



Australian Government
Inspector-General of Taxation

Inspector-General of Taxation



ANNUAL REPORT
2014-15

Inspector-General of Taxation

Annual Report 2014–15

October 2015

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Australian Government
Inspector-General of Taxation

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6 October 2015

The Hon Scott Morrison MP
Treasurer
Parliament House
Canberra ACT 2600

Dear Treasurer

I am pleased to present to you the Annual Report of the Inspector-General of Taxation (IGT) for the year ended 30 June 2015. This report has been prepared in accordance with section 41 of the *Inspector-General of Taxation Act 2003* (the IGT Act).

In addition, and as required by the *Commonwealth Fraud Control Framework*, I certify that I am satisfied that the IGT has in place appropriate fraud control mechanisms that meet the IGT's needs and that comply with the guidance applying in 2014–15.

Yours sincerely



Ali Noroozi
Inspector-General of Taxation

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PART 1: OVERVIEW

INSPECTOR-GENERAL OF TAXATION REPORT



I am pleased to report that the office of the Inspector-General of Taxation (IGT) has successfully met the challenges of another year, particularly as it was no ordinary year. It was marked by the transformation of the role of the IGT following the Government's decision¹ to create a 'single port of call' for taxpayer complaints and requests for broader reviews into tax administration.

Specifically, the Government's decision transferred the tax complaints function from the Commonwealth Ombudsman (the Ombudsman) to the IGT, whose role was previously limited to conducting reviews into tax administration issues of a systemic nature. This transfer required specific legislation and was implemented seamlessly. Whilst this was a cause for celebration in its own right, particularly given the small size of my office, considerable work was also undertaken to complete four systemic reviews during the same period. I am very grateful to my staff – it is an achievement of which everyone associated with my office deserves to be proud.

1 Australian Government, *Budget Paper No. 2*, Part 2: Expense Measures (May 2014).

In the proceeding sections of this report, the work completed to transfer the complaints handling function as well as its features and benefits are set out followed by the diversity of matters that have been addressed in my completed reviews, including my assistance to the House of Representatives Standing Committee on Tax and Revenue with its Inquiry into Tax Disputes.

The reviews to be completed are discussed next, followed by the Government's policy initiatives arising from IGT reviews as well as consultation with key stakeholders and the IGT's future direction.

COMPLETED WORK

Transfer of the tax complaints handling function

In the 2014 Federal Budget, the Government made a policy decision to transfer the tax complaints function to the IGT from the Ombudsman. This decision will enhance the systemic review role of the IGT and provides taxpayers with more specialised and focused complaints handling of tax matters.

The IGT is well-placed to provide taxpayers with the required specialist assistance given its 12 years of experience in conducting reviews into key areas of concern in tax administration. These reviews, including extensive stakeholder consultations, have provided the IGT a deep understanding of the workings of the Australian Taxation Office (ATO) and how its administration of the tax system affects tax practitioners as well as taxpayers – individuals, micro-businesses, small-to-medium enterprises or large businesses.

The Government decision also expanded the scope of the IGT's scrutineering function to include the Tax Practitioners Board (TPB).

The legislation that gave effect to the Government decision took effect on 1 May 2015.

Considerable work was required to implement the changes and the IGT took the opportunity to review its business model and ensure that the agency had the most effective and efficient organisational structure to carry out its new and existing roles.

The above review, conducted internally, involved substantial consultations with the ATO, the TPB, the Ombudsman and other stakeholders. Interactions with the ATO and TPB as well as all work processes were examined with a focus on improving service delivery and the experience for taxpayers. Efficiency and effectiveness for all of these agencies were also major factors in the deliberations and are reflected in the outcome.

IGT staff and management worked together to redesign roles and improve organisational flexibility and capability.

The redesign also required a significant investment in a new information and communications technology platform and changes to work flows to realise the goals of efficiency and improved taxpayer experience. By way of example, the work flow improvements included the use of Tax File Numbers (TFNs), a key innovation to ensure that the taxpayer is accurately, securely and expeditiously identified at the start and throughout the complaints handling process.

The overall result of the IGT review and redesign was a seamless transfer of complaints handling on 1 May 2015.

The IGT publicly communicated the date of this transfer as well as the positive outcomes that were likely to be realised. The community was informed that there would be a single port of call for all matters of tax administration involving the ATO or the TPB – be they single complaints or matters of a systemic nature. Furthermore, the point was made that an independent and dedicated agency with tax specialist and considerable tax administration experience would be investigating all issues with the aim of achieving procedural fairness. It was also explained how the handling of single complaints would provide the IGT with real-time insight into emerging problems and the ability to address these early and before they could escalate.

In the two months of operation before the end of the financial year, the IGT dealt with 340 cases. It is too early to draw any conclusions from the statistics and we are still fine-tuning our processes and interactions with the ATO and TPB, as well as taxpayers and tax practitioners. However, we have received substantial positive feedback on the role the IGT has played thus far in helping resolve complaints.

As the office settles into its new role and the community's awareness of it increases, our capacity to provide specialist assistance to improve the administration of the tax system for all Australians will be more fully realised.

Tax disputes review

The *tax disputes review*² arose from a request from the House of Representatives Standing Committee on Tax and Revenue (the Committee) to whom an Inquiry into Tax Disputes (the Inquiry) had been referred by the Acting Assistant Treasurer. The IGT was to focus on the large business and high wealth individual (HWI) themes of the Inquiry. One of the major issues to be considered by the Inquiry was whether a separate agency or a separate appeals area within the ATO should manage disputes or whether current arrangements should continue.

2 IGT, *The Management of Tax Disputes* (2014).

The *tax disputes review*³ drew on previous IGT reviews⁴, submissions to the review and additional research and analysis including comparisons with the revenue authorities of the United States of America (USA), Canada, the United Kingdom, New Zealand and Ireland.

The review found that the underlying cause of many concerns raised in submissions appeared to be a lack of separation between the ATO's original decision makers and those officers who reviewed such decisions at the request of taxpayers. Arguably, the ATO has had the least amount of separation between these functions when assessed against revenue authorities of comparable jurisdictions. This has given rise to a lack, or perceived lack, of independence, leading taxpayers to believe that their cases were not reconsidered afresh and that they had been denied a fair hearing until reaching the Administrative Appeals Tribunal (AAT) or the Federal Court of Australia (Federal Court). Such views were supported by ATO statistics — for example during 2013–14, 85 per cent of taxpayer disputes were resolved without hearing once they reached the AAT.

Following earlier IGT reviews, the ATO had embarked on a programme of work to improve its compliance and dispute resolution approaches, particularly in relation to large businesses and HWIs. However, I found that there was a need for further improvements that would be sustainable and result in a more efficient, effective and transparent process being available to all taxpayers, particularly individuals and small businesses. Such improvements would also provide taxpayers with more confidence that they would be treated fairly and equitably.

My recommendation in this review was to create a separate and dedicated Appeals Group, led by a new Second Commissioner, to embed the improvements within the ATO structure and provide a framework that would be less dependent on the views and ideals of the ATO leadership of the day. The new Appeals Group would manage and resolve tax disputes for all taxpayers including the conduct of pre-assessment reviews, objections and litigation, as well as championing the use of Alternative Dispute Resolution (ADR) throughout the dispute cycle. The separation from both the ATO's compliance and legal advisory functions would also facilitate a fresh and impartial review of the taxpayer's case by empowering officers of the new area to resolve disputes through the most appropriate means, taking into consideration the

³ Above n 2.

⁴ IGT, *Review into aspects of the Tax Office's settlement of active compliance activities* (2009); IGT, *Report into the Australian Taxation Office's large business risk review and audit policies, procedures and practices* (2011); IGT, *Review into the ATO's use of early and alternative dispute resolution (ADR)* (2012); IGT, *Review into the Underlying Causes and the Management of Objections to Tax Office Decisions* (2009); IGT, *Review into the ATO's compliance approaches to small and medium enterprises with annual turnovers between \$100 million and \$250 million and high wealth individuals* (2012); IGT, *Review of Tax Office management of Part IVC litigation* (2006); IGT, *Review into improving the self assessment system* (2013).

individual circumstances of the taxpayer, their case and assessment of the ATO's precedential view. Additionally, the new area would ensure that settlements were appropriately scrutinised and in the best interests of the community.

In making the recommendation, I have sought to achieve the highest level of independence whilst retaining the dispute management function within the ATO. In this regard, the need for the Appeals Group to be headed by a new Second Commissioner is paramount, as such roles are statutorily appointed and their tenure and remuneration is pre-determined by the Government and the Remuneration Tribunal respectively and not the head of the relevant agency. Such an arrangement accords with comparable overseas jurisdictions and the views of the International Monetary Fund.

It is pleasing to see that the ATO has taken some steps towards implementing the recommendation by transferring all objection and dispute work from its compliance function to its review and dispute resolution area, which is currently within its legal advisory function (the Law, Design and Practice Group). The creation of the Appeals Group as recommended in this review will require legislative change.

While the report focused largely on improvements to the governance framework for tax disputes, a number of other areas including the collection of revenues due, efficiency, effectiveness and transparency, use and publication of performance information and the legal framework for tax disputes were also considered and briefly discussed.

Valuations review

The *valuations review*⁵ was prompted by concerns about the increasing role of valuations in taxation law and their associated compliance costs.

There are inherent difficulties associated with valuations such as their subjective nature, the use of ranges, the potentially prohibitive costs of obtaining them and that minor changes in valuations can result in a disproportionate tax effect. These difficulties, combined with the taxpayers' burden of proof where the ATO challenges their valuation, increase the potential for uncertainty, disputation and costs for both taxpayers and the ATO.

To address the above concerns, three recommendations were made to Government — valuations be required only where it has the 'highest net benefit', legislative shortcuts or safe harbours be provided as an alternative to conducting fresh and full valuations and the eligibility criteria for tax concessions be tapered. These recommendations were

5 IGT, *Review into the ATO's administration of valuation matters* (2015).

bolstered by further recommendations to the ATO to develop administrative safe harbours and provide additional tools to assist small businesses determine their eligibility for Capital Gains Tax concessions through the maximum net asset value test.

The ATO's processes for identifying valuation risks and engaging valuation expertise were also highlighted as areas requiring improvement. As a result, I have made a number of recommendations aimed at promoting a more transparent and proportionate approach to testing and challenging taxpayer valuations. Specific examples include recommendations to the ATO to develop a preliminary risk assessment process as a less costly and formal alternative to a valuation critique, revise its standard template for instructing valuers, allow taxpayers to access the ATO's instructions to its valuers and provide guidance to its compliance officers in relation to when to accept a taxpayer's valuation.

Recommendations were also made with the aim of offering taxpayers greater certainty through an improved Market Valuation Private Ruling system, as well as providing more detailed guidance on the application of valuation related penalties. It should be noted that in my previous *ADR review*⁶ some recommendations were also made to avoid disputes or expedite their resolution.

Penalties review

Concerns with the ATO's administration of penalties have been persistently raised with my office over a number of years. In some previous reviews, particularly the *self assessment review*, I have made recommendations in this regard.⁷ However, due to the level of concern and its ongoing nature, the *penalties review*⁸ was undertaken to more broadly examine the issues being raised.

It was found that approximately 25 per cent of total penalties raised were later reduced due to unsustainable penalty decisions. Accordingly, I have made recommendations for the ATO to improve its penalty decision-making capability (through such means as further development of officers), the clarity and practicality of guidance material as well as its processes for identifying, collecting and analysing penalty information. In relation to taxpayer perceptions that penalties may be used as leverage to influence primary tax disputes, I have made a number of other recommendations including only requiring taxpayers to pay penalties after primary tax disputes have been settled and that discussions on potential penalties be delayed until after position papers have been issued.

⁶ See above n 4.

⁷ *Self assessment review*, above n 4; See also *large business and settlements reviews* above n 4, and IGT, *Review into the Tax Office's administration of penalties and interest arising from active compliance activities* (2005).

⁸ Above n 7.

I have also encouraged the Government to consider reviewing the penalty regime to promote greater voluntary compliance, and in particular to address issues such as a lack of sufficient differentiation between a range of taxpayer behaviours and the inability of taxpayers to be compensated for time-value of money paid for unsustained penalties. As a result, the Government has announced its intention to consider these issues once the Tax White Paper process has been finalised.⁹

Two follow up reviews

Two follow up reviews were completed and their reports transmitted to the Minister early in 2014–15. These reports examined the ATO's implementation of agreed recommendations contained in six of my reports released between August 2009 and November 2010.¹⁰

One of the follow up reviews related to the '*U-turns*' review¹¹ and the impact of a recent Federal Court decision (the '*U-turns*' follow up review).¹² The other follow up review¹³ examined the implementation of agreed recommendations in the other five reports¹⁴ (the follow up review).

'U-turns' follow up review

Stakeholders had raised concerns that 'U-turn' issues continued to arise particularly during compliance activities where ATO officers were not complying with Practice Statement PSLA 2011/27 which had been created to implement Recommendation 4 in the original '*U-turns*' review. In addition, the Federal Court's judgment in *Macquarie Bank Limited v Commissioner of Taxation*¹⁵ had raised some doubt regarding the ATO's administrative approach in this area as well as the taxpayer's ability to rely upon ATO practice statements more generally.

Although this follow up review concluded that all recommendations directed to the ATO had been implemented in whole or part, two new recommendations were made to further improve compliance officers' adherence to the ATO's procedures and practice as outlined in PSLA 2011/27 and increase transparency in handling 'U-turns' or allegations of 'U-turns'. Although a legislative solution may still be needed, I have

9 Mathias Cormann, *Inspector-General of Taxation Report into the Australian Taxation Office's Administration of Penalties* (media release, MC 70/14, 8 July 2014).

10 See IGT, 'New IGT Work Program for 2011–12' (4 April 2011) <www.igt.gov.au>.

11 IGT, *Review into delayed or changed Australian Taxation Office views on significant issues* (2010).

12 IGT, *Follow up review into delayed or changed Australian Taxation Office views on significant issues* (2014); *Macquarie Bank Limited v Commissioner of Taxation* [2013] FCA 887.

