting periods, are expected to have a material financial impact on the Office of the IGT.

### Revenue from Government

Amounts appropriated for departmental outputs appropriations for the year (adjusted for any formal additions and reductions) are recognised as revenue when the Agency gains control of the Appropriation, except for certain amounts that relate to activities that are reciprocal in nature, in which case revenue is recognised only when it has been earned.

Appropriations receivable are recognised at their nominal amounts.

### Other types of revenue

Revenue from rendering of services is recognised by reference to the stage of completion of contracts at the reporting date. The revenue is recognised when:

- the amount of revenue, stage of completion and transaction costs incurred can be reliably measured; and
- the probable economic benefits with the transaction will flow to the agency.

Receivables for services, which have 30 day terms, are recognised at the nominal amounts due, less any provision for bad and doubtful debts. Collectability of debts is reviewed at balance date. Provisions are made when collectability of the debt is no longer probable.

## 1.5 Gains

### Other resources received free of charge

Resources received free of charge are recognised as gains when and only when a fair value can be reliably determined and the services would have been purchased if they had not been donated. Use of those resources is recognised as an expense.

### Sale of assets

Gains from disposal of non-current assets are recognised when control of the asset has passed to the buyer.

## 1.6 Transactions by the Government as owner

### Equity injections

Amounts appropriated are designated as 'equity injections' for that year (less any formal reductions) and are recognised directly in Contributed Equity in that year.

## 1.7 Employee benefits

Liabilities for services rendered by employees are recognised at the reporting date to the extent that they have not been settled.

Liabilities for 'short-term employee benefits' (as defined in AASB 119) and termination benefits due within twelve months of balance date are measured at their nominal amounts.

The nominal amount is calculated with regard to the rates expected to be paid on settlement of the liability.

All other employee benefit liabilities are measured as the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date.

### Leave

The liability for employee benefits includes provision for annual leave and long service leave. No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees of the agency is estimated to be less than the annual entitlement for sick leave.

The leave liabilities are calculated on the basis of employees' remuneration, including the agency's employer superannuation contribution rates to the extent that the leave is likely to be taken during service rather than paid out on termination.

The liability for long service leave has been determined by reference to the work of an actuary as at 30 June 2009. The estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and inflation.

### **Superannuation**

Staff of the agency in general are members of the Commonwealth Superannuation Scheme (CSS), the Public Sector Superannuation Scheme (PSS) or the PSS accumulation plan (PSSap).

The CSS and PSS are defined benefit schemes for the Australian Government. The PSSap is a defined contribution scheme.

The liability for defined benefits is recognised in the financial statements of the Australian Government and is settled by the Australian Government in due course.

IGT makes employer contributions to the Employee Superannuation Scheme at rates determined by an actuary to be sufficient to meet the cost to the Government of the superannuation entitlements of the agency's employees.

From 1 July 2005, new employees are eligible to join the PSSap scheme.

The liability for superannuation recognised as at 30 June represents outstanding contributions for the final fortnight of the year.

## **1.8 Leases**

A distinction is made between finance leases and operating leases. Finance leases effectively transfer from the lessor to the lessee substantially all the risks and rewards incidental to ownership of leased non-current assets. An operating lease is a lease that is not a finance lease. In operating leases, the lessor effectively retains substantially all such risks and benefits.

Where a non-current asset is acquired by means of a finance lease, the asset is capitalised at either the fair value of the lease property or, if lower, the present value of minimum lease payments at the inception of the contract and a liability recognised at the same time and for the same amount.

The discount rate used is the interest rate implicit in the lease. Leased assets are amortised over the period of the lease. Lease payments are allocated between the principal component and the interest expense.

Operating lease payments are expensed on a straight line basis which is representative of the pattern of benefits derived from the leased assets.

## 1.9 Finance costs

All finance costs are expensed as incurred. Finance costs arise as a result of the unwinding of the discount applied to the provision for 'make good' required under the premises lease.

## 1.10 Cash

Cash and cash equivalents includes deposits in bank accounts with an original maturity of 3 months or less that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value. Cash is recognised at its nominal amount.

## 1.11 Financial assets

IGT classifies its financial assets in the following categories:

- financial assets as 'at fair value through profit or loss'; and
- 'loans and receivables'.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Financial assets are recognised and derecognised upon 'trade date'.

### Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are measured at nominal amounts.

### Impairment of financial assets

Financial assets are assessed for impairment at each balance date.

IGT's activities expose it to normal commercial financial risk. As a result of the nature of IGT's business and internal and Australian Government policies, dealing with the management of financial risk, IGT's exposure to market, credit, liquidity and cash flow and fair value interest rate risk is considered to be low.

