

# **Inspector-General of Taxation**

Annual Report 2006-07

September 2007

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## ENQUIRIES

The contact officer to whom enquiries regarding this report may be directed:

Mr Rick Matthews  
Deputy Inspector-General of Taxation  
GPO Box 551  
SYDNEY NSW 2001

A copy of this document can be located on the Inspector-General of Taxation website at: [www.igt.gov.au](http://www.igt.gov.au)

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Telephone: (02) 8239 2111  
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**Australian Government**  
**Inspector-General of Taxation**

Level 19, 50 Bridge Street  
Sydney NSW 2000  
GPO Box 551  
Sydney NSW 2001

17 September 2007

The Hon Peter Dutton MP  
Minister for Revenue and Assistant Treasurer  
Parliament House  
Canberra ACT 2600

Dear Minister

I have pleasure in presenting to you the Annual Report of the Inspector-General of Taxation for the year ended 30 June 2007. The Report has been prepared in accordance with section 41 of the *Inspector-General of Taxation Act 2003* (the Act).

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

Yours sincerely

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

David R Vos AM  
Inspector-General of Taxation



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## PART 1: OVERVIEW

### REVIEW BY THE INSPECTOR-GENERAL OF TAXATION



The financial year 2006-07 effectively marked completion of the fourth year in my role as Inspector-General of Taxation having commenced on 7 August 2003. Work completed during the year, work underway and my forward work program all indicate that there is no shortage of issues to review and recommendations to put forward to improve tax administration for the benefit of all Australians. As at 30 June 2007, I completed three case study reviews during the year and reported on them to the Minister, and I have another five reviews underway as follows:

- case study review into the ATO's handling of living away from home allowances (Report to Minister, 24 January 2007);
- case study review into the ATO's handling of service entity arrangements (Report to Minister, 24 January 2007);
- case study review into the ATO's handling of research and development syndicates (Report to Minister 3 May 2007);
- a review of the potential revenue bias in private binding rulings (commenced August 2005);
- a review of the extent to which the ATO has implemented recommendations from completed reports by my office (commenced June 2006);
- a review into the Tax Office's administration of GST audits (commenced October 2006).

- a review into the underlying causes and the management of objections to Tax Office decisions (commenced January 2007);
- a fourth, summary report on the review of the Tax Office's handling of complex matters arising from the three case study reviews completed during the year (commenced June 2007).

A full list and report of all reviews released since my Office was established is on my website, [www.igt.gov.au](http://www.igt.gov.au).

How long particular reviews take can be a reflection of their breadth, the extent to which they raise issues which are challenging for the Tax Office (and sometimes other stakeholders), and sometimes simply competing priorities. For example, the review of the potential bias in private binding rulings commenced August 2005. In November 2005, the Tax Office questioned the Inspector-General's power to access certain documents. Legal advice was jointly sought and the matter was resolved in June 2006. The delays cut across other priorities and resources were diverted to keep other matters moving. This meant that the review was put on hold until May 2007 and is now nearing completion.

## Significant non-review activity

In addition to the reviews undertaken and progressed by my office, during 2006-07 I have been engaged in a range of consultative, taxation and general administrative matters of significance including:

- appearances and giving evidence before the Joint Committee of Public Accounts and Audit (JCPAA) on the 28 July 2006 and 9 November 2006 as part of the committee's review into a range of taxation administration issues;
- appearances and evidence before Senate estimates hearings in November 2006 and May 2007;
- in January 2007 the Hon Peter Dutton MP, Minister for Revenue and Assistant Treasurer, issued a Statement of Expectations to the Inspector-General as part of the implementation of the Government's response to the Review of the Corporate Governments of Statutory Authorities and Office Holders authored by Mr John Uhrig AC (the Uhrig report); the Inspector-General issued his Statement of Intent on 8 March 2007 in response;
- Entering into a protocol between the Inspector-General and the Treasury in March 2007;



- entering into a new protocol between the Inspector-General and the Commissioner of Taxation in May 2007;
- the Inspector-General and his staff have made themselves available to speak and participate in a wide range of functions, including conferences, lunches and dinners throughout Australia. Such opportunities have provided my office with the chance to hear from taxpayers and their representatives at first hand on tax administration issues of concern to them. These have substantially provided input to reviews underway and have also provided scope to consider issues likely to be put on my future work program; and
- an update, released in May 2007, to the Inspector-General's proposed work program.

## Proposed work program

Management of issues likely to be considered for my work program involves a sophisticated activity. A database of issues raised with my Office is maintained, regularly monitored and where necessary updated. Matters dealt with on the database include correspondence, emails and other communications with my office, and matters appearing in the national and local press. Issues raised orally with my office are also monitored. These issues could have been raised with me or one of my officers at conferences, meetings or by phone. Prioritisation of all issues is dealt with by relying on the criteria as set out in the *IGT Issues Paper Number 2*, released in December 2003.

Every six months (at least), the Inspector-General and his staff workshop the issues percolating to the top of his potential work program. This includes identifying potential reviews from other full reviews either completed or underway. A short list is prepared of potential review topics.

As well, periodical, and at least annually, discussions take place between the Inspector-General and the Commonwealth Auditor-General and the Commonwealth (and Taxation) Ombudsman and their senior staff.

The Inspector-General meets with private sector stakeholders at least on a six monthly basis to maintain ongoing dialogue concerning the Inspector-General's work program and to test the likely short list against other competing priorities.

Also, under the protocol between the Inspector-General and the Commissioner of Taxation, consultation occurs between the Inspector-General and the Tax Office prior to announcing the annual update to the proposed work program.

In recent years the Inspector-General's staff have undertaken considerable scoping of potential work program issues with the Tax Office and in some cases with overseas revenue agencies well prior to announcing the formal terms of reference for particular reviews.

Under the *Inspector-General of Taxation Act 2003* I have very broad powers in setting my work program. However, from the inception of the role I have always had a very transparent process in setting my forward work program.

Proposed reviews announced by the Inspector-General in May 2007 include the following issues:

- Tax Office approaches to settling and finalising issues with taxpayers.
- The extent to which the Tax Office has implemented its commitment to make as much of its guidance material as possible legally binding within its risk management considerations.
- The extent to which the Tax Office has fulfilled its obligation in a self-assessment system to provide adequate and contemporary guidance to taxpayers on matters it has publicly identified as a compliance risk.
- The potential use of guidance such as the service entity booklet to increase certainty in other areas of compliance focus.
- The Tax Office's level of investment in staff that set legal precedents.
- The Tax Office's management of the Higher Education Loan Program (HELP).
- Non-lodgement of income tax returns.

The precise timing of these reviews will be determined in part by when reviews already underway are completed. More detail on these proposed reviews is available on my website.

## Press coverage and community feedback

Unlike some other scrutineers of the Tax Office, the success of my role depends in no small part on input from the community which in turn requires community awareness of my existence and role. The media can play a useful part in this process through its on-going interest in taxation matters generally and through its reporting of my activities.

The activities of the Inspector-General and his office are regularly reported in the national press and in specialist professional and trade publications. Some of this coverage has made much of apparent conflict between the Inspector-General and the Commissioner of Taxation.

In a role where I am charged by a statute to, *inter alia*, scrutineer the activities of the Tax Office it is not surprising that there will appear at times to be some conflict. Beneath this occasional surface tension however, I believe that Commissioner and I enjoy a satisfactory, professional and cordial relationship. Indeed, the new protocol that we signed together in May 2007 notes that we share a common goal of improving the administration of the tax system for the benefit of the Australian community and that we are committed to establishing an open, honest and professional relationship that is built on mutual respect for each other's role. That does not mean that we will see eye to eye on all issues. Taxpayers and their advisors would not expect that to be the case.

Taxpayers and their representatives expect me to take issues of substance that they raise with me to the Tax Office and, in my reviews and reports, to explore them for their potential to reveal possible improvements to tax administration. The Tax Office will not always agree with the substance of the observations put by taxpayers, or with the conclusions reached by my office and ultimately by me in my reports to the Government. Nevertheless, testing the substance of matters raised by the community in the context of my reviews is an important process and one that it is inherent in the functions of the Inspector-General as established by Parliament.

