

Inspector-General of Taxation

Annual Report 2005-06

October 2006

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10 October, 2006

The Hon Peter Dutton 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 2006. The Report has been prepared in accordance with section 41 of the *Inspector-General of Taxation Act 2003* ('the Act').

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

Yours sincerely

A handwritten signature in cursive script that reads "David Vos".

David R Vos AM
Inspector-General of Taxation

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PART 1: OVERVIEW

REVIEW BY THE INSPECTOR-GENERAL OF TAXATION



The financial year 2005-06 has been an eventful one for tax administration and for the role of my Office. As at 30 June 2006, I have completed two reviews during the year and reported on them to the Minister, and I have another five reviews underway as follows:

- review into Tax Office audit timeframes (Report to Minister, 19 July 2005);
- review into aspects of the Tax Office management of litigation (Report to Minister 18 May 2006);
- review of the potential revenue bias in private binding rulings involving large complex matters (commenced August 2005);
- reviews into the Tax Office's ability to identify and deal with major, complex issues within reasonable timeframes. These reviews comprise three 'case study' reviews (commenced October 2005) with potential for a fourth, summary report. The three case studies comprise:
 - a review into the Tax Office's handling of living away from home allowances (LAFHAs),
 - a review into the Tax Office's handling of service entity arrangements, and
 - a review into the Tax Office's handling of research and development syndication arrangements;
- follow up review into the Tax Office's implementation of recommendations included in reports prepared by my Office (commenced 29 June 2006).

A full list of all reviews completed since my Office was established is on my website, www.igt.gov.au.

How long particular reviews take can be a reflection of their breadth, the extent to which they raise issues which are challenging for the Tax Office, and also the level of cooperation afforded. The review of the Tax Office's management of litigation, for example, was a particularly long review and absorbed more than a third of my total resources for more than a year.

Relationships with the Tax Office during the year have been considerably strained in respect of some reviews, with several legal opinions being sought on either issues identified in a review or on the scope of my powers to obtain information generally. The Treasury, as coordinator of the Treasury portfolio, has also been involved in some of these matters. Obtaining legal opinions on my information gathering powers has been undertaken jointly and cooperatively across the three Treasury portfolio agencies.

The review into aspects of the Tax Office's litigation management, in particular, could have proceeded more smoothly and quickly had the Tax Office shared information with me earlier than it did, especially legal opinions it sought in connection with the review. However, these difficulties have not been the universal experience. Tax Office cooperation and responsiveness has been satisfactory in other instances.

The impact on my Office's productivity has been frustrating; but I believe that these experiences will generally turn out to be positive and provide a new platform for relationships into the future. The legal opinion on my information gathering powers both uphold the strength of my ability to undertake reviews as intended by the Parliament and clarify the approaches which should be followed by all concerned.

In 2004 the Commissioner and I agreed a protocol aimed at promoting a cooperative working relationship between us and our agencies. It should have enabled a partnership to develop around the mutual aim of improving tax administration. As a result of the difficulties experienced this year and with the clarifying legal opinion we have jointly sought, I expect that we will undertake a joint review of the protocol and that this will enhance my ability to undertake my role into the future in a timely, efficient and cooperative way.

The opinion sought by the Tax Office from the Solicitor-General and Chief General Counsel of the Australian Government Solicitor, in connection with the review of the Tax Office litigation management will also, I believe, have a significant positive influence on future tax administration and perhaps even more broadly. The opinion, together with a supplementary opinion, is included in my report on the Tax Office Management of Litigation (which was released in August 2006).

Aside from formal reviews I have continued to have regular correspondence and discussions with the Commissioner and other senior tax officials which have resulted in improved administration in a number of areas. Examples include the withdrawal of a misleading Draft Public Ruling and Tax Office consideration of improvements to applications for private binding ruling proformas. The Aggressive Tax Planning (ATP) area has been particularly open to discussion and suggestions for change, and has made improvements to the way the Tax Office has communicated with and reached resolution with some employee benefit arrangements (EBA) taxpayers.

Public sector stakeholders

The Commonwealth Auditor-General and the Commonwealth (and Taxation) Ombudsman also scrutinise the Tax Office from their perspectives. My office is in regular contact with these agencies.

The roles of each agency are different and we have sought to communicate with each other regularly to ensure that there is no unnecessary duplication of the reviews we conduct.

Community and private sector stakeholders

I am pleased to report that community and private sector stakeholders continue to maintain a strong interest in my role and contribute to my work programme. I meet with all key private sector stakeholders at least twice a year to consult with them in formulating my ongoing work programme. In 2005-06, I have found that establishing specific stakeholder reference groups for some particular reviews has provided valuable insights into taxpayers' direct experiences of Tax Office approaches.

While my role is to identify systemic improvements in tax administration, I welcome the opportunity to obtain information from individual taxpayers, tax agents, and community leaders, including parliamentarians.

I have also found that the ongoing development of relationships with tax administrators and my equivalents in other countries has enabled an invaluable sharing of experience and comparison of ideas and approaches to both generic issues in tax administration, and as input to particular reviews.

Issues and changes in tax administration

As indicated earlier, 2005-06 has been another eventful year in tax administration including:

- the change of Commissioner (from 1 January 2006) and other senior leadership changes at the Tax Office;
- the implementation of key recommendations included in the *Report on aspects of income tax self assessment* (ROSA);
- the implementation of promoter penalty laws;
- the commencement of a comprehensive inquiry into tax administration by the Joint Committee on Public Accounts and Audit (JCPAA); and
- the Government's reiteration of its intention to introduce a new regulatory framework for tax agents.

These are all important and influential developments. The full impact of some of these events is yet to be understood.

As a keen observer of these events and processes, and through undertaking an ongoing programme of reviews during the year, I am in a position to identify issues of both concern and optimism for the future of tax administration in Australia.

The Tax Office's administration of the law

I am concerned about how the Tax Office approaches interpretation and administration of the law in some significant cases and the potential for this issue to be systemic.

The Treasury has recently summarised the role of the Tax Office as being '*... through a statutorily independent commissioner, responsible for the general administration of (tax) laws, which includes their enforcement and providing advice on the Commissioner's interpretation of them as well as the day-to-day collection of revenue.*' I would only add that the community expects this role to be undertaken objectively and without fear or favour from any quarter.

In this respect, I notice that the Tax Office from time to time seems to blur the gap between tax policy and administration. I note that the Commissioner has recently said that the role of the Tax Office '*... is that of implementing the policy objectives of tax legislation through the management of administration systems.*' I have noted signs that the Tax Office is willing to interpret and administer the law in line with its view of policy even if the letter of the law does not adequately support it.

There are also examples of the Tax Office being prepared to challenge court decisions because the law does not deliver policy intent (even though legal advice from the

Solicitor-General says that the correct path in that situation is to seek changes to the law).

The policy intent behind the law is an important input to interpretation; but in the final analysis it cannot supplant the law itself. Propping up deficient tax law because it does not deliver policy intent should not be part of the Tax Office's approach. It is important for the Commissioner to reaffirm to his staff and to the community that his role is that of administration and enforcement of the laws as enacted by Parliament and interpreted by the courts.