## 1.12 Financial liabilities

Financial liabilities are classified as other financial liabilities.

Financial liabilities are recognised and derecognised upon 'trade date'.

### **Other financial liabilities**

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

### **Supplier and other payables**

Supplier and other payables are recognised at nominal amounts. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced).

## **1.13 Contingent liabilities and contingent assets**

Contingent liabilities and contingent assets are not recognised in the Balance Sheet but are reported in the relevant schedules and notes. They may arise from uncertainty as to the existence of a liability or asset, or represent an existing liability or asset in respect of which settlement is not probable or the amount cannot be reliably measured. Remote contingencies are part of this disclosure. Contingent assets are reported when settlement is probable, and contingent liabilities are recognised when settlement is greater than remote.

## **1.14 Acquisition of assets**

Assets are recorded at cost on acquisition except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken. Financial assets are initially measured at their fair value plus transaction costs where appropriate.

## **1.15 Property, plant and equipment (PP&E)**

### **Asset recognition threshold**

Purchases of property, plant and equipment are recognised initially at cost in the Balance Sheet, except for purchases costing less than \$2,000 and computer equipment of less than \$1,000, which are expensed in the year of acquisition (other than where they form part of a group of similar items which are significant in total).

The initial cost of an asset includes an estimate of the cost of dismantling and removing the item and restoring the site on which it is located. This is particularly relevant to 'make good' provisions in property leases taken up by IGT where there exists an obligation to restore the property to its original condition. These costs are included in the value of IGT's leasehold improvements with a corresponding provision for the 'make good' taken up.

## Revaluations

Fair values for each class of asset are determined as shown below:

<b>Asset class</b>	<b>Fair value measured at</b>
Leasehold improvements	Depreciated replacement cost
Plant and equipment	Market price

Following initial recognition at cost, property plant and equipment are carried at fair value less accumulated depreciation and accumulated impairment losses. Valuations are conducted with sufficient frequency to ensure that the carrying amounts of assets do not differ materially with the assets' fair values as at the reporting date. The regularity of independent valuations depends upon the volatility of movements in market values for the relevant assets.

Revaluation adjustments are made on a class basis. Any revaluation increment is credited to equity under the heading of asset revaluation reserve except to the extent that it reverses a previous revaluation decrement of the same asset class that was previously recognised through profit and loss. Revaluation decrements for a class of assets are recognised directly through profit and loss except to the extent that they reverse a previous revaluation increment for that class.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the asset restated to the revalued amount.

## Depreciation

Depreciable property, plant and equipment assets are written off to their estimated residual values over their estimated useful lives to the agency using, in all cases, the straight-line method of depreciation. Leasehold improvements are depreciated on a straight-line basis over the lesser of the estimated useful life of the improvements or the unexpired period of the lease.

Depreciation rates (useful lives), residual values and methods are reviewed at each reporting date and necessary adjustments are recognised in the current, or current and future reporting periods, as appropriate. Depreciation rates applying to each class of depreciable asset are based on the following useful lives:

	<b>2008-09</b>	<b>2007-08</b>
Infrastructure, plant and equipment	3-10 years	3-10 years
Leasehold improvements	Lease term	Lease term

The aggregate amount of depreciation allocated for each class of asset during the reporting period is disclosed in Note 4D.

## Impairment

All assets are assessed for impairment at 30 June. Where indications of impairment exist, the asset's recoverable amount is estimated and an impairment adjustment made if the asset's recoverable amount is less than its carrying amount.

The recoverable amount of an asset is the higher of its *fair value less costs to sell* and its *value in use*. *Value in use* is the present value of the future cash flows expected to be derived from the asset. Where the future economic benefit of an asset is not primarily dependent on the asset's ability to generate future cash flows, and the asset would be replaced if IGT were deprived of the asset, its *value in use* is taken to be its depreciated replacement cost.

No indicators of impairment were found for assets at fair value.

## 1.16 Taxation

The agency is exempt from all forms of taxation except for Fringe Benefits Tax and Goods and Services Tax (GST). Revenues, expenses and assets are recognised net of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office, and except for receivables and payables.

## Note 2: Events occurring after reporting date

The agency is not aware of any significant events that have occurred since balance date that warrant disclosure in these statements.

