Inspector-General of Taxation

Annual Report 2004-05

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ENQUIRIES

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10 October 2005

The Hon Mal Brough MP
Minister for Revenue and Assistant Treasurer
Parliament House
Canberra ACT 2600

Dear Minister

I have pleasure in presenting to you the Annual Report of the Inspector-General of Taxation for the year ended 30 June 2005. The Report has been prepared in accordance with section 41 of the *Inspector-General of Taxation Act 2003.*

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

Yours sincerely

David Vos

David R Vos AM
Inspector-General of Taxation

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PART 1: OVERVIEW

REVIEW BY THE INSPECTOR-GENERAL OF TAXATION

Completion of the year ended 30 June 2005 brings me close to my second anniversary as Inspector-General of Taxation. The role of the Inspector-General is to review perceived systemic problems or opportunities for improvement in tax administration and to provide advice to the Government on those reviews. As at 30 June 2005, I had completed a scoping study and formal reviews into the following topics:

- Remission of the General Interest Charge for Groups of Taxpayers in Dispute with the Tax Office (Report to Minister, 5 August 2004);
- Tax Office Administration of GST Refunds Resulting in the Lodgment of Credit BASs (Report to Minister, 19 January 2005);
- Tax Office's Small Business Debt Collection Practices (Report to Minister, 12 April 2005);
- Tax Office's Administration of Penalties and Interest Arising from Active Compliance Activities (Report to Minister, 18 May 2005); and
- Tax Office Audit Timeframes (Report to Minister, 19 July 2005).

Also, at 30 June 2005, a review of the Tax Office's administration of its litigation program, including the Test Case program, was well underway.

These reviews, conducted formally under the *Inspector-General of Taxation Act 2003*, and their outcomes, combined with feedback from community stakeholders, provide clear evidence that the role of the Inspector-General is working well and is very effective in improving tax administration for the benefit of all taxpayers.

Interaction between the Inspector-General and the Commissioner of Taxation

I am currently satisfied with the support my Office is getting from the Tax Office. This situation is the product of experience since this Office was established and the mutual recognition that a positive relationship is essential where our roles require us to work constantly together. Maintaining an open and positive relationship is especially important where the Inspector-General's role necessarily includes reviewing circumstances where the Tax Office is perceived to have gone off the tracks or can better manage the impact of its operations on the community. While the overall Tax Office agenda is very broad, we do have a common aim of improving tax administration in Australia. This common aim underpins a good working relationship.

It has become apparent to me that when the Commissioner becomes aware of my intention to undertake a formal review, the Tax Office begins to focus internally on that area. When formal reviews do eventuate and outcomes are reported, it therefore comes as no surprise that many of the issues encountered often are in the course of being internally examined. Where improvement is required, steps are often underway to move in that direction. I see this responsiveness as very positive. Combined with frank and open liaison during the progress of a review (which both Offices have promoted), it creates an environment of 'no surprises' and often leads to improvements being implemented earlier than they might have been. With very few exceptions, the Tax Office has accepted my recommendations for improvement arising from formal reviews.

While my review intentions clearly are not the only prompt for Tax Office improvement initiatives, during the year I have noticed with interest the following Tax Office actions which have coincided with announcements of formal reviews:

- implementing benchmark timeframes in Tax Office active compliance areas for the completion of business audits and enhanced escalation processes for aged cases after we announced the audit timeframes review;
- streamlining the risk review of GST refunds to speed up processing after we announced the GST refunds review; and
- re-vamping the Test Case Program guidelines and developing litigation practice statements in the course of the review of litigation management.

In addition to formal reviews, there is a fairly constant exchange between my Office and the Tax Office on matters raised by the community or other sources that require exploration as potential issues for review. Through this process, I have found during the year that much can be achieved in line with my role through less formal interaction with the Tax Office. The Tax Office has responded positively to these initial lines of inquiry and again may begin to focus on the area in anticipation of a potential formal review.

Examples of issues which have been the subject of dialogue with the Tax Office, but which have not as yet resulted in a formal review, include the Research and Development syndication arrangements, the service trust compliance approach and the widely-based settlement panel proposed by the Tax Office in connection with resolving remaining mass-marketed schemes cases.

Public sector stakeholders

The Commonwealth Auditor-General and the Commonwealth Ombudsman also scrutinise the Tax Office. However, feedback from private sector stakeholders indicates that they appreciate and see as important the distinct focus on systemic issues of administration and impacts on the community. I meet regularly with these public sector stakeholders both as required by the law and to benefit from the different perspectives of tax administration and the Tax Office.

In the course of the year, I have also had ongoing involvement with senior Treasury personnel, providing input on such matters as the *Report on Aspects of Income Tax Self Assessment* (RoSA). I also have ongoing contact with the Board of Taxation.

Community and private sector stakeholders

I have enjoyed a positive and cooperative ongoing relationship with all of our private sector stakeholders (refer Table 3). The role of the Inspector-General is largely dependent on the freely given supply of information from the private sector and I spent considerable time seeking to maintain good relationships with these organisations. This has led me and others in my Office to present many speeches throughout the year. These are set out in Table 2.

I meet with private sector stakeholders at least twice a year to consult with them in respect of my ongoing work program. I consult with them throughout the various reviews undertaken by my Office and at other times when necessary.

The willingness of professional and business associations in particular, and members of the community to provide their time and effort in both bringing matters to my attention and in assisting with my reviews well demonstrates their appreciation of my role and responsibilities.

Overseas study trip

In late April/early May 2005 the then Deputy Inspector-General, Steve Chapman and I visited a number of countries. We had meetings with senior officials in the revenue agencies of the United Kingdom, United States of America and Canada. As well, we had meetings with senior officials of the OECD in Paris, the IMF in Washington DC and the Adjudicator's Office (UK). In addition, we had meetings with the Treasury Inspector General for Tax Administration (US) and his senior staff and the National Taxpayer Advocate (US) and her senior staff.

It was very interesting to note the high regard the Australian Tax Office is held in by other revenue agencies.

The representatives of the overseas revenue agencies and the senior officials of the OECD believe that the Tax Office leads in its approaches to managing risk in the area of tax compliance. The Tax Office is almost the only OECD revenue agency to publish an annual compliance program. Australia is also regarded as one of the best at interfacing with taxpayers electronically.

Themes identified during our visits are as follows:

- The growth of small business tax debt is an increasing concern in all countries.
- Small business non-compliance is growing.
- The use of tax havens and aggressive tax planning by global businesses is surfacing as an ever increasing risk to revenue. Transfer pricing is of concern in every country.
- The administration of tax credits and social welfare payments by tax authorities is an ongoing problem leading to many complaints.
- The quality of services provided by tax preparers is of concern in many countries. Many are unregistered and tax authorities are always striving to improve the standard and governance of the preparers.
- Tax authorities are finding it difficult to manage community expectations in closing the perceived tax shortfall disclosed by publishing the estimated 'tax gap' in certain countries.

Issues and changes in tax administration

Completion of formal reviews, involvement with the Tax Office and other Commonwealth agencies, regular liaison with community stakeholders and learning from overseas administrations enables me to identify some underlying issues that have been apparent in 2004–05. It is also important to recognise in that context some of the significant changes underway that will influence both tax administration and my work program into the future.

Issues

Differentiation

A consistent underlying issue emerging from a number of our formal reviews has been that the Tax Office continues to construct some compliance strategies with an undue bias towards administrative efficiency at the expense of sufficiently individualised treatment of taxpayers. Reviews into small business debt collection and into GST refund administration provide examples and made specific recommendations in this area.

A key element of the Tax Office's business model is that with its limited resources it aims to administer the tax system by tailoring its approaches in ways that differentiate its compliance responses on the basis of taxpayer circumstances, behaviour and risk profiles. However, where the Tax Office merely 'ramps up' resources in an area and fails to identify key demographics, or sufficiently disaggregate those demographics, the Tax Office may miss opportunities to devise strategies that get closer towards providing sufficiently tailored treatments with its limited resources. This approach continues to expose the Tax Office to community criticisms that it takes a largely 'one size fits all' approach. The transparency with which the Tax Office carries out its operational activities in these areas and, in appropriate circumstances, its strategy development appear to fuel further these community criticisms.

Timeliness and certainty

In a self assessment system, taxpayers have a right to a high level of certainty where they seek in good faith to voluntarily comply and with a reasonable understanding of the tax laws. Clearly it is the responsibility of the Commissioner to act promptly and decisively when the Tax Office becomes aware that taxpayers may be in conflict with the Tax Office's view.