13 IGT, *Follow up review into the Australian Taxation Office's implementation of agreed recommendations in five reports released between August 2009 and November 2010* (2014).

14 IGT, *Review of the Tax Office's Administration of Public Binding Advice* (2009); *Objections and settlements reviews* above n 4; IGT, *Review into the Non lodgement of Individual Income Tax Returns* (2009); and IGT, *Review into the ATO's Administration of the Superannuation Guarantee Charge* (2010).

15 See above n 12.

suggested that it should only be pursued if concerns continue to arise after implementation of the above two recommendations.

Follow up review

The *follow up review* of the other five reports concluded that all of the agreed recommendations had been implemented by the ATO in whole or part, had prompted ATO action toward intended improvements or would be examined in later IGT reviews. The review also listed the recommendations made for the previous Government's consideration and noted the action which had been taken in relation to three of these recommendations.

As advised in my previous annual report, no further follow up review is anticipated with respect to existing or future reviews as this function is now being performed by the ATO's audit and risk committee whose members include independent professionals from the private sector. However, I do reserve the right to conduct follow up or fresh reviews where concerns emerge with respect to implementing any agreed recommendations.

WORK TO BE COMPLETED

At 30 June 2015, two reviews were in the process of finalisation and two remaining reviews on my work programme were yet to be commenced. These reviews are outlined below.

Debt collection review

The *debt collection review* was prompted by concerns from individuals and small businesses, tax and insolvency practitioners as well as their representative bodies. These concerns related to the ATO's approach to collecting tax debts, including overdue recovery action, disproportionate action when debts were pursued and the use of external debt collectors.

The review is examining the above issues including the ATO's approach to insolvency action, payment arrangements and the use of administrative and legislative instruments to secure payment, such as garnishee notices and director penalty notices.

Another significant issue being explored in this review is the continual growth in collectable tax debt. The challenge for the ATO is to put downward pressure on the escalating tax debt whilst ensuring that its recovery action is proportionate and equitable.

At 30 June 2015, this review was substantially completed and its findings will be provided in next year's annual report.

Tax practitioners review

Significant concerns had been raised by tax agents and business activity statement agents (tax practitioners) in relation to access and adequacy of ATO support and services as well as the resulting strained relationship between tax practitioners and the ATO.

Given the critical role of tax practitioners in a self assessment system, this review was undertaken to address their concerns. The major issues relate to the reliability and functionality of ATO Portals (gateways through which tax practitioners can use a range of ATO services), the management of the Lodgement Program and the ATO's communications and consultation with tax practitioners.

At 30 June 2015, this review was also substantially completed and its findings will be provided in next year's annual report.

Review into the ATO's *Taxpayers' charter* and related taxpayer protections

This review will be carried out to explore stakeholder concerns regarding the adequacy of the ATO's *Taxpayers' charter*¹⁶ and related taxpayer protections. These include access to enforceable remedies for defective ATO administration, commitment to procedural fairness and, more broadly, adherence to the model litigant obligations.¹⁷

There have been international developments in relation to taxpayer rights.¹⁸ The Ombudsman has also previously noted that in many cases the aggrieved taxpayers do not receive the desired remedy¹⁹ and certain taxpayer cases have garnered significant media attention.²⁰ I have highlighted these concerns as emerging issues in previous reports²¹ and note that the United States has recently adopted a bill of rights in line with recommendations from their National Taxpayer Advocate.²²

This review will commence towards the end of the 2015 calendar year.

16 ATO, *Taxpayers' charter: What you need to know* (2010).

17 *Legal Services Directions* 2005 app B made under s 55ZF of the *Judiciary Act* 1903.

18 National Taxpayer Advocate (USA), *2011 Annual Report to Congress* (2011); National Taxpayer Advocate, *2013 Annual Report to Congress* (2013); European Commission, 'A European Taxpayer's Code' (Consultation paper, TAXUD.D.2.002 (2013) 276169, 2013); Asia-Oceania Tax Consultants' Association, 'Model Taxpayer Charter to promote greater fairness in taxation across the world' (Media release, 13 May 2013) <www.aotca.org>.

19 Commonwealth Ombudsman, *Taxation Ombudsman Activities 2006* (2007) p 6.

20 7:30 ABC TV (9 April 2012) referred to in John Bevacqua, 'Redressing the imbalance — challenging the effectiveness of the Australian taxpayers' charter' (2013) 28 *Australian Tax Forum* 377, p 398; 7:30 ABC TV, 'Tax office stands accused of bullying behaviour' (1 November 2012) referred to in Greg Hoy, 'Draconian' ATO accused of bullying taxpayers' (2 November 2012) <www.abc.net.au>.

21 IGT, *Review into the ATO's Change Program* (2010); *Large business and self assessment reviews* above n 7; IGT, *Annual Report 2012–13* (2013) p 7.

22 Internal Revenue Service, 'IRS Adopts "Taxpayer Bill of Rights;" 10 Provisions to be Highlighted on IRS.gov, in Publication 1', (media release, IR-2014-72, 10 June 2014).

Future review into the ATO's employer obligations audits

Concerns have been raised regarding the additional and unwarranted costs arising from the ATO's compliance activities with respect to employers' obligations. These include the determinations of contractor or employee status, taxpayers' access to avenues of appeal, responding to employee complaints, incorrect assessments and, more generally, unwillingness to engage on issues.

This review will also commence towards the end of 2015 and will examine the ATO's conduct of employer obligation compliance activities, including those in relation to pay-as-you-go withholding, fringe benefits tax, director penalty notices for the superannuation guarantee charge and the ATO's engagement with both employees and employers.

POLICY INITIATIVES FOLLOWING IGT RECOMMENDATIONS

The reviews and other activities of my office result in both immediate and longer-term improvements. Some of these improvements require administrative action to which the ATO generally responds within each IGT report. Other improvements require changes to policy and the Government to make legislative changes over time.

In 2014–15, Government actions relating to IGT activities included:

- amending the law to transfer the complaints handling function from the Ombudsman to the IGT (see my *Submission to the 2011 Tax Forum*)²³;
- amending the law to provide taxpayers the option to withdraw excess non-concessional contributions and not incur the excess contributions tax²⁴ (see recommendation 2.1 in my *excess contributions tax review*); and
- simplifying tax and superannuation reporting obligations by allowing employers to automatically report payroll information to the ATO when employees are paid (see recommendation 3 and the preceding discussion of available options in my *superannuation guarantee charge review*).²⁵

²³ *Tax and Superannuation Laws Amendment (2014 Measures No.7) Act 2015*; IGT, *Submission to the 2011 Tax Forum* (2011).

²⁴ *Tax and Superannuation Laws Amendment (2014 Measures No.7) Act 2015*; IGT, *Review into the Australian Taxation Office's compliance approach to individual taxpayers – superannuation excess contributions tax* (2014).

²⁵ Bruce Billson, *Cutting Payroll Red Tape* (media release, 28 December 2014); *Superannuation Guarantee Charge review* above n 14.

STAKEHOLDERS

The Federal Parliament

As representatives of the Australian community, Members of Parliament are well-placed to identify concerns affecting their constituents. Through annual public hearings, matters of concern in tax administration are raised with me directly and I am grateful to them for assisting my office in this way.

The *Inspector-General of Taxation Act 2003* (IGT Act) also provides for Parliamentary bodies to make requests for reviews to be undertaken on certain topics²⁶, an example of which is the previously discussed request from the House of Representatives Committee on Tax and Revenue for my office to assist with its Inquiry into Tax Disputes.

In this financial year, I also wrote to all Members of Parliament and Senators to inform them of the transfer of the tax complaints handling function to my office as of 1 May 2015.

External stakeholders

I would also like to thank the many taxpayers, tax practitioners and their respective representative bodies who bring matters to our attention and for their assistance in the conduct of reviews. Due to its relative size, my office is heavily reliant on the contribution of such external stakeholders to deliver improvements to tax administration in this country.

The contribution of external stakeholders has been increasing as they become better acquainted with the work of my office. Such contributions are likely to increase further as the community uses the complaints handling service provided by my office.

Public sector stakeholders

The IGT continues to engage and consult with the Ombudsman and the Commonwealth Auditor-General. Some changes are necessary in this regard as a result of the transfer of the tax complaints handling function from the Ombudsman to my office, as well as associated amendments to the IGT Act. However, it is envisaged that our agencies will continue to cooperate on matters of mutual relevance and interest.

26 Paragraph 8(3)(d) of the *Inspector-General of Taxation Act 2003*.

My office has also continued to work with other government agencies. This ensures that my office is aware of whole-of-government initiatives when identifying improvements to the tax system. I appreciate the assistance that my office has received from these agencies.

I also thank the ATO and its personnel for their professional assistance. Communication between our respective offices has been frank, open and has led to improvements to the tax system.

It is important to appreciate that a degree of tension should exist between an administrator and the scrutineering function which, professionally managed, is entirely appropriate to maintain the community's confidence in the scrutineer's independence. The independence of the IGT as a consulting scrutineer is crucial. It is therefore important to ensure the constructive relationship with the ATO is maintained, balanced and professional in approach.

Lastly, I thank the Treasury as a partner in this relationship and also the Treasurer, the Assistant Treasurer and the Acting Assistant Treasurers and their staff for their support.

International organisations

Tax systems do not exist in isolation and frequently interact with events and developments in other jurisdictions.

Internationally, my office has continued to engage with a number of overseas revenue agencies including New Zealand's Inland Revenue Department, the United Kingdom's Her Majesty's Revenue and Customs, the Irish Office of the Revenue Commissioners, the USA's Internal Revenue Service and the Canada Revenue Agency. Such engagement provides useful insights into common tax administration issues and can result in the development of innovative solutions in the Australian context. I will continue to build and foster these relationships in the years to come.

My office also examines the research, insights and findings of the Organisation for Economic Co-operation and Development (OECD) for a broader international perspective.

FUTURE DIRECTIONS

In the coming financial year, the IGT's focus will be to recruit and train additional staff to achieve a more effective and efficient complaints handling service which enhances the taxpayers' experience. Further fine-tuning of our internal system and processes as well as interactions with the ATO and TPB may also be required.

Once the complaints handling service is operating at its optimal level, the IGT will be closer to realising its goal of gaining real-time insight into emerging issues and moving quickly to address problems before they escalate into major causes of taxpayer discontent. This could mean that in future, the IGT may undertake more targeted reviews in an expedited manner to address particular areas where significant complaints have been received.

The IGT will continue to consult extensively with the community and conduct broader reviews similar to its current systemic reviews as the need arises. Ultimately the number of targeted and broader reviews will be determined based on issues arising from the complaints handling services as well as broader feedback from the community.

Ali Noroozi
Inspector-General of Taxation

CORPORATE STATEMENT

Role, function, outcome and programme structure

The IGT seeks to improve the administration of the tax system for the benefit of all Australians. Specifically, the IGT is set up as an independent statutory agency to:

- improve the administration of taxation laws for the benefit of all taxpayers, tax practitioners and other entities;
- provide independent advice to the Government on the administration of taxation laws;
- investigate complaints by taxpayers, tax practitioners or other entities about the administration of taxation laws; and
- investigate administrative action taken under taxation laws, including systemic issues, that affect taxpayers, tax practitioners or other entities.

Figure 1: Outcome and programme structure

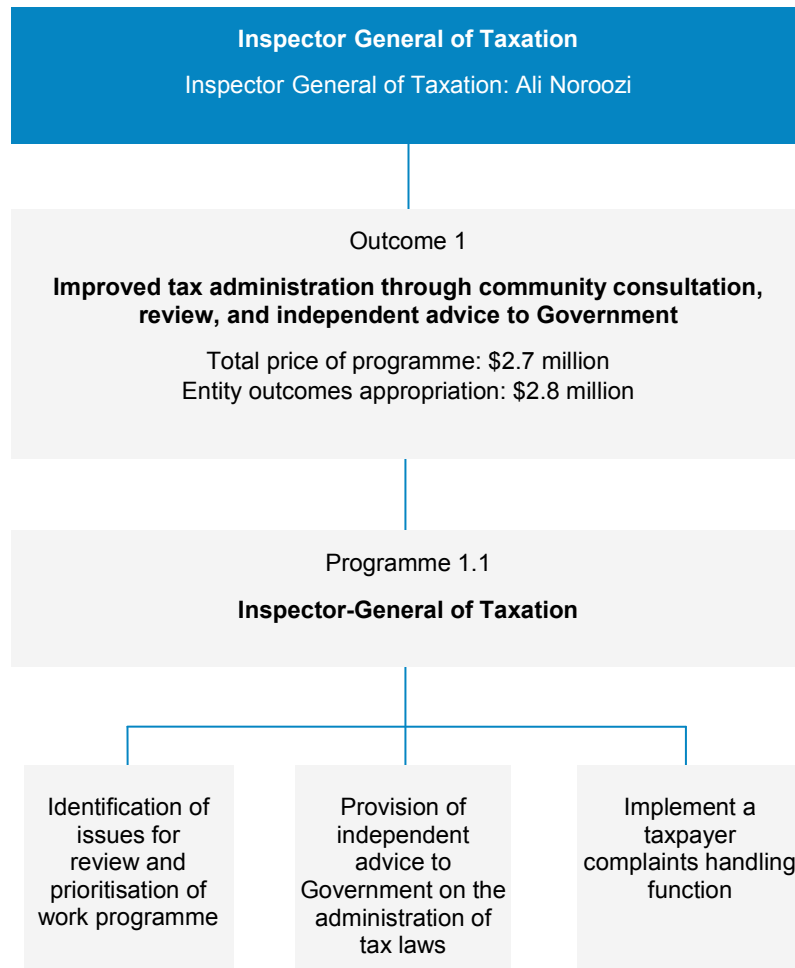
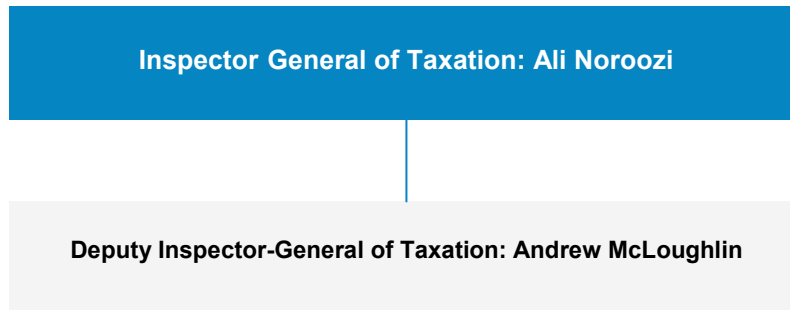