**Note 3: Income**

	2009	2008
	\$	\$
<b>Revenues</b>		
<b>Note 3A: Revenue from government</b>		
Appropriations:		
Departmental outputs	2,167,000	2,178,000
<b>Total revenue from government</b>	<b>2,167,000</b>	<b>2,178,000</b>
<b>Note 3B: Rental income</b>		
Property sub-lease rent received	51,843	51,843
<b>Total rental income</b>	<b>51,843</b>	<b>51,843</b>
<b>Note 3C: Other revenue</b>		
Other revenue	7,216	3,003
<b>Total other revenue</b>	<b>7,216</b>	<b>3,003</b>
<b>Gains</b>		
<b>Note 3D: Sale of assets</b>		
Infrastructure, plant and equipment		
Proceeds from sale	-	955
Carrying value of assets sold	-	-
<b>Net gain from sale of assets</b>	<b>-</b>	<b>955</b>
<b>Note 3E: Other gains</b>		
Resources received free of charge	18,000	18,000
<b>Total other gains</b>	<b>18,000</b>	<b>18,000</b>

**Note 4: Expenses**

	2009	2008
	\$	\$
<b>Note 4A: Employee benefits</b>		
Wages and salaries	942,072	931,655
Superannuation:		
Defined contribution plans	13,193	13,193
Defined benefit plans	133,272	121,848
Leave and other benefits	123,007	130,489
Other employee expenses	2,250	3,212
<b>Total employee benefits</b>	<b>1,213,794</b>	<b>1,200,397</b>
<b>Note 4B: Suppliers</b>		
Provision of goods - related entities	11,956	7,588
Provision of goods - external entities	84,960	164,658
Rendering of services - related entities	121,614	170,374
Rendering of services - external entities	337,473	253,569
Operating lease rentals(*)	260,072	265,780
Workers compensation premiums	5,105	5,818
<b>Total supplier expenses</b>	<b>821,181</b>	<b>867,787</b>
* These comprise minimum lease payments only		
<b>Note 4C: Finance costs</b>		
Unwinding of discount	3,734	3,865
<b>Total finance costs</b>	<b>3,734</b>	<b>3,865</b>
<b>Note 4D: Depreciation and Amortisation</b>		
<b>Depreciation</b>		
Infrastructure, plant and equipment	39,753	61,919
<b>Total depreciation</b>	<b>39,753</b>	<b>61,919</b>
<b>Amortisation</b>		
Leasehold improvements - make good provision	6,608	11,330
<b>Total amortisation</b>	<b>6,608</b>	<b>11,330</b>
The aggregate amounts of depreciation or amortisation expensed during the reporting period for each class of depreciable assets are as follows:		
Leasehold improvements	6,608	54,766
Infrastructure, plant and equipment	39,753	18,483
<b>Total depreciation and amortisation</b>	<b>46,361</b>	<b>73,249</b>
No depreciation or amortisation was allocated to the carrying amounts of other assets		
<b>Note 4E: Write-down and impairment of assets</b>		
Asset Write-Downs from		
Impairment of Property, Plant and equipment	-	7,393
Other	-	513
<b>Total write-down of assets</b>	<b>-</b>	<b>7,906</b>

**Note 5: Financial assets**

	2009	2008
	\$	\$
<b>Note 5A: Cash and cash equivalents</b>		
Cash on hand or on deposit	77,025	70,000
<b>Total cash and cash equivalents</b>	<b>77,025</b>	<b>70,000</b>
<b>Note 5B: Trade and other receivables</b>		
Goods and services	4,752	9,505
GST receivable from ATO	8,704	18,095
Other receivables	16,037	-
Appropriations receivable for existing outputs	2,148,361	1,905,111
<b>Total trade and other receivables (gross)</b>	<b>2,177,855</b>	<b>1,932,711</b>
Less: Allowance for doubtful debts	-	-
<b>Total trade and other receivables (net)</b>	<b>2,177,855</b>	<b>1,932,711</b>
Receivables are represented by:		
Current	272,744	312,936
Non-current	1,905,111	1,619,775
<b>Total trade and other receivables (net)</b>	<b>2,177,855</b>	<b>1,932,711</b>
<b>Receivables are aged as follows:</b>		
Not overdue	272,744	308,183
Overdue by:		
Less than 30 days	-	-
31 to 60 days	-	4,752
61 to 90 days	-	-
More than 90 days	1,905,111	1,619,776
	<b>1,905,111</b>	<b>1,624,528</b>
<b>Total receivables (gross)</b>	<b>2,177,855</b>	<b>1,932,711</b>

**Note 6: Non-financial assets**

	2009	2008
	\$	\$
<b>Note 6A: Infrastructure, Plant and equipment</b>		
<b>Infrastructure, Plant and equipment</b>		
- gross carrying value (at fair value)	69,617	68,732
- accumulated depreciation	-	(10,772)
<b>Total infrastructure, plant and equipment (non-current)</b>	<b>69,617</b>	<b>57,960</b>
<b>Note 6B: Leasehold improvements</b>		
<b>Leasehold improvements</b>		
- fair value	142,062	210,000
- accumulated depreciation	-	(183,452)
	<b>142,062</b>	<b>26,548</b>
<b>Leasehold improvements 'make good'</b>		
- at fair value	105,400	56,649
- accumulated amortisation	-	(50,041)
	<b>105,400</b>	<b>6,608</b>
<b>Total leasehold improvements (non-current)</b>	<b>247,462</b>	<b>33,156</b>
<b>Total infrastructure, plant and equipment (non-current)</b>	<b>317,079</b>	<b>91,116</b>

All property, plant and equipment are at valuation as at 30 June 2009 in accordance with the agency's revaluation policy (note 1.15). In 2009, assets were assessed for indications of impairment. No indications of impairment were found.