The Tax Office has introduced various measures to redress deficiencies in its approaches to issues. However, concern remains, backed up by examples, that the Tax Office still appears unable to move quickly and to provide certainty to taxpayers when major, complex issues arise. Linked with the issue of a lack of differentiation mentioned above, concerns extend to the level of certainty that is finally provided when the Tax Office does respond. Many taxpayers have told me that the Tax Office has effectively 'changed its mind' or, alternatively, has merely been tardy in reacting to market intelligence and expressing its view to individual taxpayers or taxpayers at large.

Compliance costs

In a self assessment system, if all taxpayers were compliant the role of the Tax Office would be minimalist — to deal with the lodgment obligations and the collection of tax as it fell due. While the Tax Office puts a great deal of effort into educating and helping taxpayers to voluntarily meet their tax obligations, most of its resources are allocated to active compliance and debt collection activities including lodgment and payment monitoring. This is a sad testimony to the fact that a significant number of 'taxpayers' engage in aggressive tax planning or simply avoid tax. Further, there are taxpayers who have voluntarily complied with their tax liabilities but who fall behind in paying their tax.

To an extent, costs are to be expected as a necessary part of regulation. However, stakeholder discussions are increasingly drawing attention to the unnecessary costs and unproductive intrusion upon compliant taxpayers and their agents where Tax Office active compliance efforts are poorly focused.

Compliance dynamics

Notwithstanding the high proportion of its resources allocated to active compliance, the Tax Office is not resourced to keep every aspect of the tax system up to par all of the time. It must make risk management choices that result in some compliance work not being done. Lower risk, smaller amount cases, particularly in debt and lodgment areas, are passed over or receive scant attention, but remain on the books. An issue behind a number of Inspector-General reviews this year is that over time, these cases accumulate into big compliance problems involving large numbers of taxpayers.

It is worth noting that this dynamic exists. Recurring Tax Office compliance campaigns, such as the amnesties of the past and the more recent small business debt initiative and lodgment compliance focus, are the resultant catch-up strategies that can generate angst and further issues for review.

The challenge for me is to work with the Tax Office to ensure that these campaigns are designed around a good appreciation of taxpayer demographics and individual circumstances so that they can deliver fair outcomes for all involved.

Changes

Progressive implementation of new laws and changes to Tax Office approaches aimed at giving effect to the recommendations of the Treasury *Report on Aspects of Income Tax Self Assessment* (RoSA) should cool some longstanding hotspots in the self assessment system as it has operated in the past. Shorter periods for the Tax Office to raise and review compliance issues, the introduction of the shortfall interest charge, and greater scope for the Tax Office to provide binding advice should considerably improve fairness and certainty, and reduce some of the anguish caused to taxpayers caught up in Tax Office audit activities covering a number of prior years.

Significant other changes are foreshadowed such as the introduction of promoter penalties laws and refinements to the regulatory arrangements for tax agents. Combined with the implementation of the RoSA recommendations, these changes will create a markedly different and, in my view, improved tax administration framework for the future.

Statutory statements

Pursuant to subsection 41(2) of the *Inspector-General of Taxation Act 2003* there were no directions to undertake reviews given by the Treasurer or the Minister for Revenue and Assistant Treasurer to the Inspector-General under subsection 8(2) of the *Inspector-General of Taxation Act 2003* during the year.

In setting my work program, I have taken into account the requirements of subsection 9(2) of the *Inspector-General of Taxation Act 2003* and have consulted with the Commonwealth Ombudsman and the Commonwealth Auditor-General.

Staffing

The Office of the Inspector-General has enjoyed ongoing consistent staff retention.

However during the year one adviser chose to leave to take up a senior position in the Tax Office and the Deputy Inspector-General of Taxation, Steve Chapman, was promoted to the role of Deputy Auditor-General on 11 July 2005.

I am pleased to report that Rick Matthews PSM, previously a First Assistant Commissioner in the Tax Office was appointed to the position of Deputy Inspector-General from 18 July 2005. I am grateful for very competent and loyal staff who are keen to work with me in seeking to improve tax administration for the benefit of all taxpayers in an environment where we have very limited resources at our disposal.

Looking forward to the future

There is still much to be done. The sheer size and diversity of the Tax Office and of the tax laws themselves leaves me with absolutely no doubt that there will be ongoing tax administration issues requiring my attention, investigation and reporting to Government.

I am grateful to the ongoing support of private and public sector stakeholders. I look forward to continuing to make a contribution to the improvement of tax administration in Australia working with the Commissioner to improve process, procedures and to minimise waste of effort and other things which that can bring on a level of anguish, concern and cost to taxpayers in the community as a whole.

In setting my ongoing work program I will give high priority to the views of the community and will continue to foster and develop strong relationships with the representative business, accounting, legal and tax organisations.

My staff and I will continue to bring together an empathy with taxpayers and an understanding of Tax Office operational issues to ensure that significant and workable improvements in tax administration are achieved.

David Vos AM
Inspector-General of Taxation

CORPORATE STATEMENT

Role, function, outcome and output structure

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

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

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

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

Figure 1: Outcome and output structure

Inspector-General of Taxation

Inspector-General: Mr David Vos AM

Overall Outcome

Strong, sustainable economic growth and the improved wellbeing of Australians

Outcome 1

Improved administration of tax laws for the benefit of all taxpayers

Total price of outputs: $2.149 million
Agency outcomes appropriation: $2.149 million

Output Group 1.1

Inspector-General of Taxation

Output 1.1.1

Identification of issues for review and prioritisation of work program

Output 1.1.2

Provision of independent advice to the government on the administration of the tax laws

Figure 2: Inspector-General of Taxation management structure

Inspector-General of Taxation: David Vos AM

Deputy Inspector-General of Taxation: Steve Chapman
(Rick Matthews PSM appointed 18 July 2005)

- 2 Senior Advisers
- 1 Adviser
- 1 Executive Assistant

Inspector-General of Taxation services

The Inspector-General is an independent adviser to the Government on systemic issues in the administration of the tax laws.

All reports by the Inspector-General to the Government are required to be either tabled in both Houses of Parliament or to be made otherwise public by the Government.

Key skills

The Inspector-General and his Office need a range of skills to deliver to the Government the services required. These include:

- a broad understanding of the tax laws;
- a broad understanding of the business environment;
- investigative and analysis skills to identify and understand systemic issues in tax administration;
- a capacity to conceptualise and analyse systemic issues within the broad tax context;
- relationship skills to develop and maintain excellent relationships with both public sector and private sector stakeholders; and
- writing skills — the ability to present facts, argument and suggested solutions in a cogent form on systemic tax administration issues.

Key relationships

For the Inspector-General to be effective in his role, he and his Office must foster productive working relationships across government, public sector stakeholders (particularly the Commissioner of Taxation and his Office) and private sector stakeholders.

Although independent of both the Government and the Commissioner of Taxation, the Inspector-General must have an understanding of overall government policies and the role and activity of the Commissioner of Taxation. The main public sector stakeholders are the Commonwealth Auditor-General, the Commonwealth and Taxation Ombudsman, the Commissioner of Taxation, the Treasury and the Board of Taxation. Private sector stakeholders include those set out in Table 3.

Table 1: Resources for Inspector-General of Taxation outcomes

	Budget 2004-05 $'000	Actual 2004-05 $'000	Budget 2005-06 $'000
Revenue from Government			
Output Group: Inspector-General of Taxation			
Output 1.1.1 - Identification of issues for review and prioritisation of work program	108	108	107
Output 1.1.2 - Provision of independent advice to the Government on the administration of the tax laws	2,046	2,046	2,042
Total revenue from Government contributing to the price of departmental outputs	**2,154**	**2,154**	**2,149**
Revenue from other sources			
Output Group: Inspector-General of Taxation			
Output 1.1.1 - Identification of issues for review and prioritisation of work program	-	4	-
Output 1.1.2 - Provision of independent advice to the Government on the administration of the tax laws	-	76	-
Total revenue for departmental outputs (Total revenues from Government and other sources)	**-**	**2,234**	**-**
Price of departmental outputs			
Output Group: Inspector-General of Taxation			
Output 1.1.1 - Identification of issues for review and prioritisation of work program	108	90	107
Output 1.1.2 - Provision of independent advice to the Government on the administration of the tax laws	2,046	1,718	2,042
Total price of departmental outputs	**2,154**	**1,808**	**2,149**
Total estimated resourcing (Total price of outputs and administered expenses)	-	**426**	-
Average staffing level (number)	**7**	**6**	**6**

PART 2:
PERFORMANCE REPORT

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

The role of the Inspector-General of Taxation is to improve the administration of the tax laws for the benefit of all taxpayers.

This is to be achieved by reviewing both the systems established by the Tax Office to administer the tax laws and the systems established by tax laws in relation to administrative matters.