The Commissioner notes his role of bringing to the Government's attention matters where the tax laws are not operating in accordance with their policy intent. That is as it should be; but the extent to which it is done and is effective depends largely upon a strong commitment to the rule of law on behalf of the Tax Office. To again quote the Commissioner, *'This requires a high level of integrity and courage where the proper application of the law produces an inconvenient result.'*

I am concerned that achieving necessary fixes to tax laws can be a long and sometimes fruitless path for the Tax Office. The Treasury has recently noted that necessary tax law amendments are tacked on to other tax Bills and that regular Bills dedicated to tax amendments are therefore not required. In my view, the current ad hoc process is an unsure and inadequate means of addressing in a timely manner all the fixes that need to be made.

Tax Office culture and values

The new Commissioner's emphasis on living out values as a mission for his administration is to be welcomed. Aims of improving fairness and transparency in tax administration are also part of my role as intended by the Parliament. I note that being a fair administrator involves being free from bias, and being honest and just. There is a strong community expectation that the Tax Office will live out these values in particular in its administration.

During the year I have observed examples of the Tax Office behaving in ways that could undermine community confidence in the ability of the Tax Office to be fair, transparent and to act in accordance with the principles of the rule of law.

While I acknowledge that the Tax Office has a different view of this, its refusal over an extended period to apply decisions of the court in *Essenbourne*, now ratified by the courts in five other cases (including most recently in the test case of *Indooroopilly*), are a poor reflection on its values and culture. More importantly, the practical ramifications of maintaining multiple (income tax and FBT) assessments in employee benefit arrangement (EBA) cases has been damaging to the taxpayers involved

notwithstanding the Tax Office's poorly communicated stance of only collecting on one type of assessment only. In its current letters to remaining EBA taxpayers who have not yet reached a settlement with the Tax Office, the Tax Office is finally acknowledging this damage.

The Tax Office's write-up of this situation in its recent *Moving on – Aggressive Tax Planning* document is disingenuous. It fails to mention the number of other cases where the courts have applied the *Essenbourne* principle. It also implies that it is acting as a good administrator in bringing a test case to decide the matter, but fails to mention that it has taken four years to do so (*Indooroopilly*, which has again agreed with *Essenbourne*, but that at time of writing is under appeal by the Tax Office). The document also infers that improvements to its approaches have been made at its own volition rather than from external pressures on the Tax office to modify its treatment of cases not yet settled and finalised.

Taken as a whole, the *Moving on* document is a good example of how the Tax Office is prepared to put a positive emphasis on a relatively complex matter to avoid external criticism. For an office claiming to be transparent and accountable, it seems to me that the Tax Office too often will not acknowledge that it has done things incorrectly or could have done things better. The Tax Office does acknowledge the obvious point that it is not perfect and on occasion admits to being acutely aware of past criticisms; but these general concessions fall well short of openly considering (and if necessary, admitting) if it contributed to some specific things going wrong.

During the year I have also noted indications that the Tax Office continues to place consistent (one size fits all) treatment of taxpayers and getting closure in their cases above foundational values such as fairness even where it acknowledges that taxpayer circumstances vary materially within the group. When dealing with large or significant groups of taxpayers, more attention seems to be given to managing the risk that consistency of process has been followed in finalising a similar issue than ensuring every case in the group is finalised fairly on its own merits.

Even where the Tax Office seeks to differentiate, I have noted a need for more explanation to help the community understand how Tax Office decisions on differing compliance treatments for different entities are relevant in the circumstances, and how overall they reflect a consistent compliance approach. This need appears strongest in comparing the way that the Tax Office dealt with all individuals caught up in the mass marketed tax effective investments (MMTEIs) and all businesses involved in EBA arrangements as against the relatively concessional treatment afforded to most companies (some 80 per cent in respect of Research and Development syndication arrangements and most (smaller) entities involved in service entities. Essentially, all 42,000 MMTEI individual taxpayers and all 9,000 EBA taxpayers were pursued by the Tax Office including those who had relatively small amounts involved. By contrast, the

Tax Office has effectively let off the majority (around 200 of a total of 245) of R & D Syndicates, only pursuing those with deduction claims greater than \$3 million. Those with claims below \$3 million appear never even to have been told there was an issue. With Service Entities, the Tax Office adopted a highly selective audit approach and eventually announced that it would not audit prior year returns of entities that met certain tests, one of which is that the amount of fees paid to its service entity was less than \$1 million.

In its *Compliance Model* the Tax Office has a well-regarded and sophisticated framework to guide it towards a full understanding of a taxpayer's circumstances, and from there to decide appropriate and tailored compliance treatments. However, Tax Office culture tends to result in by-passing the full Model in favour of making premature and simplistic judgments.

This appears particularly to be the case where the Tax Office considers that tax avoidance might be involved and that Part IVA anti-avoidance provisions might apply. I have observed a pattern of long delays and switching from one compliance strategy to another when this culture prevails.

The Tax Office has also become extremely adept at managing issues in the media and protecting its public image, ostensibly as part of maintaining community and Government confidence in its administration. This approach is not always consistent with being transparent; and there are signs that a habitual use of 'spin' is an obstacle to honest reflection, and to learning from mistakes and constructive criticism.

My work in 2005-06 leads me to conclude that there are real challenges for the Tax Office to advance beyond the culture of pre-judgment and sugar-coated public communication that currently characterises parts of its administration, towards the value-driven administration that the new Commissioner envisages.

Viability of tax agents

The self assessment system relies heavily on tax agents. Almost all business tax returns and some 74 per cent of personal tax returns are lodged through tax agents – some nearly 10 million returns in all. As well, almost 50 per cent of Business Activity Statements are lodged by tax agents. Tax agents are a crucial interface between taxpayers and the Tax Office. Taxpayers confronted with complex laws in a self assessment system put substantial trust in their tax agent to meet their obligations in a timely way.

In my submission to the JCPAA, I raised a number of concerns about the long-term sustainability of the tax agent industry given their ageing profile, uncompetitive position for recruiting new blood, the difficulties of maintaining professional

knowledge, and a range of other reasons. The Tax Office has itself noted that some 24 per cent of tax agents are expected to leave the industry within the next three years.

The Commissioner has also acknowledged that the tax system is complex and that there is a heavy reliance by both the Tax Office and ordinary taxpayers on well-regulated advisers to cope with this complexity. Without tax agents, the system would not function. In my submission to the JCPAA I expressed the view that the system cannot have it both ways — on the one hand to accept that people cannot cope without going to tax practitioners; but on the other, not accept that they should be unequivocally protected when they do.

I have therefore welcomed the Government's re-commitment to introducing the new regulatory regime for tax agents which was originally announced as policy in 1998 and the provision of substantial additional funding to the Tax Office to put it in place. If implemented as originally announced, the safe harbour provisions will provide protection for taxpayers from penalty where taxpayers have taken reasonable care by going to a tax agent and providing them with all the information needed to comply. Implementation of the regulatory aspects of the new regime will need to avoid compounding the already significant risks to the long term viability of the tax agent industry.

Certainty for taxpayers

In my JCPAA submission, I also expressed concern that more could be done to provide taxpayers with certainty and protection where they had taken reasonable care to get things right. This was in spite of significant improvements resulting from the implementation of the recommendations included in ROSA.

Regarding a need for more certainty, I noted that while a predominantly post-issue approach is taken to compliance, there is no reason why the Tax Office could not do more to identify and examine particular issues before finalising a tax assessment (at time of lodgment) in areas where taxpayers' self assessment of the law is known to be problematic or in areas of income tax that the Tax Office perceives as being high risk.