Figure 2: Inspector-General of Taxation executive structure



APPENDIX 1 — EXPENSES FOR OUTCOMES

Table A1: Expenses for Inspector-General of Taxation outcomes

Outcome 1: Improved tax administration through community consultation, review, and independent advice to Government	Budget	Actual	Variation
	2014–15	2014–15	2014–15
	\$'000	\$'000	\$'000
	(a)	(b)	(a - b)
Program 1.1: Inspector-General of Taxation			
Departmental expenses			
Departmental appropriations ¹	2,788	2,642	146
Expenses not requiring appropriation in the Budget year	30	49	(19)
Total expenses for Outcome 1	2,818	2,691	127
<p>1. Ordinary annual services (Appropriation Bill No. 1). The original budget provided for funding of \$3.329 million. As at 30 June 2015 the associated funding was permanently withheld (\$0.5 million) under s 51 of the <i>Public Governance, Performance and Accountability Act 2013</i>.</p>			
	2013–14	2014–15	
Average staffing level (number)	9	9	

APPENDIX 2 — AGENCY RESOURCE STATEMENT

Table A2: Inspector-General of Taxation resource statement for 2014-15 as at Budget May 2014

	Actual available appropriation 2014-15 \$'000	Payments made 2014-15 \$'000	Balance remaining 2014-15 \$'000
	(a)	(b)	(a - b)
Ordinary annual services¹			
Departmental appropriation ²	4,167	2,716	1,451
Total net resourcing and payments for the IGT	4,167	2,716	1,451

1. *Appropriation Act (No. 1) 2014-15* and *Appropriation Act (No. 3) 2014-15*. This may also include prior year departmental appropriation and section 74 relevant agency receipts.
2. Includes an amount of \$0.03 million for the Departmental Capital Budget. For accounting purposes this amount has been designated as 'contributions by owners'.

PART 2:

PERFORMANCE REVIEW REPORT

This part of the report provides a review of the IGT's performance during 2014–15 in relation to the agency's outcome, deliverables and key performance indicators.

The outcome is supported by key strategies. The deliverables align with those key strategies and are monitored and measured by way of the performance indicators.

OUTCOME 1

IMPROVED TAX ADMINISTRATION

The planned outcome for the IGT is to improve tax administration through community consultation, review and independent advice to Government.

Key strategies to achieve Outcome 1 are:

- undertake community consultation, research and other processes to identify and prioritise areas of tax administration requiring improvement;
- call for submissions to review identified areas and stimulate input by, for example, issuing terms of reference and submission guidelines, as well as meeting with selected key stakeholders;
- review identified areas and provide independent advice and recommendations for improvements to Government and the ATO;
- maintain a positive public profile by, for example, participating in conferences and seminars as well as through the media;
- 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
- implement a taxpayer complaints handling function.

DELIVERABLES

The IGT has three specific deliverables, namely: the work programme, independent advice to Government through the reviews, and implementing a taxpayer complaints handling function.

Deliverable 1 Work programme

The IGT's work programme arising from community input and consultation with other relevant agencies was announced in April 2014 and the work undertaken in conducting this programme is set out in detail in Part 1 of the report.

More information on the work programme, including updates, is available on the IGT website.

An additional ongoing feature of the work programme is sustained engagement with stakeholders and maintaining a public profile that ensures emerging tax administration issues of concern continue to be raised with the IGT. This is achieved by various means such as through the media (including social media), the IGT website, engagement with other government agencies and presenting at conferences, seminars and local tax practitioner discussion groups.

During 2014–15, the IGT and staff addressed a number of such forums. Attendance and participation at such domestic events helps improve understanding of issues at a community level whilst international forums provide opportunity for comparisons with our foreign counterparts, enhancing the office's capabilities and objectivity.

As mentioned in Part 1, the IGT consults with a range of government agencies to develop the work programme and during the conduct of reviews. The IGT also maintains ties with international revenue authorities, scrutineering bodies and the OECD. Engagement with these organisations enhances IGT reporting and recommendations by better understanding whole-of-government initiatives and international developments respectively.

Deliverable 2 Independent advice to Government and improvements to tax administration

The IGT provides independent advice to Government primarily through the reports of completed reviews.

The conduct and completion of reviews is determined by the bespoke nature of each review as well as the priorities afforded by various parties and the small size of the IGT office. Ministerial direction and requests from the Commissioner of Taxation

(Commissioner) or Parliamentary Committees are also factors that need to be considered. For example, as detailed in Part 1 of this report, in this financial year the IGT accepted a request from the House of Representative Standing Committee on Tax and Revenue to assist with its Inquiry into Tax Disputes. The IGT actively seeks to mitigate the tension between the need for flexibility and undue delay through regular project management review.

The review reports detail the IGT's observations on, and the recommendations for, improvement. The number of recommendations made to the ATO and to Government in reports publicly released in 2014–15 is set out in Table 4 below. The nature of these recommendations and supporting IGT observations are described in Part 1.

The following table lists the reviews conducted during 2014–15 and their status at 30 June 2015.²⁵

Table 1: IGT reviews and their status at 30 June 2015

IGT reviews	Status at 30 June 2015
Review into the Australian Taxation Office's administration of penalties	Report publicly released
Follow up review into delayed or changed Australian Taxation Office views on significant issues	Report publicly released
Follow up review into the Australian Taxation Office's implementation of agreed recommendations in five reports released between August 2009 and November 2010	Report publicly released
Review into the Australian Taxation Office's administration of valuation matters	Report publicly released
The Management of Tax Disputes	Report publicly released
Debt Collection	Final stages of review
The Australian Taxation Office's services and support for tax practitioners	Final stages of review

The first five reviews in this table were publicly released during this financial year. The last two reviews listed were in the final stages of completion and expected to be released early in 2015–16. These seven reviews are all described in Part 1 of this report.

Details on the above reviews are also available on the IGT website, www.igt.gov.au.

²⁵ Since 1 May 2015, the IGT's reviews have been conducted under paragraphs 7(1)(c) and (d) of the *Inspector-General of Taxation Act 2003* which provide for the power to investigate systems established by the ATO, TPB or the taxation laws.

Deliverable 3

Implement a taxpayer complaints handling function

The Government's Budget Measure to transfer the taxpayer complaints handling function from the Ombudsman to the IGT²⁶ was implemented on 1 May 2015. The Government considered that this function would enhance the existing systematic review role of the IGT and provide taxpayers with more specialised and focused complaints handling for tax matters.

Part 1 of this report outlines the main tasks undertaken by the IGT to give effect to the above Budget Measure and how the IGT has been able to handle all taxpayer complaints about the ATO or the TPB since 1 May 2015.

The effective and efficient resolution of complaints demands a flexible process and approach. Some complaints require an investigation by the IGT whilst others may be resolved, for example, by simply providing the appropriate information.

Where an investigation is needed, the IGT provides the relevant agency with an opportunity to address the complaint and discuss the issues to determine the most appropriate course of action. The IGT may also seek information from the agency to narrow the issues and allay concerns.

It should be noted that in some investigations, the IGT may serve formal notices requiring employees of the ATO or TPB to provide information relevant to the IGT's investigations.²⁷ During this financial year only one such notice was issued to an ATO employee who had raised an issue for investigation by the IGT. The IGT considered it appropriate to issue a formal notice in this instance to allow the employee to provide supporting information without breaching the relevant secrecy provisions.

Throughout investigations, the IGT also maintains communication with complainants and provides them with an opportunity to raise any further issues for consideration at the conclusion of such investigations and before the complaint case is formally closed.

During the two-month period in which the IGT has conducted the complaints handling function, 340 complaints were received. Of these complaints, 308 related to ATO actions (90.6%), 12 related to TPB actions (3.5%) and 20 related to other matters (5.9%) such as those outside of the IGT's jurisdiction to consider — see Table 2.

²⁶ Above n 1.

²⁷ Section 9 of the *Ombudsman Act 1976* which operates by virtue of section 15 of the *Inspector-General of Taxation Act 2003*.

Of the 340 complaints received, 262 cases were resolved before the end of the financial year. The remaining complaint cases were in the process of resolution, including those cases in which investigations had been completed but were awaiting the expiry of time for taxpayers to raise any further issues for consideration.

Table 2: Numbers of complaints received and resolved in 2014–15, by agency

Agency	COMPLAINTS	
	Received	Resolved
ATO	308	238
TPB	12	7
Other	20	17
Total	340	262

During 2014–15, the IGT began 190 investigations, 184 of which related to ATO actions (97%) and the remainder to TPB actions (3%). By the end of the financial year, 122 IGT investigations were completed – see Table 3 below.

Table 3: Total numbers of investigations into agency actions in 2014–15, by agency

Agency	INVESTIGATIONS	
	Commenced	Completed
ATO	184	120
TPB	6	2
Total	190	122

Approximately 30 per cent of all complaints related to the ATO's debt collection activities with other major sources of complaints relating to compliance activities (17%) and systems-related issues (17%). It is too early to draw any conclusions or insights from these statistics as they reflect only the first two months of operation.

Once the complaints handling function has been operating for an appropriate period of time and more statistics become available, the IGT will be in a better position to observe trends and potentially conduct more targeted reviews to address emerging issues.

PERFORMANCE INDICATORS

The IGT has two key performance indicators — positive community stakeholder feedback and support as well as improvements to tax administration.

Performance indicator 1

Positive community stakeholder feedback and support

The IGT continues to receive positive feedback and support from community stakeholders which can be attributed to the IGT's responsiveness in reviewing and investigating systemic tax administration issues of concern and evidenced by stakeholders' ongoing engagement with the IGT's work programme.

Positive comments have also been received on the IGT's recent handling of tax complaints. Whilst not every complainant has obtained their desired outcome, positive feedback has been received on the effectiveness of the IGT in facilitating the resolution of complaints.

Performance indicator 2

Improvements to tax administration

The way in which the IGT's advice to Government effectively contributes to the improved tax administration takes several forms.

First, the IGT's recommendations for Government's consideration may be policy in nature and lead to legislative change to address identified administrative issues. Examples of Government policy and legislative initiatives adopted in this financial year are set out in Part 1 of this report.

Second, the Commissioner or TPB may agree to and implement recommendations made by the IGT during a review or following the release of a review report.

The Commissioner and the TPB have statutory independence in their respective administration of the taxation laws. The IGT does not hold any powers to direct the Commissioner or the TPB in this regard. Historically, however, the vast majority of the IGT's recommendations have been accepted fully or in part. This trend continues for reviews publicly released in 2014–15, with the Commissioner accepting fully or in part all of the 20 recommendations made to the ATO — refer to Table 4 below. No reviews were conducted into the TPB's activities this financial year.

Table 4: Recommendations in publicly released IGT reports during 2014–15

IGT review	Number of recommendations accepted fully, in part or in principle by the ATO	Number of recommendations for Government's consideration	Number of recommendations disagreed by the ATO
Review into the Australian Taxation Office's administration of penalties	9	1	0
Follow up review into delayed or changed Australian Taxation Office views on significant issues	2	0	0
Follow up review into the Australian Taxation Office's implementation of agreed recommendations in five reports released between August 2009 and November 2010	0	0	0
Review into the Australian Taxation Office's administration of valuation matters	9	3	0
Management of Tax Disputes	0	1	0
Total	20	5	0

Third, implementing agreed recommendations addresses discrete areas of tax administration, yielding both direct and incremental improvements. Although direct improvements may be more readily observed, the full benefit of a review may not always be immediately apparent. Examples of incremental and gradual change include the cultural shift towards better engagement and dispute resolution across the ATO²⁸ – this has its origins in the IGT's *objection*²⁹ and *settlements reviews*³⁰ as well as more recent *ADR*³¹ and *Tax Disputes reviews*.³²

The ATO's implementation of agreed recommendations has been verified through IGT follow up reviews. Two follow up reviews were concluded in 2014–15 and noted that the ATO had implemented, in full or in part, 53 of the 56 agreed recommendations directed to it. The remaining three agreed recommendations have been subsumed by subsequent IGT reviews as the issues underlying those recommendations have been or will be examined in those reviews – refer to Table 5 below. A description of these follow up reviews is provided in Part 1.

28 Second Commissioner Andrew Mills, 'It's time for tax (administration) reform' Keynote address to the Australasian Tax Teachers' Association 27th annual conference, University of Adelaide, 20 January 2015.

29 Above n 13.

30 Above n 4.

31 Above n 4.

32 Above n 2.

Table 5: Follow up reviews of implementation of ATO agreed recommendations

IGT review	Number of recommendations accepted fully, in part or in principle by the ATO	Number of recommendations implemented, fully or partially, or ATO action taken consistent with the agreed principle or aspiration	Number of recommendations subsumed by subsequent IGT review
Follow up review into delayed or changed Australian Taxation Office views on significant issues	4	4	0
Follow up review into the Australian Taxation Office's implementation of agreed recommendations in five reports released between August 2009 and November 2010	52	49	3
Total	56	53	3

It should be noted that no further IGT follow up review is anticipated as monitoring the implementation of agreed recommendations is now being performed by the ATO's audit and risk committee whose members include independent professionals from the private sector. However, the IGT has reserved the right to conduct follow up or fresh reviews where concerns emerge with respect to the implementation of agreed recommendations.