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

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

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

Broad-based community involvement in the identification of issues and the opportunity for all stakeholders to provide submissions ensure that reviews undertaken are relevant and timely for all stakeholders. In view of this, the Inspector-General requires the flexibility to vary review priorities so as to allow emerging and important systemic issues to be addressed in a manner that is timely and relevant to government.

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

The way in which the Inspector-General's advice to government contributes to the achievement of the outcome of improved administration of tax laws may be difficult to assess. In some instances, the provision of advice to government may lead to legislative change to address an identified systemic issue. However, on other occasions the Commissioner of Taxation may independently address a systemic issue identified by the Inspector-General either during a review, following the release of a review report by the Minister or the publication of an issues paper or work program by the Inspector-General.

OUTPUT 1.1.1

IDENTIFICATION OF ISSUES FOR REVIEW AND PRIORITISATION OF WORK PROGRAM

The Inspector-General is required to establish his own work program. He must take into account any directions from the government to undertake a particular review. The Inspector-General must also consult with the Commonwealth Auditor-General and the Commonwealth Ombudsman to avoid overlap of work. The Inspector-General has chosen to consult widely with business, accounting, legal and tax organisations in setting his work program. As well, he has published a framework for review selection — refer Issues Paper Number 2 *Policy Framework for Review Selection*.

Performance information

The performance information of Output 1.1.1 is as follows:

- broad-based community involvement in the identification of systemic issues in the administration of tax laws; and
- reviews undertaken are relevant and timely for the government and other stakeholders.

Key activities in 2004-05

The Inspector-General of Taxation undertook the following key activities for Outcome 1.1.1:

- developed a work program based on regular consultation and ongoing contact with key business, accounting, legal and tax organisations;
- developed strong links with both public sector stakeholders and private sector stakeholders; and
- completed a number of reviews and reported to the Government on those reviews.

Key outcomes in 2004-05

Wide-ranging consultation has been completed to assist both in the development of a work program and the conduct of the reviews initiated by the Inspector-General. A schedule of private sector organisations with which regular contact has been made is at Table 3. A significant number of other organisations have also been consulted.

Speakers have been provided for key business, tax, accounting and legal conferences, and other opportunities have been taken to meet with taxpayers and their advisers. This has enabled the Inspector-General to share information on the direction of the work program and to obtain input on the issues to be considered in reviews initiated during the 2004-05 year. A list of key speaking engagements is at Table 2.

During 2004-05, the Inspector-General has completed five reviews into issues identified through consultation as relevant to stakeholders:

- Remission of the General Interest Charge for Groups of Taxpayers in Dispute with the Tax Office (Report to Minister, 5 August 2004);
- Tax Office Administration of GST Refunds Resulting in the Lodgment of Credit BASs (Report to Minister, 19 January 2005);
- Tax Office's Small Business Debt Collection Practices (Report to Minister, 12 April 2005);
- Tax Office's Administration of Penalties and Interest Arising from Active Compliance Activities (Report to Minister, 18 May 2005); and
- Tax Office Audit Timeframes (Report to Minister, 19 July 2005).

Also, at 30 June 2005, a review of the Tax Office's management of its litigation program, including the Test Case program, was well underway.

These reviews have been timely in that they were undertaken within fairly short timeframes following consultation. They have also been reported to Government in a timely manner following their completion and following the statutory period for the Taxation Office to provide comment.

Table 2: Key speaking engagements

Date	Organisation	Type of function	Location
19 July 2004	PricewaterhouseCoopers	Dinner	Sydney
22 July 2004	KPMG	Partner/Client Lunch	Brisbane
11 August 2004	KPMG	Partner/Client Lunch	Adelaide
12 August 2004	College of Law, Sydney	Continuing Legal Education Seminar	Sydney
19 August 2004	Tax Committee, Law Council of Australia (Victorian Branch)	Monthly Committee Meeting	Melbourne
20 August 2004	CPA Australia	President's Boardroom Luncheon	Melbourne
28 August 2004	National Institute of Accountants	Annual Strategic Workshop — Divisional Presidents & Board of Directors	Melbourne
21 September 2004	CPA Australia	CPA/PwC Australia Dinner	Canberra
16 October 2004	Law Council of Australia	Workshop/Conference	Canberra
18 October 2004	Capital Partners Pty Ltd	Presentation	Sydney
23 October 2004	HLB Mann Judd	Practicing Accountants Inaugural Forum	Lorne, Vic
12 November 2004	Pitcher Partners	Critical Point Network Seminar	Melbourne
20 November 2004	Taxpayers Australia & World Taxpayers Association	Conference	Gold Coast
1 January 2004	Council of Small Business Organisations of Australia Ltd	National Executive	Canberra
14 December 2004	Macquarie Taxation Discussion Group	Dinner	Sydney
7 February 2005	3rd Annual Australian Taxation Summit	Conference	Sydney
16 March 2005	Institute of Chartered Accountants in Australia	CA Country Congress 2005	Coffs Harbour, NSW
13 April 2005	Peninsula Professional Peer Group	Tax Agent Group	Brookvale, NSW
27 May 2005	CPA Australia	NSW Public Practitioners' Conference 2005	Terrigal, NSW
14 June 2005	Sydney University	Tax Administration Course	Sydney

Table 3: Private sector stakeholders

Australian Industry Group
Australian Business Limited
Australian Chamber of Commerce and Industry
Business Coalition for Tax Reform
Business Council of Australia
Corporate Tax Association
Council of Small Business Organisations of Australia Limited
CPA Australia
Institute (The) of Chartered Accountants in Australia
Law Council of Australia
Law Society of NSW
Law Society of Western Australia
Law Institute of Victoria
National Institute of Accountants
National Tax & Accountants' Association Ltd
Small Business Coalition
State Chamber of Commerce (NSW)
Taxation Institute of Australia
Taxpayers Australia

OUTPUT 1.1.2
PROVISION OF INDEPENDENT ADVICE TO THE GOVERNMENT ON THE ADMINISTRATION OF THE TAX LAWS

The Inspector-General undertakes reviews into particular systemic issues in the administration of tax laws in accordance with his work program. The approach and processes associated with the conduct of the review are determined by the Inspector-General, and there are no time restraints. The report, outlining findings resulting from the review, is submitted to the Government after providing the Commissioner of Taxation with the opportunity to provide comments. However, once the Inspector-General has given his report to the Government, the Government must publish the Inspector-General's report, either by tabling in both Houses of the Parliament or otherwise within 25 sitting days of receipt.

Performance information

The performance information of Output 1.1.2 is as follows:

- reports, undertaken in accordance with required processes, are of a high standard, timely and useful to government; and
- findings and recommendations achieve improved administration.

Key outcomes

During 2004 - 2005, the Inspector-General has completed the following reviews:

- Remission of the General Interest Charge for Groups of Taxpayers in Dispute with the Tax Office (Report to Minister, 5 August 2004);
- Tax Office Administration of GST Refunds Resulting in the Lodgment of Credit BASs (Report to Minister, 19 January 2005);
- Tax Office's Small Business Debt Collection Practices (Report to Minister, 12 April 2005);
- Tax Office's Administration of Penalties and Interest Arising from Active Compliance Activities (Report to Minister, 18 May 2005); and
- Tax Office Audit Timeframes (Report to Minister, 19 July 2005).

Also, at 30 June 2005, a review of the Tax Office's management of its litigation program, including the Test Case program, was well underway.

The Commissioner of Taxation has accepted the majority of the recommendations of completed reviews. The outcomes of these reviews, combined with feedback from community stakeholders, provide clear evidence that the role of the Inspector-General is working well and is very effective in improving tax administration for the benefit of all taxpayers.

PART 3:
MANAGEMENT AND ACCOUNTABILITY

CORPORATE GOVERNANCE

In 2004-05 the Inspector-General of Taxation instituted appropriate governance arrangements. This process was greatly assisted by being able to adopt many of the well-established policies and processes in place in the Treasury.

The Inspector-General of Taxation has two distinct roles. As the public office holder he reports, and is accountable to, the Minister for Revenue and Assistant Treasurer and, as well, the Treasurer for meeting his statutory role. As the Chief Executive Officer of the Office of the Inspector-General (the agency), the Inspector-General is responsible for the operation and performance of the operation of his Office.

The corporate governance practices of the Office of the Inspector-General are designed to take into account that the agency is quite small and that it is inextricably linked with the governance processes of the Treasury. This is as a result of the service level agreement entered into by the two agencies. The Inspector-General as Chief Executive Officer and the Deputy Inspector-General as the Chief Financial Officer together act as the agency Executive. They have developed a full range of governance policies and procedures appropriate to the situation of the agency comprising only six or seven people in a single office location, performing a function of conducting reviews and reporting exclusively to Government.