Forward work programme

Tax Office approaches to settling and finalising issues with taxpayers

Recent public debate and representations to me during the year have focused on a range of aspects of the settlement and finalisation of tax matters, including:

- the Tax Office's consistency, transparency and conduct regarding settlements/finalisation of matters with taxpayers, including those negotiations taking place during audits and before amended assessments are issued;
- the quality of Tax Office audit and objection resolution procedures and the administrative framework that governs these areas, in the context of potentially unnecessary litigation; and
- the application of prosecution policies in the context of settling and finalising issues.

This will be a significant and wide-ranging review and may result in several separate reports to the Minister.

Non-lodgment of income tax returns

In my Annual Report last year, I noted that the Tax Office has to make risk management choices that result in some compliance work not being done. I observed that, as a result large numbers of lower risk cases can accumulate in areas such as debt and lodgment.

Information supplied by the Tax Office shows that many millions of non-lodged individual income tax returns appear to have accumulated over recent years and that large amounts of revenue (outstanding unpaid tax and refunds) may be involved.

This review would examine how well Tax Office lodgment strategies are dealing with non-lodgments and explore a potential undue reliance on tax agents. It would also examine the adequacy of support and flexibility that the Tax Office provides to tax agents and if the framework and rules for lodgment provide the Tax Office with adequate flexibility in a risk management environment.

A substantial amount of initial fact-finding, scoping and planning for this review has already been undertaken in 2005-06.

Follow up review of completed reviews and their recommendations

I announced in June 2006 an intention to formalise a process of monitoring the implementation by the Tax Office of recommendations arising from completed reviews conducted by my Office.

I see a need to undertake a review in a visible and accountable way to ensure an open process. I will seek to obtain evidence of a commitment to timely implementation of agreed recommendations and Tax Office policies and procedures in respect of

implementing these recommendations. The review will also examine processes adopted by the Tax Office, where relevant, to communicate to taxpayers changes brought about by the implementation of the recommendations. I will also determine whether the Tax Office has addressed systemic issues identified in the various completed reports.

GST audits

I announced in February 2006 my intention to add to my future work programme a potential review of Tax Office approaches to GST audits.

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 programme, 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.

Towards the end of the year I recruited a new adviser to the Office, Mr Peter Glass. Peter has a Master of Laws (Tax) from the University of Sydney and is admitted as a legal practitioner. Peter has experience in the ATO and as a tax practitioner, and has worked as an advocate for the Institute of Chartered Accountants in Australia (ICAA). I am pleased to have been able to attract and recruit high calibre staff, especially in today's competitive market.

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.

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 programme following broad-based consultation with other stakeholders including taxpayers and their representatives, the Commonwealth Ombudsman, the Commonwealth Auditor-General and the Commissioner of Taxation.

Figure 1: Outcome and output structure

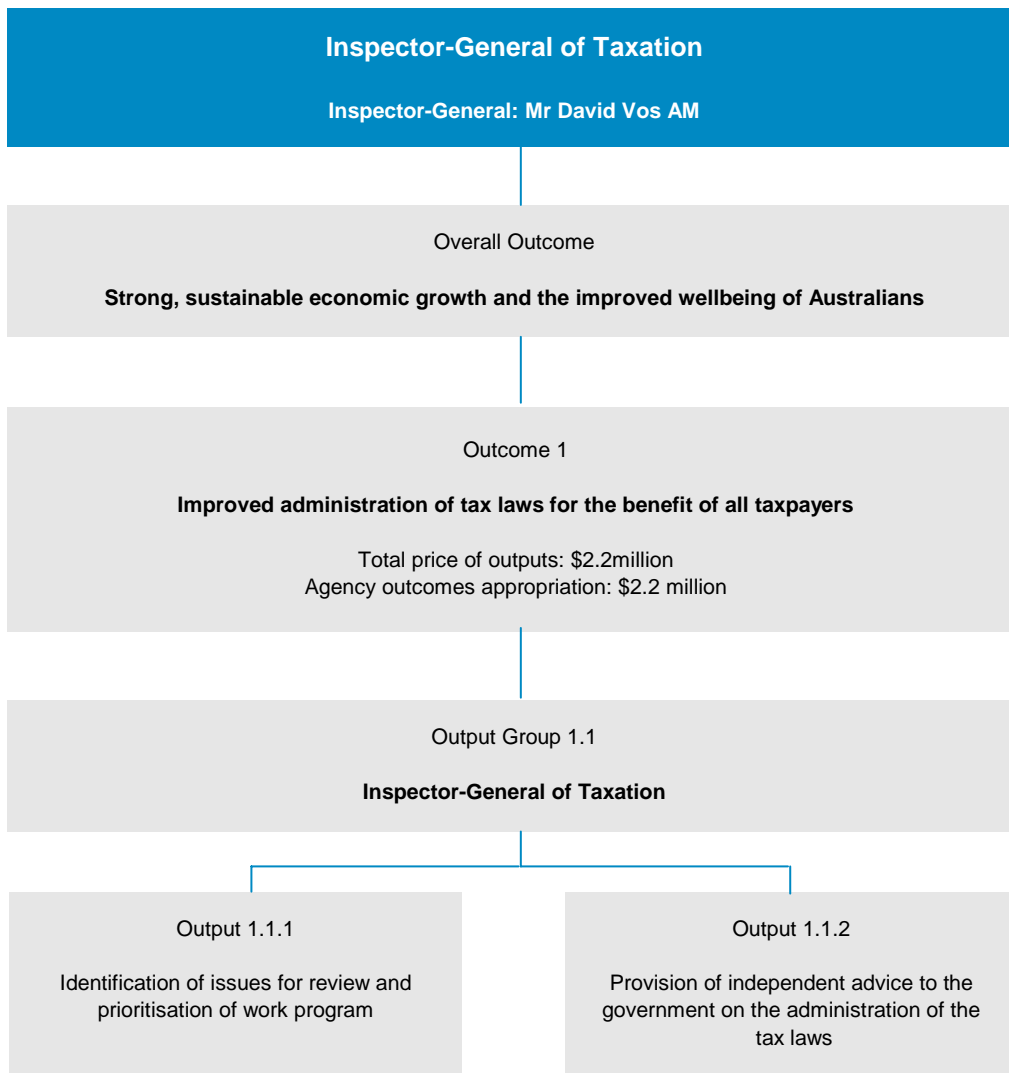
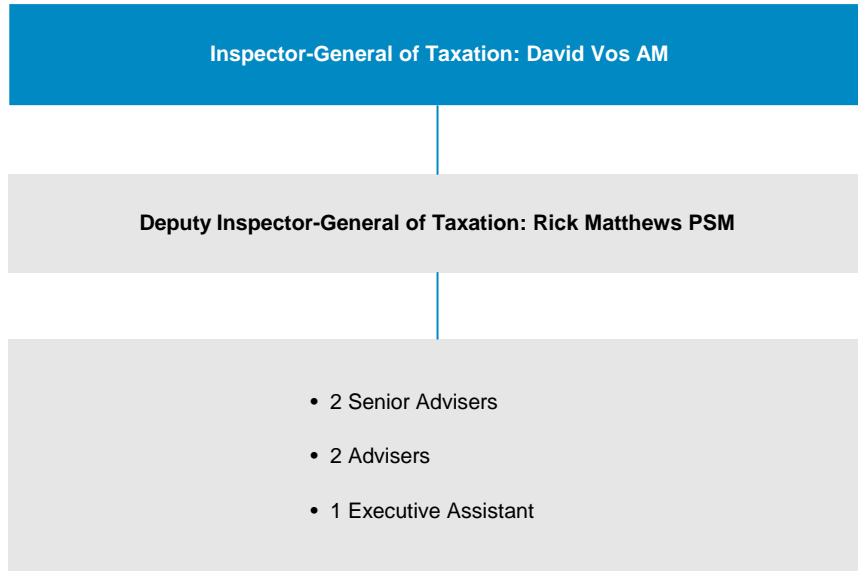