**Note 6: Non-financial assets (continued)**

	Plant and equipment \$	Leasehold improvements \$	Total \$
<b>Note 6C: Analysis of property, plant and equipment</b>			
<b>Reconciliation of the opening and closing balances of property, plant and equipment (2008-09)</b>			
<b>As at 1 July 2008</b>			
Gross book value	68,732	266,649	335,381
Accumulated depreciation/amortisation and impairment	(10,772)	(233,493)	(244,265)
<b>Net book value 1 July 2008</b>	<b>57,960</b>	<b>33,156</b>	<b>91,116</b>
Additions by purchase	-	-	-
Depreciation/amortisation expense	(13,205)	(33,156)	(46,361)
Disposals:			
other disposals	-	-	-
Revaluations	24,862	247,462	272,324
<b>Net book value at 30 June 2009</b>	<b>69,617</b>	<b>247,462</b>	<b>317,079</b>
<b>Net book value as of 30 June 2009 represented by:</b>			
Gross book value	69,617	247,462	317,079
Accumulated depreciation/amortisation and impairment	-	-	-
	<b>69,617</b>	<b>247,462</b>	<b>317,079</b>
<hr/>			
	Plant and equipment \$	Leasehold improvements \$	Total \$
<b>Reconciliation of the opening and closing balances of property, plant and equipment (2007-08)</b>			
<b>As at 1 July 2007</b>			
Gross book value	122,800	212,449	335,249
Accumulated depreciation/amortisation and impairment	(42,112)	(127,739)	(169,851)
<b>Net book value 1 July 2007</b>	<b>80,688</b>	<b>84,710</b>	<b>165,398</b>
Additions by purchase	-	-	-
Depreciation/amortisation expense	(18,483)	(54,766)	(73,249)
Disposals:			
other disposals	-	-	-
Revaluations	(4,245)	3,212	(1,033)
<b>Net book value at 30 June 2008</b>	<b>57,960</b>	<b>33,156</b>	<b>91,116</b>
<b>Net book value as of 30 June 2008 represented by:</b>			
Gross book value	68,732	266,649	335,381
Accumulated depreciation/amortisation and impairment	(10,772)	(233,493)	(244,265)
	<b>57,960</b>	<b>33,156</b>	<b>91,116</b>

**Note 6: Non-financial assets (continued)**

	2009	2008
	\$	\$
<b>Note 6D: Other non-financial assets</b>		
Prepayments	1,863	23,958
<b>Total other non-financial assets</b>	<b>1,863</b>	<b>23,958</b>

All other non-financial assets are current assets.

No indicators of impairment were found for other non-financial assets.

**Note 7: Payables**

	2009	2008
	\$	\$
<b>Note 7A: Suppliers</b>		
Trade creditors	29,686	40,996
<b>Total supplier payables</b>	<b>29,686</b>	<b>40,996</b>
Supplier payables - related entities are represented by:		
Current	3,072	3,652
Supplier payables - external parties are represented by:		
Current	26,614	37,344
<b>Total supplier payables</b>	<b>29,686</b>	<b>40,996</b>
Settlement is usually made net 30 days		
<b>Note 7B: Other payables</b>		
Salaries and wages	16,951	9,798
Superannuation	2,455	1,578
Accrued expenses	51,009	94,644
Prepayments received	-	4,752
<b>Total other payables</b>	<b>70,415</b>	<b>110,772</b>

All other payables are current liabilities.

**Note 8: Provisions**

	2009	2008
	\$	\$
<b>Note 8A: Employee provisions</b>		
Leave	<b>238,929</b>	263,597
Employee provisions are represented by:		
Current	<b>214,272</b>	204,487
Non-current	<b>24,657</b>	59,110
<b>Total employee provisions</b>	<b>238,929</b>	263,597
<b>Note 8B: Other provisions</b>		
Lease incentives	<b>97,323</b>	-
Provision for 'Makegood'	<b>105,400</b>	69,245
	<b>202,723</b>	69,245
	<b>Provision for</b>	
	<b>Makegood</b>	
<b>Carrying amount at 1 July 2008</b>	<b>69,245</b>	65,380
Re-statement of 'MakeGood' @ 30 June	<b>32,421</b>	-
Unwinding of discount	<b>3,734</b>	3,865
<b>Closing balance 30 June 2009</b>	<b>105,400</b>	69,245

The agency has renewed the agreement for the leasing of premises which has a provision requiring the agency to restore the premises to their original condition at the conclusion of the term.