The press will report as they see fit. Ultimately, it is the community itself, including taxpayers and their representatives, who will draw their own conclusions on the findings of my reviews and on the sometimes different views of the Commissioner.

I am pleased to report that the considerable amount of feedback from stakeholder and community sources, and the press coverage relevant to my role during the year, has been overwhelmingly supportive. Media coverage and speaking engagements also generated a good deal of specific input to my current reviews during 2006-07, particularly my review into GST audits.

## Improvements to tax administration

Looking back over the last four years, there is a significant number of improvements to tax administration to which my reviews and other activities have achieved or contributed.

At a general level, there are clear signs of the Tax Office being held accountable for its actions. The Commissioner now attends hearings of the JCPAA as a standing

commitment (which he readily accepted); and submissions and reports from scrutineers, including my Office, provide input to JCPAA and other Parliamentary Committee lines of inquiry, and to media and community commentary.

More specifically, the Commissioner has agreed wholly or in part to the vast majority of recommendations made in my reports to Government as shown in the following table.

**Table 1: IGT recommendations accepted by the Commissioner of Taxation**

<b>IGT Reviews</b>	<b>Number accepted/total recommendations</b>
Review of remission of general interest charge for taxpayers in dispute with the Tax Office	16/19*
Review of Tax Office administration of GST refunds resulting from the lodgement of credit BASs	12/12
Review into the Tax Office's small business debt collection practices	2/2
Review into Tax Office's administration of penalties and interest arising from active compliance	4/4
Review into Tax Office audit time frames	4/4
Review into the Tax Office's management of litigation	27/32
Case Study – Service Entity Arrangements	10/12
Case Study – Living Away from Home Allowances	2/2
Case Study – Research and Development syndicates	1/2
<b>Total Recommendations Accepted/Total Recommendations</b>	<b>78/89</b>

\* Findings.

Some of the more significant and specific improvements to tax administration agreed to, as a result of these formal reviews, include:

- fairer penalties and interest remission policies both in the broad and in respect of fairer outcomes for people caught up in compliance activity on certain Employee Benefit Arrangements (EBAs);
- the establishment of a Tax Office panel of senior officers to determine the appropriateness of widely based settlement offers;
- increased Tax Office capability to differentiate approaches between serial defaulters and debtors who seek to comply but need a short-term assistance to do so;
- new Tax Office processes to monitor audit timeframes and ensure that they are not excessive;
- improved communication during audits including commencement and finalisation notifications and progress reports;

- new processes to ensure that interest is not charged on adjustments during periods of Tax Office caused delays;
- significantly reduced amounts of GST refunds held for compliance checking and greater transparency in reporting;
- tax Office acceptance of guidelines on what constitutes good administration when it decides to challenge a court decision;
- promptly published Decision Impact Statements to inform stakeholders of Tax Office intentions following significant court decisions;
- an independent review process for test case applications rejected by the Tax Office;
- improved reporting of test case program operations and outcomes;
- new management arrangements to bring together overall responsibility and authority for managing litigation;
- senior case management arrangements to intervene where matters appear to be taking too long to resolve or are going off the rails;
- clarifying the FBT law on Living Away from Home Allowances and how it applies;
- reconsideration of cases where unfair outcomes may have resulted in certain Research and Development Syndicate cases; and
- a commitment to provide further clarification and practical guidance on the meaning of 'general administrative practice'.

A positive aspect of my Office's interaction with the Tax Office is their apparent readiness to change approaches both during reviews and in anticipation of my reports. Stakeholders also report that more flexible approaches tend to be adopted by the Tax Office when a review by my Office is either foreshadowed or underway.

For example, Tax Office senior management have attended most of the interviews conducted by my staff inside the Tax Office in respect of the current review of GST audits. We have also shared information and issues with them progressively to facilitate joint development of recommendations for change. In this review, the Tax Office has clearly taken on board the issues as they surfaced and worked towards improvements as the review progresses. In previous Annual Reports I have noted the Tax Office's willingness to improve communications with taxpayers on particular compliance matters through informal dialogue where a formal review is not necessarily warranted.

While the Tax Office tends not to attribute these improvements directly to my actions, the links are nonetheless there.

## Public sector stakeholders

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

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

## Community and private sector stakeholders

I am pleased to report that community and private sector stakeholders continue to maintain a strong interest in my role and contribute to my work program. I meet with all key private sector stakeholders at least twice a year to consult with them in formulating my ongoing work program. In 2006-07, I have found that establishing specific stakeholder reference groups for some particular reviews has provided valuable insights into taxpayers' direct experiences of Tax Office approaches.

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

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

## Statutory statements

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

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

## Staffing

The Office of the Inspector-General has enjoyed ongoing consistent staff retention during 2006-07.

I am pleased to report that one of my senior advisers, Mr Tasos Mihail, was awarded one of 20 Young Leaders' Program scholarships available across 26 countries, with generally one candidate from Australia selected to attend. Tasos will be heading to Japan in October 2007 to undertake a twelve month course conducted by the Japanese National Graduate Institute for Policy Studies. On successful completion of the program Tasos will be conferred with a Master of Public Administration.

I am grateful for very competent and loyal staff who are keen to work with me in seeking to improve tax administration for the benefit of all taxpayers in an environment where we have very limited resources at our disposal.

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

David Vos AM  
Inspector-General of Taxation

## CORPORATE STATEMENT

### Role, function, outcome and output structure

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

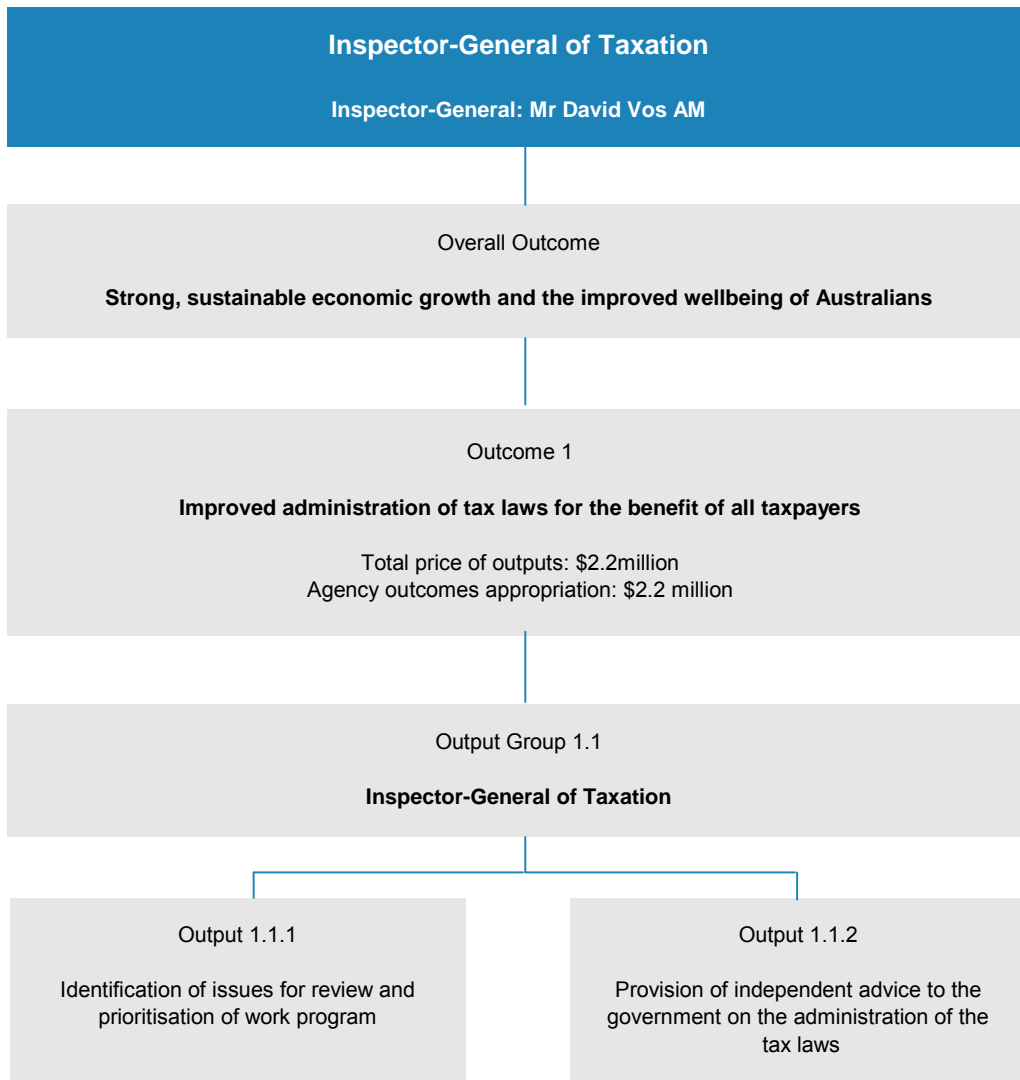
- systems established by the Australian Taxation Office to administer the tax laws; and
- systems established by tax laws in relation to administrative matters.