Audit committee

Pursuant to section 46 of the *Financial Management and Accountability Act 1997*, the Inspector-General is continuing to pursue the establishment of an audit committee. Because of the size of the agency, the nature of its operations and administrative expenditure, the predominance of services provided to the Inspector-General by Treasury and its recent establishment, the audit committee arrangement is still evolving. Discussions have been held with the Australian National Audit Office and Treasury on arrangements appropriate to the size, nature and risk profile of the Office of the Inspector-General and further advice will be taken.

Remuneration Committee

The Inspector-General and the Deputy Inspector-General comprise the Remuneration Committee. The Inspector-General has entered into Australian Workplace Agreements (AWAs) with all employees which provide for performance and remuneration review processes.

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

Corporate planning and reporting

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

Administratively, the agency draws heavily on the facilities of the Treasury under a formal service level agreement. All day-to-day account processing is undertaken by Treasury utilising the Treasury accounting system infrastructure. However, a financial controller (part-time) is employed on a contract basis and reports directly to the Chief Financial Officer (Deputy Inspector-General).

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

Risk management

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

- Chief Executive Instructions provide the policy and procedural framework for financial management in the Inspector-General's office and put into effect the requirements of the *Financial Management and Accountability Act 1997*. The Chief Executive Instructions have been based on those currently being used by Treasury.

- Physical security risk reviews continue to be arranged, and the office design and associated access security meet required standards and have been reviewed and approved by ASIO Group 4.

- Risk assessments are to be conducted annually as part of the process of applying for insurance renewal. The program is based on the Risk Management Standard AS/NZS 4360:1999 and will measure the Inspector-General's performance in implementing risk management processes and policies against the national benchmark.

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

- The IT Disaster Recovery Plan sets out the strategies and processes to restore services if a complete or partial loss of the Treasury central computing infrastructure occurs. The plan aims to restore services within an appropriate timeframe.

- Business Continuity Plans apply to all of the Treasury IT application systems. Inspector-General of Taxation staff could continue to operate effectively from temporary work locations with portable computing equipment.

- The IT Security Policy developed by Treasury addresses the requirements to protect information holdings and secure operation of the Inspector-General's IT resources. The policy is based on the protective security policies and standards in the Australian Protective Security Manual, the Draft Australian Communication Security Instruction — Electronic Security Instructions 33 (A).

- The Treasury Internet and Email Acceptable Use Policy sets out individual user's responsibilities for the appropriate use of the internet and email facilities and services. This policy refers to the Australian Public Service Values and Code of Conduct, the *Public Service Act 1999*, other relevant Australian Government legislation and the IT Security Policy.

- Website Development Standards and Guidelines are based on ISO 9001 and ACSI 33 International Standards Organisation and Defence Signals Directorate Guidelines. The standards ensure compliance with best practice in relation to website security.

- IT Change Control Guidelines are an internal IT management tool which assists with quality assurance control over proposed changes to the IT technical environment and facilities. This change control process involves reviewing proposed variations and clearing them before releasing changes in the production environment.

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

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

Ethical standards and accountability

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

The Inspector-General has taken steps to establish and maintain ethical standards through developing policies such as the Chief Executive Instructions and by actively endorsing policy documentation developed by Treasury. This includes such matters as the use of the internet email, conflict of interest guidelines, consultant engagement and management guidelines.

Senior Executive Service remuneration

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

There is one Senior Executive Service employee in the Office of the Inspector-General and he has an Australian Workplace Agreement in place.

EXTERNAL SCRUTINY

Audit

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

Internal audits

The service level agreement with the Treasury includes for provision of internal audit services. There have not been any internal audits undertaken at this time.

Reports by the Australian National Audit Office, the Ombudsman and others

The Inspector-General has participated in a number of cross-agency reviews undertaken by the Australian National Audit Office. There have not been any comments by the Commonwealth Ombudsman on matters within the Office of the Inspector-General in 2004-05.

Judicial decisions

In 2004-05, no matters relating to the Inspector-General of Taxation were the subject of judicial proceedings, tribunal hearings or consideration by the Ombudsman.

MANAGEMENT OF HUMAN RESOURCES

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

Performance management

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

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

Australian Workplace Agreements

All Inspector-General of Taxation staff are employed under Australian Workplace Agreements. The employment terms and conditions are consistent for all staff within the Office of Inspector-General of Taxation. Employment conditions and remuneration are determined by reference to the Employment Guidelines which incorporate a pay model (see Tables 5 and 6 for salary scales for SES and non-SES staff). The employment arrangements do not provide for payment of performance pay. This arrangement provides underlying consistency for all employees while providing flexibility in recognising individual circumstances.

The Inspector-General of Taxation Australian Workplace Agreements specifically reference the Australian Public Service Values in the context of setting out expected performance and behaviour.

Workplace relations

The Inspector-General consults with employees on matters in the workplace.

Recruitment and succession planning

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

Training and development

The Inspector-General's Employment Guidelines reinforce the Inspector-General's commitment to staff development. As well as providing internal staff training on an ad hoc basis, the Inspector-General financially supports individual staff members who wish to complete post-graduate courses or attend specific development opportunities. Some staff members are working towards finalising Masters studies.

Staffing information

Table 4 details the number of staff employed by the Office of Inspector-General of Taxation, by category and gender. All staff are employed under the *Public Service Act 1999*.

Table 4: Operative and paid inoperative staff by classification and gender as at 30 June 2005

Classification	Male	Female	Total
APS3		1	1
EL1	1		1
EL2	1	1	2
SES Band 2	1		1
Inspector-General	1		1
Total	**4**	**2**	**6**

Remuneration of SES staff

Table 5: Salary scales — SES

	9 September 2004	
	Minimum	Maximum
Classification	$	$
SES Band 2	147,932	177,449

Senior executives have access to a cash-out in lieu of a motor vehicle for private purposes, airline lounge membership, mobile phones, and home office facilities.

The Inspector-General of Taxation has his remuneration package determined by the Remuneration Tribunal.

Remuneration of non-SES staff

Table 6: Salary scales — non-SES

	9 September 2004	
	Minimum	Maximum
Classification	$	$
APS3	42,427	44,907
APS4	47,387	49,867
EL1	70,735	89,927
EL2	87,703	109,894

The Inspector-General may provide alternative remuneration arrangements in specific circumstances.

PURCHASING AND ASSETS MANAGEMENT

Purchasing

The Inspector-General of Taxation has adopted Treasury purchasing policies and utilises services under a service level agreement. For example, all IT purchases are undertaken by the Treasury IT Procurement Unit. These policies and procedures are consistent with the Inspector-General's Chief Executive Instructions and the Commonwealth Procurement Guidelines.

To maintain procurement expertise and procedural compliance with the guidelines, all internal procurement documentation is available to staff of the Inspector-General on the Treasury intranet.

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

Assets management

The Treasury, for and on behalf of the Inspector-General, manages both current and non-current assets in accordance with the guidelines set out in the Inspector-General's Chief Executive Instructions and Australian Accounting Standards.

The Inspector-General's non-current assets are subject to an annual stocktake to ensure the accuracy of asset records.

Consultancies

Consistent with the Chief Executive Instructions and the Commonwealth Procurement Guidelines, the Office of the Inspector-General engages consultants and contractors on the basis of:

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

CONSULTANCIES

The Inspector-General of Taxation did not contract any consultancies during 2004-05.

WORKPLACE DIVERSITY

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

Table 7: Operative and paid inoperative staff by EEO target group

Classification	Female	Born Overseas	ESL	AATSI	Disability
APS3	1				
EL1			1		
EL2	1				
Total	**2**	**0**	**1**	**0**	**0**

Disability Action Plan

The Inspector-General has evaluated the Treasury Disability Action Plan and is considering options appropriate to a small agency.

PART 4:
FINANCIAL STATEMENTS

Australian National Audit Office

INDEPENDENT AUDIT REPORT

To the Minister for Revenue and Assistant Treasurer

Matters relating to the Electronic Presentation of the Audited Financial Statements

This audit report relates to the financial statements published in both the annual report and on the website of the Inspector-General of Taxation for the year ended 30 June 2005. The Inspector-General of Taxation is responsible for the integrity of both the annual report and its web site.

The audit report refers only to the financial statements, schedules and notes named below. It does not provide an opinion on any other information which may have been hyperlinked to or from the audited financial statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial statements in the Inspector-General of Taxation's annual report.

Scope

The financial statements and Chief Executive's responsibility

The financial statements comprise:

- Statement by the Chief Executive and Chief Finance Officer;
- Statements of Financial Performance, Financial Position and Cash Flows;
- Schedules of Commitments and Contingencies; and
- Notes to and forming part of the Financial Statements

of the Inspector-General of Taxation for the year ended 30 June 2005.

