



Australian Government
Inspector-General of Taxation

Inspector-General of Taxation

Annual Report
2011–12

September 2012

Inspector-General of Taxation

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ISBN 978-0-642-74850-8

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28 September, 2012

The Hon David Bradbury MP
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 (IGT) for the year ended 30 June 2012. The Report has been prepared in accordance with section 41 of the *Inspector-General of Taxation Act 2003* (the IGT Act).

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

In addition, and as required by the Commonwealth Fraud Control Guidelines, I certify that I am satisfied that the IGT has in place appropriate fraud control mechanisms that meet the IGT's needs and comply with the guidelines applying in 2011-12.

Yours sincerely

A handwritten signature in dark ink, consisting of a stylized 'A' followed by a horizontal line and a small flourish.

Ali Noroozi
Inspector-General of Taxation

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PART 1: OVERVIEW

INSPECTOR-GENERAL OF TAXATION REPORT



As the Inspector-General of Taxation (IGT), I am pleased to report that my office has had a very busy and fruitful year. We have built upon the foundations set in my earlier years in office and have sought improvements in the delivery of our goals.

The overarching aim of my role is to improve the tax administration system for the benefit of all Australians. The role offers a unique perspective that is founded upon three pillars, being:

- statutory independence;
- compulsory information and access powers relating to the Australian Taxation Office (ATO); and
- strong relationships and consultation with the taxpaying community.

This foundation facilitates the sharing of frank and candid views in a manner not ordinarily exchanged between the ATO on the one hand and taxpayers, tax practitioners and their respective representative bodies on the other. This process of exchange between stakeholders provides a strong basis for the development of my reviews and in shaping of recommendations for improvements in the resulting report.

Each review achieves both direct and incremental improvements. Whilst the full benefit of a given review may not always be immediately apparent, I am confident that the incremental changes brought about by the reviews and other complimentary activities that the IGT undertakes, over time, will result in enduring improvements to tax administration in this country.

In this year's report, I highlight some of the key outcomes of the IGT's activities to illustrate the evolution and development of the office. I also provide observations on emerging themes in tax administration arising from issues raised with my office.

Thereafter, I outline the results from the current year's work program and comment on the new work program planning for the 2012 and 2013 period.

KEY OUTCOMES AND OBSERVATIONS

The key role and function of the IGT is to review systemic tax administration issues and report to Government. The nature of the role necessitates a broad range of activities and interactions, the key outcomes flowing from which are highlighted in this section.

IGT submission to the Tax Forum

The October 2011 Tax Forum, an important initiative of the Government, provided my office with a unique opportunity to make submissions on a key overarching issue in tax administration, namely, ATO governance and scrutineer function. Having felt strongly about contributing to this debate, I made a written submission to, as well as participated in, the Forum.

My written submission highlighted opportunities to improve governance through a combination of an ATO management board, additional Second Commissioners recruited from the private sector to perform substantive tax decision making roles (including one to head up a separate appeals and review function) and an overarching scrutineer body that consolidated the existing tax scrutineer functions. This submission is available from my office's website (see www.igt.gov.au).

Government adoption of IGT recommendations

My office not only examines systems established by the ATO, but also identifies opportunities for Government to consider policy improvements to those systems through legislative action. Recent examples of Government adoption of IGT recommendations for policy consideration include:

- legislative amendments (*Tax Laws Amendment (2012 Measures No. 2) Act 2012*) – implementing an IGT recommendation to better protect employees' superannuation guarantee (SG) entitlements by expanding the director penalty regime to apply to unpaid SG liabilities (recommendation 11 in my 2010 review of the ATO's administration of the Superannuation Guarantee Charge); and
- legislative amendments (Schedule 6 to the *Tax and Superannuation Laws Amendment (2012 Measures No. 1) Act 2012*) – implementing an IGT recommendation to require employers to report, on payslips, superannuation contribution information (recommendation 2 from the same review above).

Other adoption of IGT recommendations

It is also interesting to observe the broader influence of IGT work, such as aspects of recommendations with which the ATO has disagreed but have been reiterated by other bodies at a later time. Examples include:

- recommendation 114 in the *Australia's future tax system: Report to the Treasurer* (the Henry report) reiterated that part of an IGT recommendation to require disclosure of Treasury material which the ATO uses in determining the purpose or object of the law or policy intent (recommendation 2 in the IGT review of the potential revenue bias in private binding rulings involving large complex matters); and
- recommendation 9 in the Joint Committee of Public Accounts and Audit's (JCPAA) *Report 410 Tax Administration* which reiterated an IGT recommendation to improve transparency on ATO reported timeframes in processing private ruling applications (recommendation 10 in the IGT review of the potential revenue bias in private binding rulings involving large complex matters).

It should be noted that the JCPAA has recently requested that the ATO provide submission to it on, amongst other things, IGT recommendations to which it did not agree and the reasons why (recommendation 6 of the JCPAA's *Report 426 Ninth Biannual hearing with the Commissioner of Taxation*).

International revenue and scrutineer body interaction

My office also draws on the strong ties with other countries' revenue authorities and associated scrutineer bodies to better inform our consideration of potential improvement opportunities. In this respect, my office has drawn on the experience of a range of overseas bodies. Examples include:

- consulting the United States of America Internal Revenue Service (IRS) and Canada Revenue Agency, their respective management boards and scrutineering agencies, amongst others, on their revenue authorities' governance arrangements in the course of developing my submission to the Tax Forum;
- consulting the United Kingdom's HM Revenue and Customs (HMRC) on its pilot of small business alternative dispute resolution in the course of my review of the ATO's approach to alternative dispute resolution, as well as its approach to other issues that relate to other reviews; and
- consulting with a number of revenue authorities, such as the Inland Revenue Authority of Singapore, IRS and HMRC on their pre-lodgement compliance approaches, in the course of my review into improving the self assessment system.

Furthermore, for the first time this year, I met with my US and Canadian counterparts to exchange information, views and thoughts on how we can work with our respective revenue authorities to deliver improvements to tax administration. I have also been invited to provide my insights on tax administration through presentations at international tax conferences which are also a useful source of information and ideas.

The overseas ties ensure that my office is aware of new international developments and that they are considered when identifying potential improvements to tax administration in this country.

International and Australian taxation academic interaction

My office also seeks to foster relationship with academics engaged in the field of taxation law and tax administration both within Australia and internationally. The IGT values the independent insights, experiences and innovations that they bring to bear in developing and testing options to improve tax system administration. Our involvement with academics includes presenting and participating in their conferences as well as consulting with them on specific IGT reviews.

Improved scrutineer work program development

During the year, the Commonwealth Auditor-General, the Commonwealth Ombudsman and I agreed to meet collectively as part of our respective annual planning processes to share information and consider more broadly the overall ATO review activity. This agreement implements the JCPAA's recommendation aimed at avoiding unnecessary duplication where there is potential for overlap in our different roles in scrutinising the ATO (recommendation 4 in the JCPAA's *Report 426 Ninth Biannual hearing with the Commissioner of Taxation*).

In effect, the agreement builds upon the requirement of subsection 9(2) of the *Inspector-General of Taxation Act 2003* (the IGT Act) for me to consult both agencies in respect of developing my work program. As there is no such reciprocal legislative requirement on the other agencies, the implementation of this agreement ensures that such consultations are clearer and mutually conducted.

Interaction with government organisations

Tax systems do not exist in isolation and frequently interact with the functions of other government bodies. In this respect, the evolution of my office has seen an increased focus on improving the ATO's interaction within government administration.

For example, my recent review into the ATO's approach to alternative dispute resolution involved interaction with the Attorney-General's Department to ensure that any recommendations on changed ATO approaches were fully informed of broader government initiatives as well as to share insights. These recommendations have been positively received, with some recommended actions being viewed as setting a precedent for other government bodies to follow.

Other opportunities to improve tax administration have also been sourced from the work done in other government bodies, such as the Australian Bureau of Statistics-developed software that was identified in my review of the ATO's approaches in its benchmarking of financial performance of small business in the cash economy. More comment can be made once the report to this review is publicly released.

Emerging themes in tax administration

The IGT seeks to provide insight into the operation of the tax administration system and foster broader discussion around key themes emerging from the issues raised in reviews or consultations.

In previous annual reports, the emerging themes, which still persist, included the independent internal ATO review in tax disputes, timeliness of delivery, certainty of outcomes and compliance costs, amongst others.

Outlined below is a brief overview of some of the main themes arising this year.

Real time ATO compliance approaches

An emerging trend with overseas revenue authorities has been to adopt compliance risk management strategies that involve risk-orientation and differentiated responses. These strategies are typically complemented by shifting compliance activities upstream to address risks earlier in the sequence of events potentially leading to compliance failures.

Consistent with this trend, the ATO has become more overt in strategies that it is developing to better assess risks at earlier points in the lodgement/compliance assurance cycle – for example, the income tax refund integrity program for individuals and the combination of the risk differentiation framework and annual compliance arrangements for medium-sized and large businesses.

These approaches can enable the ATO to better target its compliance focus. It also increases ATO demands for information. These demands can arise at lodgement in the form of expanded disclosures. They can also arise both in advance or after such lodgement through pre-lodgement requirements or additional information requests.

The result of such approaches is increased costs for affected taxpayers. This raised the question as to whether such approaches amounted to a swinging of the pendulum back towards a full-assessment system without any of the benefits. In such a case, there may be a need for taxpayer protections to be reconsidered and rebalanced to improve certainty. These are issues being considered in the IGT review into improving the self assessment system.

ATO staff capability

Another emerging trend relates to the challenges that the ATO faces in developing and maintaining a technically capable workforce. Fostering community confidence in the ATO's activities requires officers to discharge their duties confidently, expeditiously, equitably and accurately. Community confidence is critical to voluntary compliance with the tax laws.

In my recent review of the ATO's small and medium enterprise (SME) active compliance activities, the ATO recognised that its SME business line will face significant staff capability challenges in the next few years. As such, the ATO has given

significant attention to structures that should support the development and maintenance of staff capability.

Resolving policy or legislative ambiguity

Disputes may arise between the ATO and taxpayers that may have positional or tactical aspects in an environment where the law is generally thought to be reasonably settled or the policy understood. Taxpayers clearly have a right to dispute administrative decisions, but this is generally expected to be at their own cost where they are not ultimately vindicated on review.

A number of disputes, however, may arise because the law, its policy or both are unclear or ambiguous. In these circumstances, questions arise as to whether private litigants should bear the cost of prosecuting their view, especially where the resolution of that ambiguity would benefit numbers of taxpayers.

Legislative ambiguity may be settled through judicial decisions providing precedential views which 'clarify' the law. In certain instances, where the ambiguity has broader impacts and a range of other criteria are satisfied, the ATO has provided a limited level of litigation funding to affected taxpayers via its test case litigation funding program.

However, there are circumstances where insufficient clarity of policy may make judicial determination an unattractive option to address the underlying ambiguity. In this respect, improved consultation among the ATO, Treasury and the private sector may be required before new laws or amendments are enacted. These issues have been and are being considered in my reviews into the ATO's approach to alternative dispute resolution and improving the self assessment system.

Substantial and incremental change

Each IGT review makes incremental change to underlying systemic issues. This is due to the nature of the review process which examines 'symptoms' of underlying problems as a window that may cast light upon and assist in identifying options for improvement. Over time and viewed together the IGT reviews and the ATO's implementation of the recommendations in them result in substantial improvements.

Importantly, improved administration of tax laws can also be achieved without formal advice to Government, such as through direct day-to-day interaction between my office and the ATO. Also, the Commissioner of Taxation may of his own initiative take action to address a potential area for review that is identified by my office but without the IGT undertaking a formal review.

A recent example is the ATO's restructuring of its tax technical decision making function. The IGT had raised concerns about the ATO's tax technical decision making and taxpayer access to ATO technical experts from as early as 2005 (in the Review into Tax Office audit timeframes) and subsequently in other IGT reviews and annual reports.

In line with these concerns, the ATO embarked on a number of initiatives to deliver more effective and efficient use of tax technical resources through earlier engagement of tax technical expertise – its Transforming Tax Technical Decision Making project. Resulting enhancements in technical decision making and the effective employment of ATO technical expertise should go some way to ensuring that matters at risk of ongoing dispute and litigation are identified and addressed by the most appropriate ATO personnel.

REVIEW ROUNDUP

Three reviews were in progress at the start of the 2011–12 financial year, with an additional two commencing during the year. By year end, three reviews were complete, while two were in their final stages of completion and two of the completed review reports were publicly released.

Additionally, one review report completed in the previous year was publicly released this year.

The first report to be publicly released this year was the review into the ATO's large business risk review and audit policies, procedures and practices. This report highlighted the large business market as an important segment within the tax system providing significant revenue to Government, the vast majority of which is collected through voluntary compliance. Stakeholders were concerned to ensure that the ATO risk review and audit responses are appropriately measured in delivery and take account of the significant cooperation they provide in a very complex self assessment environment. In this respect, improvements to ATO processes were identified as being achieved through greater transparency, accountability and improved stakeholder understanding. Of particular note was the ATO's risk differentiation framework that is intended to better align administrative treatment with the perceived risk of non-compliance.