Figure 2: Inspector-General of Taxation management structure



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 2005-06 \$'000	Actual 2005-06 \$'000	Budget 2006-07 \$'000
Revenue from Government			
Output Group: Inspector-General of Taxation			
Output 1.1.1 - Identification of issues for review and prioritisation of work program	107	107	109
Output 1.1.2 - Provision of independent advice to the Government on the administration of the tax laws	2,042	2,042	2,061
Total revenue from Government contributing to the price of departmental outputs	2,149	2,149	2,170
Revenue from other sources			
Output Group: Inspector-General of Taxation			
Output 1.1.1 - Identification of issues for review and prioritisation of work program	5	4	2
Output 1.1.2 - Provision of independent advice to the Government on the administration of the tax laws	55	78	50
Total revenue for departmental outputs (Total revenues from Government and other sources)	2,209	2,231	2,222
Price of departmental outputs			
Output Group: Inspector-General of Taxation			
Output 1.1.1 - Identification of issues for review and prioritisation of work program	112	94	111
Output 1.1.2 - Provision of independent advice to the Government on the administration of the tax laws	2,097	1,793	2,111
Total price of departmental outputs	2,209	1,887	2,222
Total estimated resourcing (Total price of outputs and administered expenses)	-	344	-
Average staffing level (number)	6	6	7

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 programme and the provision of independent advice to government on the administration of the tax laws.

The scope of the work programme 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 programme, 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 programme by the Inspector-General.

OUTPUT 1.1.1

IDENTIFICATION OF ISSUES FOR REVIEW AND PRIORITISATION OF WORK PROGRAMME

The Inspector-General is required to establish his own work programme. 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 programme. As well, he has published a framework for review selection – refer Issues Paper Number 2 *Policy Framework for Review Selection*. This framework is currently being considered for review and updating in the light of three years' experience and to incorporate aspects of legal (Australian Government Solicitor) advice on the scope of the Inspector-General's role that was sought in 2005-06.

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 2005-06

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

- developed a work programme 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 two reviews and reported to the Government on those reviews.

Key outcomes in 2005-06

Consultation has been completed to assist both in the development of a work programme 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. During the year, reference groups of interested taxpayers and their representatives have also been established to provide input to specific reviews.

Speakers have been provided for key business, tax, accounting and legal conferences, and other opportunities have been taken to meet with taxpayers and their advisers. This has enabled the Inspector-General to share information on the direction of the work programme and to obtain input on the issues to be considered in reviews initiated during the 2005-06 year. A list of key speaking engagements is at Table 2.

During 2005-06, the Inspector-General has completed two reviews and has five reviews underway into issues identified through consultation as relevant to stakeholders:

- Tax Office audit timeframes (Report to Minister, 19 July 2005);
- review of Tax Office management of litigation (report to Minister 30 April 2006);
- a review of the potential bias in private binding rulings (commenced August 2005);
- a review of the Tax Office's handling of complex matters comprising three case study reviews (commenced October 2005) with potential for a fourth, summary report:
 - case study review into the ATO's handling of living away from home allowances (LAFHAs);

- case study review into the ATO's handling of service entity arrangements;
- case study review into the ATO's handling of research and development syndicates; and
- a review of the extent to which the ATO has implemented recommendations from completed reports by my office (commenced June 2006).

These reviews have been timely in that they have 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
6 July 2005	Taxation Institute of Australia	Queensland State Convention	Sanctuary Cove, Qld
25 July 2005	Law and Finance	Corporate Taxation Forum	Sydney
13 September 2005	Federal Government Backbenchers Revenue group	Briefing session	Canberra
6 October 2005	Taxation Institute of Australia	Victorian State Convention	Lorne, Victoria
23 October 2005	Law Council of Australia (Business Law Section)	2005 Taxation Workshop	Sydney
18 November 2005	Taxation Institute of Australia	Tax Intensive Conference	Ettalong Beach, NSW
15 February 2006	Law & Finance	4 th Annual Australian Taxation Summit	Sydney
12 April 2006	CPA Australia	Financial Institutions Discussion Group	Sydney
20 April 2006	ATAX, University of NSW	7 th International Conference on Tax Administration	Sydney
9 May 2006	University of Sydney	Masters of Laws course	Sydney
15 May 2006	University of Sydney	Batchelor of Commerce 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 programme. 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 2005-06, the Inspector-General has completed the following reviews:

- Tax Office audit timeframes (Report to Minister, 19 July 2005); and
- review of Tax Office management of litigation (report to Minister 18 May 2006).

The Commissioner of Taxation has accepted the most 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. In addition, in June 2006 the Inspector-General commenced a review of the extent to which the ATO has implemented recommendations from completed reviews.

PART 3:

MANAGEMENT AND ACCOUNTABILITY

CORPORATE GOVERNANCE

In 2005-06 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 established an Audit Committee in 2006. In line with Audit Office guidelines, the Inspector-General has appointed Mr John Landau as the independent chair of the Committee. Mr Landau has extensive public and private sector experience relevant to the role. The Audit Committee met once in 2006.

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 Inspector-General's performance management system provides for performance being reviewed formally on an annual basis and informally on a six monthly basis. The size of the agency allows for regular and continual discussion of performance with all staff members. Since all staff directly report to both the 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 programme 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 programme 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.

During the year, the Inspector-General also put in place comprehensive Business Continuity and Fraud Control plans.

Additionally, 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 programmes 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 received minor mentions in two service-wide reviews undertaken by the Australian National Audit Office that were tabled in 2006 (nos 27 and 28). There have not been any comments by the Commonwealth Ombudsman on matters within the Office of the Inspector-General in 2005-06.

Judicial decisions

In 2005-06, 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 refers to 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 have continued working towards finalising Masters studies during the year.

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*, however the Inspector-General is a statutory appointee.

Table 4: Operative and paid inoperative staff by classification and gender as at 30 June 2006

Classification	Male	Female	Total
APS3/4		1	1
EL1	2		2
EL2	1	1	2
SES Band 2	1		1
Inspector-General	1		1
Total	5	2	7

Remuneration of SES staff

Table 5: Salary scales — SES

Classification	8 September 2005	
	Minimum \$	Maximum \$
SES Band 2	152,370	182,773

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

Classification	8 September 2005	
	Minimum \$	Maximum \$
APS4	48,809	51,363
EL1	72,857	92,857
EL2	89,685	113,422

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

During 2005-06, 3 new non-ongoing consultancy contracts were entered into involving total actual expenditure of \$73,390 inclusive of GST. For comparison purposes, no consultancy contracts were entered into in the previous year.

There were no ongoing consultancies active during 2005-2006.

Table 7: Consultancies over \$10,000

Consultant	Project	Contract price \$	Justification	Procurement method
Thomson Legal	Analysis of Test Case Program information as part of an IGT review	15,200	(a), (b)	Direct engagement
University of NSW (ATAX)	Conduct a survey of corporations as part of and IGT review	54,010	(a), (b)	Select tender
Total consultancies over \$10,000		69,210		

All amounts are inclusive of GST.