The Inspector-General of Taxation's Chief Executive is responsible for preparing financial statements that give a true and fair presentation of the financial position and performance of the Inspector-General of Taxation and that comply with Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, accounting standards and other mandatory financial reporting requirements in Australia. The Inspector-General of Taxation's Chief Executive is also responsible for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial statements.

Audit approach

I have conducted an independent audit of the financial statements in order to express an opinion on them to you. My audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing and Assurance Standards, in order to provide reasonable assurance as to whether the financial statements are free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive, rather than conclusive, evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

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While the effectiveness of management's internal controls over financial reporting was considered when determining the nature and extent of audit procedures, the audit was not designed to provide assurance on internal controls.

I have performed procedures to assess whether, in all material respects, the financial statements present fairly, in accordance with Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, accounting standards and other mandatory financial reporting requirements in Australia, a view which is consistent with my understanding of the Inspector-General of Taxation's financial position, and of its performance as represented by the statements of financial performance and cash flows.

The audit opinion is formed on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial statements; and
- assessing the appropriateness of the accounting policies and disclosures used, and the reasonableness of significant accounting estimates made by the Chief Executive.

Independence

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

Audit Opinion

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

a. have been prepared in accordance with Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*; and
b. give a true and fair view of the Inspector-General of Taxation's financial position as at 30 June 2005 and of its performance and cash flows for the year then ended, in accordance with:
   i. the matters required by the Finance Minister's Orders; and
   ii. applicable accounting standards and other mandatory financial reporting requirements in Australia.

Australian National Audit Office

P Hinchey
Senior Director
Delegate of the Auditor-General

Sydney
26 September 2005

Inspector-General of Taxation

Statement by the Chief Executive Officer and Chief Finance Officer

In our opinion, the attached financial statements for the year ended 30 June 2005 are based on properly maintained financial records and give a true and fair view of the matters required by the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, as amended.

David Vos AM
Inspector-General of Taxation
26 September 2005

Rick Matthews
Chief Finance Officer
26 September 2005

Statement of financial performance
for the year ended 30 June 2005

	Notes	2005 $	2004 $
Revenues from ordinary activities			
Revenues from Government	4A	**2,178,000**	2,012,000
Other revenue	4B	**56,251**	98,474
Revenues from ordinary activities		**2,234,251**	2,110,474
Expenses from ordinary activities			
Employees	5A	**996,542**	823,559
Suppliers	5B	**649,247**	724,766
Depreciation and amortisation	5C	**102,755**	18,058
Write-down of Assets	5D	**59,849**	-
Expenses from ordinary activities		**1,808,393**	1,566,383
Net surplus		**425,858**	544,091
Total changes in equity other than those resulting from transactions with the Australian Government as owners		**425,858**	544,091

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

Statement of financial position
as at 30 June 2005

	Notes	2005 $	2004 $
ASSETS			
Financial assets			
Cash	6A	**912,173**	360,279
Receivables	6B	**121,068**	82,696
Total financial assets		**1,033,241**	442,975
Non-financial assets			
Infrastructure, plant and equipment	7A,7C	**127,700**	178,955
Leasehold improvements	7B,7C	**155,800**	257,269
Other	7D	**27,313**	2,017
Total non-financial assets		**310,813**	438,241
Total assets		**1,344,054**	881,216
LIABILITIES			
Provisions			
Employees	8	**307,771**	299,645
Other provisions	9	**4,320**	-
Total provisions		**312,091**	299,645
Payables			
Suppliers	10	**60,441**	35,907
Total payables		**60,441**	35,907
Total liabilities		**372,532**	335,552
NET ASSETS		**971,522**	545,664
EQUITY			
Contributed equity	11	**1,573**	1,573
Accumulated surplus	11	**969,949**	544,091
Total equity		**971,522**	545,664
Current assets		**1,060,553**	444,992
Non-current assets		**283,501**	436,224
Current liabilities		**167,001**	166,456
Non-current liabilities		**205,531**	169,096

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

Statement of cash flows
for the year ended 30 June 2005

	Notes	**2005** **$**	2004 $
OPERATING ACTIVITIES			
Cash received			
Revenue from Government		**2,044,000**	2,000,000
Other revenue		**127,974**	246,682
GST received from ATO		**58,163**	106,310
Total cash received		**2,230,137**	2,352,992
Cash used			
Employees		**(988,415)**	(735,348)
Suppliers		**(679,948)**	(804,656)
Total cash used		**(1,668,363)**	(1,540,004)
Net cash from operating activities	12	**561,774**	812,988
INVESTING ACTIVITIES			
Cash used			
Purchase of property, plant and equipment		**(9,880)**	(452,709)
Total cash used		**(9,880)**	(452,709)
Net cash used by investing activities		**(9,880)**	(452,709)
Net increase in cash held		**551,894**	360,279
Cash at the beginning of the reporting period		**360,279**	-
Cash at the end of the reporting period	6A	**912,173**	360,279

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

Schedule of commitments
as at 30 June 2005

	2005 $	2004 $
BY TYPE		
Other commitments		
Operating leases(a)	**943,177**	1,143,909
Total other commitments	**943,177**	1,143,909
Commitments receivable	**(304,771)**	(373,347)
Net commitments by Type	**638,406**	770,562
BY MATURITY		
Operating lease commitments		
One year or less	**251,258**	236,659
From one to five years	**691,919**	907,250
Total operating lease commitments	**943,177**	1,143,909
Commitments receivable	**(304,771)**	(373,347)
Net commitments by maturity	**638,406**	770,562

Note: Commitments are GST inclusive where relevant.

(a) Operating leases:

Nature of lease	General description of leasing arrangement
Lease for office accommodation	The agreement allows annual fixed rental increases. There are no options to renew.
A lease in relation to office equipment — photocopier	The agreement is a fixed rate over the term.

Schedule of contingencies
as at 30 June 2005

	2005 $	2004 $
Contingent liabilities	-	-
Contingent assets	-	-
Net contingent liabilities	-	-

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

Notes to and forming part of the financial statements for the year ended 30 June 2005

Note 1: Summary of significant accounting policies

1.1 Objectives of the Inspector-General of Taxation

The Inspector-General of Taxation ('IGT') has one outcome:

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

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

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

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

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

1.2 Basis of accounting

The financial statements are required by section 49 of the *Financial Management and Accountability Act 1997* and are a general purpose financial report.

The statements have been prepared in accordance with:

- Finance Minister's Orders (or FMOs, being the Financial Management and Accountability (Financial Statements for reporting periods ending on or after 30 June 2005) Orders);
- Australian Accounting Standards and Accounting Interpretations issued by the Australian Accounting Standards Board (AASB); and
- Urgent Issues Group (UIG) Abstracts.

The statements of financial performance and financial position have been prepared on an accrual basis and are in accordance with the historical cost convention. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

Assets and liabilities are recognised in the Statement of Financial Position when and only when it is probable that future economic benefits will flow and the amounts of the assets or liabilities can be reliably measured.

However, assets and liabilities arising under agreements equally proportionately unperformed are not recognised unless required by an accounting standard. Liabilities and assets that are unrecognised are reported in the Schedule of Commitments and the Schedule of Contingencies (other than unquantifiable or remote contingencies).

Revenues and expenses are recognised in the Statement of Financial Performance when and only when the flow or consumption or loss of economic benefits has occurred and can be reliably measured.

1.3 Revenues

Revenues from government

Amounts appropriated for agency outputs appropriations for the year (less any current year savings and reductions offered in Portfolio Additional Estimates Statements) are recognised as revenue, 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. In the 2003-04 year the agency did not receive funds by way of the Appropriations Acts, but by section *32* transfers of funds from the Treasury.

Appropriations receivable are recognised at their nominal amounts.

Resources received free of charge

Services received free of charge are recognised as revenue 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.

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

Other revenue

Revenue from rendering of services is recognised by reference to the stage of completion of contracts or other agreements to provide services. The stage of completion is determined according to the proportion that costs incurred to date bear to the estimated total costs of the transaction.

Receivables for services are recognised at the nominal amounts due, less any provision for bad and doubtful debts. Collectability of debts is reviewed at balance date. Provisions are made when collection of the debt is judged to be less rather than more likely.

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

1.4 Transactions by the Government as owner

Equity injections

Amounts appropriated designated as 'equity injections' (less any savings offered up in Portfolio Additional Estimates Statements) are recognised directly in contributed equity as at 1 July or later date of effect of the appropriation.

Restructuring of administrative arrangements

Net assets received from or relinquished to another Commonwealth agency or authority under a restructuring of administrative arrangements are adjusted at their book value directly against contributed equity.