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

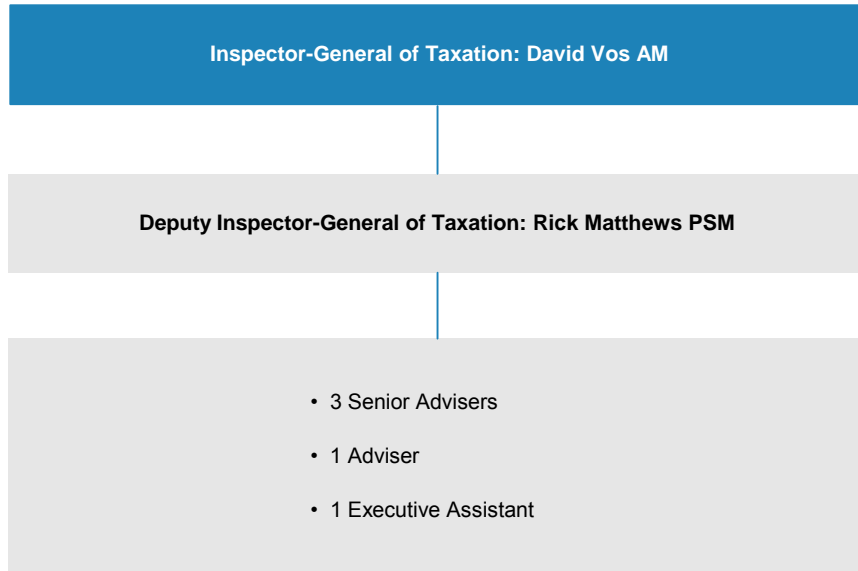
To ensure that reviews undertaken reflect areas of key concern to the Australian community, the Inspector-General develops a work program following broad-based consultation with other stakeholders including taxpayers and their representatives, the Commonwealth Ombudsman, the Commonwealth Auditor-General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



**Figure 1: Outcome and output structure**



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



## Inspector-General of Taxation services

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

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

### Key skills

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

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

### Key relationships

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

Although independent of both the Government and the Commissioner of Taxation, the Inspector-General must have an understanding of overall government policies and the role and activity of the Commissioner of Taxation. The main public sector stakeholders are the Commonwealth Auditor-General, the Commonwealth and Taxation Ombudsman, the Commissioner of Taxation, the Treasury and the Board of Taxation. Private sector stakeholders include those set out in Table 4.

Table 2: Resources for Inspector-General of Taxation outcomes

	Budget 2006-07 \$'000	Actual 2006-07 \$'000	Budget 2007-08 \$'000
<b>Revenue from Government</b>			
Output Group: Inspector-General of Taxation			
Output 1.1.1 - Identification of issues for review and prioritisation of work program	109	109	116
Output 1.1.2 - Provision of independent advice to the Government on the administration of the tax laws	2,061	2,061	2,072
<b>Total revenue from Government contributing to the price of departmental outputs</b>	<b>2,170</b>	<b>2,170</b>	<b>2,188</b>
<b>Revenue from other sources</b>			
Output Group: Inspector-General of Taxation			
Output 1.1.1 - Identification of issues for review and prioritisation of work program	2	3	4
Output 1.1.2 - Provision of independent advice to the Government on the administration of the tax laws	50	51	55
<b>Total revenue for departmental outputs</b> (Total revenues from Government and other sources)	<b>2,222</b>	<b>2,224</b>	<b>2,247</b>
<b>Price of departmental outputs</b>			
Output Group: Inspector-General of Taxation			
Output 1.1.1 - Identification of issues for review and prioritisation of work program	111	100	119
Output 1.1.2 - Provision of independent advice to the Government on the administration of the tax laws	2,111	1,895	2,128
<b>Total price of departmental outputs</b>	<b>2,222</b>	<b>1,995</b>	<b>2,247</b>
<b>Total estimated resourcing</b> (Total price of outputs and administered expenses)	-	<b>229</b>	-
<b>Average staffing level (number)</b>	<b>7</b>	<b>7</b>	<b>7</b>

## **PART 2: PERFORMANCE REPORT**

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

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

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

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

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

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

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

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

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

### **OUTPUT 1.1.1**

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

The Inspector-General is required to establish his own work program. He must take into account any directions from the government to undertake a particular review. The Inspector-General must also consult with the Commonwealth Auditor-General and the Commonwealth Ombudsman to avoid overlap of work. The Inspector-General has chosen to consult widely with business, accounting, legal and tax organisations in setting his work program. As well, he has published a framework for review selection – refer Issues Paper Number 2 *Policy Framework for Review Selection*. This framework is currently being considered for review and updating in the light of four years' experience and to incorporate aspects of legal (Australian Government Solicitor) advice on the scope of the Inspector-General's role that was sought in 2005-06.

### **Performance information**

The performance information of Output 1.1.1 is as follows:

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

## Key activities in 2006-07

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

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

## Key outcomes in 2006-07

Consultation has been completed to assist both in the development of a work program and the conduct of the reviews initiated by the Inspector-General. A schedule of private sector organisations with which regular contact has been made is at Table 4. A significant number of other organisations have also been consulted. During the year, reference groups of interested taxpayers and their representatives have also been established to provide input to specific reviews.

Speakers have been provided for key business, tax, accounting and legal conferences, and other opportunities have been taken to meet with taxpayers and their advisers. This has enabled the Inspector-General to share information on the direction of his work program and to obtain input on the issues to be considered in reviews initiated during the 2006-07 year. A list of key speaking engagements is at Table 3.

**Table 3: Key speaking engagements**

Date	Organisation	Type of function	Location
3 August 2006	Institute of Chartered Accountants	Church finance discussion group	Sydney
13 September 2006	Baker & McKenzie	Twilight Seminar	Sydney
25 September 2006	Law & Finance	2 <sup>nd</sup> Annual Corporate Tax Forum	Sydney
26 September 2006	Baker & McKenzie	Breakfast Seminar	Sydney
16 October 2006	Corporate Tax Association	GST Big Day and a Half Out 2006	Sydney
10 November 2006	Taxpayers Australia Inc	National Conference	North Sydney
1 December 2006	Law Council of Australia	Lunch	Sydney

Table 3: Key speaking engagements (continued)

Date	Organisation	Type of function	Location
6 February 2007	Law and Finance	Australian Taxation Summit	Sydney
28 February 2007	Australian Chamber of Commerce	Speech	Canberra
2 March 2007	PwC Perth	Breakfast Presentation	Perth
15 March 2007	PwC Perth	Lunch Presentation	Perth
16 March 2007	National Institute of Accountants	NIA Western Australia State Conference	Perth
21 March 2007	PwC Sydney	Client Dinner	Sydney
23 March 2007	PwC Adelaide	Lunch Presentation	Adelaide
27 March 2007	IIR	7 <sup>th</sup> Annual Tax Planning Strategies Conference	Melbourne
28 March 2007	KPMG	Lunch Presentation	Melbourne
28 March 2007	PwC Melbourne	Client Dinner	Melbourne
30 March 2007	Baker & Mackenzie	Breakfast Seminar	Sydney
12 April 2007	ATAX	GST Conference	Noosa
16 April 2007	Law School of Sydney	Masters of Law-Tax Administration Course	Sydney
2 May 2007	KPMG	Lunch Presentation	Melbourne
11 May 2007	KPMG	Lunch Presentation	Sydney
17 May 2007	National Institute of Accountants	NIA TAS State Congress	Strahan
14 June 2007	Law Society of NSW	Lunch Presentation	Sydney

Table 4: Private sector stakeholders

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



### Updated work program

In March 2007, the Inspector-General consulted representatives from selected industry, business, accounting, legal practitioner and tax organisations about the prioritisation of his future work program. Participants were given an update on reviews currently underway and nearing completion. Participants also discussed key issues of concern that have been raised with the Inspector-General over the past year. The Commonwealth Auditor-General, the Acting Commonwealth Ombudsman and the Tax Office have also been consulted.