Justification of decision to use consultancy:

(a) Specialist in-house resources unavailable in time allowed

(b) Need for an independent study or review

Direct engagement includes:

- the engagement of a consultant from a pre-qualified panel;
- a recognised and pre-eminent expert;
- a consultant who had previously undertaken related work for the IGT; or
- a consultant known to have the requisite skills where the value of the project did not justify the expense or delay associated with seeking tenders.

Select tenders are invited from a short list of competent suppliers.

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 professional association activities.

Table 8: Operative and paid inoperative staff by EEO target group

Classification	Female	Born Overseas	ESL	AATSI	Disability
APS3/4	1				
EL1			1		
EL2	1				
SES Band 2		1			
Total	2	1	1	0	0

Disability Action Plan

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

PART 4:

FINANCIAL STATEMENTS

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INDEPENDENT AUDIT REPORT

To the Minister for Revenue and Assistant Treasurer

Scope

The financial statements and Chief Executive's responsibility

The financial statements comprise:

- Statement by the Chief Executive and Chief Finance Officer;
- Income Statement, Balance Sheet and Cash Flow Statement;
- Statement of Changes in Equity;
- 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 2006.

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 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, 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.

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.

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SYDNEY NSW
Phone (02) 9367 7100 Fax (02) 9367 7102

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 financial performance and cash flows.

The audit opinion is based on 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 2006 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
6 September 2006

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 2006 have been prepared based on properly maintained financial records and give a true and fair view of the matters required by the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, as amended.



David Vos AM
Inspector-General of Taxation
6 September 2006



Rick Matthews
Chief Finance Officer
6 September 2006

Income statement
for the year ended 30 June 2006

	Notes	2006 \$	2005 \$
INCOME			
Revenue			
Revenues from government	4A	2,149,000	2,154,000
Rents	4B	51,843	50,961
Other revenue	4C	1,390	5,290
Total revenue		2,202,233	2,210,251
Gains			
Other gains	4D	29,000	24,000
Total gains		29,000	24,000
TOTAL INCOME		2,231,233	2,234,251
EXPENSES			
Employees	5A	1,016,897	987,523
Suppliers	5B	786,721	656,292
Finance costs	5C	1,470	2,891
Depreciation and amortisation	5D	82,064	114,085
Write-down and impairment of assets	5E	-	59,849
TOTAL EXPENSES		1,887,152	1,820,640
OPERATING RESULT		344,081	413,611

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

Balance sheet

as at 30 June 2006

	Notes	2006 \$	2005 \$
ASSETS			
Financial assets			
Cash and cash equivalents	6A	61,945	912,173
Receivables	6B	1,269,916	121,068
Total financial assets		1,331,861	1,033,241
Non-financial assets			
Infrastructure, plant and equipment	7A,7C	101,280	127,700
Leasehold improvements	7B,7C	140,554	196,398
Other	7D	29,644	27,313
Total non-financial assets		271,478	351,411
TOTAL ASSETS		1,603,339	1,384,652
LIABILITIES			
Payables			
Suppliers	8A	8,390	38,695
Other payables	8B	23,253	26,066
Total payables		31,643	64,761
Provisions			
Employees	9A	212,051	305,797
Other provisions	9B	62,183	60,713
Total provisions		274,234	366,510
TOTAL LIABILITIES		305,877	431,271
NET ASSETS		1,297,462	953,381
EQUITY			
Contributed equity		1,573	1,573
Accumulated surplus		1,295,889	951,808
Total equity		1,297,462	953,381
Current assets		1,361,504	1,060,554
Non-current assets		241,835	324,098
Current liabilities		81,371	172,508
Non-current liabilities		224,506	258,763

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

Cash flow statement
for the year ended 30 June 2006

	Notes	2006 \$	2005 \$
OPERATING ACTIVITIES			
Cash received			
Appropriations		2,000,000	2,044,000
Rents		63,164	50,830
Other revenue		667	77,144
GST received from ATO		61,811	58,163
Total cash received		2,125,642	2,230,137
Cash used			
Employees		(1,110,643)	(988,415)
Suppliers		(865,227)	(679,948)
Return of appropriation to OPA	**	(1,000,000)	-
Total cash used		(2,975,870)	(1,668,363)
Net cash from/(used by) operating activities	10	(850,228)	561,774
INVESTING ACTIVITIES			
Cash used			
Purchase of property, plant and equipment		-	(9,880)
Total cash used		-	(9,880)
Net cash used by investing activities		-	(9,880)
Net increase in cash held		(850,228)	551,894
Cash at the beginning of the reporting period		912,173	360,279
Cash at the end of the reporting period	6A	61,945	912,173

** Note: In accordance with the agreement with DoFA regarding working cash limits, \$1,000,000 was returned by IGT to the OPA. The amount is shown as a receivable in the balance sheet and remains available to IGT.

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

Statement of changes in equity
for the year ended 30 June 2006

	Accumulated Results		Contributed equity		Total equity	
	2006	2005	2006	2005	2006	2005
	\$	\$	\$	\$	\$	\$
Opening Balance	951,808	544,091	1,573	1,573	953,381	545,664
Adjustment for errors						
Adjustment for changes in accounting policies	-	181	-	-	-	181
Adjusted Opening Balance	951,808	544,272	1,573	1,573	953,381	545,845
Income and Expense						
Income and Expenses recognised directly in Equity						
Adjustment of employee expense	-	(6,075)	-	-	-	(6,075)
Subtotal income and expenses recognised directly in equity	-	(6,075)	-	-	-	(6,075)
Operating Result	344,081	413,611	-	-	344,081	413,611
Total income and expenses recognised directly in equity	344,081	407,536	-	-	344,081	407,536
Sub-total transactions with owners	-	-	-	-	-	-
Transfers between equity components	-	-	-	-	-	-
Closing balance at 30 June	1,295,889	951,808	1,573	1,573	1,297,462	953,381

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

Schedule of commitments as at 30 June 2006

	2006 \$	2005 \$
BY TYPE		
Other commitments		
Operating leases(1)	710,414	943,177
Other commitments(2)	245,867	-
Total other commitments	956,281	943,177
Commitments receivable(3)	(246,653)	(304,771)
Net commitments by type	709,628	638,406
BY MATURITY		
Operating lease commitments		
One year or less	262,352	251,258
From one to five years	448,062	691,919
Total operating lease commitments	710,414	943,177
Other commitments		
One year or less	121,095	-
From one to five years	124,773	-
Total other commitments	245,867	-
Commitments receivable(3)	(246,653)	(304,771)
Net commitments by maturity	709,628	638,406

Commitments are GST inclusive where relevant.

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

Schedule of contingencies as at 30 June 2006

	2006 \$	2005 \$
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 2006

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'.

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

The *Inspector-General of Taxation Act 2003* (the Act) established an independent statutory agency on 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.

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

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

1.2 Basis of preparation of financial statements

The financial statements 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 Orders (Financial Statements for reporting periods ending on or after 01 July 2005)*;
- Australian Accounting Standards issued by the Australian Accounting Standards Board that apply for the reporting period; and
- Interpretations issued by the AASB and UIG that apply for the reporting period.

This is the first financial report to be prepared under Australian Equivalents to International Financial Reporting Standards (AEIFRS). The impacts of adopting AEIFRS are disclosed in Note 2.