The agency has made a provision to reflect the present value of this obligation.

All other provisions are non-current liabilities.

## Note 9: Cash flow reconciliation

	2009	2008
	\$	\$
<b>Reconciliation of cash and cash equivalents per Balance Sheet to Cash Flow Statement</b>		
Report cash and cash equivalents as per;		
Cash Flow Statement	77,025	70,000
Balance sheet	77,025	70,000
<b>Reconciliation of operating result to net cash from operating activities:</b>		
Net surplus	158,989	98,597
Depreciation and Amortisation	46,361	73,249
Net write-down of non-financial assets	-	7,906
Finance costs	3,734	3,865
(Increase)/decrease in receivables	(245,144)	(302,038)
(Increase)/decrease in prepayments	22,096	3,865
Increase/(decrease) in payables	(40,291)	81,894
Increase/(decrease) in employee provision	(36,043)	34,903
Increase/(decrease) in other provisions	97,323	-
<b>Net cash from/(used by) operating activities</b>	<b>7,025</b>	<b>(954)</b>

## Note 10: Contingent liabilities and assets

There are no unquantifiable or remote contingencies.

## Note 11: Executive remuneration

The number of senior executives who received or were due to receive total remuneration of \$130,000 or more:

	2009	2008
The number of senior executives who received or were due to receive total remuneration of \$130,000 or more:		
\$145,000-\$159,999	1	-
\$220,000-\$235,999	1	-
\$280,000-\$294,999	-	1
\$295,000-\$309,999	1	-
\$325,000-\$339,999	-	1
Total	3	2
The aggregate amount of total remuneration of executives shown above	\$684,628	\$609,157

## Note 12: Remuneration of auditors

	2009	2008
	\$	\$
Financial statement audit services are provided free of charge to the agency.		
The fair value of the services provided was	18,000	18,000
<b>Total</b>	<b>18,000</b>	<b>18,000</b>

No other services were provided by the Auditor-General.

**Note 13: Financial instruments**

	2009	2008
	\$	\$
<b>Note 13A: Categories of financial instruments</b>		
Cash and cash equivalents	77,025	70,000
Trade receivables	4,752	9,505
<b>Carrying amount of financial assets</b>	<b>81,777</b>	<b>79,505</b>
<b>Financial liabilities</b>		
Payables - suppliers	29,686	40,996
Prepayments received/earned income	-	4,752
Other payables	51,009	94,644
<b>Carrying amount of financial liabilities</b>	<b>80,695</b>	<b>140,392</b>

	2009	2008
	\$	\$

**Note 13B: Net income and expense from financial assets****Loans and Receivables**

Interest revenue	-	-
------------------	---	---

**Net gain/(loss) from financial assets**

	-	-
--	---	---

As all financial assets are at fair value, there is no interest income arising through the profit and loss in the year ending 2009. ( 2008: NIL )

	2009	2008
	\$	\$

**Note 13C: Net income and expense from financial liabilities****Other liabilities**

Interest expense	-	-
------------------	---	---

**Net gain/(loss) from financial liabilities**

	-	-
--	---	---

As all financial liabilities are at fair value, there is no interest expense arising through the profit and loss in the year ending 2009. (2008: NIL).

**Note 13: Financial instruments (continued)****Note 13D: Fair value of financial instruments**

	Notes	2009		2008	
		Carrying amount	Fair Value	Carrying amount	Fair Value
		\$	\$	\$	\$
<b>Financial assets</b>					
Cash & cash equivalents	5A	77,025	77,025	70,000	70,000
Receivables	5B	4,752	4,752	9,505	9,505
<b>Total financial assets</b>		<b>81,777</b>	<b>81,777</b>	<b>79,505</b>	<b>79,505</b>
<b>Financial liabilities</b>					
Supplier payables	7A	29,686	29,686	40,996	40,996
Other payables	7B	51,009	51,009	99,396	99,396
<b>Total financial liabilities</b>		<b>106,712</b>	<b>80,694</b>	<b>140,391</b>	<b>140,391</b>

**Note 13E: Credit risk**

The agency is exposed to minimal credit risk as receivables are cash and trade receivables.

The maximum exposure to credit risk is the risk that arises from the potential default of a debtor.