On the basis of strong feedback from taxpayers and their representatives, the Inspector-General has updated the issues that he aims to review during 2007-08. His work program for 2007-08 was announced in May and is now as follows (subject to any matters of overriding priority that may arise):

- Tax Office approaches to settling and finalising issues with taxpayers.
- The extent to which the Tax Office has implemented its commitment to make as much of its guidance material as possible legally binding within its risk management considerations.
- The extent to which the Tax Office has fulfilled its obligation in a self-assessment system to provide adequate and contemporary guidance to taxpayers on matters it has publicly identified as a compliance risk.
- The potential use of guidance such as the service entity booklet to increase certainty in other areas of compliance focus.
- The Tax Office's level of investment in staff that set legal precedents.
- The Tax Office's management of the Higher Education Loan Program (HELP).
- Non-lodgement of income tax returns.

The precise timing of these reviews will be determined in part by when reviews already underway are completed. More detail on these proposed reviews is available on [www.igt.gov.au](http://www.igt.gov.au).

### Reviews completed in 2006-07

During 2006-07, the Inspector-General has completed three case study reviews relevant to stakeholders:

- case study review into the ATO's handling of living away from home allowances (Report to Minister, 24 January 2007);
- case study review into the ATO's handling of service entity arrangements (Report to Minister, 24 January 2007);
- case study review into the ATO's handling of research and development syndicates (Report to Minister, 3 May 2007);

Completed reviews have been relevant in that they focussed on identifying systemic improvements arising from major contemporary, albeit longstanding issues under Tax Office management. All have contemporary relevance to stakeholders including the taxpayers directly involved. They have also been timely in that they have been reported to Government in a timely manner following their completion and following the statutory period for the Taxation Office to provide comment.

At the end of 2006-07 the Inspector-General has five reviews underway into issues identified through consultation as relevant to stakeholders. These are reported under Output 1.1.2 below.

## OUTPUT 1.1.2

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

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

## Performance information

The performance information of Output 1.1.2 is as follows:

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

## Key outcomes in 2006-07

During 2006-07, the Inspector-General has completed three case study reviews and has five reviews underway into issues identified through consultation as relevant to stakeholders:

- case study review into the ATO's handling of living away from home allowances (Report to Minister, 24 January 2007);
- case study review into the ATO's handling of service entity arrangements (Report to Minister, 24 January 2007);
- case study review into the ATO's handling of research and development syndicates (Report to Minister, 3 May 2007);
- a review of the potential bias in private binding rulings (commenced August 2005);
- a review of the extent to which the ATO has implemented recommendations from completed reports by my office (commenced June 2006);
- a review into the Tax Office's Administration of GST Audits (commenced October 2006);
- a review into the Underlying Causes and the Management of Objections to Tax Office Decisions (commenced January 2007);
- a fourth, summary report on the review of the Tax Office's handling of complex matters arising from the three case study reviews completed during the year (commenced June 2007).

The Commissioner of Taxation has accepted fully or in part most (78 of 89) of the recommendations of reviews published since the inception of the Inspector-General. The outcomes of these reviews, combined with feedback from community stakeholders, provide clear evidence that the role of the Inspector-General is working

well and is very effective in improving tax administration for the benefit of all taxpayers.

A summary of the more significant improvements to administration stemming from the Inspector-General's activities this year and since inception is included in the Overview to this Annual Report.

## PART 3: MANAGEMENT AND ACCOUNTABILITY

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### CORPORATE GOVERNANCE

In 2006-07 the Inspector-General of Taxation maintained established governance arrangements. Governance processes continued to be based on many of the well-established policies and processes in place in the Treasury.

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

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

Governance processes were enhanced during 2006-07 by implementing the Statements of Expectation and Intent required following the 2004 Uhrig report on the corporate governance of statutory authorities and office holders. A protocol covering working arrangements between the Inspector-General and the Department of the Treasury was also agreed as part of implementing the Government's requirements arising from the Uhrig report.

### Audit Committee

Pursuant to section 46 of the *Financial Management and Accountability Act 1997*, the Inspector-General continues to maintain an Audit Committee with an independent chair. The Audit Committee met three times during 2006-07.

## Remuneration Committee

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

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

## Corporate planning and reporting

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

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

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

## Risk management

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

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

- Physical security risk reviews continue to be arranged, and the office design and associated access security meet required standards and have been reviewed and approved by ASIO Group 4.
- Risk assessments are to be conducted annually as part of the process of applying for insurance renewal. The programme is based on the Risk Management Standard AS/NZS 4360:1999 and will measure the Inspector-General's performance in implementing risk management processes and policies against the national benchmark.

During the year, the Inspector-General also maintained comprehensive Business Continuity and Fraud Control plans. The Audit Committee is undertaking a review of these plans.

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

- The IT Disaster Recovery Plan sets out the strategies and processes to restore services if a complete or partial loss of the Treasury central computing infrastructure occurs. The plan aims to restore services within an appropriate timeframe.
- Business Continuity Plans apply to all of the Treasury IT application systems. Inspector-General of Taxation staff could continue to operate effectively from temporary work locations with portable computing equipment.
- The IT Security Policy developed by Treasury addresses the requirements to protect information holdings and secure operation of the Inspector-General's IT resources. The policy is based on the protective security policies and standards in the Australian Protective Security Manual, the Draft Australian Communication Security Instruction – Electronic Security Instructions 33 (A).
- The Treasury Internet and Email Acceptable Use Policy sets out individual user's responsibilities for the appropriate use of the internet and email facilities and services. This policy refers to the Australian Public Service Values and Code of Conduct, the *Public Service Act 1999*, other relevant Australian Government legislation and the IT Security Policy.

- Website Development Standards and Guidelines are based on ISO 9001 and ACSI 33 International Standards Organisation and Defence Signals Directorate Guidelines. The standards ensure compliance with best practice in relation to website security.
- IT Change Control Guidelines are an internal IT management tool which assists with quality assurance control over proposed changes to the IT technical environment and facilities. This change control process involves reviewing proposed variations and clearing them before releasing changes in the production environment.
- An IT Risk Management Strategy has been developed in accordance with Defence Signals Directorate Guidelines and identifies technical risks associated with IT infrastructure and IT management practices.

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

## Ethical standards and accountability

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

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

## Senior Executive Service remuneration

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

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



## EXTERNAL SCRUTINY

### Audit

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

### Internal audits

The service level agreement with the Treasury includes for provision of internal audit services. There have not been any internal audits undertaken at this time. The Audit Committee established by the Inspector-General regularly seeks input from the Treasury internal audit are on any matters relevant to the Office.

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

Administration of the Office of the Inspector-General was not mentioned in any reviews undertaken by the Australian National Audit Office that were tabled in 2006-07. There have not been any comments by the Commonwealth Ombudsman on administrative matters within the Office of the Inspector-General in 2006-07.

### Judicial decisions

In 2006-07, no matters relating to the Inspector-General of Taxation were the subject of judicial proceedings or tribunal hearings.