The Income Statement and Balance Sheet have been prepared on an accrual basis and are in accordance with the historical cost convention, except for certain assets and liabilities, which as noted, are at fair value or amortised cost. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

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

Unless alternative treatment is specifically required by an accounting standard, assets and liabilities are recognised in the Balance Sheet when and only when it is probable that future economic benefits will flow and the amounts of assets or liabilities can be reliably measured. However, assets and liabilities arising under agreements equally proportionally unperformed are not recognised unless required by an Accounting Standard. Liabilities and assets that are unrecognised are reported in the Schedule of Commitments and the Schedule of Contingencies (other than unquantifiable or remote contingencies, which are reported at Note 11).

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

1.3 Significant accounting judgements and estimates

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

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

1.4 Statement of Compliance

The financial report complies with Australian Accounting Standards, which include Australian Equivalents to International Financial Reporting Standards (AEIFRS).

Australian Accounting Standards require IGT to disclose Australian Accounting Standards that have not been applied, for standards that have been issued but are not yet effective.

The AASB has issued amendments to existing standards, these amendments are denoted by year and then number, for example 2005-1 indicates amendment 1 issued in 2005.

The table below illustrates standards and amendments that will become effective for IGT in the future. The nature of the impending change within the table, has been out of necessity abbreviated and users should consult the full version available on the AASB's website to identify the full impact of the change. The expected impact on the financial report of adoption of these standards is based on IGT's initial assessment at this date, but may change. IGT intends to adopt all of the standards upon their application date.

Title	Standard affected	Application date*	Nature of impending change	Impact expected on financial report
2005-1	AASB 139	1 Jan 2006	Amends hedging requirements for foreign currency risk of a highly probable intra-group transaction.	No expected impact.
2005-4	AASB 139, AASB 132, AASB 1, AASB 1023 and AASB 1038	1 Jan 2006	Amends AASB 139, AASB 1023 and AASB 1038 to restrict the option to fair value through profit or loss and makes consequential amendments to AASB 1 and AASB 132.	No expected impact.
2005-5	AASB 1 and AASB 139	1 Jan 2006	Amends AASB 1 to allow an entity to determine whether an arrangement is, or contains, a lease. Amends AASB 139 to scope out a contractual right to receive reimbursement (in accordance with AASB 137) in the form of cash.	No expected impact.
2005-6	AASB 3	1 Jan 2006	Amends the scope to exclude business combinations involving entities or businesses under common control.	No expected impact.
2005-9	AASB 4, AASB 1023, AASB 139 and AASB 132	1 Jan 2006	Amended standards in regards to financial guarantee contracts.	No expected impact.
2005-10	AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 and AASB 1038	1 Jan 2007	Amended requirements subsequent to the issuing of AASB 7.	No expected impact.
2006-1	AASB 121	31 Dec 2006	Changes in requirements for net investments in foreign subsidiaries depending on denominated currency.	No expected impact.
	AASB 7 Financial Instruments Disclosures	1 Jan 2007	Revise the disclosure requirements for financial instruments from AASB132 requirements.	No expected impact.

1.5 Revenue

Revenues from government

Amounts appropriated for departmental outputs appropriations for the year (adjusted for any formal additions and reductions) 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.

Appropriations receivable are recognised at their nominal amounts.

Other revenue

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

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

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

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

Interest revenue is recognised using the effective interest method as set out in AASB 139.

1.6 Gains

Resources received free of charge

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

Contributions of assets at no cost of acquisition or for nominal consideration are recognised as gains at their fair value when the asset qualifies for recognition, unless received from another government agency as a consequence of a restructuring of administrative arrangements (Refer to Note 4D).

Other gains

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

1.7 Transactions by the Government as owner

Equity injections

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

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.

1.8 Employee benefits

As required by the Finance Minister's Orders, IGT has early adopted AASB 119 Employee Benefits as issued in December 2004.

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

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

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

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

Leave

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

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

The liability for long service leave has been determined by reference to the work of an actuary. 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 (CSS), the Public Sector Superannuation Scheme (PSS) or the PSS accumulation plan (PSSap).

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

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

IGT makes employer contributions to the 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.

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

1.9 Leases

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

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

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

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

1.10 Borrowing costs

All borrowing costs are expensed as incurred.

1.11 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.

1.12 Financial risk management

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

1.13 Derecognition of financial assets and liabilities

As prescribed in the Finance Minister's Orders, IGT has applied the option available under AASB 1 of adopting AASB 132 and 139 from 1 July 2005 rather than 1 July 2004.

Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire or the asset is transferred to another entity. In the case of a transfer to another entity, it is necessary that the risks and rewards of ownership are also transferred.

Financial liabilities are derecognised when the obligation under the contract is discharged or cancelled or expires.

For the comparative year, financial assets were derecognised when the contractual right to receive cash no longer existed. Financial liabilities were derecognised when the contractual obligation to pay cash no longer existed.

1.14 Impairment of financial assets

As prescribed in the Finance Minister's Orders, IGT has applied the option available under AASB 1 of adopting AASB 132 and 139 from 1 July 2005 rather than 1 July 2004.

Financial assets are assessed for impairment at each balance date.

Financial assets held at amortised cost

If there is objective evidence that an impairment loss has been incurred for loans and receivables or held to maturity investments held at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest

rate. The carrying amount is reduced by way of an allowance account. The loss is recognised in profit and loss.

Financial assets held at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because it cannot be reliably measured, or a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate for similar assets.

Available for sale financial assets

If there is objective evidence that an impairment loss on an available for sale financial asset has been incurred, the amount of the difference between its cost, less principal repayments and amortisation, and its current fair value, less any impairment loss previously recognised in profit and loss, is transferred from equity to the profit and loss.

Comparative year

The above policies were not applied for the comparative year. For receivables, amounts were recognised and carried at original invoice amount less a provision for doubtful debts based on an estimate made when collection of the full amount was no longer probable. Bad debts were written off as incurred.

Other financial assets carried at cost which were not held to generate net cash inflows, were assessed for indicators of impairment. Where such indicators were found to exist, the recoverable amount of the assets was estimated and compared to the assets carrying amount and, if less, reduced to the carrying amount. The reduction was shown as an impairment loss.

1.15 Payables

Payables 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 (and irrespective of having been invoiced).

1.16 Contingent liabilities and contingent assets

Contingent liabilities and contingent assets are not recognised in the Balance Sheet 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. A liability or asset is recognised when its existence is confirmed by a future event, settlement becomes probable (virtually certain for assets) or reliable measurement becomes possible.

1.17 Acquisition of assets

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

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and 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.

1.18 Property, plant and equipment (PP&E)

Asset recognition threshold

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

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

Revaluations

Basis

Property, plant and equipment are carried at fair value, being revalued with sufficient frequency such that the carrying amount of each asset is not materially different, at reporting date, from its fair value. Valuations undertaken in a year are as at 30 June.

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

<u>Asset class</u>	<u>Fair value measured at:</u>
Leasehold improvements	Depreciated replacement cost
Plant & equipment	Market selling price

Following initial recognition at cost, valuations are conducted with sufficient frequency to ensure that the carrying amounts of assets do not differ materially with the assets' fair values as at the reporting date. The regularity of independent valuations depends upon the volatility of movements in market values for the relevant assets.

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

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

Depreciation

Depreciable property, plant and equipment assets are written off to their estimated residual values over their estimated useful lives to the agency using, in all cases, the straightline method of depreciation. Leasehold improvements are depreciated on a straightline 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:

	2005-06	2004-05
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 5D.