The second report released this year was the review into the ATO's administration of class rulings. This review observed that while the class ruling system is a useful element of the tax system, there was room to improve the administration of the class rulings' processes and related areas, such as case management, reporting, record keeping, external performance standards, communication, transparency, ATO staff

awareness of existing procedures and policies and the ATO's Siebel system search functionality.

The last report released this year was my review into the ATO's SME audit and risk review policies, procedures and practices which was conducted in response to concerns raised by taxpayers, tax practitioners and their representative bodies following the ATO's increased compliance focus on larger SMEs and high wealth individuals (HWIs) pursuant to its commitment to Government. A number of recommendations in the review are aimed at improving ATO staff capability which was identified as the main underlying issue. The ATO acknowledged the need for improvements in this area, as well as in other areas, and had already begun a body of work to effect such improvements. Some of my recommendations reinforced this ATO work whilst other recommendations were more distinct but complimentary to that work.

Another key achievement of this review was the ATO's agreement to replace its *Wealthy and Wise* booklet, which focused on HWIs, with a booklet to cover its compliance approaches to the entire SME and HWI market segment, providing taxpayers and their advisors with better understanding of the process and a means of holding ATO officers to account where expectations are not met.

The review into the ATO's use of early and alternative dispute resolution has been completed but was not publicly released as at year end. This report made a number of recommendations to address stakeholder concerns about the ATO's approach to alternative dispute resolution and its broader commitment to resolving disputes as early as practicable in compliance activities. It is important to note that the ATO has already commenced a process of implementing the agreed recommendations.

The two reviews in the final stages of completion as at year end were the review into the ATO's use of benchmarking to target the cash economy and the review into improving the self assessment system. They are expected to be submitted to the Assistant Treasurer in the next few months. Further comment will be made following the public release by the Assistant Treasurer in due course.

THE ROAD AHEAD

In looking at the road ahead, one review topic remains from the previously announced work program for 2011–12. This is the review to follow up the ATO's implementation of recommendations made in the following previously completed reviews:

- review into the ATO's administration of the Superannuation Guarantee Charge — publicly released 24 November 2010;
- review into the implications of any delayed or changed ATO advice on significant issues — publicly released 17 March 2010;
- review into aspects of the Tax Office's settlement of active compliance activities — publicly released 1 December 2009;
- review into the non-lodgement of income tax returns — publicly released 16 October 2009;
- review into the underlying causes and the management of objections to Tax Office decisions — publicly released 11 August 2009; and
- review into the Tax Office's administration of public binding advice — publicly released 7 August 2009.

I will commence this follow up review in the first quarter of the next financial year.

I will also commence consultation on my new work program in the first quarter of the next financial year. I welcome submission from the broad taxation community as part of this consultation.

A number of potential review topics have already been identified. Some of these have come to light in the course of conducting the various reviews this year whilst others are a result of continuing stakeholder feedback. These potential review topics include:

- delayed income tax refunds;
- the ATO's services and support for tax practitioners;
- the ATO's risk assessment processes;
- the ATO's administration of penalties;
- the ATO's compliance approach to micro enterprises and individuals;

- the ATO's interactions with the Australian Valuation Office;
- the ATO's use of client feedback questionnaires;
- the ATO's administration of Part IVA of the *Income Tax Assessment Act 1936*;
- the ATO compliance approach to transfer pricing;
- the ATO's test case litigation program; and
- Project Wickenby.

During the consultation process, whilst stakeholders would be encouraged to raise any topics that they feel merits an IGT review, comments would also be invited on the suitability of the above topics.

It should be noted that review selection for the work program is shaped by the scope and objectives of the relevant governing legislation and the nature of stakeholder consultations and submissions to the IGT. Whilst all submissions are given due consideration, topics for review which help to focus stakeholder thinking on enhancing the equity/fairness, efficiency and simplicity of tax administration for the benefit of all taxpayers provide the greatest opportunities for improvement.

STAKEHOLDERS

External stakeholders

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

The contribution of external stakeholders is increasing as they become better acquainted with the work of the office and appreciate that matters can be shared with us on a strictly confidential basis without waiving any legal professional privilege.

Public sector stakeholders

The Commonwealth Auditor-General and the Commonwealth Ombudsman also scrutinise the ATO from their perspectives. The roles of each agency are different but

there is potential for some overlap. As discussed above, our agencies have agreed to meet collectively as part of our respective annual planning processes. Review activity will continue to be undertaken as appropriate, within the boundaries of our respective legislative frameworks.

I appreciate the assistance that my office has received from these agencies.

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

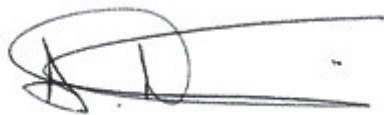
The IGT continues to develop a more constructive relationship with the ATO. My office also continues to evolve its own processes, including its approach to better and earlier identification of issues and related action that may be taken to address those concerns.

The role of the IGT as an independent consulting scrutineer is crucial. It is also important to ensure the constructive relationship with the ATO, is balanced carefully to ensure that independence is maintained. It should always be appreciated that a degree of tension should always exist between an administrator and the scrutineering function. As acknowledged previously, this tension, professionally managed, is entirely appropriate to maintain the community's confidence in the scrutineer's independence.

I would also like to thank the Department of the Treasury as partner in this relationship and also the Assistant Treasurer and his staff for their support.

STATUTORY STATEMENTS

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

A handwritten signature in black ink, consisting of a stylized 'A' followed by a series of loops and a long horizontal stroke.

Ali Noroozi
Inspector-General of Taxation

CORPORATE STATEMENT

Role, function, outcome and output structure

The IGT Act established an independent statutory agency to review:

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

The IGT 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 IGT develops a work program following broad-based consultation with other stakeholders including taxpayers and their representatives, the Commonwealth Ombudsman, the Commonwealth Auditor-General and the Commissioner of Taxation.

Figure 1: Outcome and program structure

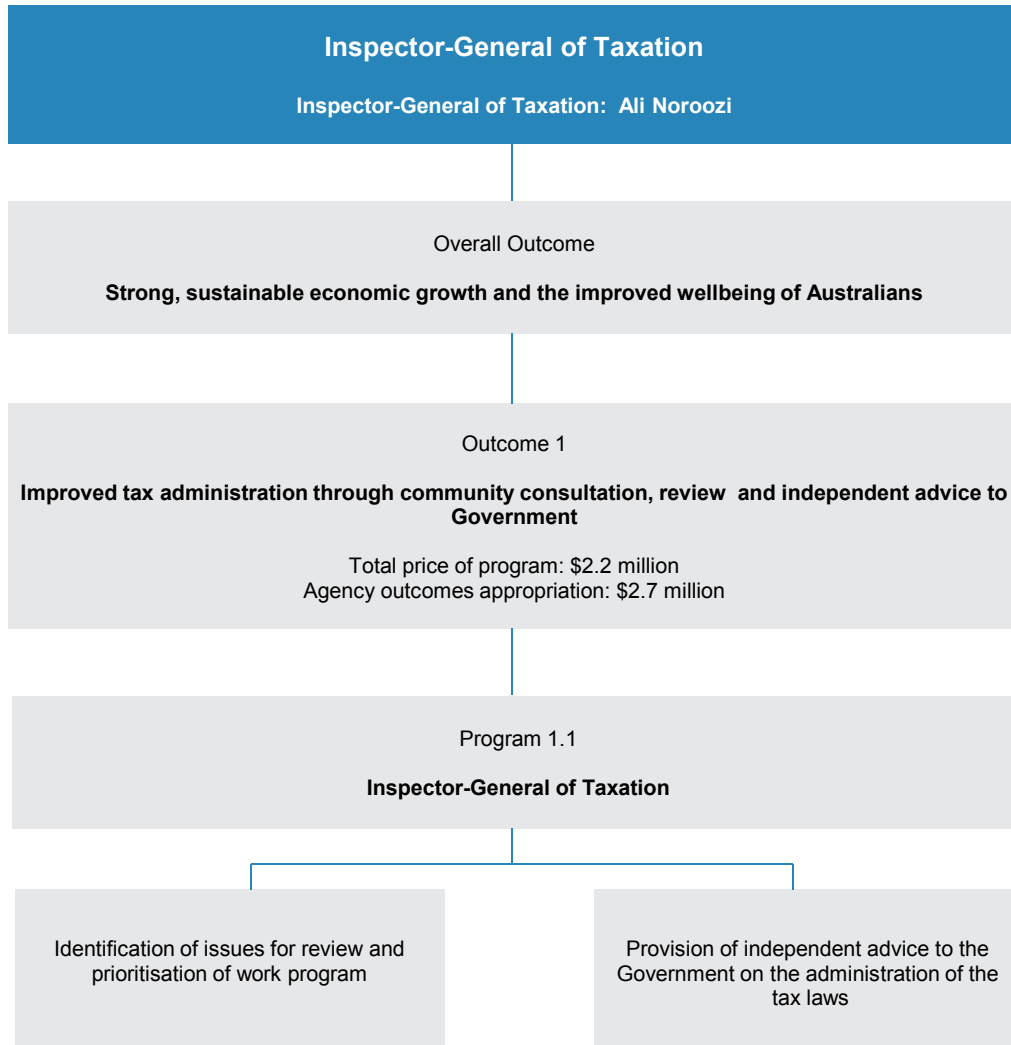
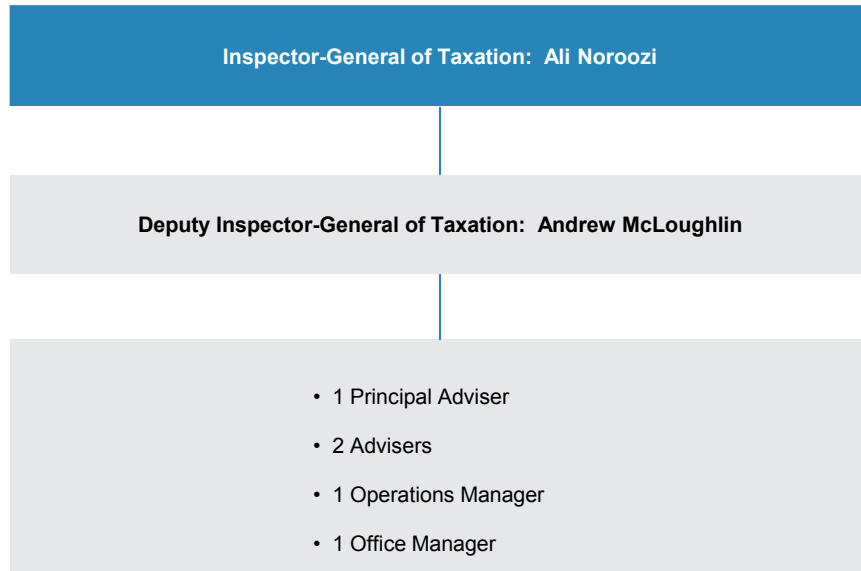


Figure 2: Inspector-General of Taxation management structure



APPENDIX 1 — EXPENSES FOR OUTCOMES

Table A1: Expenses for Inspector-General of Taxation outcomes

Outcome 1: Improved tax administration through community consultation, review, and independent advice to Government	Budget	Actual Expenses	Variation
	2011–12	2011–12	2011–12
	\$'000	\$'000	\$'000
	(a)	(b)	(a)-(b)
Program 1.1: Inspector-General of Taxation			
Departmental expenses			
Departmental appropriation ¹	2,686	2,342	344
Revenue from independent sources (section 31)	5	-	5
Expenses not requiring appropriation in the Budget year	38	18	20
Total for Program 1.1	2,729	2,360	369
Total expenses for Outcome 1	2,729	2,360	369

¹ Ordinary annual services (Appropriation Bill No.1)

Budgeted average staffing level

	2010–11	2011–12
Average staffing level (number) ²	7	11

² Portfolio Budget Statement 2011–12

APPENDIX 2 — AGENCY RESOURCE STATEMENT

Table A2: IGT resource statement for 2011–12
as at Budget May 2011

	Actual available appropriation	Payments made	Balance remaining
	2011–12 \$'000 (a)	2011–12 \$'000 (b)	2011–12 \$'000 (a)-(b)
Ordinary Annual Services¹			
Departmental appropriation ²	2,724	2,250	474
Total	2,724	2,250	474
Total ordinary annual services	2,724	2,250	474
Total Available Annual			
Appropriations and payments	2,724	2,250	474
Total resourcing and payments	2,724	2,250	474
Total net resourcing and payments for Inspector-General of Taxation	2,724	2,250	474

¹ Appropriation Bill (No. 1) 2011–12

² Includes an amount of \$0.04 million in 2011–12 for the Departmental Capital Budget. For accounting purposes this amount has been designated as 'contributions by owners'.