Fourth, in respect to recommendations with which an agency may have disagreed, that agency may significantly implement that recommendation over time. For example, the ATO's transfer of its entire objections function from the Compliance Group to the Law, Design and Practice Group³³ followed recommendations made in a previous IGT review, namely the *ADR review*³⁴, as well as in the IGT's *Submission to the 2011 Tax Forum*³⁵ and *Tax Disputes review*.³⁶

Lastly, improved administration of the taxation laws may also be achieved without formal advice to Government or recommendation to an agency, but by direct day-to-day interaction between the IGT and the relevant agency. Such interactions have increased as a result of the transfer of the complaints handling function to the IGT. This is likely to become a major avenue for improvement to the tax system in the future. As mentioned above, already 122 of the 190 investigations into ATO and TPB actions have been concluded in two months with the remainder of the investigations being in the process of finalisation.

33 Above n 28.

34 Above n 4, recommendation 6.1.

35 Above n 21.

36 Above n 2, p 120.

FINANCIAL PERFORMANCE

The IGT received an unmodified audit report on the 2014–15 financial statements from the Australian National Audit Office (ANAO). These statements can be found in Part 4 of this report.

The IGT ended 2014–15 with an attributable surplus of \$283,651, compared to a surplus of \$28,925 in 2013–14.

The entity has sufficient cash and reserves to fund its liabilities as and when they fall due.

PART 3: MANAGEMENT AND ACCOUNTABILITY

CORPORATE GOVERNANCE

As a public office holder, the IGT reports and is accountable to the Minister for meeting his statutory role. As the Accountable Authority (AA), the IGT is responsible for the operation and performance of his office pursuant to the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).

The corporate governance practices of the IGT office are designed to take into account its small office environment by aligning or adapting its administrative and governance processes with those of the Treasury. This approach also provides synergistic benefits under the Service Level Agreement (SLA) entered into by the two agencies. A range of policies, plans and procedures is in place to support these governance arrangements.

The IGT and the Deputy IGT together act as the agency Executive (the Executive) and oversee these arrangements.

The IGT Audit and Risk Committee is also an important element of the governance structure. The committee is appointed by the IGT and its membership is independent of the Executive.

Fraud prevention and control

The IGT Fraud Control Plan accords with the *Commonwealth Fraud Control Framework* and the ANAO Better Practice Guide, *Fraud Control in Australian Government Entities*.

The IGT Fraud Risk Assessment forms the basis of the Fraud Control Plan and has been developed with appropriate controls, prevention, detection and investigation, and reporting standards.

The IGT has undertaken all reasonable measures to minimise the incidence of fraud and to investigate and recover the proceeds of fraud against the agency. No cases of fraud were identified in 2014–15. The IGT reports fraud information data annually to the Minister and to the Australian Institute of Criminology.

Audit and risk committee

As noted above, the Audit and Risk Committee is independent of management and provides valuable assurance and advice by reporting to the AA. The committee met on three occasions during 2014–15.

Remuneration committee

The IGT and the Deputy IGT comprise the Remuneration Committee. The IGT has an enterprise agreement with non-SES employees under the *Fair Work Act 2009*.

The IGT's performance management system provides for performance being reviewed formally on an annual basis and informally on a six-monthly basis. The small office environment provides for regular and continual discussion of performance with staff. Since all staff report directly to the Deputy IGT and have direct involvement with the IGT, they are provided with ongoing informal feedback on their performance.

Corporate planning and reporting

Corporate planning and reporting is undertaken by the Executive throughout the year.

The Deputy IGT as Chief Finance Officer (CFO) is responsible, with input from the IGT (as AA), for executive management of the portfolio budget statements and financial activities. Corporate governance, management and compliance reporting is completed as required and overseen by the CFO.

As noted earlier, the IGT has a comprehensive SLA with the Treasury. Accordingly, financial and management activities such as accounting preparation and processing is undertaken by the Treasury.

For the IGT's work programme of reviews and the recent role of tax complaints handling, reference should be made to Parts 1 and 2 of this report.

Risk management

The IGT meets specific risk management responsibilities under the PGPA Act through an integrated risk management framework. A suite of policies, plans and procedures has also been developed and adopted by the IGT which further contributes to the mitigation of risks.

The key components of the risk management framework are as follows:

- Accountable Authority's Instructions (AAIs) provide the policy and procedural framework for resource management in the IGT office and put into effect the requirements of the PGPA Act. They also contain topics relating specifically to risk management and internal accountability.
- The Fraud Control Plan complies with the *Commonwealth Fraud Control Framework* developed under the PGPA Act.
- The Business Continuity Plan includes processes for identifying and assessing risks and contingency plans for events that could disrupt normal IGT office operations.
- Security Risk Management is managed in accordance with the requirement of the Australian Government *Protective Security Policy Framework*.
- 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 ISO 31000:2009 and will measure the IGT's performance in implementing risk management processes and policies against the national benchmark.

The IGT's AAIs, Fraud Control Plan, Business Continuity Plan and the risk management framework itself are periodically reviewed by the IGT Audit and Risk Committee.

Information technology

The IGT has strategies in place to ensure that risks associated with the delivery of information technology (IT) services are identified and managed. The IGT office uses Treasury's IT infrastructure, governance and support systems under the SLA. Examples of such use include:

- the IT Disaster Recovery Plan (including Business Continuity Planning) which sets out strategies and processes to restore service disruptions;
- the Information Security Policy which sets out the technical requirements for the protection of electronic data and the expectations of all users of IT resources for the secure operation of IT systems. This overarching policy covers acceptable internet and email use as well as information storage, access and maintenance in conformity with Australian Government and legislative requirements; and
- website development standards and guidelines based on Australian Government Information Management Office guidelines, the *Information Security Manual* and Australian Signals Directorate guidelines. The standards ensure compliance with best practice in relation to website security.

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

Ethical standards and accountability

The IGT embraces the Australian Public Service (APS) Values and this is reflected in relevant corporate documents.

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

EXTERNAL SCRUTINY

Audit

Other than the annual financial statement audit there have not been any audits of the IGT office undertaken by the ANAO. The IGT has an independent Audit and Risk Committee as part of the agency's governance framework.

Internal audits

The IGT's internal audit activities are carried out pursuant to the SLA with the Treasury. The IGT Audit and Risk Committee may seek input directly from the Treasury regarding such activities.

Reports on the operations of the IGT

There were no reports in 2014–15 on the operations of the IGT by the Auditor-General (other than the report on financial statements contained in Part 4), a Parliamentary committee or the Commonwealth Ombudsman. There was no agency capability review regarding the IGT in 2014–15.

Judicial, administrative tribunal or Australian Information Commissioner decisions

No judicial decisions, decisions of administrative tribunals or decisions by the Australian Information Commissioner were made that have had, or may have, a significant impact on the operations of the IGT.

MANAGEMENT OF HUMAN RESOURCES

The IGT, as a small office, seeks to promote a collegiate 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 provides for a clear sense of achievement and satisfaction in performing an important community function. However, given the office's small size and specific skill requirements, staff are recruited on the basis of merit and current competence with the expectation that career progression will generally occur within the wider public service/professional environment. Staff 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 an informal half-yearly review.

The IGT has been utilising the design features and infrastructure of the Treasury Performance Management System in its own system. An important feature is transparency in the process used by the Executive in measuring performance and communicating to each staff member.

Employment agreements

IGT non-SES staff are employed under an enterprise agreement pursuant to the *Fair Work Act 2009*.

Table 6: Salary scales — non-SES

Classification	30 June 2015	
	Minimum	Maximum
	\$	\$
APS6	79,777	96,651
EL1	104,060	119,369
EL2	127,106	145,874

The IGT may provide alternative remuneration arrangements in specific circumstances.

At 30 June 2015, one permanent SES employee was engaged under an employment agreement and one under a determination.

Table 7: Salary scales — SES

Classification	30 June 2015	
	Minimum	Maximum
	\$	\$
SES Band 1	189,757	220,540
SES Band 2	232,573	272,215

The IGT's remuneration package is determined by the Remuneration Tribunal.

Workplace relations

The Deputy IGT consults with employees on matters in the workplace.

The format and content of the IGT office's workplace and individual arrangements reflect government policy at the time of implementation.

Recruitment and succession planning

The IGT recruits staff based on merit and competency. The opportunity exists under the IGT Act to second staff to the office. The IGT also takes part in graduate development through secondee arrangements within the APS. During 2014–15, there was one such secondee.

Learning and development

The IGT's employment management policies reinforce the IGT's commitment to staff learning and development. As well as providing internal agency staff training on a periodic basis where possible, the IGT financially supports individual staff members who wish to complete post-graduate courses or attend specific learning and development opportunities where appropriate.

Staffing information

Table 8 details the number of staff employed in the IGT office, by classification and gender. The IGT is a statutory appointee. All other staff are employed under the *Public Service Act 1999* and are required to apply APS Values.

Table 8: Operative staff by classification and gender
(as at 30 June 2015)

Classification	Male	Female	Total
APS6		1	1
EL1	3		3
EL2	1		1
SES Band 1	1		1
SES Band 2	1		1
Inspector-General	1		1
Total	7	1	8

Note: IGT staff are employed on an ongoing full-time basis in the IGT's Sydney office.

PROCUREMENT AND ASSETS MANAGEMENT

Procurement

The IGT adopts the Treasury's policies for procurement and utilises the Treasury's services under the SLA. For example, IT procurement is undertaken by the Treasury IT Procurement Unit. Accordingly, these policies and procedures are consistent with the IGT's AAI and the *Commonwealth Procurement Rules* (CPRs).

To maintain procurement expertise and procedural compliance with the CPRs, all internal procurement documentation is available to the IGT's staff on the Treasury intranet. The Treasury regularly updates the intranet site to incorporate contemporary procurement practice.

The IGT publishes information about significant procurements the agency expects to undertake during the following year in an annual procurement plan available on the AusTender website at www.tenders.gov.au.

The IGT supports small business participation in the Commonwealth Government procurement market. Small and Medium Enterprise (SME) and Small Enterprise participation statistics are available on the Department of Finance's website: www.finance.gov.au/procurement/statistics-on-commonwealth-purchasing-contracts.

Consistent with paragraph 5.4 of the CPRs and through adoption of the Treasury's procurement policies, the agency provides appropriate opportunities for SMEs to

compete and ensures that SMEs are not unfairly discriminated against. For example, the Treasury uses the Commonwealth Contracting Suite for low-risk procurements valued under \$200,000. Many small businesses do not have the sufficient scale, skills or resources to prepare complex tender documents. Using this suite, which has simple and consistent contract terms and insurance requirements, simplifies this process and makes it easier for SMEs to bid for work.

Assets management

The IGT has an asset management framework which includes:

- a register of all assets which are subject to an annual stocktake;
- the Treasury asset management guide which sets out the Treasury's policies and asset management guidelines for the day-to-day care and custody of assets³⁷; and
- a capital management plan that sets out the IGT's longer term asset requirements and funding sources for ongoing asset replacement and investment. This is integrated with the strategic planning and capital budget process that occurs before the beginning of each financial year in conjunction with the IGT's annual operating budget process.

CONSULTANCIES

The IGT agency engages consultants where it requires specialist expertise or when independent research, review or assessment is needed. Consultants are typically engaged to investigate or diagnose a defined issue or problem, carry out defined reviews or evaluations or provide independent advice, information or solutions to assist the agency's decision making.

Prior to engaging consultants, the agency takes into account the skills and resources required for the task, the skills available internally, and the cost-effectiveness of engaging external expertise. The decision to engage a consultant is made in accordance with the PGPA Act and related regulations including the CPRs and relevant internal policies.

During 2014–15, no new consultancy contracts were entered into by the IGT. Information on contracts and consultancies is available on the AusTender website www.tenders.gov.au.

³⁷ Further details on the IGT's asset policies are in notes 1.16 to 1.18 of the IGT's Financial Statements.

AUSTRALIAN NATIONAL AUDIT OFFICE ACCESS CLAUSES

The IGT is required to provide details of any contract entered during 2014–15 of \$100,000 or more (inclusive of GST) that does not provide for the Auditor-General to have access to the contractor's premises.

The IGT has entered into no such contracts in this reporting period.

EXEMPT CONTRACTS

The IGT has not exempted any contracts or standing offers from being published on AusTender in this reporting period on the basis that it would disclose exempt matters under the *Freedom of Information Act 1982* (FOI Act).

WORKPLACE DIVERSITY

The IGT, as noted, recruits its small workforce based on merit and current competence. In doing so it also seeks to take account of workplace diversity, recognising gender, age and ethnicity in that process. In this regard, a reasonable balance has resulted. Broader community involvement is encouraged, with staff members being supported in their professional association activities.

The IGT evaluates the Treasury's policies and plans regarding workplace diversity and will continue to consider options available to a small agency.

Table 9: Operative staff by equal employment opportunity target group (as at 30 June 2015)

Classification	Female	Born Overseas	ESL	AATSI	Disability
APS6	1		1		
EL1		1			
EL2		1	1		
SES Band 1					
SES Band 2					
Inspector-General		1	1		
Total	1	3	3	0	0

Disability action plan

The Commonwealth's National Disability Strategy 2010–2020 sets out a ten-year national policy framework to improve the lives of people with disability, promote participation and create a more inclusive society. A high level two-yearly report will track progress against each of the six outcome areas of the strategy and present a picture of how people with disability are faring. These reports when published can be found at www.dss.gov.au.

PART 4:

FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR'S REPORT

To the Assistant Treasurer

I have audited the accompanying annual financial statements of the Inspector-General of Taxation for the year ended 30 June 2015, which comprise: Statement by the Inspector-General of Taxation and Chief Finance Officer; Statement of Comprehensive Income; Statement of Financial Position; Statement of Changes in Equity; Cash Flow Statement; Schedule of Commitments; and Notes to and forming part of the financial statements comprising a summary of significant accounting policies.

Accountable Authority's Responsibility for the Financial Statements

The Chief Executive of the Inspector-General of Taxation is responsible under the *Public Governance, Performance and Accountability Act 2013* for the preparation and fair presentation of annual financial statements that comply with Australian Accounting Standards and the rules made under that Act. The Chief Executive is also responsible for such internal control as is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I have conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the 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 about 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 entity'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 entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Accountable Authority of the entity, 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.