Impairment

All assets were assessed for impairment at 30 June 2006. Where indications of impairment exist, the asset's recoverable amount is estimated and an impairment adjustment made if the asset's recoverable amount is less than its carrying amount.

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

replaced if IGT were deprived of the asset, its *value in use* is taken to be its depreciated replacement cost.

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

1.19 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.

Note 2: The impact of the transition to AEIFRS from previous AGAAP

Reconciliation of total equity as presented under previous AGAAP to that under AEIFRS

	2005 \$'000	2004 \$'000
Total equity under previous AGAAP	971,522	545,664
Adjustments to retained earnings:		
Borrowing costs(1)	(4,064)	(1,173)
Employee expense(2)	1,974	6,075
'Make good' assets(3)	(16,051)	(4,721)
Total equity translated to AEIFRS	953,381	545,845

Reconciliation of profit or loss as presented under previous AGAAP to AEIFRS

Prior year profit as previously reported	425,858
Employee expense(2)	1,974
Borrowing expense(1)	(2,891)
Amortisation expense(3)	(11,330)
Prior year profit translated to AEIFRS	413,611

- (1) Borrowing costs represent the accumulated change in the 'Make Good' provision occurring as the present value discount of the estimated future cost unwinds over time.
- (2) The amount of recreation leave that has been determined will not be taken within 12 months of the reporting date is discounted to its present value. This amount is applied as a reduction to employee provisions.
- (3) AEIFRS requires the recognition of 'make good' costs as an addition to the cost of the asset (leasehold improvements) and that the present value (at recognition) of its eventual cost is amortised on a straight line basis over the remaining lease term.

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: Income

	2006	2005
	\$	\$
Revenue		
Note 4A: Revenues from government		
Appropriations for outputs	2,149,000	2,154,000
Total revenues from government	2,149,000	2,154,000
Note 4B: Rent received		
Property sub-lease rent received	51,843	50,961
Total rents	51,843	50,961
Note 4C: Other revenue		
Other revenue	1,390	5,290
Total other revenue	1,390	5,290
Gains		
Note 4D: Other gains		
Resources received free of charge	29,000	24,000
	29,000	24,000

Note 5: Operating expenses

	2006 \$	2005 \$
Note 5A: Employee expenses		
Wages and salary	799,516	725,556
Superannuation	111,041	111,209
Leave and other benefits	97,571	132,672
Other employee expenses	8,769	18,086
Total employee expenses	1,016,897	987,523
Note 5B: Supplier expenses		
Goods from related entities	2,902	32,270
Goods from external entities	91,649	12,047
Services from related entities	139,097	103,695
Services from external entities	315,299	282,257
Operating lease rentals(*)	229,287	218,978
Workers compensation premiums	8,487	7,045
Total supplier expenses	786,721	656,292
* These comprise minimum lease payments only		
Note 5C: Finance costs		
Unwinding of discount	1,470	2,891
	1,470	2,891
Note 5D: Depreciation and Amortisation		
Depreciation		
Property, plant and equipment	70,734	102,755
Total amortisation	70,734	102,755
Amortisation		
Leasehold improvements - make good provision	11,330	11,330
Total depreciation	11,330	11,330
The aggregate amounts of depreciation or amortisation expensed during the reporting period for each class of depreciable assets are as follows:		
Leasehold improvements	55,844	71,918
Infrastructure, plant and equipment	26,220	42,167
Total depreciation and amortisation	82,064	114,085
No depreciation or amortisation was allocated to the carrying amounts of other assets		
Note 5E: Write-down of Assets		
Plant and equipment - revaluation decrement	-	59,849
Total write-down of assets	-	59,849

Note 6: Financial assets

	2006 \$	2005 \$
Note 6A: Cash and cash equivalents		
Departmental	61,945	912,173
Total cash and cash equivalents	61,945	912,173
Note 6B: Receivables		
Goods and services	784	4,753
Less: Allowance for doubtful debts	-	-
Total goods and services	784	4,753
GST receivable	10,132	6,315
Appropriations receivable for existing outputs	1,259,000	110,000
Total receivables (net)	1,269,916	121,068
Receivables is represented by:		
Current	1,269,916	121,068
Total receivables (net)	1,269,916	121,068
All receivables are with related entities. Credit terms are net 30 days (2005: 30 days) for receivables of goods and services		
Receivables is represented by:		
Current	1,159,916	121,068
Non-current	110,000	-
Total receivables (gross)	1,269,916	121,068
Receivables (gross) are aged as follows:		
Current	1,159,916	121,068
Overdue by:		
Less than 30 days	-	-
30 to 60 days	-	-
61 to 90 days	-	-
More than 90 days	110,000	-
	110,000	-
Total receivables (gross)	1,269,916	121,068

Note 7: Non-financial assets

	2006 \$	2005 \$
Note 7A: Infrastructure, plant and equipment		
Infrastructure, plant and equipment		
- at fair value	127,500	127,700
- accumulated depreciation	(26,220)	-
	101,280	127,700
Total infrastructure, plant and equipment	101,280	127,700
All infrastructure, plant and equipment are non-current assets		
Note 7B: Leasehold improvements		
Leasehold improvements		
- at fair value	155,800	155,800
- accumulated depreciation	(44,514)	-
	111,286	155,800
Leasehold improvements 'make good'		
- at fair value	56,649	56,649
- accumulated amortisation	(27,381)	(16,051)
	29,268	40,598
Total leasehold improvements	140,554	196,398
All leasehold improvements are non-current assets		
Total property, plant and equipment	241,834	324,098

	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 2005		
Gross book value	127,700	212,449
Accumulated depreciation/amortisation	-	(16,051)
Net book value	127,700	196,398
Additions by purchase	-	-
Depreciation/amortisation expense	(26,220)	(55,844)
Disposals:		
other disposals	(200)	-
As at 30 June 2006		
Gross book value	127,500	212,449
Accumulated depreciation/amortisation	(26,220)	(71,895)
Net book value	101,280	140,554

All property, plant and equipment are at valuation as at 30 June 2005 in accordance with the agency's revaluation policy (note 1.18). In 2006, assets were assessed for indications of impairment. No indications of impairment were found.

Note 7: Non-financial assets (continued)

	2006 \$	2005 \$
Note 7D: Other non-financial assets		
Prepayments	29,644	27,313
All prepayments are current assets	29,644	27,313

Note 8: Payables

	2006 \$	2005 \$
Note 8A: Suppliers		
Trade creditors	8,390	38,695
Total supplier payables	8,390	38,695
Supplier payables are represented by:		
Current	8,390	38,695
Total supplier payables	8,390	38,695
Note 8B: Other payables		
Accrued expenses	23,253	21,746
Prepayments received	-	4,320
Total other payables	23,253	26,066
All other payables are current liabilities		

Note 9: Provisions

	2006 \$	2005 \$
Note 9A: Employee provisions		
Salaries and wages	5,995	2,398
Leave	204,993	302,954
Superannuation	1,063	445
Total employee provisions	212,051	305,797
Current	179,703	262,689
Non-current	32,348	43,108
Total employee provisions	212,051	305,797
Note 9B: Other provisions		
Provision for 'Makegood'	62,183	60,713
	62,183	60,713
	Provision for Makegood	Total
Carrying amount at beginning of period	60,713	60,713
Unwinding of discounted amount arising from the passage of time	1,470	1,470
Amount owing at end of period	62,183	62,183
All other provisions are non-current liabilities		

Note 10: Cash flow reconciliation

	2006 \$	2005 \$
Reconciliation of cash per Balance Sheet to Cash Flow Statement		
Cash at year end per Cash Flow Statement	61,945	912,173
Balance Sheet items comprising above cash: 'financial asset - cash & cash equivalents'	61,945	912,173
Reconciliation of net surplus to net cash from operating activities:		
Net surplus	344,081	413,611
Depreciation and Amortisation	82,064	114,085
Write-down of assets	-	59,849
Finance costs	1,470	2,891
(Increase)/decrease in receivables	(1,148,648)	(38,372)
(Increase)/decrease in prepayments	(2,331)	(25,296)
Increase/(decrease) in employee provision	(93,746)	6,152
Increase/(decrease) in payables	(33,118)	24,534
Increase/(decrease) in other provisions	-	4,320
Net cash from/(used by) operating activities	(850,228)	561,774

Note 11: Contingent liabilities and assets

There are no unquantifiable or remote contingencies.