This amount is equal to the total amount of the trade receivables (2009:\$4752, and 2008: \$9,505).

The agency has assessed the risk of the default on payment and has made no allocations to doubtful debts in 2009 (2008: *NIL*).

The agency holds no collateral to mitigate against the credit risk.

Credit quality of financial instruments not past due or individually determined as impaired.

	Not past due nor impaired 2009 \$	Not past due nor impaired 2008 \$	Past due or impaired 2009 \$	Past due or impaired 2008 \$
<b>Loans and receivables</b>				
Cash and cash equivalents	77,025	70,000	-	-
Trade receivables	4,752	4,752	-	4,752
<b>Total</b>	<b>81,777</b>	<b>74,752</b>	<b>-</b>	<b>4,752</b>

Ageing of financial assets that are past due but not impaired for 2009.

	0 to 30 days \$	31 to 60 days \$	61 to 90 days \$	90+ days \$	Total \$
<b>Loans and receivables</b>					
Trade receivables	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Ageing of financial assets that are past due but not impaired for 2008.

	0 to 30 days \$	31 to 60 days \$	61 to 90 days \$	90+ days \$	Total \$
<b>Loans and receivables</b>					
Trade receivables	-	4,752	-	-	4,752
<b>Total</b>	<b>-</b>	<b>4,752</b>	<b>-</b>	<b>-</b>	<b>4,752</b>

**Note 13: Financial instruments (continued)****Note 13F: Liquidity risk**

The agency's financial liabilities are payables and prepaid revenue. The exposure to liquidity risk is based on the notion that the agency will encounter difficulty in meeting its obligations associated with financial liabilities. This is highly unlikely due to the appropriation funding and mechanisms available to the agency (for example, Advance to the Finance Minister) and interim policies and procedures put in place to ensure there are appropriate resources to meet its financial obligations.

The following tables illustrate the maturities for financial liabilities.

	On Demand 2009 \$	Within 1 year 2009 \$	1 to 5 years 2009 \$	> 5 years 2009 \$	Total 2009 \$
<b>Other liabilities</b>					
Payables - suppliers	-	29,686	-	-	29,686
Prepayments received/ unearned income	-	-	-	-	-
Other payables	-	51,009	-	-	51,009
<b>Total</b>	-	80,695	-	-	80,695

	On Demand 2008 \$	Within 1 year 2008 \$	1 to 5 years 2008 \$	> 5 years 2008 \$	Total 2008 \$
<b>Other liabilities</b>					
Payables - suppliers	-	40,996	-	-	40,996
Prepayments received/ unearned income	-	4,752	-	-	4,752
Other payables	-	94,644	-	-	94,644
<b>Total</b>	-	140,392	-	-	140,392

The agency is appropriated funding from the Australian Government. The agency manages its budgeted funds to ensure that it has adequate funds to meet payments as they fall due. In addition, the agency has policies in place to ensure timely payments are made when due and has no past experience of default.

**Note 13G: Market risk**

IGT holds basic financial instruments that do not expose the agency to certain market risks. The agency is not exposed to 'Currency risk' or 'Other price risk'.

**Note 14: Appropriations**

Table A: Acquittal of Authority to Draw Cash from the Consolidated Revenue Fund (CRF) for Ordinary Annual Services Appropriations

	Departmental Outputs		Total	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>Balance brought forward from previous period</b>	<b>1,985,420</b>	1,695,356	<b>1,985,420</b>	1,695,356
Appropriation Act:				
Appropriation Act (No.1) 2008-09	<b>2,167,000</b>	2,178,000	<b>2,167,000</b>	2,178,000
Comcover receipts (Appropriation Act s12)	-	-	-	-
FMA Act:				
Appropriations to take account of recoverable GST (FMA s30A)	<b>66,107</b>	69,786	<b>66,107</b>	69,786
Annotations to 'net appropriations' (FMA s31)	<b>51,843</b>	51,843	<b>51,843</b>	51,843
<b>Total Appropriations available for payments</b>	<b>4,270,370</b>	3,994,986	<b>4,270,370</b>	3,994,986
Cash payments made during the year (GST inclusive)	<b>2,027,467</b>	2,009,566	<b>2,027,467</b>	2,009,566
Balance of Authority to Draw Cash from the CRF for Ordinary Annual Services Appropriations	<b>2,242,903</b>	1,985,420	<b>2,242,903</b>	1,985,420
Represented by:				
Cash at bank and on hand	<b>77,025</b>	70,000	<b>77,025</b>	70,000
Receivable - Departmental appropriations	<b>2,148,361</b>	1,905,111	<b>2,148,361</b>	1,905,111
Receivables - GST receivable from ATO	<b>17,517</b>	10,309	<b>17,517</b>	10,309
<b>Total</b>	<b>2,242,903</b>	1,985,420	<b>2,242,903</b>	1,985,420