Other distributions to owners

The FMOs require that distributions to owners be debited to contributed equity unless in the nature of a dividend.

1.5 Employee benefits

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

Liabilities for wages and salaries (including non-monetary benefits) and annual leave are measured at their nominal amounts. Other employee benefits expected to be settled within 12 months of the reporting date are also measured at their nominal amounts.

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

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

Leave

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

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

The liability for long service leave has been determined by reference to the work of an actuary. 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 agency, where considered necessary, will develop a detailed formal plan for the terminations and inform those employees affected that it will carry out the terminations.

Superannuation

Staff of the agency in general are members of the Commonwealth Superannuation Scheme and the Public Sector Superannuation Scheme. The liability for their superannuation benefits is recognised in the financial statements of the Australian Government and is settled by the Australian Government in due course.

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

1.6 Leases

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased non-current assets and operating leases under which the lessor effectively retains substantially all such risks and benefits.

Where a non-current asset is acquired by means of a finance lease, the asset is capitalised at the present value of minimum lease payments at the beginning of the lease term 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 basis, which is representative of the pattern of benefits derived from the leased assets. The net present value of future net outlays in respect of surplus space under non-cancellable lease agreements is expensed in the period in which the space becomes surplus. Currently, the agency's surplus space is let to a related entity.

1.7 Cash

Cash means notes and coins held and any deposits held at call with a bank or financial institution. Cash is recognised at its nominal amount.

1.8 Other financial instruments

Trade Creditors

Trade creditors and accruals are recognised at their nominal amounts, being the amounts at which the liabilities will be settled. Liabilities are recognised to the extent that the goods or services have been received.

Contingent liabilities and contingent assets

Contingent liabilities and assets are not recognised in the Statement of Financial Position but are discussed in the relevant schedules and notes. They may arise from uncertainty as to the existence of a liability or asset, or represent an existing liability or asset in respect of which settlement is not probable or the amount cannot be reliably measured. Remote contingencies are part of this disclosure. Where settlement becomes probable, a liability or asset is recognised.

1.9 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.

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and revenues 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 agency's accounts immediately prior to the restructuring.

1.10 Property, plant and equipment

Asset recognition threshold

Purchases of property, plant and equipment are recognised initially at cost in the Statement of Financial Position, except for purchases of 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).

Revaluations

Basis

Property, plant and equipment are carried at valuation as at the reporting date. The basis for future revaluations will be at fair value, and will be conducted annually at the reporting date. Asset acquisitions for IGT that have taken place in 2003-04 with the commencement of the agency were carried on the basis of historical cost less accumulated depreciation for the period which was deemed to represent fair value at 30 June 2004. In accordance with this policy, the agency's assets were revalued at 30 June 2005.

Frequency

All property, plant and equipment will be revalued annually.

Conduct

All valuations are conducted by an independent qualified valuer.

Depreciation

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

Depreciation rates (useful lives) 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:

	2004-05	**2003-04**
Infrastructure, plant and equipment	3-10 years	3-10 years
Leasehold improvements	Lease term	Lease term

The aggregate amount of depreciation allocated for each class of asset during the reporting period is disclosed in Note 5C.

Impairment of non-current assets

Non-current assets carried at up-to-date fair value at the reporting date are not subject to impairment testing.

1.11 Taxation / competitive neutrality

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

1.12 Insurance

The agency has insured for risks through the Government's insurable risk managed fund, called Comcover. Workers compensation is insured through the Government's Comcare Australia.

Note 2: Adoption of Australian Equivalents to International Financial Reporting Standards from 2005-2006

The Australian Accounting Standards Board has issued replacement Australian Accounting Standards to apply from 2005-06. The new standards are the Australian Equivalents to International Financial Reporting Standards (AEIFRS). The International Financial Reporting Standards are issued by the International Accounting Standards Board. The new standards cannot be adopted early. The standards being replaced are to be withdrawn with effect from 2005-06, but continue to apply in the meantime, including reporting periods ending on 30 June 2005.

The purpose of issuing AEIFRS is to enable Australian reporting entities reporting under the *Corporations Act 2001* to be able to more readily access overseas capital markets by preparing their financial reports according to accounting standards more widely used overseas.

For-profit entities complying with AEIFRS will be able to make an explicit and unreserved statement of compliance with International Financial Reporting Standards (IFRS) as well as a statement that the financial report has been prepared in accordance with Australian Accounting Standards.

AEIFRS contain certain additional provisions that will apply to not-for-profit entities, including Australian Government agencies. Some of these provisions are in conflict with IFRS, and therefore the agency will only be able to assert that the financial report has been prepared in accordance with Australian Accounting Standards.

AAS 29 *Financial Reporting by Government Departments* will continue to apply under AEIFRS.

Accounting Standard AASB 1047 *Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards* requires that the financial statements for 2004-05 disclose:

- an explanation of how the transition to AEIFRS is being managed;
- narrative explanations of the key policy differences arising from the adoption of AEIFRS;
- any known or reliably estimable information about the impacts on the financial report had it been prepared using AEIFRS; and
- if the impacts of the above are not known or reliably estimable, a statement to that effect.

Where an entity is not able to make a reliable estimate, or where quantitative information is not known, the entity should update the narrative disclosures of the key differences in accounting policies that are expected to arise from the adoption of AEIFRS.

The purpose of this Note is to make these disclosures.

Management of the transition to Australian Equivalents to International Financial Reporting Standards

IGT has taken the following steps for the preparation towards the implementation of AEIFRS.

The Chief Finance Officer is formally responsible for the project of the transition to and implementation of AEIFRS and the plan's progress.

The plan requires the following key steps to be undertaken and sets deadlines for their achievement:

- All major accounting policy differences between current AASB standards and AEIFRS were identified by 30 June 2004.
- System changes necessary to be able to report under the AEIFRS were evaluated, including those necessary to capture data under both sets of rules for 2004-05. The changes required were of only a minor nature and procedures have been implemented to accommodate those changes.
- A transitional balance sheet as at 1 July 2004 under AEIFRS and a reconciliation of equity was completed by 30 September 2004 as scheduled.

- An AEIFRS compliant balance sheet as at 30 June 2005 was also prepared during the preparation of the 2004-05 statutory financial report.
- The 2004-05 Balance Sheet under AEIFRS will be reported to the Department of Finance and Administration in line with their reporting deadlines.
- Consultants were engaged where necessary to assist with each of the above steps.

Major changes in accounting policies

Changes in accounting policies under AEIFRS are applied retrospectively, that is, as if the new policy had always applied except in relation to the exemptions available under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*. This rule means that an AEIFRS compliant balance sheet had to be prepared as at 1 July 2004. This will enable the 2005-06 financial statements to report comparatives under AEIFRS.

Management's review of the quantitative impacts of AEIFRS represents the best estimates of the impacts of the changes as at reporting date. The actual effects of the impacts of AEIFRS may differ from these estimates due to:

- continuing review of the impacts of AEIFRS on the agency's operations;
- potential amendments to the AEIFRS and AEIFRS Interpretations; and
- emerging interpretation as to the accepted practice in the application of AEIFRS and the AEIFRS Interpretations.

Changes to major accounting policies are discussed in the following paragraphs.

Property, plant and equipment

It is expected that the 2005-06 Finance Minister's Orders will continue to require property, plant and equipment assets to be valued at fair value in 2005-06. Commencing in 2004-05, IGT will implement a program of revaluing all property, plant and equipment assets on a fair value basis as at 30 June each year. As such, there will be no impact from AEIFRS on the agency's property, plant and equipment.

AEIFRS also require the recognition of provisions for decommissioning and removal of assets, and site restoration. Under IGT's current premises lease, there is a requirement for the agency to 'make good'. As such IGT has commissioned an independent, professional organization to establish the extent and potential future value of the 'make good' provisions under the lease. The future value of the provision ($72,300) has been discounted to its present values which are reflected in the *Reconciliation of Impacts – AGAAP to AEIFRS* schedule below.

Impairment of non-current assets

The agency's policy on impairment of non-current assets is at Note 1.10.

Under AEIFRS these assets will be subject to assessment for impairment and, if there are indications of impairment, an assessment of the degree of impairment. (Impairment measurement must also be done, irrespective of any indications of impairment, for intangible assets not yet available for use.) The impairment test is that the carrying amount of an asset must not exceed the greater of (a) its fair value less costs to sell and (b) its value in use. Value in use is the net present value of net cash inflows for for-profit assets (which does not apply to IGT) and the depreciated replacement cost for other assets which would be replaced if IGT were deprived of them.

As the agency's non-current assets are carried at up-to-date fair value at the reporting date, they are not subject to impairment testing.