PART 2:

PERFORMANCE REPORT

The performance report for the IGT is divided into two sections:

- **Reviews conducted and reports publicly released**

An outline of publicly released reports and a brief description of reviews in progress during the financial year ending 30 June 2012; and

- **Outcome 1 – Improved tax law administration – taxpayer benefit**

The role of the IGT, key strategies, specific outputs and related performance.

REVIEWS CONDUCTED AND REPORTS PUBLICLY RELEASED

The following table lists the reviews conducted during the 2011–12 financial year, as well as the reports publicly released during that period.

Table 1: Review reports and current year status as at 30 June 2012

IGT Reviews	Status as at 30 June 2012
Review into the ATO's large business risk review and audit policies, procedures and practices	Publicly released
Review into the ATO's administration of class rulings	Publicly released
Review into the ATO's compliance approaches to small and medium enterprise with annual turnovers between \$100 million and \$250 million and high wealth individuals	Publicly released
Review into the ATO's use of early and alternative dispute resolution	Submitted to the Minister but not publicly released
Review into the ATO's use of benchmarking to target the cash economy	Final stages of completion
Review into improving the self assessment system	Final stages of completion

For general descriptions of each of these reviews, please refer to the sections that follow.

Review into the ATO's large business risk review and audit policies, procedures and practices

This review was completed and submitted to the Minister in the 2010–11 financial year. However, it was publicly released by the Minister during the current reporting period.

A key underlying theme arising in this review was the significant unnecessary compliance costs and disputes as well as the lack of due process arising from the ATO's self-imposed timeframes for completing risk reviews and large business audits.

To enhance the review process, the IGT convened a consultation forum consisting of large business representatives and ATO management to provide for direct and candid exchange of issues and concerns.

The report contains a range of recommendations directed at improving the ATO's compliance approaches including its risk hypothesis identification, project management, accountability, information gathering approaches, audit and risk review processes, position papers and, interest and penalties treatments.

There are 28 recommendations in this report. The ATO has agreed fully to 22, two in principle, one in part and disagreed with three.

Review into the ATO's administration of class rulings

This review arose out of concerns that class rulings sometimes take too long to issue and sometimes are not issued at all. Stakeholders asserted that ATO processes for dealing with class rulings are not well known to potential applicants and can involve poorly targeted requests for information.

Overall, it was observed that the class ruling system was a useful element of the tax system, while also acknowledging that there are areas for improvements.

The review found that a special class ruling process, the 'priority class rulings' process, delivered more effective outcomes by ensuring key ATO personnel were involved early on. However, only a small proportion of class rulings are produced under this process due to resource constraints. A key recommendation was that the main principles of this process be extended to the production of all class rulings.

The review also made a number of other recommendations to address transparency, communication and timeliness concerns.

The ATO agreed with all eight recommendations made in this review.

Review into the ATO's compliance approaches to small and medium enterprises (SMEs) with annual turnovers between \$100 million and \$250 million and high wealth individuals (HWIs)

Taxpayers and their advisers cited unmanageable and, at times, unnecessary costs and workloads caused by the ATO's approach to its compliance focus on all SMEs in the \$100 million to \$250 million turnover range, including HWIs. Concerns related to the level of commercial awareness, the type of ATO staff conduct and the quality of ATO engagement on technical issues.

This review concluded that many of the concerns identified would be resolved by improving staff technical capability and as a result many of the recommendations in the report were directed at achieving this objective.

Other identified areas for improvement included initial ATO compliance decision making, project management, transparency and better ATO management of information.

During the review, the ATO agreed to replace its *Wealthy and Wise* booklet, which focused on HWIs, with a booklet to cover its compliance approaches to the entire SME and HWI market segment. This is a major initiative which should provide these taxpayers and their advisors with better understanding of the process and a means of holding ATO officers to account where expectations are not met.

There are forty-one recommendations in this report. Some reinforce the work that the ATO had already begun whilst others are more distinct but complimentary to that work. The ATO has agreed with thirty-eight of these recommendations, partly agreed to two and disagreed with the other.

Review into ATO use of early and alternative dispute resolution (ADR)

This review was undertaken as a result external stakeholders' concern that, at a practical level, the ATO was not making sufficient use of ADR despite its high level commitment to earlier engagement to resolve disputes. The Commissioner of Taxation also requested that this review be undertaken.

The review found that approximately 90 per cent of applications for review in tax matters at the Administrative Appeals Tribunal are resolved prior to hearing. This indicated that there was significant opportunity for greater engagement to resolve disputes earlier and reduce unnecessary costs for taxpayers and the ATO alike.

The report contains certain recommendations which are aimed at:

- bringing early engagement and ADR to the forefront of ATO dispute resolution efforts and only litigating cases which turn on genuine and fundamental disputes as

to law and where there is a public benefit in having the matters judicially determined;

- the ATO publishing clear statement of expectations of taxpayers and ATO staff when engaging in ADR as well as enhancing the skills and understanding of both parties of the different types of ADR; and
- identifying opportunities for continuous improvement through implementing processes to enable feedback to be provided regarding the use of ADR in the tax dispute context.

A major recommendation, with which the ATO disagreed, is aimed at addressing the perceived lack of independence in the objection process and empowering the ATO's in-house legal services function to assess matters independently of the audit arm and determine whether a matter should be abandoned, otherwise settled or proceed through to litigation.

The report made 22 recommendations, of which the ATO agreed with fourteen, partly agreed to four, agreed in principle with two and disagreed with one. The remaining recommendation was directed at the Government.

Review into the ATO's use of benchmarking to target the cash economy

In this review, the IGT is investigating whether benchmarks are an appropriate tool for identifying the potential underreporting of income and for the calculation of default assessments. The IGT is also investigating whether the ATO's expectations in relation to micro and small business record keeping are clearly communicated and reasonable.

The IGT can make more comment on this review when the report on the review is publicly released by the Minister. The report of this review is expected to be submitted to the Minister in July 2012.

Review into improving the self assessment system

This review arose out of stakeholder concerns that although the self assessment system has its benefits, the ATO's recent administrative approaches were more akin to a quasi-full assessment system without an apparent commensurate reduction in risk.

The key areas examined in this review include:

- the advice framework;
- compliance approaches;

- the penalty and interest regimes; and
- tax law complexity and the ability to administer the law in a pragmatic manner.

The IGT can make more comment when the report on the review is publicly released by the Minister. The report of this review is expected to be submitted to the Minister in August 2012.

More details on progress of reviews and access to publicly released reports are available on the IGT website.

OUTCOME 1

IMPROVED TAX LAW ADMINISTRATION — TAXPAYER BENEFIT

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

Key strategies to achieve Outcome 1 are:

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

The IGT's two outputs derive from the statutory requirements. These outputs involve the:

1. identification of systemic issues for inclusion in the work program, and
2. provision of independent advice to Government on the administration of the tax laws.

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

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

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

The way in which the IGT's advice to Government contributes to the achievement of the outcome of improved administration of tax laws takes several forms.

First, the provision of advice to Government may be policy in nature and lead to legislative change to address an identified systemic issue.

Second, and more commonly, the Commissioner of Taxation may independently address a systemic issue identified by the IGT in the review issues paper and terms of references or during a review itself, or otherwise following the release of a review report by the Minister.

Third, improved administration of tax laws can also be achieved without formal advice to Government but by direct day-to-day interaction between the IGT and the ATO.

OUTPUT 1.1.1

ISSUES IDENTIFICATION, WORK PROGRAM AND REVIEW ACTION

Issues identification

The IGT is in constant dialogue with the broader tax community. Issues are regularly raised by stakeholders through this dialogue. The IGT then works through these issues and assesses what action is required. Some issues are more appropriately addressed by other government agencies and these are referred on. Issues that are then considered appropriate are placed on the potential work program list – this process is discussed in more detail in the next section.

Work program

The IGT engages with the broad-based tax community to identify and prioritise those issues or topics on the potential work program list that provide significant opportunity to improve the administration of the tax system for all taxpayers. This prioritisation process means that the work program as finalised is a smaller sub-set of the potential work program.

Topics on the potential work program list, not included on the final work program, are maintained on the IGT reserve work program list. Topics on the reserve work program list may be elevated onto the active work program, where opportunity and resource availability combine to allow review.

The IGT periodically refreshes his work program to ensure it remains focussed on the community's main concerns. In this respect, the IGT will commence consultation on his work program for 2012 and 2013 in the first quarter of the next financial year. The topics for future review will be announced following this consultation.

The new work program must be flexible in actioning specific reviews to take account of competing priorities that may arise due to various factors.

Ministerial direction is a factor. The IGT may be directed by the Minister to undertake a review. The Minister has previously directed the IGT to undertake several reviews, including the Review into delayed or changed ATO views on significant issues (the so-called 'U-turns' review) and the Review into the ATO's Change Program.

Government agency review is also a factor. This arises where other agencies announce or consider reviews that may have a degree of overlap with proposed IGT terms of

reference. In maximising resource efficiency it may be better to defer reviews to take advantage of other agency outputs or insights.

Resourcing is another factor. A review is also very difficult to pin-point as to timing and scope due often to the bespoke nature of each undertaking and the priorities afforded by various parties and the small nature of the IGT office. The IGT actively seeks to mitigate the tension between the need for flexibility and undue delay through regular project management review.

The IGT also consults directly with the Commonwealth Auditor-General and the Commonwealth Ombudsman in finalising the work program.

Work program details including updates can be located on the IGT website.

Review action

The next step is to action the specific review and thereafter finalise that review by reporting to the Minister with findings and recommendations thereon.

To action a specific review, the IGT publishes terms of reference for the review along with submission guidelines or consultation plans and invites submissions from interested parties. These materials are available on the IGT website.

Following the receipt of submissions, the IGT obtains relevant information and considers the issues arising. Views are formulated and discussed with the ATO and other interested parties. This ensures that recommendations for improvement are evidentiary-based and consider relevant stakeholders' views.

Descriptions of the review action that took place during this financial year are set out in the 'Reviews conducted and reports publicly released' section above.

Performance information

Reviews in progress at the start of, or commenced during, the financial year

At the start of the 2011-12 financial year, the following three reviews were in progress:

- review into the ATO's administration of class rulings;

- review into the ATO's compliance approaches to small and medium enterprises with annual turnovers between \$100 million and \$250 million and high wealth individuals; and
- review into improving the self assessment system.

An additional two reviews were commenced during the year:

- review into ATO use of early and alternative dispute resolution; and
- review into the ATO's use of benchmarking to target the cash economy.

Reviews finalised

By year end, the following three reviews were finalised, with reports of those reviews sent to the Minister:

- review into the ATO's administration of class rulings (completed on 28 September 2011);
- review into the ATO's compliance approaches to small and medium enterprises with annual turnovers between \$100 million and \$250 million and high wealth individuals (completed on 16 December 2011); and
- review into ATO use of early and alternative dispute resolution (completed on 25 May 2012).

The IGT review reports are performance outputs that are discussed in section 1.1.2 below.

Reviews in progress as at the end of the financial year

The IGT has two reviews in the final stages of completion as at 30 June 2012. As the reviews are in progress the IGT is not in a position to report details on findings or recommendations at this time. These reviews are:

- review into the ATO's use of benchmarking to target the cash economy; and
- review into improving the self assessment system.

Performance information

During the 2011-12 financial year, the IGT has attended and participated in a number of conferences and seminars, consistent with our key strategy of maintaining a positive public profile (both domestically and internationally). Attendance and participation in these various engagements has also allowed the IGT to undertake comparisons with our foreign counterparts, which have enhanced our capabilities and objectivity.

The key speaking engagements undertaken during the 2011-12 financial year are set out in the table below.

Table 2: Key speaking engagements

Date	Organisation	Type of function	Location
2 August 2011	University of Sydney	Master of Taxation Presentation	Sydney
12 August 2011	CCH Australia	Corporate Tax Managers (CTM) Network Luncheon	Sydney
1 September 2011	Victorian Bar Association	Seminar	Melbourne
22 September 2011	Financial Services Accountants Association	Tax Day	Sydney
18 October 2011	Corporate Tax Association (CTA)	GST Conference	Sydney
15 November 2011	Ernst & Young	Annual Asia Pacific Tax Symposium	Singapore
21 November 2011	Association of Accounting Technicians	National Tax Forum	Sydney
29 November 2011	Macquarie Tax Group	End of Year Dinner	Sydney
1 December 2011	PricewaterhouseCoopers	Roundtable	Brisbane
2 December 2011	The Tax Institute of Australia (TIA)	Luncheon	Brisbane
14 December 2011	Blake Dawson	GST Client Luncheon	Melbourne
10 February 2012	CCH Australia	CTM Network Luncheon	Sydney
28 February 2012	Institute of Public Accountants (IPA)	Discussion Group	Newcastle
29 February 2012	Uniting Bookkeepers Pty Ltd	Network Dinner	Newcastle
14 March 2012	CCH Australia	CTM Network Luncheon	Sydney
21 March 2012	Melbourne Tax Discussion Group	Roundtable	Melbourne
24 March 2012	Iranian Australian Professional Accountants Group	Iranian New Year Event	Sydney
3 April 2012	Atax, University of New South Wales	10th International Tax Administration Conference	Sydney
18 April 2012	CPA Australia	Central Coast Discussion Group	Gosford
19 April 2012	CEO Forum Group	International CFO Forum	Sydney
26 April 2012	TIA	Private Business Tax Retreat	Gold Coast
31 May 2012	IPA	Women in sole practice Discussion Group	Sydney
7 June 2012	CCH Australia	CTM Network Luncheon	Brisbane
7-8 June 2012	The Law and Society Association	2012 International Conference on Law and Society	USA
14 June 2012	Ernst & Young	Tax Directors Luncheon	Melbourne
18 June 2012	CTA	Convention	Sydney
21 June 2012	Ernst & Young	Tax Directors Luncheon	Sydney
29 June 2012	Centre for Business Taxation, Oxford University	2012 Summer Conference	UK

OUTPUT 1.1.2

INDEPENDENT ADVICE TO GOVERNMENT — TAX LAWS ADMINISTRATION

The IGT provides independent advice to Government. The nature of this advice is primarily provided via review reports that are given to the Minister. It may also take the form of direct briefing to the Minister — see Division 2 of the IGT Act.