GPO Box 127 CANBERRA ACT 2601
13 National Circuit BARTON ACT
Phone (02) 6263 7300 Fax (02) 6263 7777

Independence

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

Opinion

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

- (a) comply with Australian Accounting Standards and the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*; and
- (b) present fairly the financial position of the Inspector-General of Taxation as at 30 June 2015 and its financial performance and cash flows for the year then ended.

Australian National Audit Office



Michael J. Watson
Group Executive Director

Delegate of the Auditor-General

Canberra
17 September 2015

THE INSPECTOR-GENERAL OF TAXATION

Statement by the Inspector-General of Taxation and Chief Finance Officer

Certification of financial statements

In our opinion, the attached financial statements for the year ended 30 June 2015 comply with subsection 42(2) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), and are based on properly maintained financial records as per subsection 41(2) of the PGPA Act.

In our opinion, at the date of this statement, there are reasonable grounds to believe that the Inspector-General of Taxation will be able to pay its debts as and when they fall due.

A black and white image of a signature, appearing to be 'Ali Noroozi', written in a stylized, somewhat blocky font.

Ali Noroozi
Inspector-General of Taxation
17 September 2015

A black and white image of a signature, appearing to be 'Andrew McLoughlin', written in a cursive, flowing script.

Andrew McLoughlin
Chief Finance Officer
17 September 2015

Statement of Comprehensive Income
for the period ended 30 June 2015

	Notes	2015 \$	2014 \$
NET COST OF SERVICES			
Expenses			
Employee benefits	4A	1,774,824	1,803,347
Suppliers	4B	866,787	875,587
Depreciation and amortisation	4C	43,261	41,796
Finance costs	4D	5,814	2,757
Total Expenses		2,690,686	2,723,487
LESS:			
Own-source income			
Own-source revenue			
ANAO audit services received free of charge		60,000	55,000
Total own-source revenue		60,000	55,000
Gains			
Resources received free of charge		39,368	33,346
Gains from reversal of make-good		99,232	-
Total gains		138,600	33,346
Total own-source income		198,600	88,346
Net cost of services		(2,492,086)	(2,635,141)
Revenue from Government		2,788,000	2,626,000
Surplus/(Deficit) attributable to the Australian Government		295,914	(9,141)
OTHER COMPREHENSIVE INCOME			
Items not subject to subsequent reclassification to net cost of services			
Changes in asset revaluation reserves		(55,524)	(3,730)
Total other comprehensive income		(55,524)	(3,730)
Total comprehensive income/(loss) attributable to the Australian Government		240,390	(12,871)

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

Statement of Financial Position
as at 30 June 2015

	Notes	2015 \$	2014 \$
ASSETS			
Financial assets			
Cash and cash equivalents		113,832	45,019
Trade and other receivables	6A	4,216,071	3,375,753
Total financial assets		4,329,903	3,420,772
Non-financial assets			
Property, plant and equipment	7A	13,664	20,359
Leasehold improvements	7A	44,948	128,501
Intangibles	7A	247,561	-
Other non-financial assets	7B	25,135	37,844
Total non-financial assets		331,308	186,704
Total assets		4,661,211	3,607,476
LIABILITIES			
Payables			
Suppliers	8A	71,306	68,259
Other payables	8B	57,780	88,095
Total payables		129,086	156,354
Provisions			
Employee provisions	9A	489,466	427,726
Other provisions	9B	-	93,418
Total provisions		489,466	521,144
Total liabilities		618,552	677,498
Net assets		4,042,659	2,929,978
EQUITY			
Contributed equity		975,573	137,573
Reserves		382,409	437,933
Retained surplus		2,684,677	2,354,472
Total equity		4,042,659	2,929,978

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

Statement of Changes in Equity
for the period ended 30 June 2015

	Retained earnings		Asset revaluation reserves		Contributed equity		Total equity	
	2015	2014	2015	2014	2015	2014	2015	2014
	\$	\$	\$	\$	\$	\$	\$	\$
Opening balance as at 1 July								
Balance carried forward from previous period	2,354,472	2,375,681	437,933	441,663	137,573	107,573	2,929,978	2,924,917
Adjustment to prior year entitlements	34,291	(12,068)	-	-	-	-	34,291	(12,068)
Adjusted opening balance	2,388,763	2,363,613	437,933	441,663	137,573	107,573	2,964,269	2,912,849
Comprehensive income								
Revaluations	-	-	(55,524)	-	-	-	(55,524)	-
Re-statement of make-good	-	-	-	(3,730)	-	-	-	(3,730)
Surplus/(deficit) for the period	295,914	(9,141)	-	-	-	-	295,914	(9,141)
Total comprehensive income	295,914	(9,141)	(55,524)	(3,730)	-	-	240,390	(12,871)
Transactions with owners								
Contributions by owners								
Departmental capital budget appropriation	-	-	-	-	30,000	30,000	30,000	30,000
Equity injection appropriation	-	-	-	-	808,000	-	808,000	-
Total transactions with owners	-	-	-	-	838,000	30,000	838,000	30,000
Closing balance as at 30 June	2,684,677	2,354,472	382,409	437,933	975,573	137,573	4,042,659	2,929,978

This statement should be read in conjunction with the accompanying notes.

Cash Flow Statement
for the period ended 30 June 2015

	Notes	2015 \$	2014 \$
OPERATING ACTIVITIES			
Cash received			
Appropriations		2,528,902	2,293,458
Net GST received		56,829	54,049
Total cash received		2,585,731	2,347,507
Cash used			
Employees		1,709,107	1,665,410
Suppliers		807,811	790,614
Total cash used		2,516,918	2,456,024
Net cash from (used by) operating activities	10	68,813	(108,517)
INVESTING ACTIVITIES			
Cash used			
Purchase of intangibles		256,098	1,930
Total cash used		256,098	1,930
Net cash from (used by) investing activities		(256,098)	(1,930)
FINANCING ACTIVITIES			
Cash received			
Contributed equity		256,098	57,414
Total cash received		256,098	57,414
Net cash from (used by) financing activities		256,098	57,414
Net increase (decrease) in cash held		68,813	(53,033)
Cash at the beginning of the reporting period		45,019	98,052
Cash at the end of the reporting period		113,832	45,019

This statement should be read in conjunction with the accompanying notes.

Schedule of Commitments

as at 30 June 2015

	2015 \$	2014 \$
BY TYPE		
Commitments receivable		
Net GST recoverable on commitments	1,863	111,349
Total commitments receivable	1,863	111,349
Commitments payable		
Other commitments		
Operating leases ¹	27,642	1,224,844
Other commitments ²	480,000	720,000
Total other commitments	507,642	1,944,844
Total commitments payable	507,642	1,944,844
Net commitments by type	505,779	1,833,495
BY MATURITY		
Commitments receivable		
Within 1 year	1,863	22,172
Between 1 to 5 years	-	89,177
More than 5 years	-	-
Total commitments receivable	1,863	111,349
Commitments payable		
Operating lease commitments		
Within 1 year	27,642	243,896
Between 1 to 5 years	-	980,948
More than 5 years	-	-
Total operating lease commitments	27,642	1,224,844
Other commitments		
Within 1 year	240,000	240,000
Between 1 to 5 years	240,000	480,000
More than 5 years	-	-
Total other commitments	480,000	720,000
Total commitments payable	507,642	1,944,844
Net commitments by maturity	505,779	1,833,495

Note: Commitments are GST inclusive where relevant

Note	Nature of lease	General description of leasing arrangements
1	Leases for office accommodation	The agreement allows for annual fixed rental increases. IGT has entered a new lease at the current premises effective 1 September 2015. As such, the existing lease commitment has been amended to reflect the new expiry date of 31 August 2015.
Note	Description	General description of the agreement
2	Service Agreement for the provision of office services	The agreement allows for an annual increase in-line with the Wage Cost Index (WCI).

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

Notes to and forming part of the financial statements
for the period ended 30 June 2015

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Note 1: Summary of significant accounting policies

1.1 Objectives of the Inspector-General of Taxation

The Inspector-General of Taxation (IGT) is an Australian Government controlled entity. It is a not-for-profit entity. The objective of the IGT is to improve the administration of the tax laws for the benefit of all taxpayers. The IGT is structured to meet one outcome:

Improved tax administration through community consultation, review, and independent advice to Government.

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

The *Inspector-General of Taxation Act 2003 as amended* (the Act) established an independent statutory entity to:

- improve the administration of taxation laws for the benefit of all taxpayers, tax practitioners and other entities;
- provide independent advice to the government on the administration of taxation laws;
- investigate complaints by taxpayers, tax practitioners or other entities about the administration of taxation laws; and
- investigate administrative action taken under taxation laws, including systemic issues, that affect taxpayers, tax practitioners or other entities.

The IGT's departmental activities are identified under Outcome 1 by one program, Program 1.1 Inspector-General of Taxation. IGT has no administered activities.

The continued existence of the entity in its present form, and with its present program, is dependent on Government policy and on continuing funding by Parliament for the entity's administration and programs.

1.2 Basis of preparation of the financial statements

The financial statements are required by section 42 of the *Public Governance, Performance and Accountability Act 2013* and are general purpose financial statements.

The financial statements and notes have been prepared in accordance with:

- the Financial Reporting Rule (FFR) for reporting periods ending on or after 1 July 2014; and

- Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

The financial statements have been prepared on an accrual basis and in accordance with the historical cost convention, except for certain assets and liabilities 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 statements are presented in Australian dollars and values are expressed in whole dollars.

Unless an alternative treatment is specifically required by an accounting standard or the FFR, assets and liabilities are recognised in the Statement of Financial Position when and only when it is probable that future economic benefits will flow to the entity 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 executory contracts are not recognised unless required by an accounting standard. Liabilities and assets that are unrecognised are reported in the Schedule of Commitments and the Contingencies note (no unquantifiable or remote contingencies, have been reported at Note 11).

Unless alternative treatment is specifically required by an Accounting Standard, income and expenses are recognised in the Statement of Comprehensive Income 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, IGT has made the following judgements that have the most significant impact on the amounts recorded in the financial statements:

- the liability for long service leave has been determined by reference to FFR 24 using the shorthand method;
- the employee provision has been determined with reference to standard parameters provided by the Department of Finance, expected tenure of staff, future salary movements and future discount rates;
- the fair value of leasehold improvements and property, plant and equipment has been taken to be the market value of similar properties or depreciated replacement value as determined by an independent valuer; and
- the make-good provision has been calculated with reference to building costs required to restore the premises to original condition as required in the lease.

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 reporting period.

1.4 Changes in Australian Accounting Standards

Adoption of new Australian Accounting Standard requirements

AASB 1055 *Budgetary Reporting* was issued prior to the signing of the statement by the Inspector-General of Taxation and Chief Finance Officer which was applicable to the current reporting period. This standard did not have a material effect on the entities financial statements.

The entity chose to early adopt AASB 2015-7 *Amendments to Australian Accounting Standards – Fair Value Disclosures of Not-for-Profit Public Sector Entities*. This standard did not have a material effect on the entities financial statements.

No other accounting standards have been adopted earlier than the application date as stated in the standard. No new accounting standards, amendments to standards and interpretations issued by the AASB prior to the sign-off date that are applicable to the current period have had a material financial impact on the entity.

Future Australian Accounting Standard requirements

Of the new standards, amendments to standards and interpretations issued by the AASB that are applicable to future periods, it is estimated that the impact of adopting the pronouncements when effective will have no material financial impact on future reporting periods, but may affect disclosures in future financial reports.

1.5 Revenue

Revenue from Government

Amounts appropriated for departmental appropriations for the year (adjusted for any formal additions and reductions) are recognised as Revenue from Government when the entity 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 entity.

The stage of completion of contracts at the reporting date is determined by reference to the proportion that costs incurred to date bear to the estimated total costs of the transaction.

Receivables for services, which have 30 day terms, are recognised at the nominal amounts due, less any impairment allowance amount. Collectability of debts is reviewed at the end of the reporting period. Allowances are made when collectability of the debt is no longer probable.

Interest revenue is recognised using the effective interest method as set out in AASB 139 *Financial Instruments: Recognition and Measurement*.

1.6 Gains

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.

Resources received free of charge are recorded as either revenue or gains depending on their nature.

Contributions of assets at no cost of acquisition or for nominal consideration are recognised as gains at their fair value when the asset qualifies for recognition, unless received from another government entity as a consequence of a restructuring of administrative arrangements.

Sale of assets

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

1.7 Transactions with the Government as owner

Equity injections

Amounts appropriated designated as 'equity injections' for a year (less any formal reductions) and Departmental Capital Budgets (DCB) are recognised directly in contributed equity in that year.

1.8 Employee benefits

Liabilities for termination benefits due within twelve months of the end of the reporting period 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.

Other employee benefits are measured as the net total of the present value of the defined benefit obligation at the end of the reporting period, minus the fair value at the end of the reporting period of plan assets (if any) out of which the obligations are to be settled directly.

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 entity is estimated to be less than the annual entitlement for sick leave.

The leave liabilities are calculated on the basis of employees' remuneration at the estimated salary rates that will be applied at the time the leave is taken, including the entity'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 estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and inflation.

Separation and redundancy

Provision is made for separation and redundancy benefit payments. The entity recognises a provision for termination when it has developed a detailed formal plan for the terminations and has informed those employees affected that it will carry out the terminations.

Superannuation

Staff of the entity in general are members of the Public Sector Superannuation Scheme (PSS) or the PSS accumulation plan (PSSap).

The PSS is a defined benefit scheme 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. This liability is reported by the Department of Finance's administered schedules and notes.

The entity makes employer contributions to the employees' superannuation scheme at rates determined by an actuary to be sufficient to meet the cost to the Government. The entity accounts for the contributions as if they were contributions to defined contribution plans.

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

1.9 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 an 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.

1.10 Borrowing costs

All borrowing costs are expensed as incurred.

1.11 Fair Value Measurement

The entity deems transfers between levels of the fair value hierarchy to have occurred at the end of the reporting period.