## MANAGEMENT OF HUMAN RESOURCES

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

## Performance management

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

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

## Australian Workplace Agreements

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

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

## Workplace relations

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

## Recruitment and succession planning

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

## Training and development

The Inspector-General's Employment Guidelines reinforce the Inspector-General's commitment to staff development. As well as providing internal staff training on an

ad hoc basis, the Inspector-General financially supports individual staff members who wish to complete post-graduate courses or attend specific development opportunities. Some staff members have continued working towards finalising Masters studies during the year.

## Staffing information

Table 5 details the number of staff employed by the Office of Inspector-General of Taxation, by category and gender. All staff are employed under the *Public Service Act 1999*, however the Inspector-General is a statutory appointee.

**Table 5: Operative and paid inoperative staff by classification and gender as at 30 June 2007**

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

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

## Remuneration of SES staff

**Table 6: Salary scales — SES**

Classification	7 September 2006	
	Minimum	Maximum
	\$	\$
SES Band 2	185,496	217,116

During the year senior executive remuneration was changed to incorporate former cash-out in lieu of a motor vehicle for private purposes into base pay following similar changes made by the Treasury. SES officers also have access to airline lounge membership, mobile phones, and some home office facilities.

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

## Remuneration of non-SES staff

Table 7: Salary scales — non-SES

Classification	7 September 2006	
	Minimum \$	Maximum \$
APS4	50,761	53,418
EL1	75,771	96,571
EL2	93,272	117,959

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

## PROCUREMENT AND ASSETS MANAGEMENT

### Procurement

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

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

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

### Assets management

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

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

## Consultancies

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

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

## CONSULTANCIES

No new non-ongoing consultancy contracts were entered into during 2006-07.

There were no ongoing consultancies active during 2006-07.

## WORKPLACE DIVERSITY

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

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

<b>Classification</b>	<b>Female</b>	<b>Born Overseas</b>	<b>ESL</b>	<b>AATSI</b>	<b>Disability</b>
APS3/4	1				
EL1	1				
EL2	1				
SES Band 2		1			
<b>Total</b>	<b>3</b>	<b>1</b>	<b>1</b>	<b>0</b>	<b>0</b>

## Disability Action Plan

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

## **PART 4:**

# **FINANCIAL STATEMENTS**

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**INDEPENDENT AUDITOR'S REPORT**

**To the Minister for Revenue and Assistant Treasurer**

**Scope**

We have audited the accompanying financial statements of the Inspector-General of Taxation for the year ended 30 June 2007. The financial statements comprise: a statement by the Chief Executive Officer and Chief Financial Officer; income statement; balance sheet; statement of changes in equity; cash flow statement; schedules of commitments and contingencies; a summary of significant accounting policies and other explanatory notes.

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

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

***Auditor's Responsibility***

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

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

PO Box A456 Sydney South NSW 1235  
130 Elizabeth Street  
SYDNEY NSW  
Phone (02) 9367 7100 Fax (02) 9367 7102



***Independence***

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

**Auditor's Opinion**

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

- (a) have been prepared in accordance with Finance Minister's Orders made under the *Financial Management and Accountability Act 1997* and Australian Accounting Standards (including Australian Accounting Interpretations); and
- (b) give a true and fair view of the matters required by the Finance Minister's Orders including the Inspector-General of Taxation's financial position as at 30 June 2007 and of its financial performance and its cash flows for the year then ended.

Australian National Audit Office



P Hinchey  
Senior Director  
Delegate of the Auditor-General

Sydney  
21 August 2007

## 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 2007 have been prepared based on properly maintained financial records and give a true and fair view of the matters required by the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, as amended.



David Vos AM  
Inspector-General of Taxation  
21 August 2007



Rick Matthews  
Chief Finance Officer  
21 August 2007

**Income statement**  
for the period ended 30 June 2007

	Notes	2007 \$	2006 \$
<b>INCOME</b>			
<b>Revenue</b>			
Revenues from government	3A	2,170,000	2,149,000
Rents	3B	51,843	51,843
Other revenue	3C	1,800	1,390
<b>Total revenue</b>		<b>2,223,643</b>	2,202,233
<b>Gains</b>			
Other gains	3D	18,000	29,000
<b>Total gains</b>		<b>18,000</b>	29,000
<b>TOTAL INCOME</b>		<b>2,241,643</b>	2,231,233
<b>EXPENSES</b>			
Employees	4A	1,175,630	1,016,897
Suppliers	4B	756,948	786,721
Finance costs	4C	3,197	1,470
Depreciation and amortisation	4D	76,319	82,064
Write-down and impairment of assets	4E	117	-
<b>TOTAL EXPENSES</b>		<b>2,012,211</b>	1,887,152
<b>SURPLUS (DEFICIT)</b>		<b>229,432</b>	344,081

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

Balance sheet  
as at 30 June 2007

	Notes	2007 \$	2006 \$
<b>ASSETS</b>			
<b>Financial assets</b>			
Cash and cash equivalents	5A	70,000	61,945
Receivables	5B	1,630,673	1,269,916
<b>Total financial assets</b>		<b>1,700,673</b>	<b>1,331,861</b>
<b>Non-financial assets</b>			
Infrastructure, plant and equipment	6A,6C	80,688	101,280
Leasehold improvements	6B,6C	84,710	140,554
Other	6D	24,629	29,644
<b>Total non-financial assets</b>		<b>190,027</b>	<b>271,478</b>
<b>TOTAL ASSETS</b>		<b>1,890,700</b>	<b>1,603,339</b>
<b>LIABILITIES</b>			
<b>Payables</b>			
Suppliers	7A	28,908	8,390
Other payables	7B	29,448	23,253
<b>Total payables</b>		<b>58,356</b>	<b>31,643</b>
<b>Provisions</b>			
Employees	8A	240,070	212,051
Other provisions	8B	65,380	62,183
<b>Total provisions</b>		<b>305,450</b>	<b>274,234</b>
<b>TOTAL LIABILITIES</b>		<b>363,806</b>	<b>305,877</b>
<b>NET ASSETS</b>		<b>1,526,894</b>	<b>1,297,462</b>
<b>EQUITY</b>			
Contributed equity		1,573	1,573
Accumulated surplus		1,525,321	1,295,889
<b>Total equity</b>		<b>1,526,894</b>	<b>1,297,462</b>
<b>Current assets</b>		<b>1,725,302</b>	<b>1,361,505</b>
<b>Non-current assets</b>		<b>165,398</b>	<b>241,834</b>
<b>Current liabilities</b>		<b>265,876</b>	<b>94,531</b>
<b>Non-current liabilities</b>		<b>97,930</b>	<b>211,346</b>

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

**Cash flow statement**  
for the period ended 30 June 2007

	Notes	2007 \$	2006 \$
<b>OPERATING ACTIVITIES</b>			
<b>Cash received</b>			
Appropriations		1,809,224	2,000,000
Rents		54,160	63,164
Other revenue		-	667
GST received from ATO		55,041	61,811
<b>Total cash received</b>		<b>1,918,425</b>	<b>2,125,642</b>
<b>Cash used</b>			
Employees		(1,143,583)	(1,110,643)
Suppliers		(768,586)	(865,227)
Return of appropriation to OPA	**	-	(1,000,000)
<b>Total cash used</b>		<b>(1,912,169)</b>	<b>(2,975,870)</b>
<b>Net cash from/(used by) operating activities</b>	9	<b>6,255</b>	<b>(850,228)</b>
<b>INVESTING ACTIVITIES</b>			
<b>Cash received</b>			
Disposal of property, plant and equipment		1,800	-
<b>Total cash received</b>		<b>1,800</b>	<b>-</b>
<b>Net cash from investing activities</b>		<b>1,800</b>	<b>-</b>
<b>Net increase in cash held</b>		<b>8,055</b>	<b>(850,228)</b>
Cash at the beginning of the reporting period		61,945	912,173
<b>Cash at the end of the reporting period</b>	5A	<b>70,000</b>	<b>61,945</b>

\*\* Note: In accordance with the agreement with the Department of Finance regarding working cash limits, \$1,000,000 was returned by IGT to the OPA in 2005-06. The amount is shown as a receivable in the balance sheet and remains available to IGT.