The review reports detail IGT findings and outline recommendations for the improvement of the tax system's administration. Review reports are given to the Minister after providing the Commissioner of Taxation with the opportunity to make a submission — see section 25 of the IGT Act.

Once the Minister receives the IGT report, it must be published either by tabling in both Houses of the Parliament or otherwise, within 25 sitting days of receipt — see section 11 of the IGT Act.

Performance information

The following information sets out the action taken in relation to IGT review reports.

Reports with the Minister as at the start of and during the financial year

At the start of the 2011–12 financial year, the following report was with the Minister:

- review into the ATO's large business risk review and audit policies, procedures and practices.

During the 2011–12 financial year, the following three reports were sent to the Minister:

- review into the ATO's administration of class rulings;
- review into the ATO's compliance approaches to small and medium enterprise with annual turnovers between \$100 million and \$250 million and high wealth individuals; and
- review into ATO use of early and alternative dispute resolution rulings.

Reports publicly released by the Minister during the financial year

The three reports publicly released by the Minister during the 2011-12 financial year, are as follows:

- review into the ATO's large business risk review and audit policies, procedures and practices;
- review into the ATO's administration of class rulings; and
- review into the ATO's compliance approaches to small and medium enterprise with annual turnovers between \$100 million and \$250 million and high wealth individuals.

Copies of publicly released reports can be obtained from the IGT website.

Report remaining with the Minister as at the end of the financial year

The report remaining with the Minister as at the end of the 2011-12 financial year is as follows:

- review into ATO use of early and alternative dispute resolution rulings (publicly released on 31 July 2012).

Outcomes

Historically, the Commissioner of Taxation has accepted fully or in part most of the review recommendations published since the inception of the IGT until 30 June 2011. This trend continues for reviews published in 2011-12, with the Commissioner of Taxation accepting fully or in part 73 of the 77 recommendations made towards the ATO — refer to Table 3 below.

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

Table 3: Recommendations in IGT reports published during 2011–12

IGT Review	Number of recommendations accepted fully, in part or in principle by the ATO	Number of recommendations to Government	Number of recommendations disagreed by the ATO
Report into the ATO's large business risk review and audit policies, procedures and practices	28	0	3
Review into the ATO's administration of class rulings	8	0	0
Review into the ATO's compliance approaches to small and medium enterprises with annual turnovers between \$100 million and \$250 million and high wealth individuals	41	0	1
Total	77	0	4

FINANCIAL PERFORMANCE

The IGT received an unmodified audit report on the 2011–12 financial statements from the Australian National Audit Office. These statements can be found in Part 4 of this report.

The IGT ended 2011–12 with a surplus of \$373,762 compared with a surplus of \$221,220 in 2010–11. The increase included recognition of revaluation adjustments to assets and certain provisions.

The IGT's net asset position increased accordingly. The agency has sufficient cash and reserves to fund its liabilities as and when they fall due.

PART 3:

MANAGEMENT AND ACCOUNTABILITY

CORPORATE GOVERNANCE

As a public office holder, the IGT reports and is accountable to the Minister for meeting his statutory role. As the Chief Executive Officer (CEO) of the IGT office, the IGT is responsible for the operation and performance of his office pursuant to the *Financial Management and Accountability Act 1997* (FMA Act).

The corporate governance practices of the IGT office are designed to take into account the small size of the office. The IGT governance processes align with those of the Treasury to provide synergistic benefits under the Service Level Agreement (SLA) entered into by the two agencies.

The IGT as CEO and the Deputy IGT as Chief Finance Officer (CFO) together act as the agency Executive (the Executive). They have developed a range of governance policies, plans and procedures appropriate to the situation of the agency comprising as at 30 June 2012, seven people in a single office location.

Fraud Prevention and Control

No cases of fraud were reported to the Australian Federal Police in 2011-12.

The IGT office's Fraud Control Plan, reviewed during the financial year, accords with the *Commonwealth Fraud Control Guidelines* and the Australian National Audit Office's (ANAO) *Fraud Control in Australian Government Entities – Better Practice Guide*.

The IGT office:

- has prepared fraud risk assessments and fraud control plans;
- has appropriate fraud control, prevention, detection, investigation and reporting standards and data collection procedures and processes in place, and reports annual fraud data information to the Australian Institute of Criminology; and

- has taken all reasonable measures to minimise the incidence of fraud and to investigate and recover the proceeds of fraud against the agency.

Audit Committee

Pursuant to section 46 of the FMA Act, the IGT continues to maintain an Audit Committee. The Audit Committee is independent and provides valuable assurance and advice to the CEO. The Committee met on three occasions during 2011–12.

Remuneration Committee

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

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

Corporate planning and reporting

Corporate planning is undertaken by the Executive throughout the year, including the development of a work program which shapes and determines the activities of the agency.

Corporate reporting is reviewed and overseen by the Executive.

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

The Deputy IGT (as CFO) is responsible, with input from the IGT (as CEO), for management of portfolio budget statements, ongoing maintenance of cash flow and monthly reporting of financial position. Periodic corporate governance, management and compliance reporting is also completed as required.

For the IGT's work program review reporting, reference should be made to Part 2.

Risk management

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

The following are the key components of the risk management framework:

- Chief Executive Instructions (CEIs) provide the policy and procedural framework for financial management in the IGT office and put into effect the requirements of the FMA Act. They also contain topics relating specifically to risk management and internal accountability.
- The Fraud Control Plan complies with the Commonwealth Fraud Control Guidelines issued under regulation 16A of the *Financial Management and Accountability Regulations 1997*.
- The Business Continuity Plan includes processes for identifying and assessing risks and contingency plans for events that disrupt normal IGT office operations.
- Physical security risk reviews are arranged, and the office design and associated access security meet required standards and have been reviewed and approved by the Australian Security Intelligence Organisation's Group T4.
- Risk assessments are to be reviewed annually as part of the process of applying for insurance renewal. The programme is based on the Risk Management Standard AS/NZS ISO 31000:2009 and will measure the IGT's performance in implementing risk management processes and policies against the national benchmark.

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

Information technology

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

- IT Disaster Recovery Plan (including Business Continuity Planning) sets out strategies and processes to restore service disruptions.

- IT Security Policy addresses information storage, access and maintenance in conformity with Australian Government requirements.
- Internet and Email Acceptable Use Policy sets out individual user's responsibilities for appropriate use of internet and email facilities and services. This policy refers to the Australian Public Service (APS) 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 based on Australian Government Information Management Office Guidelines, the Information Security Manual and Defence Signals Directorate Guidelines. The standards ensure compliance with best practice in relation to website security.
- IT Risk Management Strategy (developed in accordance with Defence Signals Directorate Guidelines) identifies technical risks associated with IT infrastructure and IT management practices.

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

Ethical standards and accountability

The IGT embraces APS values and this is reflected in relevant corporate documents.

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

EXTERNAL SCRUTINY

Audit

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

Internal audits

The SLA with the Treasury includes provision for internal audit services. The Audit Committee established by the IGT may seek input from the Treasury internal audit on any matters relevant to the Office of which there were none in 2011–12.

Reports on the operations of the IGT

There were no reports in 2011–12 on the operations of the IGT by the Auditor-General (other than the report on financial statements contained in Part 4), a Parliamentary committee or the Commonwealth Ombudsman.

Judicial or administrative tribunal decisions

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

MANAGEMENT OF HUMAN RESOURCES

The IGT office consists of a small number of staff and seeks to provide a collegiate environment for staff to develop through their work and participation in a broad range of agency activities and corporate obligations. The nature of the work provides for a clear sense of achievement and satisfaction in performing an important community function. However, given the office's small size and specific skills requirements, staff are recruited on the basis of merit and current competence with the expectation that career progression will generally occur in the wider public service/professional environment. Staff are encouraged and supported to provide their best performance while in the service of the IGT.

Performance management

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

The IGT has utilised the design features and infrastructure of the Treasury Performance Management System in its own 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 the Deputy IGT. Within a very small office environment, monitoring and assessing performance on an individual basis is relatively direct. Comparative analysis

is also considered for individuals against inter-agency benchmarking where this is appropriate.

Employment agreements

All IGT staff are employed under an employment agreement. The employment terms and conditions are consistent for all staff within the IGT office. Employment conditions and remuneration are determined by reference to the Employment Guidelines which incorporates a pay model (see Tables 4 and 5 for salary scales for non-SES and SES staff, as at 30 June 2012). This arrangement provides underlying consistency for all employees while providing flexibility in recognising individual circumstances. In 2011, non-SES staff entered into an enterprise agreement under the *Fair Work Act 2009*.

The IGT's employment agreements specifically refer to the APS Values in the context of setting out expected performance and behaviour.

Table 4: Salary scales — non-SES

Classification	30 June 2012	
	Minimum	Maximum
	\$	\$
APS5	67,314	71,624
EL1	99,045	113,617
EL2	120,981	138,845

The IGT may provide alternative remuneration arrangements in specific circumstances.

At 30 June 2012, there was one permanent SES employee in the IGT office engaged under an employment agreement.

Table 5: Salary scales — SES

Classification	30 June 2012	
	Minimum	Maximum
	\$	\$
SES Band 2	221,366	259,099

Certain IGT officers have access to airline lounge membership and Blackberrys.

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

Workplace relations

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

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

Recruitment and succession planning

The IGT recruits staff based on merit and current competence. The ability to make an immediate contribution to the role of the IGT is very important particularly given the small size of his office. The opportunity exists under the IGT Act to second staff to the office. The IGT also takes part in graduate development through secondee arrangements within the Australian Public Service. During 2011-12, there was one such secondee.

Learning and development

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

Staffing information

Table 6 details the number of staff employed by the IGT office, by classification and gender. All staff are employed under the *Public Service Act 1999*. However, the IGT is a statutory appointee.

Table 6: Operative staff by classification and gender
(as at 30 June 2012)

Classification	Male	Female	Total
APS5		1	1
EL1	3		3
EL2	1		1
SES Band 2	1		1
Inspector-General	1		1
Total	6	1	7

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

PROCUREMENT AND ASSETS MANAGEMENT

Procurement

The IGT has adopted the Treasury's procurement policies and utilises the Treasury's services under the SLA. For example, IT procurement is undertaken by the Treasury IT Procurement Unit. These policies and procedures are consistent with the IGT's CEIs and the Commonwealth Procurement Guidelines (CPGs).

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

The Treasury regularly updates the intranet site to incorporate contemporary procurement practice.

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

Assets management

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

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

CONSULTANCIES

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

Prior to engaging consultants, the agency takes into account the skills and resources required for the task, the skills available internally, and the cost-effectiveness of engaging external expertise. The decision to engage a consultant is made in accordance

with the FMA Act and related regulations including the CPGs and relevant internal policies.

During 2011–12 no new consultancy contracts were entered into involving expenditure over \$10,000 (inclusive of GST).

AUSTRALIAN NATIONAL AUDIT OFFICE ACCESS CLAUSES

The IGT is required to provide details of any contract entered during 2011–12 of \$100,000 or more (inclusive of GST) that does not provide for the Auditor-General to have access to the contractor's premises.

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

EXEMPT CONTRACTS

The IGT has not exempted any contracts from being published on AusTender in this reporting period.

WORKPLACE DIVERSITY

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

Table 7: Operative staff by Equal Employment Opportunity target group
(as at 30 June 2012)

Classification	Female	Born Overseas	ESL	AATSI	Disability
APS 5	1		1		
EL1		1	1		
EL2					
SES Band 2					
Inspector-General		1	1		
Total	1	2	3	0	0

Disability Action Plan

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

The Commonwealth's new National Disability Strategy sets out a ten year national policy framework for improving life for Australians with disability, their families and carers. A high level report tracking progress at a national level will be produced by the Standing Council on Community, Housing and Disability Services to the Council of Australian Governments and made available at www.fahcsia.gov.au.