1.12 Cash

Cash is recognised at its nominal amount.

Cash and cash equivalents includes cash on hand, cash held with outsiders and demand deposits in bank accounts with an original maturity of three months or less that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

1.13 Financial assets

The IGT classifies its financial assets as 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'. Loans and receivables are measured at amortised cost using the effective interest method less impairment. Interest is recognised by applying the effective interest rate.

Impairment of financial assets

Financial assets are assessed for impairment at each balance date.

- Financial assets held at amortised cost — If there is objective evidence that an impairment loss has been incurred for loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount is reduced by way of an allowance account. The loss is recognised in the Statement of Comprehensive Income.

1.14 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. These liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

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

1.15 Contingent liabilities and contingent assets

Contingent liabilities and contingent assets are not recognised in the Statement of Financial Position 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 asset or liability in respect of which the amount cannot be reliably measured. Contingent assets are disclosed when settlement is probable but not virtually certain, and contingent liabilities are recognised when settlement is greater than remote.

1.16 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.

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and incomes at their fair value at the date of acquisition, unless acquired as a consequence of restructuring of administrative arrangements. In the latter case, assets are initially recognised as contributions by owners at the amounts at which they were recognised in the transferor entity's accounts immediately prior to the restructuring.

1.17 Leasehold improvements and property, plant and equipment

Asset recognition threshold

Purchases of leasehold improvements and property, plant and equipment are recognised initially at cost in the Statement of Financial Position, 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 the IGT where there exists an obligation to restore the property to its original condition. These costs are included in the value of the IGT's leasehold improvements with a corresponding provision for the 'make good' recognised.

Revaluations

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

Asset class	Fair value measured at
Leasehold improvements	Estimated replacement cost of office fitout adjusted for remaining useful life.
Property, plant and equipment	Estimated replacement cost of similar assets adjusted for remaining useful life.

Following initial recognition at cost, property plant and equipment are carried at fair value less subsequent accumulated depreciation and accumulated impairment losses. Valuations were conducted with sufficient frequency to ensure that the carrying amounts of assets did 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. A fair value review was undertaken by the independent valuer at 30 June 2014 who confirmed that the carrying amount of non-financial assets has not materially changed since the last valuation.

Revaluation adjustments were made on a class basis. Any revaluation increment was credited to equity under the heading of asset revaluation reserve except to the extent that it reversed a previous revaluation decrement of the same asset class that was previously recognised in the surplus or deficit. Revaluation decrements for a class of assets were recognised directly through surplus or deficit except to the extent that they reversed 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 entity 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:

	2015	2014
Property, plant and equipment	3-10 years	3-10 years
Leasehold improvements	Lease term	Lease term

Impairment

All assets were assessed for impairment as at 30 June 2015. 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 of disposal 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 the 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.

1.18 Intangibles

IGTs intangibles comprise purchased software for internal use. These assets are carried at cost less accumulated amortisation and any accumulated impairment losses.

Software is amortised on a straight-line basis over its anticipated useful life, being five years (2014: not applicable).

All software assets were assessed for indications of impairment at 30 June 2015. No indicators of impairment were identified as at 30 June 2015 (2014: not applicable).

1.19 Taxation

The entity 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.

1.20 Legal Compliance

The Australian Government continues to have regard to developments in case law, including the High Court's most recent decision on Commonwealth expenditure in *Williams v Commonwealth* [2014] HCA 23, as they contribute to the larger body of law relevant to the development of Commonwealth programs. In accordance with its general practice, the Government will continue to monitor and assess risk and decide on any appropriate actions to respond to risks of expenditure not being consistent with constitutional or other legal requirements.

Section 83 of the Constitution provides that no amount may be paid out of the Consolidated Revenue Fund except under an appropriation made by law.

The entity has reviewed its processes and controls over payments for these items and determined that there is a low risk of the certain circumstances mentioned in the legal advice applying to the entity.

Note 2: Events after the reporting period

The IGT entered into a new lease arrangement for accommodation in August 2015, the terms and conditions of which take effect from 1 September 2015. Under the new arrangements, IGT is no longer required to make-good the premises at the end of the lease.

Note 3: Net Cash Appropriation Arrangements

	2015 \$	2014 \$
Total comprehensive income (loss) less depreciation/amortisation expenses previously funded through revenue appropriations and other comprehensive income¹	283,651	28,925
Plus: depreciation/amortisation expenses previously funded through revenue appropriation	(43,261)	(41,796)
Total comprehensive income (loss) — as per the Statement of Comprehensive Income	240,390	(12,871)

1. From 2010-11, the Government introduced net cash appropriation arrangements, where revenue appropriations for depreciation/amortisation expenses ceased. Entities now receive a separate capital budget provided through equity appropriations. Departmental capital budgets are to be appropriated in the period when cash payment for capital expenditure is required.

Note 4: Expenses

	2015 \$	2014 \$
Note 4A: Employee benefits		
Wages and salaries ¹	1,376,193	1,378,622
Superannuation:		
Defined contribution plans	102,992	101,429
Defined benefit plans	96,627	92,559
Leave and other entitlements	192,315	223,854
Other employee expenses	6,697	6,883
Total employee benefits	1,774,824	1,803,347
Note 4B: Suppliers		
Goods and services supplied or rendered		
Consultants, contractors and secondees ¹	42,314	100,631
Travel	86,107	80,349
Service level agreement with Treasury	247,885	209,277
Fees — Audit, Membership and Other	66,525	64,627
Property operating expenses	20,013	19,204
Advertising and printing	4,905	20,926
Seminars and conferences	19,219	15,704
Subscriptions and periodicals	9,485	3,657
Information communication technology	40,875	10,517
Other	28,000	36,695
Total goods and services supplied or rendered	565,328	561,587
Goods supplied in connection with		
Related parties	-	827
External parties	13,330	13,848
Total goods supplied	13,330	14,675
Services rendered in connection with		
Related parties ¹	291,340	304,426
External parties	260,658	242,486
Total services rendered	551,998	546,912
Total goods and services supplied or rendered	565,328	561,587
Other suppliers		
Operating lease rentals		
External parties		
Minimum lease payments	293,263	301,224
Workers compensation expenses	8,196	12,776
Total other suppliers	301,459	314,000
Total suppliers	866,787	875,587

1. Comparatives figures have been restated to reflect the reallocation of expenses relating to secondees from wages and salaries to consultants, contractors and secondees.

Note 4: Expenses (continued)

	2015 \$	2014 \$
Note 4C: Depreciation and amortisation		
Depreciation		
Property, plant and equipment	6,695	14,023
Total depreciation	6,695	14,023
Amortisation		
Leasehold improvements	28,029	27,773
Computer software	8,537	-
Total amortisation	36,566	27,773
Total depreciation and amortisation	43,261	41,796
Note 4D: Finance costs		
Unwinding of discount	5,814	2,757
Total finance costs	5,814	2,757

Note 5: Fair Value Measurements

Note 5A: Fair value measurements, valuation techniques and inputs used

	Fair value measurements at the end of the reporting period		For Levels 2 and 3 fair value measurements	
	2015 \$	2014 \$	Category (Level 1, 2 or 3)	Valuation technique(s) ¹ Inputs used
Non-financial assets				
Furniture	3,493	7,491	Level 3	Cost Approach Estimated replacement cost of similar assets adjusted for remaining useful life.
Office Equipment	10,171	12,868	Level 3	Cost Approach Estimated replacement cost of similar assets adjusted for remaining useful life.
Leasehold improvements	44,948	128,501	Level 3	Cost Approach Estimated replacement cost of office fitout adjusted for remaining useful life.
Total non-financial assets	58,612	148,860		

1. Valuations are based on advice from independent certified practicing valuers. There has been no change in this method from prior years.

2. Revaluation relates to the impairment of the underlying asset associated with de-recognition of the make-good provision.

IGT's policy for determining when transfers between levels are deemed to have occurred can be found at Note 1.11.

A reconciliation of the movements in Level 3 assets can be seen in the reconciliation of the opening and closing balances of leasehold improvements and property, plant and equipment.

Recurring and non-recurring Level 3 fair value measurements — valuation processes

IGT procured valuation services from Preston Rowe Patterson Valuers (PRP). PRP provided a written assurance that the valuation model is in compliance with AASB 13 — *Fair Value Measurement*. PRP valuations are based on the most recent comprehensive valuation of IGT's fixed assets. PRP has used the cost approach which reflects the amount that would be required currently to replace the service capacity of IGT's fixed assets. PRP has updated the depreciated replacement cost analysis relative to current replacement cost for each asset and the expended useful life to establish an appropriate estimate of fair value as at 30 June 2014. All assets were assessed for impairment as at 30 June 2015.

Recurring Level 3 fair value measurements — sensitivity of inputs

The fair value estimates provided based on Level 3 inputs are sensitive to movements in replacement cost as at the reporting date, either up or down. Adopted useful life, expended useful and remaining useful life are considered to be generally stable inputs and would not be subject to sensitivity unless the entity revised its policy with respect to the useful life of a particular asset class.

Note 6: Financial Assets

	2015 \$	2014 \$
Note 6A: Trade and other receivables		
Appropriations Receivable:		
From operational funding	3,566,324	3,307,226
From capital funding	641,902	60,000
Total appropriations receivable	4,208,226	3,367,226
Other receivables:		
GST receivable from the Australian Taxation Office	7,845	8,527
Total other receivables	7,845	8,527
Total trade and other receivables (gross)	4,216,071	3,375,753
Total trade and other receivables (net)	4,216,071	3,375,753
Receivables expected to be recovered		
No more than 12 months	4,216,071	3,375,753
Total trade and other receivables (net)	4,216,071	3,375,753
Trade and other receivables (gross) aged as follows		
Not overdue	4,216,071	3,375,753
Overdue by:		
0 to 30 days	-	-
31 to 60 days	-	-
61 to 90 days	-	-
More than 90 days	-	-
Total trade and other receivables (gross)	4,216,071	3,375,753

Credit terms for goods and services were within 30 days (2014: 30 days).

Note 7: Non-Financial Assets**Note 7A: Reconciliation of the opening and closing balances of leasehold improvements, property, plant and equipment, and intangibles (2015)**

	Plant and equipment \$	Leasehold improvements \$	Intangibles \$	Total \$
As at 1 July 2014				
Gross book value	34,382	156,274	-	190,656
Accumulated depreciation and impairment	(14,023)	(27,773)	-	(41,796)
Total as at 1 July 2014	20,359	128,501	-	148,860
Additions				
By purchase ¹	-	-	256,098	256,098
Revaluations ²	-	(55,524)	-	(55,524)
Depreciation expense	(6,695)	(28,029)	(8,537)	(43,261)
Asset write-downs	-	-	-	-
Disposals:				
Other disposals	-	-	-	-
Total as at 30 June 2015	13,664	44,948	247,561	306,173
Total as at 30 June 2015 represented by:				
Gross book value	34,382	63,304	256,098	353,784
Accumulated depreciation and impairment	(20,718)	(18,356)	(8,537)	(47,611)
Total as at 30 June 2015	13,664	44,948	247,561	306,173

1. This reflects the establishment of Tax Complaints Handling software.

2. Revaluation relates to the impairment of the underlying asset associated with de-recognition of the make-good provision.

No indicators of impairment were found for leasehold improvements, property, plant and equipment, and intangibles.

No leasehold improvements, property, plant and equipment, and intangibles are expected to be sold or disposed of in the next 12 months.

All revaluations are independent and are conducted in accordance with the revaluation policy stated at Note 1.17.

Note 7A: Reconciliation of the opening and closing balances of leasehold improvements, property, plant and equipment, and intangibles (2014)

	Plant and equipment \$	Leasehold improvements \$	Intangibles \$	Total \$
As at 1 July 2013				
Gross book value	34,382	154,344	-	188,726
Accumulated depreciation and impairment	-	-	-	-
Total as at 1 July 2013	34,382	154,344	-	188,726
Additions				
By purchase	-	1,930	-	1,930
Revaluations	-	-	-	-
Depreciation expense	(14,023)	(27,773)	-	(41,796)
Asset write-downs	-	-	-	-
Disposals:				
Other disposals	-	-	-	-
Total as at 30 June 2014	20,359	128,501	-	148,860
Total as at 30 June 2014 represented by:				
Gross book value	34,382	156,274	-	190,656
Accumulated depreciation and impairment	(14,023)	(27,773)	-	(41,796)
Total as at 30 June 2014	20,359	128,501	-	148,860

Note 7: Non-Financial Assets (continued)

	2015	2014
	\$	\$
Note 7B: Other non-financial assets		
Prepayments	25,135	37,844
Total other non-financial assets	25,135	37,844
 Other non-financial assets expected to be recovered		
No more than 12 months	25,135	37,844
Total other non-financial assets	25,135	37,844

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

Note 8: Payables

	2015 \$	2014 \$
Note 8A: Suppliers		
Trade creditors	71,306	68,259
Total suppliers	71,306	68,259
Suppliers expected to be settled		
No more than 12 months	71,306	68,259
More than 12 months	-	-
Total suppliers	71,306	68,259
Suppliers in connection with		
Related parties	61,560	60,000
External parties	9,746	8,259
Total suppliers	71,306	68,259
Settlement is usually made within 30 days (2014: 30 days).		
Note 8B: Other payables		
Wages and salaries	49,067	45,535
Superannuation	6,535	6,090
Rent payable ¹	2,178	36,470
Total other payables	57,780	88,095
Other payables expected to be settled		
No more than 12 months	57,780	51,625
More than 12 months	-	36,470
Total other payables	57,780	88,095

1. Rent payable has been remeasured as at 30 June 2015 to reflect the new expiry date of 31 August 2015 for the existing lease. Refer Note 2 for details of changes to lease arrangements.