**Note 15: Compensation and debt relief**

	2009	2008
	\$	\$
No 'Act of Grace' payments were made during the reporting period	-	-
No waivers of amounts owing to the Commonwealth were made during the reporting period	-	-
No ex-gratia payments were made during the reporting period	-	-
No payments were made under the 'Defective Administration Scheme' during the reporting period	-	-
No payments were made under s73 of the <i>Public Service Act 1999</i> during the reporting period	-	-

## Note 16: Reporting of outcomes

The IGT has one outcome:

*'Improved administration of tax laws for the benefit of all taxpayers'.*

### Note 16A: Net cost of outcome delivery

	2009	2008
	\$	\$
<b>Expenses</b>		
Departmental	2,085,070	2,153,204
<b>Total expenses</b>	<b>2,085,070</b>	<b>2,153,204</b>
<b>Costs recovered from provision of goods and services to the non government sector</b>		
Departmental	-	-
<b>Total costs recovered</b>	<b>-</b>	<b>-</b>
<b>Other external revenues</b>		
Rents	51,843	51,843
Other revenue	7,216	3,003
Gains	18,000	18,000
Departmental	77,059	73,801
<b>Total other external revenues</b>	<b>77,059</b>	<b>73,801</b>
<b>Net cost of outcome</b>	<b>2,008,011</b>	<b>2,079,403</b>

### Note 16B: Major classes of departmental revenues and expenses by output groups and outputs

The agency has two outputs (Output Group 1.1):

Output 1.1.1 – Identification of issues for review and prioritisation of the work program

Output 1.1.2 – Provision of independent advice to the government on the administration of the tax laws

The basis of attribution in the table below is consistent with the basis used for the 2009-10 Budget, which estimated the proportion of agency activities to be assigned to each of the outputs. This basis was evaluated during 2008-09 through monitoring of agency activities and no adjustment was considered necessary.

## Note 16B: Major classes of departmental revenues and expenses by output groups and outputs (continued)

Outcome 1	Output Group 1.1		Output 1.1.2		Outcome 1 Total	
	Output 1.1.1		2009		2009	
	2009	2008	\$	\$	\$	\$
<b>Departmental expenses</b>						
Employees	60,690	60,021	1,153,104	1,140,376	1,213,794	1,200,397
Suppliers	41,059	43,390	780,121	824,397	821,181	867,787
Finance costs	187	192	3,547	3,673	3,734	3,865
Depreciation and amortisation	2,318	3,662	44,043	69,587	46,361	73,249
Write down of assets	-	395	-	7,511	-	7,906
<b>Total Departmental expenses</b>	<b>104,255</b>	<b>107,660</b>	<b>1,980,815</b>	<b>2,045,544</b>	<b>2,085,070</b>	<b>2,153,204</b>
<b>Funded by:</b>						
Revenues from government	108,350	108,900	2,058,650	2,069,100	2,167,000	2,178,000
Rents	2,592	2,592	49,250	49,251	51,843	51,843
Other revenue	361	150	6,854	2,853	7,216	3,003
Gains	900	900	17,100	17,100	18,000	18,000
<b>Total Departmental revenues</b>	<b>112,204</b>	<b>112,542</b>	<b>2,131,855</b>	<b>2,138,304</b>	<b>2,244,058</b>	<b>2,250,847</b>

Outcome 1 is described in Note 1.1. Net costs shown include intra-government costs that are eliminated in calculating the actual Budget outcome.



## **PART 5:**

### **OTHER INFORMATION**

#### **OCCUPATIONAL HEALTH AND SAFETY**

The Office of the IGT operates so as to foster and maintain a safe and healthy working environment in accordance with the *Occupational Health and Safety (Commonwealth Employment) Act 1991*. During 2008-09, the Inspector-General received no accident and incident reports. No notices were given under sections 29, 46 and 47 of the *Occupational Health and Safety (Commonwealth Employment) Act 1991*.

#### **FREEDOM OF INFORMATION**

The *Freedom of Information Act 1982* (Cth) (the FOI Act) gives the general public legal access to government documents.

Section 8 of the FOI Act requires the IGT to publish certain information in its annual report. Information about its organisation, functions and decision-making powers is contained in the body of this annual report.

#### **Arrangements for outside participation**

The FOI Act requires information regarding the arrangements for bodies or persons outside the Commonwealth to participate in the formulation of policy by the agency, or in the administration of the agency.

A specific performance indicator for the IGT is broad-based community involvement in the identification of systemic issues in the administration of tax laws. As stated in Part 2, the IGT has chosen to widely consult with the community in setting his work program.