The Commonwealth's Social Inclusion Measurement and Reporting Strategy includes some disability reporting in the *How Australia is Faring* report and, where appropriate, in agency Annual Reports. More information on social inclusion can be found at www.socialinclusion.gov.au.

Indigenous Employment Strategy

The IGT has evaluated the Treasury Indigenous Employment Strategy and will continue to consider options available to a small agency.

PART 4:

FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR'S REPORT

To the Assistant Treasurer

I have audited the accompanying financial statements of the Inspector-General of Taxation for the year ended 30 June 2012, which comprise: a Statement by the Chief Executive and Chief Finance Officer; Statement of comprehensive income; Balance sheet; Cash flow statement; Statement of changes in equity; Schedule of commitments; Schedule of contingencies; and Notes to and forming part of the financial statements, including a Summary of significant accounting policies.

Chief Executive's Responsibility for the Financial Statements

The Chief Executive of the Inspector-General of Taxation is responsible for the preparation of financial statements that give a true and fair view in accordance with the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, including the Australian Accounting Standards, and for such internal control as is necessary to enable the preparation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

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Phone (02) 6203 7300 Fax (02) 6203 7777

Independence

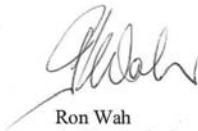
In conducting my audit, I have followed the independence requirements of the Australian National Audit Office, which incorporate the requirements of the Australian accounting profession.

Opinion

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

- (a) have been prepared in accordance with the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, including the Australian Accounting Standards; and
- (b) give a true and fair view of the matters required by the Finance Minister's Orders including the Inspector-General of Taxation financial position as at 30 June 2012 and of its financial performance and cash flows for the year then ended.

Australian National Audit Office



Ron Wah
Audit Principal

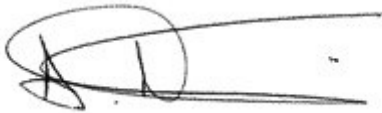
Delegate of the Auditor-General

Canberra
29 August 2012

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 2012 are based on properly maintained financial records and give a true and fair view of the matters required by the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, as amended.

A stylized signature in black ink, consisting of a large loop followed by a horizontal line and a small vertical stroke.

Ali Noroozi
Inspector-General of Taxation
29 August 2012

A stylized signature in black ink, featuring a large 'A' followed by a series of loops and a horizontal line.

Andrew McLoughlin
Chief Finance Officer
29 August 2012

Statement of comprehensive income
for the period ended 30 June 2012

	Notes	2012 \$	2011 \$
EXPENSES			
Employee benefits	3A	1,402,220	1,165,754
Suppliers	3B	819,781	815,331
Depreciation and amortisation	3C	116,168	83,721
Finance costs	3D	2,754	3,257
Write-down and impairment of assets	3E	1,061	-
TOTAL EXPENSES		2,341,984	2,068,063
LESS			
OWN-SOURCE INCOME			
Own-source revenue			
Rental income	4A	-	45,014
Other revenue	4B	4,746	1,040
Total own-source revenue		4,746	46,054
Gains			
Other gains	4C	25,000	62,680
Total gains		25,000	62,680
Total own-source income		29,746	108,734
Net cost of services		2,312,238	1,959,329
Revenue from Government	4D	2,686,000	2,134,000
Surplus on continuing operations		373,762	174,671
OTHER COMPREHENSIVE INCOME			
Changes in asset revaluation reserves		-	46,549
Total other comprehensive income		-	46,549
Total comprehensive income		373,762	221,220

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

Balance sheet
as at 30 June 2012

	Notes	2012 \$	2011 \$
ASSETS			
Financial assets			
Cash and cash equivalents	5A	37,479	21,169
Trade and other receivables	5B	2,939,220	2,397,056
Total financial assets		2,976,699	2,418,225
Non-financial assets			
Property, plant and equipment	6A,6C	48,490	46,311
Leasehold improvements	6B,6C	59,518	161,142
Other non-financial assets	6D	26,876	25,754
Total non-financial assets		134,884	233,207
Total Assets		3,111,583	2,651,432
LIABILITIES			
Payables			
Suppliers	7A	39,297	73,108
Other payables	7B	37,637	68,914
Total payables		76,934	142,022
Provisions			
Employee provisions	8A	246,237	135,514
Other provisions	8B	94,323	91,569
Total provisions		340,560	227,083
Total liabilities		417,494	369,105
Net Assets		2,694,089	2,282,327
EQUITY			
Contributed equity		77,573	39,573
Reserves		294,138	294,138
Retained surplus		2,322,378	1,948,616
Total equity		2,694,089	2,282,327

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

Cash flow statement
for the period ended 30 June 2012

	Notes	2012 \$	2011 \$
OPERATING ACTIVITIES			
Cash received			
Appropriations		2,231,910	2,043,136
Rents		-	50,513
Other cash received		311	1,040
Net GST received from the Australian Taxation Office		70,953	74,040
Total cash received		2,303,174	2,168,729
Cash used			
Employees		(1,290,681)	(1,210,416)
Suppliers		(941,974)	(906,922)
Return section 31 appropriation to Official Public Account		(36,427)	(70,203)
Total cash used		(2,269,082)	(2,187,541)
Net cash used by operating activities	9	34,092	(18,812)
INVESTING ACTIVITIES			
Cash used			
Purchases of property, plant and equipment		(17,782)	(2,400)
Total cash used		(17,782)	(2,400)
Net cashflows used by investing activities		(17,782)	(2,400)
Net increase (decrease) in cash held		16,310	(21,212)
Cash and cash equivalents at the beginning of the reporting period		21,169	42,381
Cash and cash equivalents at the end of the reporting period	5A	37,479	21,169

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

Statement of changes in equity
for the period ended 30 June 2012

	Retained earnings		Asset revaluation		Contributed equity		Total equity	
	2012	2011	2012	2011	2012	2011	2012	2011
	\$	\$	\$	\$	\$	\$	\$	\$
Opening Balance								
Balance carried forward from previous period	1,948,616	1,773,945	294,138	247,589	39,573	1,573	2,282,327	2,023,107
Adjusted opening balance	1,948,616	1,773,945	294,138	247,589	39,573	1,573	2,282,327	2,023,107
Comprehensive income								
Revaluations	-	-	-	46,549	-	-	-	46,549
Re-statement of 'Make Good'	-	-	-	-	-	-	-	-
Surplus for the period	373,762	174,671					373,762	174,671
Total comprehensive income	373,762	174,671	-	46,549	-	-	373,762	221,220
Transactions with owners								
Contributions by owners								
Departmental capital budget	-	-	-	-	38,000	38,000	38,000	38,000
Sub-total transactions with owners	-	-	-	-	38,000	38,000	38,000	38,000
Closing balance at 30 June	2,322,378	1,948,616	294,138	294,138	77,573	39,573	2,694,089	2,282,327

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

Schedule of commitments
as at 30 June 2012

	2012	2011
	\$	\$
BY TYPE		
Commitments receivable		
GST recoverable on commitments	155,928	49,266
Total commitments receivable	155,928	49,266
Commitments payable		
Other commitments		
Operating leases ¹	1,715,215	422,319
Other commitments ²	-	119,604
Total other commitments	1,715,215	541,923
Total commitments payable	1,715,215	541,923
Net commitments by type	1,559,287	492,657
BY MATURITY		
Commitments receivable		
Other commitments receivable		
One year or less	22,753	34,905
From one to five years	91,283	14,360
Over five years	41,892	-
Total other commitments receivable	155,928	49,265
Commitments payable		
Operating lease commitments		
One year or less	250,286	264,355
From one to five years	1,004,118	157,963
Over five years	460,811	-
Total operating lease commitments	1,715,215	422,318
Other commitments		
One year or less	-	119,604
From one to five years	-	-
Over five years	-	-
Total other commitments	-	119,604
Net commitments by maturity	1,559,287	492,657

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. The agency has entered into a further lease at the current premises that becomes effective in 2012/13.
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. This agreement is currently undergoing renewal for a further period.

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

Schedule of contingencies
as at 30 June 2012

	2012	2011
	\$	\$
Contingent liabilities	-	-
Contingent assets	-	-
Net contingent liabilities	-	-

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

Notes to and forming part of the financial statements for the year ended 30 June 2012

Note 1: Summary of significant accounting policies

1.1 Objectives of the Inspector-General of Taxation

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

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

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

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

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

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

The IGT’s departmental activities are identified under Outcome 1 by one program, Program 1.1 Inspector-General of Taxation.

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

1.2 Basis of preparation of financial statements

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

The financial statements have been prepared in accordance with:

- Finance Minister's Orders (FMO) for reporting periods ending on or after 1 July 2011; and
- Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

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

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

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

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

1.3 Significant accounting judgements and estimates

In the process of applying the accounting policies listed in this note, 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 reporting period.

1.4 New Australian Accounting Standards

Adoption of new Australian Accounting Standard requirements

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

Future Australian Accounting Standard requirements

No new standards, amendments to standards or interpretations that have been issued by the Australian Accounting Standards Board prior to the sign-off date and are effective for future reporting periods are expected to have a material financial impact on the agency.

1.5 Revenue

Revenue from Government

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

Appropriations receivable are recognised at their nominal amounts.

Other types of revenue

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

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

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

Receivables for services, which have 30 day terms, are recognised at the nominal amounts due, less any impairment allowance amount. Collectability of debts is reviewed at the end of the reporting period. 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 *Financial Instruments: Recognition and Measurement*.

1.6 Gains

Resources received free of charge

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

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

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

Sale of assets

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

1.7 Transactions with the Government as owner

Equity injections

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

1.8 Employee benefits

Liabilities for 'short-term employee benefits' (as defined in AASB 119 *Employee Benefits*) and termination benefits due within twelve months of the end of the reporting period are measured at their nominal amounts. The nominal amount is calculated with regard to the rates expected to be paid on settlement of the liability.

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

Leave

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

The leave liabilities are calculated on the basis of employees' remuneration at the estimated salary rates that will be applied at the time the leave is taken, including the 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 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 recognises a provision for termination when it has developed a detailed formal plan for the terminations and has informed those employees affected that it will carry out the terminations.

Superannuation

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

The PSS is a defined benefit scheme for the Australian Government. The PSSap is a defined contribution scheme.

The liability for defined benefits is recognised in the financial statements of the Australian Government and is settled by the Australian Government in due course. This liability is reported by the Department of Finance and Deregulation's administered schedules and notes.

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

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

1.9 Leases

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

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

1.12 Financial assets

The IGT classifies its financial assets in the following categories:

- 'loans and receivables'.

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

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less impairment. Interest is recognised by applying the effective interest rate.

Impairment of financial assets

Financial assets are assessed for impairment at each balance date.

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

1.13 Financial liabilities

Financial liabilities are classified as other financial liabilities. Financial liabilities are recognised and derecognised upon 'trade date'.

Other financial liabilities

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

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

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

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

1.14 Contingent liabilities and contingent assets

Contingent liabilities and contingent assets are not recognised in the Balance Sheet but are reported in the relevant schedules and notes. They may arise from uncertainty as to

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

1.15 Acquisition of assets

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

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

1.16 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 \$2000 and computer equipment of less than \$1000, 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 restoration provisions in property leases taken up by the IGT where there exists an obligation to restore the property to its original condition. These costs are included in the value of the IGT's leasehold improvements with a corresponding provision for the present value of the restoration recognised.

Revaluations

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
Property, plant and equipment	Market selling price

Following initial recognition at cost, property plant and equipment are carried at fair value less subsequent accumulated depreciation and accumulated impairment losses.

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

Revaluation adjustments are made on a class basis. Any revaluation increment is credited to equity under the heading of asset revaluation reserve except to the extent that it reverses a previous revaluation decrement of the same asset class that was previously recognised in the surplus or deficit. Revaluation decrements for a class of assets are recognised directly through surplus or deficit 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), residual values and methods are reviewed at each reporting date and necessary adjustments are recognised in the current, or current and future reporting periods, as appropriate. Depreciation rates applying to each class of depreciable asset are based on the following useful lives:

	2011-12	2010-11
Property, plant and equipment	3-10 years	3-10 years
Leasehold improvements	Lease term	Lease term

Impairment

All assets were assessed for impairment at 30 June 2012. 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 the IGT were deprived of the asset, its *value in use* is taken to be its depreciated replacement cost.

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

1.17 Taxation

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

Note 2: Events after the reporting period

There was no subsequent event that had the potential to significantly affect the ongoing structure and financial activities of the agency.