Note 9: Provisions

	2015	2014
	\$	\$
Note 9A: Employee provisions		
Leave	489,466	427,726
Total employee provisions	489,466	427,726
Employee provisions expected to be settled		
No more than 12 months	216,375	163,157
More than 12 months	273,091	264,569
Total employee provisions	489,466	427,726
Note 9B: Other provisions		
Provision for restoration obligations ¹	-	93,418
Total other provisions	-	93,418
Other provisions expected to be settled		
More than 12 months	-	93,418
Total other provisions	-	93,418
Provision for restoration obligation		
Carrying amount 1 July	93,418	86,931
Re-statement of make-good	(99,232)	3,730
Unwinding of discount or change in discount rate	5,814	2,757
Closing balance 30 June	-	93,418

1. Provision for restoration of lease premises has been removed to reflect the change in lease arrangements. Refer Note 2 for details of changes to lease arrangements.

Note 10: Cash Flow Reconciliation

	2015 \$	2014 \$
Reconciliation of cash and cash equivalents as per Statement of Financial Position to Cash Flow Statement		
Cash and cash equivalents as per:		
Cash flow statement	113,832	45,019
Statement of financial position	113,832	45,019
Discrepancy	-	-
Reconciliation of net cost of services to net cash from operating activities:		
Net cost of services	(2,492,086)	(2,635,141)
Add: Revenue from Government	2,788,000	2,626,000
Adjustments for non-cash items		
Depreciation/amortisation	43,261	41,796
Finance costs	5,814	2,757
Re-measurement of lease payable ¹	47,555	-
Movements in assets and liabilities		
Assets		
(Increase)/decrease in net receivables	(258,416)	(332,149)
(Increase)/decrease in prepayments	12,709	(14,944)
Liabilities		
Increase/(decrease) in employee provisions	61,740	125,185
Increase/(decrease) in other payables	(43,579)	37,154
Increase/(decrease) in supplier payables	3,047	40,825
increase/(decrease) in other provisions	(99,232)	-
Net cash from/(used by) operating activities	68,813	(108,517)

1. Rent payable has been remeasured as at 30 June 2015 to reflect the new expiry date of 31 August 2015 for the existing lease. Refer Note 2 for details of changes to lease arrangements.

Note 11: Contingent Assets and Liabilities

There are no unquantifiable or significant remote contingencies.

Note 12: Senior Management Personnel Remuneration

	2015 \$	2014 \$
Short-term employee benefits		
Salary	782,219	784,146
Allowances	1,814	1,214
Total short-term employee benefits	784,033	785,360
Post-employment benefits		
Superannuation	92,289	86,579
Total post-employment benefits	92,289	86,579
Other long-term benefits		
Annual leave accrued	69,314	67,200
Long-service leave	39,703	30,778
Total other long-term benefits	109,017	97,978
Total senior executive remuneration expenses	985,339	969,917

The total number of senior management personnel that are included in the above table are 3 (2014: 3).

Note 13: Financial Instruments

	2015 \$	2014 \$
Note 13A: Categories of financial instruments		
Financial assets		
Loans and receivables		
Cash and cash equivalents	113,832	45,019
Total loans and receivables	113,832	45,019
Total financial assets	113,832	45,019
Financial liabilities		
Liabilities at amortised cost		
Payables — suppliers	71,306	68,259
Total liabilities at amortised cost	71,306	68,259
Total financial liabilities	71,306	68,259

There was no interest income from financial assets not at fair value through profit and loss in 2015 (2014: nil).

Note 13B: Fair value of financial instruments

		Carrying amount 2015 \$	Fair value 2015 \$	Carrying amount 2014 \$	Fair value 2014 \$
	Notes				
Financial assets					
Cash and cash equivalents		113,832	113,832	45,019	45,019
Total		113,832	113,832	45,019	45,019
Financial liabilities					
Suppliers payable	8A	71,306	71,306	68,259	68,259
Total		71,306	71,306	68,259	68,259

Note 13: Financial Instruments (continued)**Note 13C: Credit risk**

The entity is exposed to minimal credit risk as financial assets only include cash and trade receivables. The maximum exposure to credit risk is the risk that arises from potential default of a debtor. This amount is equal to the total amount of trade receivables (2015: \$0 and 2014: \$0). The entity has assessed the risk of default on payment and has made no allocations to doubtful debts in 2015 (2014: \$0).

The following table illustrates the entity's gross exposure to credit risk, excluding any collateral or credit enhancements

	2015 \$	2014 \$
Financial assets carried at amount not best representing maximum exposure to credit risk		
Cash and cash equivalents	113,832	45,019
Total financial assets carried at amount not best representing maximum exposure to credit risk	113,832	45,019
Financial liabilities carried at amount not best representing maximum exposure to credit risk		
Supplier payables	71,306	68,259
Total financial liabilities carried at amount not best representing maximum exposure to credit risk	71,306	68,259

The entity holds no collateral to mitigate against credit risk.

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

	Not past due nor impaired 2015 \$	Not past due nor impaired 2014 \$	Past due or impaired 2015 \$	Past due or impaired 2014 \$
Loans and receivables				
Cash and cash equivalents	113,832	45,019	-	-
Total	113,832	45,019	-	-

Note 13: Financial Instruments (continued)

Note 13D: Liquidity risk

The entity's financial liabilities are payables. The exposure to liquidity risk is based on the notion that the entity will encounter difficulty in meeting its obligations associated with financial liabilities. This is highly unlikely due to the appropriation funding mechanisms available to the entity and internal policies and procedures put in place to ensure there are appropriate resources to meet its financial obligations.

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

The entity had no derivative financial liabilities in either 2015 or 2014.

Maturities for non-derivative financial liabilities 2015

	On demand \$	Within 1 year \$	1 to 2 years \$	2 to 5 years \$	> 5 years \$	Total \$
Liabilities at amortised cost						
Payables — suppliers	-	71,306	-	-	-	71,306
Total	-	71,306	-	-	-	71,306

Maturities for non-derivative financial liabilities 2014

	On demand \$	Within 1 year \$	1 to 2 years \$	2 to 5 years \$	> 5 years \$	Total \$
Liabilities at amortised cost						
Payables — suppliers	-	68,259	-	-	-	68,259
Total	-	68,259	-	-	-	68,259

Note 13E: Market risk

IGT holds basic financial instruments that do not expose it to certain market risks. The entity is not exposed to currency risk, other price risk, or interest rate risk.

Note 14: Financial Assets Reconciliation

	Notes	2015 \$	2014 \$
Total financial assets as per statement of financial position		4,329,903	3,420,772
Less: non-financial instrument components			
Appropriation receivables	6A	4,208,226	3,367,226
Other receivables	6A	7,845	8,527
Total non-financial instrument components		4,216,071	3,375,753
Total financial assets as per financial instruments note	13A	113,832	45,019

Note 15: Appropriations

Note 15A: Annual appropriations ('recoverable GST exclusive')
Annual appropriations for 2015

	<i>Appropriation Act</i>		<i>PGPA Act</i>		<i>Appropriation applied in 2015</i>		<i>Section 51 Determinations²</i>
	<i>Annual Appropriation</i>	<i>\$</i>	<i>Section 74</i>	<i>Section 75</i>	<i>Total appropriation</i>	<i>and prior years</i>	
Departmental							
Ordinary annual services	3,359,000		644	-	3,359,644	(2,460,089)	899,555
Other Services							(541,000)
Equity	808,000		-	-	808,000	(256,098)	551,902
Total departmental	4,167,000		644	-	4,167,644	(2,716,187)	1,451,457

Notes:

- Variance reflects the permanently withheld funding and lower than anticipated expenditure relating to the transfer of the tax complaint handling function from the Commonwealth Ombudsman.
- The original budget provided for increased funding (\$0.7 million) associated with the transfer of the tax complaint handling function from the Commonwealth Ombudsman. As at 30 June 2015, the legislation required to effect this change has not passed Parliament and as a result, the associated funding was permanently withheld (\$0.5 million).

Annual appropriations for 2014

	<i>Appropriation Act</i>		<i>FMA Act</i>		<i>Appropriation applied in 2014</i>		<i>Variance¹</i>
	<i>Annual Appropriation</i>	<i>\$</i>	<i>Section 30</i>	<i>Section 31</i>	<i>Total appropriation</i>	<i>and prior years</i>	
Departmental							
Ordinary annual services	2,656,000		-	4,704	2,660,704	(2,404,903)	255,801
Total departmental	2,656,000		-	4,704	2,660,704	(2,404,903)	255,801

Notes:

- Variance due to lower than anticipated expenditure.

Note 15: Appropriations (continued)**Note 15B: Departmental capital budgets ('recoverable GST exclusive')**

	2014-15 Capital Budget Appropriations			Capital Budget Appropriations applied in 2015 (current and prior years)			
	<i>Appropriation Act</i>	<i>PGPA Act</i>	Total Capital Budget Appropriations	Payments for non-financial assets ^(b)	Payments for other purposes	Total payments	Variance
	Annual Capital Budget \$	Section 75 \$	\$	\$	\$	\$	\$
Departmental Ordinary annual services Capital Budget^(a)	30,000	-	30,000	-	-	-	30,000

Notes:

(a) Departmental Capital Budgets are appropriated through Appropriation Acts (No.1, 3, 5). They form part of ordinary annual services and are not separately identified in the Appropriation Acts. For more information on ordinary annual services appropriation, please see Table A: Annual appropriations.

(b) Payments made on non-financial assets include purchase of assets, expenditure on assets which has been capitalised, and costs incurred to make good an asset to its original condition.

	2013-14 Capital Budget Appropriations			Capital Budget Appropriations applied in 2014 (current and prior years)			
	<i>Appropriation Act</i>	<i>FMA Act</i>	Total Capital Budget Appropriations	Payments for non-financial assets ^(b)	Payments for other purposes	Total payments	Variance
	Annual Capital Budget \$	Section 32 \$	\$	\$	\$	\$	\$
Departmental Ordinary annual services Capital Budget^(a)	30,000	-	30,000	1,930	55,484	57,414	(27,414)

Notes:

(a) Departmental Capital Budgets are appropriated through Appropriation Acts (No.1, 3, 5). They form part of ordinary annual services and are not separately identified in the Appropriation Acts. For more information on ordinary annual services appropriation, please see Table A: Annual appropriations.

(b) Payments made on non-financial assets include purchase of assets, expenditure on assets which has been capitalised, and costs incurred to make good an asset to its original condition.

Note 15: Appropriations (continued)

Note 15C: Unspent annual appropriations ('recoverable GST exclusive')

	2015 \$	2014 \$
Departmental		
Appropriation Act (No. 1) 2012-13	30,000	719,226
Appropriation Act (No. 1) 2013-14 ^{1,2}	1,477,226	2,693,019
Appropriation Act (No. 1) 2014-15 ^{1,3}	2,803,930	-
Appropriation Act (No. 3) 2014-15	551,902	-
Total departmental	4,863,058	3,412,245

1. Cash held amounts (2015: \$113,832, 2014: \$45,019) are included in Appropriation Act (No. 1) for the relevant year.
2. Includes quarantined funds of \$1,000.
3. Includes funds of \$541,000 that have been permanently withheld under section 51 of the PGPA Act.

Note 16: Reporting of Outcomes**Note 16A: Net cost of outcome delivery**

	Outcome 1	
	2015	2014
	\$	\$
Departmental		
Expenses	2,690,686	2,723,487
Own-source income	60,000	55,000
Gains	138,600	33,346
Net cost/(contribution) of outcome delivery	2,492,086	2,635,141

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

Note 17: Budgetary Reports and Explanations of Major Variances**Note 17A: Departmental budgetary reports****Statement of Comprehensive Income**
for the period ended 30 June 2015

	Actual	Budget estimate	
	2015	Original ¹	Variance ²
	\$	2015	2015
		\$	\$
NET COST OF SERVICES			
Expenses			
Employee benefits	1,774,824	2,436,000	(661,176)
Suppliers	866,787	893,000	(26,213)
Depreciation and amortisation	43,261	30,000	13,261
Finance costs	5,814	-	5,814
Total Expenses	2,690,686	3,359,000	(668,314)
LESS:			
Own-Source Income			
Own-source revenue			
ANAO audit services received free of charge	60,000	-	60,000
Total own-source revenue	60,000	-	60,000
Gains			
Resources received free of charge	39,368	-	39,368
Gains from reversal of make-good	99,232	-	99,232
Total gains	138,600	-	138,600
Total own-source income	198,600	-	198,600
Net cost of services	(2,492,086)	(3,359,000)	866,914
Revenue from Government	2,788,000	3,359,000	(571,000)
Surplus/(Deficit) attributable to the Australian Government	295,914	-	295,914
OTHER COMPREHENSIVE INCOME			
Items not subject to subsequent reclassification to net cost of services			
Changes in asset revaluation reserves	(55,524)	-	(55,524)
Total other comprehensive income	(55,524)	-	(55,524)
Total comprehensive income/(loss) attributable to the Australian Government	240,390	-	240,390

1. The IGT's original budgeted financial statement that was first presented to Parliament in respect of the reporting period (i.e. from the IGT's 2014-15 Portfolio Budget Statements (PBS)). The Budget is not audited.
2. Between the actual and original budgeted amounts for 2015. Explanations of major variances (that are greater than +/- 10% of the original budget for a line item and greater than +/- \$0.2 million) are provided below.