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

Statement of changes in equity  
for the period ended 30 June 2007

	Accumulated Results		Contributed equity		Total equity	
	2007	2006	2007	2006	2007	2006
	\$	\$	\$	\$	\$	\$
<b>Opening Balance</b>	<b>1,295,889</b>	951,808	<b>1,573</b>	1,573	<b>1,297,462</b>	953,381
Adjustment for errors						
<b>Adjusted Opening Balance</b>	<b>1,295,889</b>	951,808	<b>1,573</b>	1,573	<b>1,297,462</b>	953,381
<b>Income and Expense</b>						
Income and Expenses recognised directly in equity	-	-	-	-	-	-
<b>Subtotal income and expenses recognised directly in equity</b>	<b>-</b>	-	<b>-</b>	-	<b>-</b>	-
Operating Result	<b>229,432</b>	344,081	-	-	<b>229,432</b>	344,081
<b>Total income and expenses recognised directly in equity</b>	<b>229,432</b>	344,081	<b>-</b>	-	<b>229,432</b>	344,081
<b>Sub-total Transactions with Owners</b>	<b>-</b>	-	<b>-</b>	-	<b>-</b>	-
<b>Closing balance at 30 June</b>	<b>1,525,321</b>	1,295,889	<b>1,573</b>	1,573	<b>1,526,894</b>	1,297,462

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

Schedule of commitments  
as at 30 June 2007

	2007	2006
	\$	\$
<b>BY TYPE</b>		
<b>Other commitments</b>		
Operating leases(1)	448,062	710,414
Other commitments(2)	124,773	245,867
<b>Total other commitments</b>	<b>572,835</b>	<b>956,281</b>
<b>Commitments receivable(3)</b>	<b>(151,996)</b>	<b>(246,653)</b>
<b>Net commitments by type</b>	<b>420,839</b>	<b>709,628</b>
<b>BY MATURITY</b>		
<b>Operating lease commitments</b>		
One year or less	272,661	262,352
From one to five years	175,401	448,062
<b>Total operating lease commitments</b>	<b>448,062</b>	<b>710,414</b>
<b>Other commitments</b>		
One year or less	121,314	121,095
From one to five years	3,459	124,772
<b>Total other commitments</b>	<b>124,773</b>	<b>245,867</b>
<b>Commitments receivable(3)</b>	<b>(151,996)</b>	<b>(246,653)</b>
<b>Net commitments by maturity</b>	<b>420,839</b>	<b>709,628</b>

Commitments are GST inclusive where relevant.

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

Schedule of contingencies  
as at 30 June 2007

	2007	2006
	\$	\$
<b>Contingent liabilities</b>	-	-
<b>Contingent assets</b>	-	-
<b>Net contingent liabilities</b>	-	-

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

## Notes to and forming part of the financial statements for the year ended 30 June 2007

### **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 Public Service organisation. 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 has one outcome:

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

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

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

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

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

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

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

#### **1.2 Basis of preparation of financial statements**

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



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

- Finance Minister's Orders (FMOs) for reporting periods ending on or after 01 July 2006; and
- Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

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

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

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

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

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

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

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

## 1.4 Statement of Compliance

Australian Accounting Standards require a statement of compliance with International Financial Reporting Standards (IFRSs) to be made where the financial report complies with these standards. Some Australian equivalents to IFRSs and other Australian Accounting Standards contain requirements specific to not-for-profit entities that are inconsistent with IFRS requirements.

IGT is a not-for-profit entity and has applied these requirements, so while this financial report complies with Australian Accounting Standards including Australian Equivalents to International Financial Reporting Standards (AEIFRSs) it cannot make this statement.

The AASB has issued amendments to existing standards, which are not effective at the reporting date. IGT intends to adopt all standards upon their application date. As at the reporting date, there is no expected effect from application of these standards.

## 1.5 Revenue

### Revenue from government

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

Appropriations receivable are recognised at their nominal amounts.

### Other revenue

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

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

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

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

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

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 by the Government as owner

### Equity injections

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

### Restructuring of administrative arrangements

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

### Other distributions to owners

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

## 1.8 Employee benefits

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

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

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

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

#### **Leave**

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

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

The liability for long service leave has been determined by reference to the work of an actuary as at 30 June 2007. The estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and inflation.

#### **Separation and redundancy**

Provision is made for separation and redundancy benefit payments. The agency, where considered necessary, will develop a detailed formal plan for the terminations and inform those employees affected that it will carry out the terminations.

#### **Superannuation**

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

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

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

IGT makes employer contributions to the Employee Superannuation Scheme at rates determined by an actuary to be sufficient to meet the cost to the Government of the superannuation entitlements of the Agency's employees. IGT accounts for the contributions as if they were contributions to defined contribution plans.

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

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

### **1.9 Leases**

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

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

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

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

### **1.10 Borrowing costs**

All borrowing costs are expensed as incurred.

### **1.11 Cash**

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

### **1.12 Financial risk management**

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

### **1.13 Derecognition of financial assets and liabilities**

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

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

#### **1.14 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 or held to maturity investments held at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount is reduced by way of an allowance account. The loss is recognised in the Income Statement.

##### **Financial assets held at Cost**

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

#### **1.15 Supplier and other payables**

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).

#### **1.16 Contingent liabilities and contingent assets**

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

#### **1.17 Acquisition of assets**

Assets are recorded at cost on acquisition except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities

undertaken. Financial assets are initially measured at their fair value plus transaction costs where appropriate.

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

### 1.18 Property, plant and equipment (PP&E)

#### Asset recognition threshold

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

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

#### Revaluations

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

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

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

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

assets are recognised directly through profit and loss except to the extent that they reverse a previous revaluation increment for that class.

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

### Depreciation

Depreciable property, plant and equipment assets are written off to their estimated residual values over their estimated useful lives to the agency using, in all cases, the 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:

	2006-07	2005-06
Infrastructure, plant and equipment	3-10 years	3-10 years
Leasehold improvements	Lease term	Lease term

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

### Impairment

All assets were assessed for impairment at 30 June 2007. Where indications of impairment exist, the asset's recoverable amount is estimated and an impairment adjustment made if the asset's recoverable amount is less than its carrying amount.

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

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



### 1.19 Taxation

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

### Note 2: Events occurring after reporting date

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

### Note 3: Income

	2007	2006
	\$	\$
<b>Revenues</b>		
<b>Note 3A: Revenues from government</b>		
Appropriations for departmental outputs	2,170,000	2,149,000
<b>Total revenues from government</b>	<b>2,170,000</b>	<b>2,149,000</b>
<b>Note 3B: Rent received</b>		
Property sub-lease rent received	51,843	51,843
<b>Total rents</b>	<b>51,843</b>	<b>51,843</b>
<b>Note 3C: Other revenue</b>		
Other revenue	1,800	1,390
<b>Total other revenue</b>	<b>1,800</b>	<b>1,390</b>
<b>Gains</b>		
<b>Note 3D: Other gains</b>		
Resources received free of charge	18,000	29,000
	<b>18,000</b>	<b>29,000</b>

**Note 4: Expenses**

	2007	2006
	\$	\$
<b>Note 4A: Employee benefits</b>		
Wages and salary	910,002	799,516
Superannuation	137,684	111,041
Leave and other benefits	123,916	97,571
Other employee expenses	4,028	8,769
<b>Total employee benefits</b>	<b>1,175,630</b>	<b>1,016,897</b>
<b>Note 4B: Suppliers</b>		
Provision of goods - related entities	8,237	2,902
Provision of goods - external entities	133,318	91,649
Rendering of services - related entities	146,042	139,097
Rendering of services - external entities	205,985	315,299
Operating lease rentals(*)	256,680	229,287
Workers compensation premiums	6,686	8,487
<b>Total supplier expenses</b>	<b>756,948</b>	<b>786,721</b>
* These comprise minimum lease payments only		
<b>Note 4C: Finance costs</b>		
Unwinding of discount	3,197	1,470
	<b>3,197</b>	<b>1,470</b>
<b>Note 4D: Depreciation and Amortisation</b>		
<b>Depreciation</b>		
Property, plant and equipment	64,989	70,734
<b>Total depreciation</b>	<b>64,989</b>	<b>70,734</b>
<b>Amortisation</b>		
Leasehold improvements - make good provision	11,330	11,330
<b>Total depreciation</b>	<b>11,330</b>	<b>11,330</b>
The aggregate amounts of depreciation or amortisation expensed during the reporting period for each class of depreciable assets are as follows:		
Leasehold improvements	55,844	55,844
Infrastructure, plant and equipment	20,475	26,220
<b>Total depreciation</b>	<b>76,319</b>	<b>82,064</b>
No depreciation or amortisation was allocated to the carrying amounts of other assets		
<b>Note 4E: Write-down of Assets</b>		
Plant and equipment	117	-
<b>Total write-down of assets</b>	<b>117</b>	<b>-</b>