Note 12: Executive remuneration

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

	2006	2005
\$265,000-\$279,999	1	1
\$280,000-\$294,999	-	1
\$295,000-\$309,999	1	-
Total	2	2
The aggregate amount of total remuneration of executives shown above	\$574,352	\$554,512

Note 13: Remuneration of auditors

	2006 \$	2005 \$
Financial statement audit services are provided free of charge to the agency. The fair value of the services provided was	29,000	24,000
Total	29,000	24,000

No other services were provided by the Auditor-General.

Note 14: Average staffing levels

	2006	2005
The average staffing levels for the agency during the period were:	6	6

Note 15: Financial instruments

Note 15A: Interest rate risk

Financial instrument	Notes	Non-interest bearing 2006 \$	Non-interest bearing 2005 \$	Total 2006 \$	Total 2005 \$	Weighted average effective interest rate 2006 %	Weighted average effective interest rate 2005 %
Financial assets							
Cash & cash equivalents	6A	61,945	912,173	61,945	912,173	n/a	n/a
Receivables	6B	1,269,916	121,068	1,269,916	121,068	n/a	n/a
Total financial assets		1,331,861	1,033,241	1,331,861	1,033,241		
Total assets				1,603,339	1,384,652		
Financial liabilities							
Supplier payables	8A	8,390	38,695	8,390	38,695	n/a	n/a
Other payables	8B	23,253	26,066	23,253	26,066	n/a	n/a
Total financial liabilities		31,643	64,761	31,643	64,761		
Total liabilities				305,877	431,271		

Note 15B: Net fair values of financial assets and liabilities

		2006		2005	
	Notes	Total carrying amount \$	Aggregate Net fair value \$	Total carrying amount \$	Aggregate Net fair value \$
Financial assets					
Cash & cash equivalents	6A	61,945	61,945	912,173	912,173
Receivables	6B	1,269,916	1,269,916	121,068	121,068
Total financial assets		1,331,861	1,331,861	1,033,241	1,033,241
Financial liabilities					
Supplier payables	8A	8,390	8,390	38,695	38,695
Other payables	8B	23,253	23,253	26,066	26,066
Total financial liabilities		31,643	31,643	64,761	64,761

Note 15C: 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 Balance Sheet.

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 16: Specific payments disclosure

	2006 \$	2005 \$
No 'Act of Grace' payments were made during the reporting period	-	-
No waivers of amounts owing to the Commonwealth were made during the reporting period	-	-
No ex-gratia payments were made during the reporting period	-	-
No payments were made under the 'Defective Administration Scheme' during the reporting period	-	-
No payments were made under s73 of the <i>Public Service Act 1999</i> during the reporting period	-	-

Note 17: Acquittal of Authority to Draw Cash from the Consolidated Revenue Fund (CRF) for Ordinary Annual Services Appropriations

	Departmental Outputs		Total	
	2006	2005	2006	2005
	\$	\$	\$	\$
Balance carried from previous year	1,028,490	-	1,028,490	-
Appropriation Act (No.1) 2005-06 - basic appropriation	2,149,000	2,154,000	2,149,000	2,154,000
Comcover receipts (Appropriation Act s13)	-	5,091	-	5,091
Adjustment of appropriations on change of entity function (FMAA s32)	-	360,279	-	360,279
Sub-total 2005-06 Annual Appropriation	3,177,490	2,519,370	3,177,490	2,519,370
Appropriations to take account of recoverable GST (FMAA s30A)	11,376	37,728	11,376	37,728
Annotations to 'net appropriations' (FMAA s31)	118,081	149,634	118,081	149,634
Total Appropriations available for payments	3,306,947	2,706,732	3,306,947	2,706,732
Cash payments made during the year (GST inclusive)	1,975,870	1,678,243	1,975,870	1,678,243
Balance of Authority to Draw Cash from the CRF for Ordinary Annual Services Appropriations	1,331,077	1,028,490	1,331,077	1,028,490
Represented by:				
Cash at bank and on hand	61,945	912,173	61,945	912,173
Receivable - Departmental appropriations	1,259,000	110,000	1,259,000	110,000
Receivables - GST receivable from ATO	10,132	6,316	10,132	6,316
Total	1,331,077	1,028,490	1,331,077	1,028,490

Note 18: Reporting of outcomes

The Inspector General of Taxation has one outcome:

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

Note 18A: Net cost of outcome delivery

	2006	2005
	\$	\$
Total expenses	1,887,152	1,820,640
Total costs recovered	-	-
	1,887,152	1,820,640
Other external revenues		
Rents	51,843	50,961
Other revenue	1,390	5,290
Gains	29,000	24,000
Total other external revenues	82,233	80,251
Net cost of outcome	1,804,919	1,740,389

Note 18B: Major classes of departmental revenues and expenses by output groups and outputs

The agency has two outputs (Output Group 1.1):

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

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

The basis of attribution in the table below is consistent with the basis used for the 200506 Budget, which estimated the proportion of agency activities to be assigned to each of the outputs. This basis was evaluated during 2005-06 through monitoring of agency activities and no adjustment was considered necessary.

Note 18B: 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			
	2006	2005	2006	2005	2006	2005
	\$	\$	\$	\$	\$	\$
Departmental expenses						
Employees	50,845	49,829	966,052	946,713	1,016,897	996,542
Suppliers	39,336	32,462	747,385	616,785	786,721	649,247
Finance costs	73	145	1,397	2,746	1,470	2,891
Depreciation and amortisation	4,103	5,704	77,961	108,381	82,064	114,085
Write down of assets	-	2,992	-	56,857	-	59,849
Total Departmental expenses	94,357	91,132	1,792,795	1,731,482	1,887,152	1,822,614
Funded by:						
Revenues from government	107,450	107,700	2,041,550	2,046,300	2,149,000	2,154,000
Rents	2,591	2,548	49,252	48,413	51,843	50,961
Other revenue	70	265	1,320	5,025	1,390	5,290
Gains	1,450	1,200	27,550	22,800	29,000	24,000
Total Departmental revenues	111,561	111,713	2,119,672	2,122,538	2,231,233	2,234,251

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 2005-06, 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 programme.

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 programme 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 — 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 2005-06.

ADVERTISING AND MARKET RESEARCH

No advertising or market research activities were undertaken during 2005-06.

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 programmes are administered by the Inspector-General of Taxation.

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ACRONYMS

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

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