The IGT also engages in consultation to inform the development of advice to the government. By being fully informed of the effects of findings and recommendations, the IGT can better advise the government on how the administration of the tax laws may be improved and minimise any unintended consequences.

Consultation is most effective when stakeholders respect each other's input and collaborate to develop workable solutions. However, consultation will not always result in consensus amongst stakeholders.

The IGT takes a number of different approaches to liaison and consultation. Consultations on the work program of the IGT may be broad, such as written submissions responding to an issues paper or terms of reference for a review, or targeted, such as roundtable discussions with a small number of stakeholders or individual meetings with stakeholders.

When engaging in community consultation, the IGT seeks to involve an appropriate range of stakeholders in consultations; ensures all participants have an opportunity to contribute to the consultation; endeavours to provide realistic timeframes for participants to contribute; acknowledges, respects and seeks to understand the views of participants, providing feedback on those views where possible; appreciates and maintains the confidential nature of discussions with stakeholders; and, provides advice to the Government that leads to the improved administration of the tax laws for the benefit of all taxpayers.

## Categories of documents held by the IGT

The following categories of documents are held by the Office of the IGT:

- correspondence and working papers, including formal submissions, notes of meetings and files relating to a review;
- correspondence and databases used by staff for the purposes of communication with persons and organisations related to the general operations of the Office of the IGT;
- correspondence and working papers relating to the administration of the Office of the IGT, including personal records, organisation and staffing records, financial and expenditure records, advice and internal operations such as office procedures and instructions; and
- reference material, including press clippings and research papers.

Every six months the IGT also publishes an indexed list of files at [www.igt.gov.au](http://www.igt.gov.au).

## Documents open to public access

A detailed listing of IGT documents published during the year – reports, discussion papers, issues papers and annual reports – is available at [www.igt.gov.au](http://www.igt.gov.au).

The IGT has a policy of publishing all new issues papers and discussion papers on the Inspector-General's website at the time of release.

All reports to government will also be placed on the IGT's website following the release of the report by the Minister or the tabling of the report in both Houses of Parliament.

## Facilities for access of documents

If a member of the public requests a document and the IGT approves access, the IGT will provide copies of documents after the applicant pays any charges.

Members of the public are also able to obtain access to available documents, by arrangement, at:

Level 19,  
50 Bridge Street  
SYDNEY NSW 2000

## Freedom of information applications and initial contact points

Initial enquiries regarding access to IGT documents should be directed in writing to:

Postal address:  
Inspector-General of Taxation  
GPO Box 551  
SYDNEY NSW 2001

Procedures for dealing with Freedom of Information requests are detailed in section 15 of the FOI Act. A valid request must:

- be in writing;
- be accompanied by a payment of a \$30 application fee;
- include the name and address of the person requesting the information; and
- be processed within 30 days of receipt.

Any request, pursuant to subsection 30A(1) of the FOI Act, that the application fee be waived should accompany requests.

Some documents are exempt from public perusal under the FOI Act. Where documents are not accessible by the applicant, valid reasons will be provided.

In accordance with section 54 of the FOI Act, an applicant may, within 30 days of receiving notification under the Act, seek an internal review of a decision to refuse a request. The prescribed fee of \$40 should accompany the application.

Decisions about accessibility of documents may also be reviewed by the Administrative Appeals Tribunal.

## Freedom of information activity

The IGT received no requests for access to documents under the FOI Act in 2008-09.

## ADVERTISING AND MARKET RESEARCH

No advertising or market research activities were undertaken during 2008-09 other than advertising for staff selection.

## ECOLOGICALLY SUSTAINABLE DEVELOPMENT AND ENVIRONMENTAL PERFORMANCE

The Office of the IGT actively pursues measures to minimise waste and conserve energy. Timer switches control all general lighting in the office. The owner of the leased office premises has active energy, waste management and water conservation strategies.

The IGT recycles paper and cardboard products.

## DISCRETIONARY GRANTS

No discretionary grant programs are administered by the IGT.

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## ACRONYMS

AASB	Australian Accounting Standards Board
AATSI	Aboriginal and Torres Strait Islander
AEIFRs	Australian Equivalents International Financial Reporting Standards
ANAO	Australian National Audit Office
APS	Australian Public Service
ASIO	Australian Security Intelligence Organisation
ATO	Australian Taxation Office
AWAs	Australia Workplace Agreements
EL1	Executive Level 1
EL2	Executive Level 2
ESL	English as a Second Language
FOI	Freedom of Information
GST	Goods and Services Tax
IFRSs	International Financial Reporting Standards
IGT	Inspector-General of Taxation
SES	Senior Executive Service

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