**Note 5: Financial assets**

	2007	2006
	\$	\$
<b>Note 5A: Cash and cash equivalents</b>		
Departmental	70,000	61,945
<b>Total cash and cash equivalents</b>	<b>70,000</b>	<b>61,945</b>
<b>Note 5B: Trade and other receivables</b>		
Goods and services	5,316	784
GST receivable from ATO	5,580	10,312
Appropriations receivable for existing outputs	1,619,776	1,259,000
<b>Total trade and other receivables (gross)</b>	<b>1,630,673</b>	<b>1,269,916</b>
Less: Allowance for doubtful debts	-	-
<b>Total trade and other receivables (net)</b>	<b>1,630,673</b>	<b>1,269,916</b>
<b>Receivables (gross) are aged as follows:</b>		
Current	371,673	1,159,916
Overdue by:		
More than 90 days	1,259,000	110,000
<b>Total receivables (gross)</b>	<b>1,630,673</b>	<b>1,269,916</b>
<b>Receivables is represented by:</b>		
Current	371,673	1,159,916
Non-current	1,259,000	110,000
<b>Total receivables (gross)</b>	<b>1,630,673</b>	<b>1,269,916</b>

**Note 6: Non-financial assets**

	2007	2006
	\$	\$
<b>Note 6A: Plant and equipment</b>		
<b>Plant and equipment</b>		
- at fair value	122,800	127,500
- accumulated depreciation	(42,112)	(26,220)
<b>Total plant and equipment (non-current)</b>	<b>80,688</b>	<b>101,280</b>
<b>Note 6B: Leasehold improvements</b>		
<b>Leasehold improvements</b>		
- at fair value	155,800	155,800
- accumulated depreciation	(89,028)	(44,514)
	<b>66,772</b>	<b>111,286</b>
<b>Leasehold improvements 'make good'</b>		
- at fair value	56,649	56,649
- accumulated amortisation	(38,711)	(27,381)
	<b>17,938</b>	<b>29,268</b>
<b>Total leasehold improvements (non-current)</b>	<b>84,710</b>	<b>140,554</b>
<b>Total property, plant and equipment</b>	<b>165,398</b>	<b>241,834</b>

	Plant and equipment \$	Leasehold improvements \$	Total \$
<b>Note 6C: Analysis of property, plant and equipment</b>			
<b>Reconciliation of the opening and closing balances of property, plant and equipment</b>			
<b>As at 1 July 2006</b>			
Gross book value	127,500	212,449	339,949
Accumulated depreciation/amortisation	(26,220)	(71,895)	(98,115)
Net book value	<b>101,280</b>	<b>140,554</b>	<b>241,834</b>
Additions by purchase	-	-	-
Depreciation/amortisation expense	(20,475)	(55,844)	(76,319)
Disposals:			
other disposals	(117)	-	(117)
<b>As at 30 June 2007</b>			
Gross book value	122,800	212,449	335,249
Accumulated depreciation/amortisation	(42,112)	(127,739)	(169,851)
Net book value	<b>80,688</b>	<b>84,710</b>	<b>165,398</b>

All property, plant and equipment are at valuation as at 30 June 2007 in accordance with the agency's revaluation policy (Note 1.18). In 2007, assets were assessed for indications of impairment. No indications of impairment were found.

	2007	2006
	\$	\$
<b>Note 6D: Other non-financial assets</b>		
Prepayments	24,629	29,644
All prepayments are current assets	<b>24,629</b>	<b>29,644</b>

**Note 7: Payables**

	2007	2006
	\$	\$
<b>Note 7A: Suppliers</b>		
Trade creditors	28,908	8,390
<b>Total supplier payables</b>	<b>28,908</b>	<b>8,390</b>
Supplier payables are represented by:		
Current	28,908	8,390
<b>Total supplier payables</b>	<b>28,908</b>	<b>8,390</b>
<b>Note 7B: Other payables</b>		
Accrued expenses	24,696	23,253
Prepayments received	4,752	-
<b>Total other payables</b>	<b>29,448</b>	<b>23,253</b>
All other payables are current liabilities		

**Note 8: Provisions**

	2007	2006
	\$	\$
<b>Note 8A: Employee provisions</b>		
Salaries and wages	7,563	5,995
Leave	231,351	204,993
Superannuation	1,156	1,063
<b>Total employee provisions</b>	<b>240,070</b>	<b>212,051</b>
Current	207,520	179,703
Non-current	32,550	32,348
<b>Total employee provisions</b>	<b>240,070</b>	<b>212,051</b>
<b>Note 8B: Other provisions</b>		
Provision for 'Make good'	65,380	62,183
	<b>65,380</b>	<b>62,183</b>
	<b>Provision for</b>	
	<b>Make good</b>	
<b>Carrying amount at beginning of period</b>	<b>62,183</b>	
Unwinding of discounted amount arising from the passage of time	3,197	
<b>Amount owing at end of period</b>	<b>65,380</b>	
All other provisions are non-current liabilities		

### Note 9: Cash flow reconciliation

	2007	2006
	\$	\$
<b>Reconciliation of cash and cash equivalents per Balance Sheet to Cash Flow Statement</b>		
Report cash and cash equivalents as:		
Cash Flow Statement	70,000	61,945
Balance sheet	70,000	61,945
<b>Reconciliation of net surplus to net cash from operating activities:</b>		
Net surplus	229,432	344,081
Depreciation and Amortisation	76,319	82,064
Gain on disposal of assets	(1,800)	-
Net write-down of non-financial assets	117	-
Finance costs	3,197	1,470
(Increase)/decrease in receivables	(360,757)	(1,148,648)
(Increase)/decrease in prepayments	5,015	(2,331)
Increase/(decrease) in employee provision	28,019	(93,746)
Increase/(decrease) in payables	26,713	(33,118)
<b>Net cash from/(used by) operating activities</b>	<b>6,255</b>	<b>(850,228)</b>

### Note 10: Contingent liabilities and assets

There are no unquantifiable or remote contingencies.

### Note 11: Executive remuneration

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

	2007	2006
\$265,000-\$279,999	1	1
\$280,000-\$294,999	-	-
\$295,000-\$309,999	1	1
<b>Total</b>	<b>2</b>	<b>2</b>
The aggregate amount of total remuneration of executives shown above	<b>\$580,829</b>	\$574,352

### Note 12: Remuneration of auditors

	2007	2006
	\$	\$
Financial statement audit services are provided free of charge to the agency. The fair value of the services provided was	18,000	29,000
<b>Total</b>	<b>18,000</b>	29,000

No other services were provided by the Auditor-General.