Note 3: Expenses

	2012	2011
	\$	\$
Note 3A: Employee benefits		
Wages and salaries	1,106,359	938,618
Superannuation:		
Defined contribution plans	74,140	20,592
Defined benefit plans	66,331	94,447
Leave and other benefits	148,099	104,749
Other employee expenses	7,291	7,348
Total employee benefits	1,402,220	1,165,754
Note 3B: Suppliers		
Goods and services		
Consultants and contractors	137,484	167,721
Travel	142,358	97,471
Service Level Agreement with Treasury	116,450	102,716
Advertising and printing	28,660	44,220
Seminars and conferences	9,867	11,647
Subscriptions and periodicals	10,191	11,328
Other	77,138	97,580
Total goods and services	522,148	532,683
Goods and services are made up of:		
Provision of goods - related entities	6,492	12,992
Provision of goods - external parties	37,391	91,036
Rendering of services - related entities	159,989	137,016
Rendering of services - external entities	318,276	291,639
Total goods and services	522,148	532,683
Other supplier expenses		
Operating lease rentals - external parties		
Minimum lease payments	292,342	277,655
Workers compensation expenses	5,291	4,993
Total other supplier expenses	297,633	282,648
Total supplier expenses	819,781	815,331
Note 3C: Depreciation and Amortisation		
Depreciation:		
Property, plant and equipment	58,485	54,376
Total depreciation	58,485	54,376
Amortisation:		
Leasehold improvements - Make Good provision	57,683	29,345
Total amortisation	57,683	29,345
Total depreciation and amortisation	116,168	83,721

Note 3: Expenses (continued)

	2012	2011
	\$	\$
Note 3D: Finance costs		
Unwinding of discount	2,754	3,257
Total finance costs	2,754	3,257
Note 3E: Write-down and impairment of assets		
Asset write-downs	1,061	-
Total write-down of assets	1,061	-

Note 4: Income

	2012	2011
	\$	\$
Revenue		
Note 4A: Rental income		
Property sub-lease rent received	-	45,014
Total rental income	-	45,014
Note 4B: Other revenue		
Other revenue	4,746	1,040
Total other revenue	4,746	1,040
Gains		
Note 4C: Other gains		
Employee entitlements re-statement	-	22,428
Re-statement of Make Good provision	-	20,252
Resources received free of charge	25,000	20,000
Total other gains	25,000	62,680
Revenue from Government		
Note 4D: Revenue from Government		
Appropriations:		
Departmental appropriations	2,686,000	2,134,000
Total revenue from Government	2,686,000	2,134,000

Note 5: Financial assets

	2012	2011
	\$	\$
Note 5A: Cash and cash equivalents		
Cash on hand or on deposit	37,479	21,169
Total cash and cash equivalents	37,479	21,169
Note 5B: Trade and other receivables		
Goods and services:		
Goods and services - related entities	-	-
Total receivables for goods and services	-	-
Appropriations receivable:		
Section 31 appropriations receivable	97,125	103,469
For existing programs	2,817,332	2,282,470
Total appropriations receivable	2,914,457	2,385,939
Other receivables:		
GST receivable from the Australian Taxation Office	20,328	11,117
Other receivables	4,435	-
Total other receivables	24,763	11,117
Total trade and other receivables (gross)	2,939,220	2,397,056
Less impairment allowance account:		
Goods and services	-	-
Total impairment allowance account	-	-
Total trade and other receivables (net)	2,939,220	2,397,056
Receivables are expected to be recovered in:		
No more than 12 months	24,763	11,117
More than 12 months	2,914,457	2,385,939
Total trade and other receivables (net)	2,939,220	2,397,056
Receivables are aged as follows:		
Not overdue	24,763	11,117
Overdue by:		
0 to 30 days	-	-
31 to 60 days	-	-
61 to 90 days	-	-
more than 90 days	2,914,457	2,385,939
Total receivables (net)	2,939,220	2,397,056

Note 6: Non-financial assets

	2012 \$	2011 \$
Note 6A: Property, plant and equipment		
Property, plant and equipment		
Fair value	63,033	46,311
Accumulated depreciation	(14,543)	-
Total property, plant and equipment	48,490	46,311
Note 6B: Leasehold improvements		
Leasehold improvements		
Fair value	161,143	161,142
Accumulated amortisation	(101,625)	-
Total leasehold improvements	59,518	161,142

No indications of impairment were found for property, plant and equipment.

No property, plant and equipment were expected to be sold or disposed of in the next 12 months.

All property, plant and equipment are at valuation as at 30 June 2011 in accordance with the agency's revaluation policy (note 1.16).

Note 6C: Reconciliation of the opening and closing balances of property, plant and equipment 2012

	Plant and equipment \$	Leasehold improvements \$	Total \$
As at 1 July 2011			
Gross book value	46,311	161,143	207,454
Accumulated depreciation/amortisation	-	-	-
Net book value 1 July 2011	46,311	161,143	207,454
Additions by purchase	17,782	-	17,782
Revaluations	-	-	-
Depreciation/amortisation expense	(14,543)	(101,625)	(116,168)
Asset write-downs	(1,061)	-	(1,061)
Disposals:			
other disposals	-	-	-
Net book value 30 June 2012	48,489	59,518	108,007
Net book value as of 30 June 2012 represented by:			
Gross book value	63,032	161,143	224,175
Accumulated depreciation/amortisation	(14,543)	(101,625)	(116,168)
Net book value 30 June 2012	48,489	59,518	108,007

Note 6: Non-financial assets (continued)**Note 6C (continued): Reconciliation of the opening and closing balances of property, plant and equipment 2011**

	Plant and equipment \$	Leasehold improvements \$	Total \$
As at 1 July 2010			
Gross book value	69,617	254,819	324,436
Accumulated depreciation/amortisation	(13,205)	(69,006)	(82,211)
Net book value 1 July 2010	56,412	185,813	242,225
Additions by purchase	2,400	-	2,400
Revaluations	186	46,363	46,549
Depreciation/amortisation expense	(12,687)	(71,034)	(83,721)
Net book value 30 June 2011	46,311	161,142	207,453
Net book value as of 30 June 2011 represented by:			
Gross book value	46,311	161,142	207,453
Accumulated depreciation/amortisation	-	-	-
Net book value 30 June 2011	46,311	161,142	207,453

	2012 \$	2011 \$
Note 6D: Other non-financial assets		
Prepayments	26,876	25,754
Total other non-financial assets	26,876	25,754
All other non-financial assets are current assets.		
Total other financial assets are expected to be recovered in:		
No more than 12 months	26,876	25,754
Total other non-financial assets	26,876	25,754

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

Note 7: Payables

	2012	2011
	\$	\$
Note 7A: Suppliers		
Trade creditors and accruals	39,297	73,108
Total supplier payables	39,297	73,108
Supplier payables expected to be settled within 12 months:		
Related entities	988	8,930
External parties	38,309	64,178
Total supplier payables	39,297	73,108
Settlement is usually made within 30 days.		
Note 7B: Other payables		
Salaries and wages	21,895	30,505
Superannuation	2,539	2,572
Lease incentive	13,203	35,837
Total other payables	37,637	68,914
Total other payables are expected to be settled in:		
No more than 12 months	37,637	53,825
More than 12 months	-	15,089
Total other payables	37,637	68,914

Note 8: Provisions

	2012 \$	2011 \$
Note 8A: Employee provisions		
Leave	246,237	135,514
Total employee provisions	246,237	135,514
Employee provisions are expected to be settled in:		
No more than 12 months	69,973	71,245
More than 12 months	176,264	64,269
Total employee provisions	246,237	135,514
Note 8B: Other provisions		
Provision for restoration obligations	94,323	91,568
Total other provisions	94,323	91,568
Other provisions are expected to be settled in:		
No more than 12 months	94,323	91,568
Total other provisions	94,323	91,568
	2012 \$	2011 \$
Provision for restoration obligations		
Carrying amount at 1 July	91,568	108,562
Re-statement of 'Make Good'	-	(20,251)
Unwinding of discount	2,754	3,257
Closing balance 30 June	94,322	91,568

The agency renewed the lease agreement for the premises in 2009. The lease has a provision requiring restoration of the premises to its original condition at the conclusion of the term. The agency has made a provision to reflect the present value of this obligation.

The agency has entered into a further lease at its current premises effective 2012/13 that will require a further provision for restoration of the premises at the end of the term.

Note 9: Cash flow reconciliation

	2012 \$	2011 \$
Reconciliation of cash and cash equivalents as per Balance Sheet to Cash Flow Statement		
Cash and cash equivalents as per:		
Cash Flow Statement	37,479	21,169
Balance Sheet	37,479	21,169
Difference	-	-
Reconciliation of net cost of services to net cash from operating activities:		
Net cost of services	2,312,238	1,959,329
Add revenue from Government	2,686,000	2,134,000
	373,762	174,671
Adjustments for non-cash items		
Depreciation and amortisation	116,168	83,721
Finance costs	2,754	3,257
Net write-down of non-financial assets	1,061	-
Changes in assets/liabilities		
(Increase)/decrease in receivables	(504,164)	(160,852)
(Increase)/decrease in prepayments	(1,122)	(22,955)
Increase/(decrease) in payables	(33,814)	25,011
Increase/(decrease) in other payables	(31,277)	(45,670)
Increase/(decrease) in employee provision	110,721	(75,996)
Net cash from/(used by) operating activities	34,091	(18,813)

Note 10: Contingent liabilities and assets

There are no unquantifiable or significant remote contingencies.

Note 11: Senior executive remuneration**Note 11A: Senior executive remuneration expenses for the reporting period**

	2012	2011
	\$	\$
Short-term employee benefits:		
Salary	598,525	566,610
Annual leave accrued	45,694	43,933
Total short-term employee benefits	644,219	610,543
Post-employment benefits:		
Superannuation	52,300	49,925
Total post-employment benefits	52,300	49,925
Other long term benefits:		
Long-service leave	11,787	10,373
Total other long-term benefits	11,787	10,373
Termination benefits	-	-
Total employment benefits	708,306	670,841

Notes:

1. Note 11A was prepared on an accruals basis (therefore the performance bonus expenses disclosed above may differ from the cash 'Bonus paid' in Note 11B).
2. Note 11A excludes acting arrangements and part-year service where remuneration expensed for a senior executive was less than \$150,000.

Note 11: Senior executive remuneration (continued)**Note 11B: Average annual reportable remuneration paid to substantive senior executives during the reporting period**

2012						
	Senior executives No.	Reportable salary ² \$	Contributed superannuation ³ \$	Reportable allowances ⁴ \$	Bonus paid ⁵ \$	Total \$
Average annual reportable remuneration¹						
Total remuneration (including part-time arrangements):						
\$270,000 to \$299,999	1	240,978	35,548	-	-	276,526
\$360,000 to \$389,999	1	254,580	15,762	92,546	-	362,888
Total	2					
2011						
	Senior executives No.	Reportable salary ² \$	Contributed superannuation ³ \$	Reportable allowances ⁴ \$	Bonus paid ⁵ \$	Total \$
Average annual reportable remuneration¹						
Total remuneration (including part-time arrangements):						
\$240,000 to \$269,999	1	231,600	34,740	-	-	266,340
\$330,000 to \$359,999	1	247,160	15,185	75,941	-	338,286
Total	2					

Notes:

1. This table reports substantive senior executives who received remuneration during the reporting period. Each row is an averaged figure based on headcount for individuals in the band.
2. 'Reportable salary' includes the following: a) gross payments (less any bonuses paid, which are separated out and disclosed in the 'bonus paid' column); b) reportable fringe benefits (at the net amount prior to 'grossing up' to account for tax benefits); and c) exempt foreign employment income.
3. The 'contributed superannuation' amount is the average actual superannuation contributions paid to senior executives in that reportable remuneration band during the reporting period, including any salary sacrificed amounts, as per the individuals' payslips.
4. 'Reportable allowances' are the average actual allowances paid as per the 'total allowances' line on individuals' payment summaries.
5. 'Bonus paid' represents average actual bonuses paid during the reporting period in that reportable remuneration band. The 'bonus paid' within a particular band may vary between financial years due to various factors such as individuals commencing with or leaving the entity during the financial year.
6. Various salary sacrifice arrangements were available to senior executives including superannuation, motor vehicle and expense payment fringe benefits. Salary sacrifice benefits are reported in the 'reportable salary' column, excluding salary sacrificed superannuation, which is reported in the 'contributed superannuation' column.