Employee benefits

The provision for long service leave is measured at the present value of estimated future cash outflows using market yields as at the reporting date on national government bonds.

The 2003-04 financial reports noted that the AEIFRS standards may require the market yield on corporate bonds to be used. The AASB has decided that a deep market in high quality corporate bonds does not exist and therefore national government bonds will be referenced.

AEIFRS require that annual leave that is not expected to be taken within 12 months of balance date is to be discounted to its present value. After assessing the staff leave profile, the agency does not expect that any material amounts of the annual leave balance will be subject to these provisions of the standard, however the adjustment amounts are disclosed in the *Reconciliation of Impacts – AGAAP to AEIFRS* schedule below.

Administered items

The agency has no administered items.

Reconciliation of Impacts – AGAAP to AEIFRS

	30 June 2005(a) $	Opening balance sheet 1 July 2004 $
Reconciliation of equity		
Total equity under AGAAP	**971,522**	545,664
Adjustments to accumulated surplus	**(18,141)**	181
Total equity under AEIFRS	**953,381**	545,845
Reconciliation of accumulated surplus		
Total accumulated surplus under AGAAP	**969,949**	544,091
Adjustments:		
reduction in employee provisions	**1,974**	6,075
recognition of lease 'make good' provision	**(20,115)**	(5,894)
Total accumulated surplus under AEIFRS	**951,808**	544,272
Reconciliation of contributed equity		
Total contributed equity AGAAP	**1,573**	1,573
Adjustments	**-**	-
Total contributed equity under AEIFRS	**1,573**	1,573
Reconciliation of net surplus from ordinary activities for year ending 30 June 2005		
Total net surplus under AGAAP	**425,858**	
Adjustments:		
employee expense	**1,974**	
borrowing expense	**(2,891)**	
amortisation expense	**(11,330)**	
Net surplus/deficit from ordinary activities under AEIFRS	**413,611**	

(a) 30 June 2005 total represents the accumulated impacts of AEIFRS from the date of transition.

Note 3: Events occurring after reporting date

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

Note 4: Operating revenues

	2005 $	2004 $
Note 4A: Revenues from Government		
Section 32 transfer by Department of the Treasury	**-**	2,000,000
Appropriations for outputs	**2,154,000**	-
Resources received free of charge	**24,000**	12,000
Total revenues from government	**2,178,000**	2,012,000
Note 4B: Other revenue		
Services	**56,251**	98,474
Total other revenue	**56,251**	98,474
Rendering of services to:		
Related entities	**56,251**	98,474
Total rendering of services	**56,251**	98,474

Note 5: Operating expenses

	2005 $	2004 $
Note 5A: Employee expenses		
Wages and salary	**725,556**	626,804
Superannuation	**111,209**	90,279
Leave and other benefits	**134,646**	71,702
Other employee expenses	**18,086**	28,923
Total employee benefits expense	**989,497**	817,708
Workers compensation premiums	**7,045**	5,851
Total employee expenses	**996,542**	823,559
Note 5B: Supplier expenses		
Goods from related entities	**32,270**	118,956
Goods from external entities	**12,047**	-
Services from related entities	**103,695**	221,716
Services from external entities	**282,257**	217,806
Operating lease rentals(a)	**218,978**	166,288
Total supplier expenses	**649,247**	724,766
Note 5C: Depreciation		
Property, plant and equipment	**102,755**	18,058
Total depreciation	**102,755**	18,058
The aggregate amounts of depreciation or amortisation expensed during the reporting period for each class of depreciable assets are as follows:		
Leasehold improvements	**60,588**	4,446
Infrastructure, plant and equipment	**42,167**	13,612
Total depreciation	**102,755**	18,058
No depreciation or amortisation was allocated to the carrying amounts of other assets.		
Note 5D: Write-down of assets		
Plant and equipment - revaluation decrement	**59,849**	-
Total write-down of assets	**59,849**	-

(a) These comprise minimum lease payments only.

Note 6: Financial assets

	2005 $	2004 $
Note 6A: Cash		
Departmental	**912,173**	360,279
Total cash	**912,173**	360,279
Note 6B: Receivables		
Goods and services	**4,753**	72,141
Less: Provision for doubtful debts	**-**	-
Total goods and services	**4,753**	72,141
GST receivable	**6,315**	10,555
Appropriations receivable	**110,000**	-
Total receivables (net)	**121,068**	82,696
Receivables is represented by:		
Current	**121,068**	82,696
Total receivables (net)	**121,068**	82,696
All receivables are with Commonwealth entities		
Receivables (gross) are aged as follows:		
Not overdue	**121,068**	82,696
Total receivables (gross)	**121,068**	82,696

Note 7: Non-financial assets

	2005 $	2004 $
Note 7A: Infrastructure, plant and equipment		
Infrastructure, plant and equipment		
- at cost	**-**	192,567
- accumulated depreciation	**-**	(13,612)
	-	178,955
- at valuation	**127,700**	-
- accumulated depreciation	**-**	-
	127,700	-
Total infrastructure, plant and equipment	**127,700**	178,955
All infrastructure, plant and equipment are non-current assets		
Note 7B: Leasehold improvements		
Leasehold improvements		
- at cost	-	261,715
- accumulated amortisation	-	(4,446)
	-	257,269
- at valuation	**155,800**	-
- accumulated depreciation	**-**	-
	155,800	-
Total leasehold improvements	**155,800**	257,269
All leasehold improvements are non-current assets		
Total property, plant and equipment	**283,500**	436,224

Note 7: Non-financial assets (continued)

	Infrastructure, plant and equipment $	Leasehold improvements $
Note 7C: Analysis of property, plant and equipment Reconciliation of the opening and closing balances of property, plant and equipment		
As at 1 July 2004		
Gross book value	192,567	261,715
Accumulated depreciation/amortisation	(13,612)	(4,446)
Net book value	178,955	257,269
Additions by purchase	5,520	4,360
Net revaluation decrement	(14,608)	(45,241)
Depreciation/amortisation expense	(42,167)	(60,588)
As at 30 June 2005		
Gross book value	**127,700**	**155,800**
Accumulated depreciation/amortisation	**-**	**-**
Net book value	**127,700**	**155,800**

All property, plant and equipment are at valuation as at 30 June 2005 in accordance with the agency's revaluation policy (note 1.10). Amounts as at 1 July 2004 are at cost, and as they had only recently been acquired, it was deemed that depreciated cost represented fair value at that time.

	2005 **$**	2004 $
Note 7D: Other non-financial assets		
Prepayments	**27,314**	2,017
All prepayments are current assets	**27,314**	2,017

Note 8: Employee provisions

	2005 **$**	2004 $
Salaries and wages	**2,398**	-
Leave	**304,928**	299,645
Superannuation	**445**	-
Aggregate employee benefit liability	**307,771**	299,645
Current	**102,240**	130,549
Non-current	**205,531**	169,096

Note 9: Other provisions

	2005 **$**	2004 $
Revenue received in advance	**4,320**	-
Total other provisions (non-current)	**4,320**	-

Note 10: Supplier payables

	2005	2004
	$	$
Trade creditors	**60,441**	35,907
Total supplier payables	**60,441**	35,907
Supplier payables are represented by:		
Current	**60,441**	35,907

Note 11: Equity

	Accumulated results		Contributed equity		Total equity	
	2005	2004	**2005**	2004	**2005**	2004
	$	$	**$**	$	**$**	$
Opening balance as at 1 July	**544,091**	-	**1,573**	-	**545,664**	-
Net surplus	**425,858**	544,091	**-**	-	**425,858**	544,091
Transactions with owner:						
Contributions by owner:						
Assets transferred	**-**	-	**-**	1,573	**-**	1,573
Closing balance as at 30 June	**969,949**	544,091	**1,573**	1,573	**971,522**	545,664
Total equity attributable to the Commonwealth	**969,949**	544,091	**1,573**	1,573	**971,522**	545,664

Note 12: Cash flow reconciliation

	2005 $	2004 $
Reconciliation of cash per statement of financial position to statement of cash flows		
Cash at year end per statement of cash flows	**912,173**	360,279
Statement of financial position items comprising above cash: 'financial asset - cash'	**912,173**	360,279
Reconciliation of net surplus to net cash from operating activities:		
Net surplus	**425,858**	544,091
Depreciation and Amortisation	**102,755**	18,058
Write-down of assets	**59,849**	-
(Increase)/decrease in receivables	**(38,372)**	(82,696)
(Increase)/decrease in prepayments	**(25,296)**	(2,017)
Increase/(decrease) in employee provision	**8,126**	299,645
Increase/(decrease) in supplier payables	**24,534**	35,907
Increase/(decrease) in other provisions	**4,320**	-
Net cash from operating activities	**561,774**	812,988

Note 13: Contingent liabilities and assets

There are no unquantifiable or remote contingencies.