Explanations of major variances	Affected line items
The original budget provided for increased funding (\$0.7 million) associated with the transfer of the Tax Complaints Handling function from the Commonwealth Ombudsman's office to the IGT. As at 30 June 2015, the legislation required to effect this change has not passed Parliament and as a result, the associated funding was in large part reduced (\$0.5 million).	Employee benefits Revenue from Government

Statement of Financial Position
for the period ended 30 June 2015

	Actual	Budget estimate	Variance ²
	2015	Original ¹	2015
	\$	\$	\$
ASSETS			
Financial assets			
Cash and cash equivalents	113,832	98,000	15,832
Trade and other receivables	4,216,071	3,071,000	1,145,071
Total financial assets	4,329,903	3,169,000	1,160,903
Non-financial assets			
Infrastructure, plant and equipment	58,612	188,000	(129,388)
Intangibles	247,561	-	247,561
Other non-financial assets	25,135	24,000	1,135
Total non-financial assets	331,308	212,000	119,308
Total assets	4,661,211	3,381,000	1,280,211
LIABILITIES			
Payables			
Suppliers	71,306	66,000	5,306
Other payables ²	57,780	-	57,780
Total payables	129,086	66,000	63,086
Provisions			
Employee provisions	489,466	303,000	186,466
Other provisions	-	87,000	(87,000)
Total provisions	489,466	390,000	99,466
Total liabilities	618,552	456,000	162,552
Net assets	4,042,659	2,925,000	1,117,659
EQUITY			
Contributed equity	975,573	90,000	885,573
Reserves	382,409	518,000	(135,591)
Retained surplus	2,684,677	2,317,000	367,677
Total equity	4,042,659	2,925,000	1,117,659

1. The IGT's original budgeted financial statement that was first presented to Parliament in respect of the reporting period (i.e. from the IGT's 2014-15 Portfolio Budget Statements (PBS)). The Budget is not audited.
2. Between the actual and original budgeted amounts for 2015. Explanations of major variances (that are greater than +/- 10% of the original budget for a line item and greater than +/- \$0.2 million) are provided below.

Explanations of major variances	Affected line items
Relative to the original budget, IGT received additional equity funding (\$0.8 million) in the 2015-16 Budget to support the establishment of the Tax Complaints Handling function. A portion of this funding (\$0.2 million) was used to develop the associated software. The remainder of the equity funding, along with the higher than expected operating surplus, resulted in appropriation receivables being higher than expected for 2014-15.	Trade and other receivables Intangibles Contributed equity Retained surplus

Part 4: Financial statements

Cash Flow Statement

for the period ended 30 June 2015

	Actual	Budget estimate	Variance ²
	2015	Original ¹	2015
	\$	\$	\$
OPERATING ACTIVITIES			
Cash received			
Appropriations	2,528,902	3,329,000	(800,098)
Net GST received	56,829	-	56,829
Total cash received	2,585,731	3,329,000	(743,269)
Cash used			
Employees	1,709,107	2,436,000	(726,893)
Suppliers	807,811	893,000	(85,189)
Total cash used	2,516,918	3,329,000	(812,082)
Net cash from (used by) operating activities	68,813	-	68,813
INVESTING ACTIVITIES			
Cash used			
Purchase of intangibles	256,098	30,000	226,098
Total cash used	256,098	30,000	226,098
Net cash from (used by) investing activities	(256,098)	(30,000)	(226,098)
FINANCING ACTIVITIES			
Cash received			
Contributed equity	256,098	30,000	226,098
Total cash received	256,098	30,000	226,098
Net cash from (used by) financing activities	256,098	30,000	226,098
Net increase (decrease) in cash held	68,813	-	68,813
Cash at the beginning of the reporting period	45,019	98,000	(52,981)
Cash at the end of the reporting period	113,832	98,000	15,832

1. The IGT's original budgeted financial statement that was first presented to Parliament in respect of the reporting period (i.e. from the IGT's 2014-15 Portfolio Budget Statements (PBS)). The Budget is not audited.
2. Between the actual and original budgeted amounts for 2015. Explanations of major variances (that are greater than +/- 10% of the original budget for a line item and greater than +/- \$0.2 million) are provided below.

Explanations of major variances	Affected line items
The net change in cash during 2014-15 was \$0.07 million higher than the balanced position in the original budget. The change was predominantly driven by the drawdown of funds on 30 June 2015 to meet payment requirements on 1 July 2015, which increased cash holdings at 30 June 2015.	Net increase/(decrease) in cash

PART 5: OTHER INFORMATION

WORK HEALTH AND SAFETY

The IGT office fosters and maintains a safe and healthy working environment in accordance with the *Work Health and Safety Act 2011* (WHS Act). During 2014–15, the IGT received no accident and incident reports. No notices were given under sections 90, 191 or 195 of the WHS Act.

INFORMATION PUBLICATION SCHEME

Agencies subject to the FOI Act are required to publish information as part of the Information Publication Scheme (IPS). This requirement is set out in Part II of the FOI Act so that each agency must include on its website a plan showing what information it publishes in accordance with the IPS requirements.

The IGT's IPS plan can be found at www.igt.gov.au.

ADVERTISING AND MARKET RESEARCH

The IGT's advertising costs for reporting purposes are outlined in the table below:

Table 10: Advertising costs for 2014–15

Purpose	Vendor	Cost (\$)
Business advertising	Mitchell and Partners Australia Pty Ltd	1,080
Total		1,080

The IGT incurred the above non-campaign advertising costs to alert members of the public of the transfer of complaints function to the IGT. No market research costs were incurred during 2014–15.

ECOLOGICALLY SUSTAINABLE DEVELOPMENT AND ENVIRONMENTAL PERFORMANCE

The IGT office pursues measures to improve its overall environmental performance. The owner of the leased office premises has active energy, waste management and water conservation strategies. The IGT recycles paper and cardboard products.

The IGT reports to Government annually on the agency's energy performance.

DISCRETIONARY GRANTS

No discretionary grant programmes are administered by the IGT.

LIST OF REQUIREMENTS

Description	Requirement	Page/s
Introduction		
Letter of transmittal	Mandatory	iii
Table of contents	Mandatory	v–vi
Index	Mandatory	91
Glossary	Mandatory	89–90
Contact officer(s)	Mandatory	ii
Internet home page address and Internet address for report	Mandatory	ii
Review by Agency Head		
Review by Agency Head	Mandatory	1–13
Summary of significant issues and developments	Suggested	1–11
Overview of agency's performance and financial results	Suggested	1–18
Outlook for following year	Suggested	8–10, 12–13
Significant issues and developments – portfolio	Portfolio departments – suggested	N/A
Agency overview		
Role and functions	Mandatory	14
Organisational structure	Mandatory	16
Outcome and programme structure	Mandatory	15
Where outcome and programme structures differ from PB Statements/PAES or other portfolio statements accompanying any other additional appropriation bills (other portfolio statements), details of variation and reasons for change	Mandatory	N/A
Portfolio structure	Portfolio departments mandatory	N/A
Report on Performance		
Review of performance during the year in relation to programmes and contribution to outcomes	Mandatory	19–27
Actual performance in relation to deliverables and KPIs set out in PB Statements/PAES or other portfolio statements	Mandatory	20–27
Where performance targets differ from the PBS/PAES, details of both former and new targets, and reasons for the change	Mandatory	N/A
Narrative discussion and analysis of performance	Mandatory	19–27
Trend information	Mandatory	2–10, 24–25
Significant changes in nature of principal functions/services	Suggested	1–3
Performance of purchaser/provider arrangements	If applicable, suggested	N/A

Description	Requirement	Page/s
Factors, events or trends influencing departmental performance	Suggested	2–3, 12–13
Contribution of risk management in achieving objectives	Suggested	29–32
Performance against service charter customer service standards, complaints data, and the agency's response to complaints	If applicable, mandatory	N/A
Discussion and analysis of the agency's financial performance	Mandatory	27
Discussion of any significant changes in financial results from the prior year, from budget or anticipated to have a significant impact on future operations.	Mandatory	N/A
Agency resource statement and summary resource tables by outcomes	Mandatory	17–18
Management and Accountability		
Corporate governance		
Agency heads are required to certify their agency's actions in dealing with fraud.	Mandatory	iii
Statement of the main corporate governance practices in place	Mandatory	29–32
Names of the senior executive and their responsibilities	Suggested	iii, 16
Senior management committees and their roles	Suggested	29–30
Corporate and operational plans and associated performance reporting and review	Suggested	30
Internal audit arrangements including approach adopted to identifying areas of significant financial or operational risk and arrangements to manage those risks	Suggested	32
Policy and practices on the establishment and maintenance of appropriate ethical standards	Suggested	32
How nature and amount of remuneration for SES officers is determined	Suggested	33–34
External scrutiny		
Significant developments in external scrutiny	Mandatory	30
Judicial decisions and decisions of administrative tribunals and by the Australian Information Commissioner	Mandatory	30
Reports by the Auditor-General, a Parliamentary Committee, the Commonwealth Ombudsman or an agency capability review	Mandatory	30
Management of Human Resources		
Assessment of effectiveness in managing and developing human resources to achieve departmental objectives	Mandatory	33–35
Workforce planning, staff retention and turnover	Suggested	34–35
Impact and features of enterprise or collective agreements, individual flexibility arrangements (IFAs), determinations, common law contracts and Australian Workplace Agreements (AWAs)	Suggested	33–34
Training and development undertaken and its impact	Suggested	34

Description	Requirement	Page/s
Work health and safety performance	Suggested	83
Productivity gains	Suggested	N/A
Statistics on staffing	Mandatory	35, 37
Statistics on employees who identify as Indigenous	Mandatory	37
Enterprise or collective agreements, IFAs, determinations, common law contracts and AWAs	Mandatory	33–34
Performance pay	Mandatory	33–34
Assets management		
Assessment of effectiveness of assets management	If applicable, mandatory	36
Purchasing		
Assessment of purchasing against core policies and principles	Mandatory	35
Consultants		
The annual report must include a summary statement detailing the number of new consultancy services contracts let during the year; the total actual expenditure on all new consultancy contracts let during the year (inclusive of GST); the number of ongoing consultancy contracts that were active in the reporting year; and the total actual expenditure in the reporting year on the ongoing consultancy contracts (inclusive of GST). The annual report must include a statement noting that information on contracts and consultancies is available through the AusTender website.	Mandatory	36
Australian National Audit Office Access Clauses		
Absence of provisions in contracts allowing access by the Auditor-General	Mandatory	37
Exempt contracts		
Contracts exempted from publication in AusTender	Mandatory	37
Small business		
Procurement initiatives to support small business	Mandatory	35–36
Financial Statements		
Financial Statements	Mandatory	39–82
Other Mandatory Information		
Work health and safety (Schedule 2, Part 4 of the <i>Work Health and Safety Act 2011</i>)	Mandatory	83
Advertising and Market Research (Section 311A of the <i>Commonwealth Electoral Act 1918</i>) and statement on advertising campaigns	Mandatory	83
Ecologically sustainable development and environmental performance (Section 516A of the <i>Environment Protection and Biodiversity Conservation Act 1999</i>)	Mandatory	84
Compliance with the agency's obligations under the <i>Carer Recognition Act 2010</i>	If applicable, mandatory	N/A
Grant programmes	Mandatory	84

Description	Requirement	Page/s
Disability reporting – explicit and transparent reference to agency-level information available through other reporting mechanisms	Mandatory	38
Information Publication Scheme statement	Mandatory	83
Correction of material errors in previous annual report	If applicable, mandatory	N/A
Agency Resource Statements and Resources for Outcomes	Mandatory	17–18
List of Requirements	Mandatory	85–88

GLOSSARY

Activities	The actions/functions performed by agencies to deliver government policies.
Appropriation	An amount of public money that Parliament authorises for spending (that is, funds to be withdrawn from the Consolidated Revenue Fund). Parliament makes laws for appropriating money under the Annual Appropriation Acts and under Special Appropriations, with spending restricted to the purposes specified in the Appropriation Acts.
Consolidated Revenue Fund	The principal operating fund from which money is drawn to pay for the activities of the Government. Section 81 of the Australian Constitution provides that all revenue raised or monies received by the Executive Government forms one consolidated revenue fund from which appropriations are made for the purposes of the Australian Government.
Corporate governance	<p>The process by which agencies are directed and controlled. It is generally understood to encompass authority, accountability, stewardship, leadership, direction and control.</p> <p><i>Public Governance, Performance and Accountability Act 2013 (PGPA Act)</i></p> <p>The <i>Public Governance, Performance and Accountability Act 2013</i> replaced the <i>Financial Management and Accountability Act 1997</i> and the <i>Commonwealth Authorities and Companies Act 1997</i> on 1 July 2014. As the primary piece of Commonwealth resource management legislation, the PGPA Act establishes a coherent system of governance and accountability for public resources, with an emphasis on planning, performance and reporting.</p> <p>The PGPA Act applies to all Commonwealth entities and Commonwealth companies. A list of Commonwealth entities and companies can be found at: www.finance.gov.au/sites/default/files/pgpa_flipchart.pdf?v=2.</p>
IGT website	The IGT website can be found at www.igt.gov.au .
Operations	The functions, services and processes performed in pursuing the objectives or discharging the functions of an agency.
Outcomes	The results, impacts or consequence of actions by the Commonwealth on the Australian community.
Portfolio Budget Statements (PBS)	The Budget related papers detailing budget initiatives and explanations of appropriations specified by outcome and program by each agency within a portfolio.
Programmes	An activity or groups of activities that deliver benefits, services or transfer payments to individuals, industry/business or the community as a whole and are the primary vehicles for government agencies to achieve the intended results of their outcome statements.

SHORTENED FORMS

AA	Accountable Authority
AAI	Accountable Authority's Instructions
AAT	Administrative Appeals Tribunal
ATSI	Aboriginal and Torres Strait Islander
ADR	alternative dispute resolution
ANAO	Australian National Audit Office
APS	Australian Public Service
ATO	Australian Taxation Office
CFO	Chief Finance Officer
Commissioner	Commissioner of Taxation
Committee	House of Representatives Standing Committee on Tax and Revenue
CPRs	Commonwealth Procurement Rules
EL1	Executive Level 1
ESL	English as a Second Language
Federal Court	Federal Court of Australia
FOI Act	<i>Freedom of Information Act 1982</i>
GST	Goods and Services Tax
HWI	high wealth individual
IGT	Inspector-General of Taxation
IGT Act	<i>Inspector-General of Taxation Act 2003</i>
IPS	Information Publication Scheme
IT	Information Technology
OECD	Organisation for Economic Co-operation and Development
Ombudsman	Commonwealth Ombudsman
PGPA Act	<i>Public Governance, Performance and Accountability Act 2013</i>
SES	Senior Executive Service
SLA	Service Level Agreement
SMEs	Small and Medium Enterprises
Tax Practitioners	Tax agents and business activity statement agents
TPB	Tax Practitioners Board
TFN	Tax File Number
WHS Act	<i>Work Health and Safety Act 2011</i>

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