**Note 13: Average staffing levels**

	<b>2007</b>	2006
The average staffing levels for the agency during the period were:	<b>7</b>	6

**Note 14: Financial instruments**

Note 14A: Interest rate risk

Financial instrument	Notes	Non-interest bearing		Non-interest bearing		Total		Weighted average effective interest rate	
		2007	2006	2007	2006	2007	2006	2007	2006
		\$	\$	\$	\$	\$	\$	%	%
<b>Financial assets</b>									
Cash & cash equivalents	5A	70,000	61,945	70,000	61,945	61,945	61,945	n/a	n/a
Receivables	5B	1,630,673	1,269,916	1,630,673	1,269,916	1,269,916	1,269,916	n/a	n/a
<b>Total financial assets</b>		<b>1,700,673</b>	<b>1,331,861</b>	<b>1,700,673</b>	<b>1,331,861</b>	<b>1,331,861</b>	<b>1,331,861</b>		
<b>Total assets</b>		<b>1,890,700</b>		<b>1,890,700</b>		<b>1,603,339</b>			
<b>Financial liabilities</b>									
Supplier payables	7A	28,908	8,390	28,908	8,390	8,390	8,390	n/a	n/a
Other payables	7B	29,448	23,253	29,448	23,253	23,253	23,253	n/a	n/a
<b>Total financial liabilities</b>		<b>58,356</b>	<b>31,643</b>	<b>58,356</b>	<b>31,643</b>	<b>31,643</b>	<b>31,643</b>		
<b>Total liabilities</b>				<b>363,806</b>		<b>305,877</b>			



## Note 14B: Net fair values of financial assets and liabilities

	Notes	2007		2006	
		Total carrying amount	Aggregate Net fair value	Total carrying amount	Aggregate Net fair value
		\$	\$	\$	\$
<b>Financial assets</b>					
Cash & cash equivalents	5A	70,000	70,000	61,945	61,945
Receivables	5B	1,630,673	1,630,673	1,269,916	1,269,916
<b>Total financial assets</b>		<b>1,700,673</b>	<b>1,700,673</b>	<b>1,331,861</b>	<b>1,331,861</b>
<b>Financial liabilities</b>					
Supplier payables	7A	28,908	28,908	8,390	8,390
Other payables	7B	29,448	29,448	23,253	23,253
<b>Total financial liabilities</b>		<b>58,356</b>	<b>58,356</b>	<b>31,643</b>	<b>31,643</b>

## Note 14C: Credit risk exposures

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

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

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

## Note 15: Specific payments disclosure

	2007	2006
	\$	\$
No 'Act of Grace' payments were made during the reporting period	-	-
No waivers of amounts owing to the Commonwealth were made during the reporting period	-	-
No ex-gratia payments were made during the reporting period	-	-
No payments were made under the 'Defective Administration Scheme' during the reporting period	-	-
No payments were made under s73 of the <i>Public Service Act 1999</i> during the reporting period	-	-

**Note 16: Acquittal of Authority to Draw Cash from the Consolidated Revenue Fund (CRF) for Ordinary Annual Services Appropriations**

	Departmental Outputs			Total
	2007	2006	2007	
	\$	\$	\$	\$
<b>Balance carried from previous year</b>	1,331,077	1,028,490	1,331,077	1,028,490
Appropriation Act (No.1) 2006-07 - basic appropriation	2,170,000	2,149,000	2,170,000	2,149,000
Comcover receipts (Appropriation Act s13)	-	-	-	-
Adjustment of appropriations on change of entity function (FMA s32)	-	-	-	-
<b>Sub-total 2006-07 Annual Appropriation</b>	<b>3,501,077</b>	<b>3,177,490</b>	<b>3,501,077</b>	<b>3,177,490</b>
Appropriations to take account of recoverable GST (FMA s30A)	54,885	11,376	54,885	11,376
Annotations to 'net appropriations' (FMA s31)	51,843	118,081	51,843	118,081
<b>Total Appropriations available for payments</b>	<b>3,607,805</b>	<b>3,306,947</b>	<b>3,607,805</b>	<b>3,306,947</b>
Cash payments made during the year (GST inclusive)	1,912,169	1,975,870	1,912,169	1,975,870
Appropriations credited to Special Accounts (excluding GST)	-	-	-	-
Balance of Authority to Draw Cash from the CRF for Ordinary Annual Services Appropriations	1,695,636	1,331,077	1,695,636	1,331,077
Represented by:				
Cash at bank and on hand	70,000	61,945	70,000	61,945
Receivable - Departmental appropriations	1,619,776	1,259,000	1,619,776	1,259,000
Receivables - GST receivable from ATO	5,580	10,132	5,580	10,132
<b>Total</b>	<b>1,695,356</b>	<b>1,331,077</b>	<b>1,695,356</b>	<b>1,331,077</b>

**Note 17: Reporting of outcomes**

The Inspector-General of Taxation has one outcome:

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

**Note 17A: Net cost of outcome delivery**

	2007	2006
	\$	\$
<b>Total expenses</b>	<b>2,012,211</b>	1,887,152
Total costs recovered	-	-
	<b>2,012,211</b>	1,887,152
<b>Other external revenues</b>		
Rents	51,843	51,843
Other revenue	1,800	1,390
Gains	18,000	29,000
Total other external revenues	<b>71,643</b>	82,233
<b>Net cost of outcome</b>	<b>1,940,568</b>	1,804,919

**Note 17B: Major classes of departmental revenues and expenses by output groups and outputs**

The agency has two outputs (Output Group 1.1):

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

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

The basis of attribution in the table below is consistent with the basis used for the 2006-07 Budget, which estimated the proportion of agency activities to be assigned to each of the outputs. This basis was evaluated during 2006-07 through monitoring of agency activities and no adjustment was considered necessary.

Note 17B: Major classes of departmental revenues and expenses by output groups and outputs (continued)

Outcome 1	Output Group 1.1		Output 1.1.2		Outcome 1 Total	
	2007		2007		2007	
	\$	\$	\$	\$	\$	\$
		2006		2006		2006
		\$		\$		\$
<b>Departmental expenses</b>						
Employees	58,782	50,845	1,116,848	946,713	1,175,630	1,016,897
Suppliers	37,848	39,336	719,100	616,785	756,948	786,721
Finance costs	159	73	3,038	2,746	3,197	1,470
Depreciation and amortisation	3,816	4,103	72,503	108,381	76,319	82,064
Write down of assets	6	-	111	56,857	117	-
<b>Total Departmental expenses</b>	<b>100,611</b>	<b>94,357</b>	<b>1,911,600</b>	<b>1,731,482</b>	<b>2,012,211</b>	<b>1,887,152</b>
<b>Funded by:</b>						
Revenues from government	108,500	107,450	2,061,500	2,046,300	2,170,000	2,149,000
Rents	2,592	2,591	49,251	48,413	51,843	51,843
Other revenue	90	70	1,710	5,025	1,800	1,390
Gains	900	1,450	17,100	22,800	18,000	29,000
<b>Total Departmental revenues</b>	<b>112,082</b>	<b>111,561</b>	<b>2,129,561</b>	<b>2,122,538</b>	<b>2,241,643</b>	<b>2,231,233</b>

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

## **PART 5: OTHER STATISTICAL INFORMATION**

### **OCCUPATIONAL HEALTH AND SAFETY**

The Office of the Inspector-General operates so as to foster and maintain a safe and healthy working environment in accordance with the *Occupational Health and Safety (Commonwealth Employment) Act 1991*. During 2006-07, the Inspector-General received no accident and incident reports. No notices were given under sections 29, 46 and 47 of the *Occupational Health and Safety (Commonwealth Employment) Act 1991*.

### **FREEDOM OF INFORMATION**

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

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

### **Arrangements for outside participation**

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

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

The Inspector-General also engages in consultation to inform the development of advice to the government. By being fully informed of the effects of findings and recommendations, the Inspector-General can better advise the government on how the

administration of the tax laws may be improved and minimise any unintended consequences.

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

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

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

## Categories of documents held by the Inspector-General

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

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

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

## Documents open to public access

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

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

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

## Facilities for access of documents

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

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

Level 19,  
50 Bridge Street  
SYDNEY NSW 2000

## Freedom of information applications and initial contact points

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

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

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

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

- be processed within 30 days of receipt.

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

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

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

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

## Freedom of information activity

The Inspector-General received no requests for access to documents under the FOI Act in 2006-07.

## ADVERTISING AND MARKET RESEARCH

No advertising or market research activities were undertaken during 2006-07.

## ECOLOGICALLY SUSTAINABLE DEVELOPMENT AND ENVIRONMENTAL PERFORMANCE

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

The Inspector-General recycles paper and cardboard products.

## DISCRETIONARY GRANTS

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



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## ACRONYMS

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

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