Note 11: Senior executive remuneration (continued)

Note 11C: Other highly paid staff

2012						
	Staff No.	Reportable salary ² \$	Contributed superannuation ³ \$	Reportable allowances ⁴ \$	Bonus paid ⁵ \$	Total \$
Average annual reportable remuneration¹						
Total remuneration (including part-time arrangements):						
\$150,000 to \$179,999	1	157,977	20,509	-	-	178,486
Total	1					
2011						
	Staff No.	Reportable salary ² \$	Contributed superannuation ³ \$	Reportable allowances ⁴ \$	Bonus paid ⁵ \$	Total \$
Average annual reportable remuneration¹						
Total remuneration (including part-time arrangements):						
\$150,000 to \$179,999	1	150,664	20,120	-	-	170,784
Total	1					

Notes:

1. This table reports substantive senior executives who received remuneration during the reporting period. Each row is an averaged figure based on headcount for individuals in the band.
2. 'Reportable salary' includes the following: a) gross payments (less any bonuses paid, which are separated out and disclosed in the 'bonus paid' column); b) reportable fringe benefits (at the net amount prior to 'grossing up' to account for tax benefits); and c) exempt foreign employment income.
3. The 'contributed superannuation' amount is the average actual superannuation contributions paid to senior executives in that reportable remuneration band during the reporting period, including any salary sacrificed amounts, as per the individuals' payslips.
4. 'Reportable allowances' are the average actual allowances paid as per the 'total allowances' line on individuals' payment summaries.
5. 'Bonus paid' represents average actual bonuses paid during the reporting period in that reportable remuneration band. The 'bonus paid' within a particular band may vary between financial years due to various factors such as individuals commencing with or leaving the entity during the financial year.
6. Various salary sacrifice arrangements were available to senior executives including superannuation, motor vehicle and expense payment fringe benefits. Salary sacrifice benefits are reported in the 'reportable salary' column, excluding salary sacrificed superannuation, which is reported in the 'contributed superannuation' column.

Note 12: Remuneration of auditors

	2012	2011
	\$	\$
Financial statement audit services were provided free of charge to the agency by the Australian National Audit Office (ANAO).		
Fair value of the services provided		
Financial statement audit services	25,000	20,000
Total	25,000	20,000

No other services were provided by the auditors of the financial statements.

Note 13: Financial instruments

	2012	2011
	\$	\$
Note 13A: Categories of financial instruments		
Financial assets		
Loans and receivables:		
Cash and cash equivalents	37,479	21,169
Trade and other receivables	-	-
Carrying amount of financial assets	37,479	21,169
Financial liabilities		
At amortised cost:		
Other liabilities		
Payables - suppliers	39,297	73,108
Carrying amount of financial liabilities	39,297	73,108
Note 13B: Net income and expense from financial assets		
Loans and receivables		
Interest revenue	-	-
Net gain/(loss) from loans and receivables	-	-
Net gain/(loss) from financial assets	-	-
There was no interest income from financial assets not at fair value through profit and loss in the year ending 2012 (2011: NIL).		
Note 13C: Net income and expense from financial liabilities		
Financial liabilities - at amortised cost		
Interest expense	-	-
Net gain/(loss) from financial liabilities - at amortised cost	-	-
Net gain/(loss) from financial liabilities	-	-

There was no interest expense from financial liabilities not at fair value through profit and loss in the year ending 2012 (2011: NIL).

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

	Notes	2012		2011	
		Carrying amount	Fair value	Carrying amount	Fair value
		\$	\$	\$	\$
Financial assets					
Cash and cash equivalents	5A	37,479	37,479	21,169	21,169
Receivables	5B	-	-	-	-
Total financial assets		37,479	37,479	21,169	21,169
Financial liabilities					
Supplier payables	7A	39,297	39,297	73,108	73,108
Total financial liabilities		39,297	39,297	73,108	73,108

The carrying amounts of the agency's financial instruments is a reasonable approximation of fair value.

Fair value measurements categorised by fair value hierarchy

The following table provides an analysis of financial instruments that are measured at fair value, by valuation method. The different levels are defined below:

Level 1: Fair value obtained from unadjusted quoted prices for identical instruments.

Level 2: Fair value derived from inputs other than quoted prices included within Level 1 that are observable for the instrument, either directly or indirectly.

Level 3: Fair value derived from inputs that are not based on observable market data.

Fair value hierarchy for financial assets

	Level 3		Total	
	2012	2011	2012	2011
Financial assets at fair value	-	-	-	-
Total	-	-	-	-

There was no transfer between levels.

Fair value hierarchy for financial liabilities

	Level 3		Total	
	2012	2011	2012	2011
Financial liabilities at fair value	-	-	-	-
Total	-	-	-	-

There was no transfer between levels.

Note 13: Financial instruments (continued)

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

Reconciliation of Level 3 fair value hierarchy for financial assets

	Financial assets at fair value		Total	
	2012	2011	2012	2011
	\$	\$	\$	\$
Opening balance				
Purchases	-	-	-	-
Closing balance	-	-	-	-
1. No gains or losses for the period have been recognised resulting from the Level 3 financial assets.				

Reconciliation of Level 3 fair value hierarchy for financial liabilities

	Financial liabilities at fair value		Total	
	2012	2011	2012	2011
	\$	\$	\$	\$
Opening balance				
Purchases	-	-	-	-
Closing balance	-	-	-	-
1. No gains or losses for the period have been recognised resulting from the Level 3 financial liabilities.				

Note 13E: Credit risk

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

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

This amount is equal to the total amount of the trade receivables (2012: \$0, and 2011: \$0).

The agency has assessed the risk of the default on payment and has made no allocations to doubtful debts in 2012 (2011: NIL).

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

			2012	2011
			\$	\$
Financial assets				
Cash and cash equivalents	5A		37,479	21,169
Receivables	5B		-	-
Total financial assets			37,479	21,169
Financial liabilities				
Supplier payables	7A		39,297	73,108
Total financial liabilities			39,297	73,108

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

Note 13: Financial instruments (continued)**Note 13E: Credit risk (continued)****Credit quality of financial instruments not past due or individually determined as impaired**

	Not past due nor impaired 2012 \$	Not past due nor impaired 2011 \$	Past due or impaired 2012 \$	Past due or impaired 2011 \$
Loans and receivables				
Cash and cash equivalents	37,479	21,169	-	-
Trade receivables	-	-	-	-
Total	37,479	21,169	-	-

Ageing of financial assets that were past due but not impaired for 2012

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

Ageing of financial assets that were past due but not impaired for 2011

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

Note 13: Financial instruments (continued)

Note 13F: Liquidity risk

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

Maturities for non-derivative financial liabilities 2012

	On demand \$	Within 1 year \$	1 to 2 years \$	2 to 5 years \$	> 5 years \$	Total \$
Other liabilities						
Payables - suppliers	-	39,297	-	-	-	39,297
Total	-	39,297	-	-	-	39,297

Maturities for non-derivative financial liabilities 2011

	On demand \$	Within 1 year \$	1 to 2 years \$	2 to 5 years \$	> 5 years \$	Total \$
Other liabilities						
Payables - suppliers	-	73,108	-	-	-	73,108
Total	-	73,108	-	-	-	73,108

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

Note 13G: Market risk

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

Note 14: Financial assets reconciliation

		2012 \$	2011 \$
Financial assets	Notes		
Total financial assets as per balance sheet		2,976,699	2,418,225
Less: non-financial instruments components			
Appropriations receivable	5B	2,914,457	2,385,939
Other receivables	5B	24,763	11,117
Total non-financial instruments components		2,939,220	2,397,056
Total financial assets as per financial instruments note		37,478	21,169

Note 15: Appropriations

Table A: Annual appropriations (recoverable GST exclusive)

	2012 Appropriations						
	Appropriation Act		FMA Act		Total appropriation \$	Appropriation applied in 2012 (current and prior years) \$	Variance \$
	Annual appropriation \$	Appropriations reduced ¹ \$	Section 30 \$	Section 31 \$			
DEPARTMENTAL							
Ordinary annual services	2,724,000	-	91,281	311	2,815,592	2,231,910	583,682
Total departmental	2,724,000	-	91,281	311	2,815,592	2,231,910	583,682

Notes:

1. Appropriations reduced under Appropriation Acts (No. 1, 3 & 5) 2011-12: sections 10, 11, and 12 and under Appropriation Acts (No. 2, 4 & 6) 2011-12: sections 12, 13, and 14. Departmental appropriations do not lapse at financial year-end. However, the responsible Minister may decide that part or all of a departmental appropriation is not required and request the Finance Minister to reduce that appropriation. The reduction in the appropriation is effected by the Finance Minister's determination and is disallowable by Parliament. In 2012, there was no reduction in departmental and non-operating departmental appropriations.

Note 15: Appropriations (continued)**Table A: Annual appropriations (recoverable GST exclusive) continued**

	2011 Appropriations						Variance \$
	Appropriation Act		FMA Act		Total appropriation \$	Appropriation applied in 2011 (current and prior years) \$	
	Annual appropriation \$	Appropriations reduced ¹ \$	Section 30 \$	Section 31 \$			
DEPARTMENTAL							
Ordinary annual services	2,172,000	-	85,157	50,513	2,307,670	2,119,738	187,932
Total departmental	2,172,000	-	85,157	50,513	2,307,670	2,119,738	187,932

Notes:

1. Appropriations reduced under Appropriation Acts (No. 1 & 3) 2010-11: sections 10, 11, 12 and 15 and under Appropriation Acts (No. 2 & 4) 2010-11: sections 12, 13, 14 and 17. Departmental appropriations do not lapse at financial year-end. However, the responsible Minister may decide that part or all of a departmental appropriation is not required and request the Finance Minister to reduce that appropriation. The reduction in the appropriation is effected by the Finance Minister's determination and is disallowable by Parliament. In 2011, there was no reduction in departmental and non-operating departmental appropriations.

Note 15: Appropriations (continued)

Table B: Departmental Capital Budgets (recoverable GST exclusive)

	2012 Capital Budget Appropriations			Capital Budget Appropriations applied in 2012 (current and prior years)				
	Appropriation Act		FMA Act	Total Capital Budget Appropriations	Payments for non-financial assets ³	Payments for other purposes	Total payments	Variance
	Annual Capital Budget	Appropriations reduced ²	Section 32					
	\$	\$	\$	\$	\$	\$	\$	\$
DEPARTMENTAL								
Ordinary annual services -								
Departmental Capital Budget ¹	38,000	-	-	38,000	17,782	-	17,782	20,218

Notes:

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

2. Appropriations reduced under Appropriations Acts (No. 1, 3 & 5) 2011-12; sections 10, 11, 12 and 15 via a determination by the Finance Minister.

Note 15: Appropriations (continued)**Table B: Departmental Capital Budgets (recoverable GST exclusive)**

	2011 Capital Budget Appropriations			Capital Budget Appropriations applied in 2011 (current and prior years)				
	Appropriation Act		FMA Act	Total Capital Budget Appropriations	Payments for non-financial assets ³	Payments for other purposes	Total payments	Variance
	Annual Capital Budget	Appropriations reduced ²	Section 32					
	\$	\$	\$	\$	\$	\$	\$	\$
DEPARTMENTAL								
Ordinary annual services -								
Departmental Capital Budget ¹	38,000	-	-	38,000	2,400	-	2,400	35,600

Notes:

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

2. Appropriations reduced under Appropriations Acts (No. 1, 3 & 5) 2011-12; sections 10, 11, 12 and 15 via a determination by the Finance Minister.

Note 15: Appropriations (continued)

Table C: Unspent departmental annual appropriations (recoverable GST exclusive)

	2012	2011
Authority	\$	\$
<i>Appropriation Act (No. 1) 2004-05</i>	-	60,000
<i>Appropriation Act (No. 1) 2005-06</i>	729,000	1,149,000
<i>Appropriation Act (No. 1) 2006-07</i>	360,776	360,776
<i>Appropriation Act (No. 1) 2007-08</i>	285,335	285,335
<i>Appropriation Act (No. 1) 2008-09</i>	243,249	243,249
<i>Appropriation Act (No. 1) 2009-10</i>	-	93,264
<i>Appropriation Act (No. 1) 2010-11</i>	194,315	194,315
<i>Appropriation Act (No. 1) 2011-12</i>	1,101,782	-
Total	2,914,457	2,385,939

Note 16: Compensation and Debt Relief

	2012	2011
	\$	\$
Compensation and Debt Relief - Departmental		
No 'Act of Grace' payments were expensed were incurred during the reporting period.	-	-
No waivers of amounts owing to the Australian Government were made pursuant to subsection 34(1) of the Financial Management and Accountability Act 1997.	-	-
No ex-gratia payments were provided for during the reporting period.	-	-
No payments were provided under the Compensation for Detriment caused by Defective Administration (CDDA) Scheme during the reporting period.	-	-
No payments were provided in special circumstances relating to APS employment pursuant to section 73 of the Public Service Act 1999 (PS Act) during the reporting period.	-	-

Note 17: Reporting of outcomes

The Inspector-General of Taxation has one outcome:

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

Note 17A: Net cost of outcome delivery

	2012	2011
	\$	\$
Expenses		
Departmental	2,341,984	2,068,063
Total	2,341,984	2,068,063
Other own-source income		
Rents	-	45,014
Other revenue	4,746	1,040
Gains	25,000	62,680
Total	29,746	108,734
Net cost of outcome delivery	2,312,238	1,959,329

Note 17: Reporting of outcomes (continued)**Note 17B: Major classes of departmental revenues and expenses by outcome**

Outcome 1	Total	
	2012	2011
	\$	\$
Expenses		
Employees	1,402,220	1,165,754
Suppliers	819,781	815,331
Finance costs	2,754	3,257
Depreciation and amortisation	116,168	83,721
Write down of assets	1,061	-
Total	2,341,984	2,068,063
Income		
Income from Government	2,686,000	2,134,000
Rents	-	45,014
Other revenue	4,746	1,040
Gains	25,000	62,680
Total	2,715,746	2,242,734
Assets		
Financial assets:		
Cash and cash equivalents	37,479	21,169
Receivables	2,939,221	2,397,056
Non-financial assets:		
Property, plant and equipment	108,008	207,453
Other non-financial assets	26,877	25,754
Total	3,111,585	2,651,432
Liabilities		
Payables	76,934	106,185
Provisions	340,560	262,920
Total	417,494	369,105

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

Note 18: Net cash appropriation arrangements

	2012	2011
	\$	\$
Total comprehensive income less depreciation/amortisation expenses previously funded through revenue appropriations¹	489,930	304,941
Plus: depreciation/amortisation expenses previously funded through revenue appropriations	(116,168)	(83,721)
Total comprehensive income - as per the Statement of Comprehensive Income	373,762	221,220

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

PART 5: OTHER INFORMATION

WORK HEALTH AND SAFETY

The IGT office fosters and maintains a safe and healthy working environment in accordance with the *Work Health and Safety Act 2011* (the WHS Act). During 2011–12, the IGT received no accident and incident reports. No notices were given under sections 90, 191 and 195 of the WHS Act.