Note 14: Executive remuneration

The number of Executives who received or were due to receive total remuneration of $100,000 or more.

	2005	2004
$210,000-$219,999	**-**	1
$230,000-$239,999	**-**	1
$280,000-$289,999	**1**	-
$290,000-$299,999	**1**	-
	2	2
The aggregate amount of total remuneration of executives shown above	**$554,512**	$447,872

Note 15: Remuneration of auditors

	2005 $	2004 $
Financial statement audit services are provided free of charge to the agency. The fair value of the services provided was	**24,000**	12,000
Total	**24,000**	12,000

No other services were provided by the Auditor-General.

Note 16: Average staffing levels

	2005	2004
The average staffing levels for the agency during the period were:	**6**	5

Note 17: Financial instruments

Note 17A: Interest rate risk

Financial instrument	Notes	**Non-interest bearing 2005 $**	Non-interest bearing 2004 $	**Total 2005 $**	Total 2004 $	**Weighted average effective interest rate 2005 %**	Weighted average effective interest rate 2004 %
Departmental financial assets							
Cash	6A	**912,173**	360,279	**912,173**	360,279	**n/a**	n/a
Receivables for goods and services (gross)	6B	**121,068**	82,696	**121,068**	82,696	**n/a**	n/a
Total financial assets		**1,033,241**	442,975	**1,033,241**	442,975		
Total assets				**1,344,054**	881,216		
Financial liabilities							
Trade creditors	10	**60,441**	35,907	**60,441**	35,907	**n/a**	n/a
Total financial liabilities		**60,441**	35,907	**60,441**	35,907		
Total liabilities				**372,532**	335,552		

Note 17B: Net fair values of financial assets and liabilities

	Notes	2005 Total carrying amount $	2005 Aggregate net fair value $	2004 Total carrying amount $	2004 Aggregate net fair value $
Financial assets					
Cash	6A	**912,173**	**912,173**	360,279	360,279
Receivables for goods and services (net)	6B	**121,068**	**121,068**	82,696	82,696
Total financial assets		**1,033,241**	**1,033,241**	442,975	442,975
Financial liabilities					
Trade creditors	10	**60,441**	**60,441**	35,907	35,907
Total financial liabilities		**60,441**	**60,441**	35,907	35,907

The net fair values of cash and non-interest bearing monetary financial assets approximate their carrying amounts.

The net fair values for trade creditors are approximated by their carrying amounts.

Note 17C: Credit risk exposures

The agency's maximum exposures to credit risk at reporting date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the statement of financial position.

The agency has no significant exposures to any concentrations of credit risk.

All figures for credit risk referred to do not take into account the value of any collateral or other security.

Note 18: Specific payments disclosure

	2005 $	2004 $
No 'Act of Grace' payments were made during the reporting period	**-**	-
No waivers of amounts owing to the Commonwealth were made during the reporting period	**-**	-
No ex-gratia payments were made made during the reporting period	**-**	-
No payments were made under the 'Defective Administration Scheme' during the reporting period	**-**	-
No payments were made under section73 of the *Public Service Act 1999* during the reporting period	**-**	-

Note 19: Acquittal of Authority to Draw Cash from the Consolidated Revenue Fund (CRF) for Ordinary Annual Services Appropriations

Particulars	**Departmental Outputs**
Balance carried from previous year	**-**
Appropriation Act (No.1) 2004-05 - basic appropriation	**2,154,000**
Comcover receipts (Appropriation Act s13)	**5,091**
Adjustment of appropriations on change of entity function (FMAA s32)	**360,279**
Sub-total 2004-05 Annual Appropriation	**2,519,370**
Appropriations to take account of recoverable GST (FMAA s30A)	**37,728**
Annotations to 'net appropriations' (FMAA s31)	**149,634**
Total Appropriations available for payments	**2,706,732**
Cash payments made during the year(GST inclusive)	**1,678,243**
Balance of Authority to Draw Cash from the CRF for Ordinary Annual Services appropriations	**1,028,490**
Represented by:	
Cash at bank and on hand	**912,173**
Receivable - Departmental appropriations	**110,000**
Receivables - GST receivable from ATO	**6,316**
Total	**1,028,490**

In the 2003-04 financial year the agency did not receive funding by way of the Appropriations Acts, but by the transfer of monies from the Department of the Treasury (FMAA section 32). No disclosure was required in the Agency's 2003-04 financial statements. The balance of the section 32 transfers ($360,279 representing cash at bank from 2003-04 financial year) is included above to present the Agency's 2004-05 closing position.

Note 20: Reporting of outcomes

The Inspector General of Taxation has one outcome:

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

Note 20A: Net cost of outcome delivery

	2005	2004
	$	$
Total expenses	**1,808,393**	1,566,383
Total costs recovered	**-**	-
	1,808,393	1,566,383
Other external revenues		
Other revenue	**56,251**	98,474
Total other external revenues	**56,251**	98,474
Net cost of outcome	**1,752,142**	1,467,909

Note 20B: Major classes of departmental revenues and expenses by output groups and outputs

The agency has two outputs (Output Group 1.1):

Output 1.1.1 — Identification of issues for review and prioritisation of work program

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

The basis of attribution in the table below is consistent with the basis used for the 2005-06 Budget, which estimated the proportion of agency activities to be assigned to each of the outputs. This basis was evaluated during 2004-05 through monitoring of agency activities and no adjustment was considered necessary.

Note 20B: Major classes of departmental revenues and expenses by output groups and outputs (continued)

Outcome 1	Output Group 1.1				Outcome 1 Total	
	Output 1.1.1		Output 1.1.2			
	2005	2004	**2005**	2004	**2005**	2004
	$	$	**$**	$	**$**	$
Departmental expenses						
Employees	49,829	41,178	946,713	782,381	996,542	823,559
Suppliers	32,462	36,238	616,785	688,528	649,247	724,766
Depreciation and amortisation	5,137	903	97,618	17,155	102,755	18,058
Write down of assets	2,992	-	56,857	-	59,849	-
Total Departmental expenses	**90,420**	78,319	**1,717,973**	1,488,064	**1,808,393**	1,566,383
Funded by:						
Revenues from government	108,900	100,600	2,069,100	1,911,400	2,178,000	2,012,000
Other revenue	2,813	4,924	53,438	93,550	56,251	98,474
Total Departmental revenues	**111,713**	105,524	**2,122,538**	2,004,950	**2,234,251**	2,110,474

PART 5: OTHER STATISTICAL INFORMATION

OCCUPATIONAL HEALTH AND SAFETY

The Office of the Inspector-General operates so as to foster and maintain a safe and healthy working environment in accordance with the *Occupational Health and Safety (Commonwealth Employment) Act 1991*. During 2004-05, the Inspector-General received no accident and incident reports. No notices were given under sections 29, 46 and 47 of the *Occupational Health and Safety (Commonwealth Employment) Act 1991*.

FREEDOM OF INFORMATION

The Freedom of Information Act gives the general public legal access to government documents.

Section 8 of the *Freedom of Information Act 1982* (Cth) (the FOI Act) requires the Inspector-General to publish certain information in its annual report. Information about its organisation, functions and decision-making powers is contained in the body of this annual report.

Arrangements for outside participation

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

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

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

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

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

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

Categories of documents held by the Inspector-General

The following categories of documents are held by the Inspector-General:

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

Every six months the Inspector-General also publishes an indexed list of files at www.igt.gov.au.

Documents open to public access

A detailed listing of Inspector-General documents published during the year and available on request — reports, discussion papers, issues papers and annual reports — is available at www.igt.gov.au.

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

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

Facilities for access of documents

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

Members of the public are also able to obtain access to available documents, by arrangement, at Level 19, 50 Bridge Street, Sydney, NSW.

Freedom of information applications and initial contact points

Initial enquiries regarding access to Inspector-General documents should be directed in writing to:

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

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

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

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

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

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

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

Freedom of information activity

The Inspector-General received one request for access to documents under the FOI Act in 2004-05. The request was withdrawn.

ADVERTISING AND MARKET RESEARCH

No advertising or market research activities were undertaken during 2004-05.

ECOLOGICALLY SUSTAINABLE DEVELOPMENT AND ENVIRONMENTAL PERFORMANCE

The Office of the Inspector-General actively pursues measures to minimise waste and conserve energy. Timer switches control all general lighting in the office. The owner of the leased office premises has an active energy and waste management strategy.

The Inspector-General recycles paper and cardboard products.

DISCRETIONARY GRANTS

No discretionary grant programs are administered by the Inspector-General of Taxation.

INDEX OF COMPLIANCE

ACRONYMS

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

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