FREEDOM OF INFORMATION

The *Freedom of Information Act 1982* (the FOI Act) gives the general public legal access to government documents. Agencies subject to the FOI Act are required to publish information as part of the *Information Publication Scheme* (IPS). The IGT website contains this information including the agency's structure, functions, appointments and consultation arrangements. An agency plan detailing the information published in accordance with the IPS requirements is also available on the IGT website.

Categories of documents held by the IGT

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

- 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 IGT office;
- correspondence and working papers relating to the administration of the IGT office, including personal records, organisation and staffing records, financial and expenditure records, advice and internal operations documents such as office procedures and instructions; and
- reference material, including press clippings and research papers.

Every six months the IGT also publishes an indexed list of files on the IGT website.

Documents open to public access

A detailed listing of IGT documents published during the year, such as reports, terms of reference, submission guidelines and annual reports, is available on the IGT website.

The IGT has a policy of publishing all new terms of reference and submission guidelines on the IGT's website at the time of release.

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

Facilities for access of documents

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

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

Level 19
50 Bridge Street
SYDNEY NSW 2000

Freedom of Information applications and initial contact points

Initial enquiries regarding access to IGT documents should be directed in writing through email at FOI@igt.gov.au or via post to:

Freedom of Information
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;
- state that the request is an application for the purposes of the FOI Act;

- provide such information concerning the document as is reasonably necessary for the IGT to identify it; and
- give details of how notices under the FOI Act may be sent to the applicant (such as by email).

A valid request is to be processed within 30 days unless:

- the subject matter is more closely connected to another agency which may result in transfer to the relevant or appropriate agency;
- third party consultations are required, in which case an additional 30 days may be added;
- the applicant agrees to additional time for the processing of the request;
- additional time is requested from the Australian Information Commissioner in cases of complex or voluminous requests; or
- a decision has been made to impose charges.

There is no application fee for an FOI request.

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

Applicants are able to request a review by the IGT office of a decision regarding the accessibility of documents. Such requests should be made within 30 days of receipt of the original decision by the applicant.

Application can also be made to the Australian Information Commissioner for a review of certain decisions. Information about this process can be found at www.oaic.gov.au.

Decisions made by the Australian Information Commissioner may be appealed through the Administrative Appeals Tribunal.

Freedom of Information activity

The IGT received no valid requests for access to documents under the FOI Act in 2011–12.

ADVERTISING AND MARKET RESEARCH

Advertising costs for the IGT's review submission requests and recruitment announcements during 2011-12 totalled \$25,825 (GST inclusive).

No market research activities were undertaken during 2011-12.

ECOLOGICALLY SUSTAINABLE DEVELOPMENT AND ENVIRONMENTAL PERFORMANCE

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

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

DISCRETIONARY GRANTS

No discretionary grant programs are administered by the IGT.

LIST OF REQUIREMENTS

Part of Report	Description	Requirement	Page(s)
	Letter of transmittal	Mandatory	iii
	Table of contents	Mandatory	v–vi
	Index	Mandatory	98–99
	Glossary	Mandatory	95
	Contact officer(s)	Mandatory	ii
	Internet home page address and Internet address for report	Mandatory	ii
Review by Agency Head			
	Review by Agency Head	Mandatory	1–12
	Summary of significant issues and developments	Suggested	1–12
	Overview of agency's performance and financial results	Suggested	1–17
	Outlook for following year	Suggested	10–11
	Significant issues and developments — portfolio	Portfolio departments — suggested	2–8
Agency Overview			
	Role and functions	Mandatory	13
	Organisational structure	Mandatory	15
	Outcome and program structure	Mandatory	14
	Where outcome and program structures differ from PB Statements/PAES or other portfolio statements accompanying any other additional appropriation bills (other portfolio statements), details of variation and reasons for change	Mandatory	N/A
	Portfolio structure	Portfolio departments — mandatory	N/A
Report on Performance			
	Review of performance during the year in relation to programs and contribution to outcomes	Mandatory	19–32
	Actual performance in relation to deliverables and KPIs set out in PB Statements/PAES or other portfolio statements	Mandatory	23–32
	Where performance targets differ from the PBS/PAES, details of both former and new targets, and reasons for the change	Mandatory	N/A

Part 5: Other information

Part of Report	Description	Requirement	Page(s)
	Narrative discussion and analysis of performance	Mandatory	19–32
	Trend information	Mandatory	19–32
	Significant changes in nature of principal functions/ services	Suggested	N/A
	Performance of purchaser/ provider arrangements	If applicable, suggested	N/A
	Factors, events or trends influencing departmental performance	Suggested	19–32
	Contribution of risk management in achieving objectives	Suggested	35–36
	Social inclusion outcomes	If applicable, mandatory	N/A
	Performance against service charter customer service standards, complaints data, and the agency's response to complaints	If applicable, mandatory	N/A
	Discussion and analysis of the agency's financial performance	Mandatory	32
	Discussion of any significant changes from the prior year, from budget or anticipated to have a significant impact on future operations.	Mandatory	N/A
	Agency resource statement and summary resource tables by outcomes	Mandatory	16–17
Management Accountability			
Corporate Governance			
	Agency heads are required to certify that their agency comply with the Commonwealth Fraud Control Guidelines.	Mandatory	iii
	Statement of the main corporate governance practices in place	Mandatory	33–36
	Names of the senior executive and their responsibilities	Suggested	ii, iii, 33–34
	Senior management committees and their roles	Suggested	33–34
	Corporate and operational planning and associated performance reporting and review	Suggested	34–35
	Approach adopted to identify areas of significant financial or operational risk	Suggested	35–36
	Policy and practices on the establishment and maintenance of appropriate ethical standards	Suggested	36
	How nature and amount of remuneration for SES officers is determined	Suggested	38–39

Part of Report	Description	Requirement	Page(s)
External Scrutiny			
	Significant developments in external scrutiny	Mandatory	36–37
	Judicial decisions and decisions of administrative tribunals	Mandatory	37
	Reports by the Auditor-General, a Parliamentary Committee or the Commonwealth Ombudsman	Mandatory	37
Management of Human Resources			
	Assessment of effectiveness in managing and developing human resources to achieve departmental objectives	Mandatory	37–39
	Workforce planning, staff turnover and retention	Suggested	39
	Impact and features of enterprise or collective agreements, individual flexibility arrangements (IFAs), determinations, common law contracts and AWAs	Suggested	38–39
	Training and development undertaken and its impact	Suggested	39
	Work health and safety performance	Suggested	87
	Productivity gains	Suggested	N/A
	Statistics on staffing	Mandatory	39–41
	Enterprise or collective agreements, IFAs, determinations, common law contracts and AWAs	Mandatory	38
	Performance pay	Mandatory	37–38
Assets Management	Assessment of effectiveness of assets management	If applicable, mandatory	40
Purchasing	Assessment of purchasing against core policies and principles	Mandatory	40
Consultants	The annual report must include a summary statement detailing the number of new consultancy services contracts let during the year; the total actual expenditure on all new consultancy contracts let during the year (inclusive of GST); the number of ongoing consultancy contracts that were active in the reporting year; and the total actual expenditure in the reporting year on the ongoing consultancy contracts (inclusive of GST). The annual report must include a statement noting that information on contracts and consultancies is available through the AusTender website.	Mandatory	40–41
Australian National Audit Office Access Clauses	Absence of provisions in contracts allowing access by the Auditor-General	Mandatory	41

Part 5: Other information

Part of Report	Description	Requirement	Page(s)
Exempt Contracts	Contracts exempt from AusTender	Mandatory	41
Financial Statements	Financial Statements	Mandatory	43–85
Other Mandatory Information			
	Work health and safety (Schedule 2, Part 4 of the <i>Work Health and Safety Act 2011</i>)	Mandatory	87
	Advertising and Market Research (Section 311A of the <i>Commonwealth Electoral Act 1918</i>) and statement on advertising campaigns	Mandatory	90
	Ecologically sustainable development and environmental performance (Section 516A of the <i>Environment Protection and Biodiversity Conservation Act 1999</i>)	Mandatory	90
	Compliance with the agency's obligations under the <i>Carer Recognition Act 2010</i>	If applicable, mandatory	N/A
	Grant programs	Mandatory	90
	Disability reporting — explicit and transparent reference to agency-level information available through other reporting mechanisms	Mandatory	41–42
	Information Publication Scheme statement	Mandatory	87–89
	Correction of material errors in previous annual report	If applicable, mandatory	N/A
	List of Requirements	Mandatory	91–94

GLOSSARY

Activities	The actions/functions performed by agencies to deliver government policies.
Appropriation	An amount of public money that Parliament authorises for spending (that is, funds to be withdrawn from the CRF). Parliament makes laws for appropriating money under the Annual Appropriation Acts and under Special Appropriations, with spending restricted to the purposes specified in the Appropriation Acts.
Consolidated Revenue Fund (CRF)	The principal operating fund from which money is drawn to pay for the activities of the Government. Section 81 of the <i>Australian Constitution</i> provides that all revenue raised or monies received by the Executive Government forms one consolidated revenue fund from which appropriations are made for the purposes of the Australian Government.
Corporate Governance	The process by which agencies are directed and controlled. It is generally understood to encompass authority, accountability, stewardship, leadership, direction and control.
<i>Financial Management and Accountability Act 1997</i> (FMA Act)	The FMA Act sets out the financial management, accountability and audit obligations of agencies (including Departments) that are financially part of the Commonwealth (and form part of the General Government Sector). A list of FMA Act agencies can be found at: www.finance.gov.au/financial-framework/fma-legislation/fma-agencies.html .
IGT website	The IGT website can be found at www.igt.gov.au .
Operations	Functions, services and processes performed in pursuing the objectives or discharging the functions of an agency.
Outcomes	The results, impacts or consequence of actions by the Commonwealth on the Australian community.
Portfolio Budget Statements (PBS)	Budget related papers detailing budget initiatives and explanations of appropriations specified by outcome and program by each agency within a portfolio.

ACRONYMS

AASB	Australian Accounting Standards Board
AATSI	Aboriginal and Torres Strait Islander
ADR	Alternative Dispute Resolution
AEIFRs	Australian Equivalents International Financial Reporting Standards
ANAO	Australian National Audit Office
APS	Australian Public Service
ATO	Australian Taxation Office
CDDA	Scheme for Compensation for Detriment caused by Defective Administration
CEI	Chief Executive Instructions
CEO	Chief Executive Officer
CFO	Chief Finance Officer
CPGs	Commonwealth Procurement Guidelines
CTA	Corporate Tax Association
CTM	Corporate Tax Managers
DCB	Departmental Capital Budgets
EL1	Executive Level 1
EL2	Executive Level 2
ESL	English as a Second Language
FMA Act	<i>Financial Management and Accountability Act 1997</i>
FOI	Freedom of Information
FOI Act	<i>Freedom of Information Act 1982</i>
FMO	Finance Minister's Orders
GST	Goods and Services Tax
HMRC	HM Revenue and Customs
HWIs	High Wealth Individuals
IFRSs	International Financial Reporting Standards

IGT	Inspector-General of Taxation
IGT Act	<i>Inspector General of Taxation Act 2003</i>
IPA	Institute of Public Accountants
IPS	Information Publication Scheme
IRS	Internal Revenue Service
IT	Information Technology
JCPAA	Joint Committee of Public Accounts and Audit
PBS	Portfolio Budget Statements
PSS	Public Sector Superannuation Scheme
PSSap	Public Sector Superannuation Scheme accumulation plan
SAP	Substituted Accounting Period
SES	Senior Executive Service
SG	Superannuation Guarantee
SLA	Service Level Agreement
SME	Small and Medium Enterprise
TIA	Tax Institute of Australia
WHS Act	<i>Work Health and Safety Act 2011</i>

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