

Inspector-General of Taxation

Annual Report 2007-08

September 2008

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ISBN 978-0-642-74471-5

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Printed by CanPrint Communications Pty Ltd



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Inspector-General of Taxation

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15 September 2008

The Hon Chris Bowen MP
Assistant Treasurer
Parliament House
CANBERRA ACT 2600

Dear Minister

I have pleasure in presenting to you the Annual Report of the Inspector-General of Taxation for the year ended 30 June 2008. 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



At 30 June 2008, I have completed almost 5 years in my role as Inspector-General of Taxation, having commenced on 7 August 2003. The year 2007-08 was another very busy one with many challenges. The role of Inspector-General has developed into an important link between taxpayers and their representatives and the Tax Office.

Work completed during the year, work underway and my forward work program all indicate that there continues to be 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 2008, I completed three substantial reviews during the year and reported on them to the Minister, and I have another five reviews underway as follows:

- a review of the potential revenue bias in private binding rulings (publicly released 25 February 2008);
- a review of the extent to which the ATO has implemented recommendations from completed reports by my office (publicly released 5 March 2008);
- a review into the Tax Office's administration of GST audits (publicly released 11 June 2008);
- 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 2007 (commenced June 2007). This report was submitted to the Minister on 6 August 2008;
- a review into the Tax Office's administration of public binding advice (commenced November 2007);
- a review into the non-lodgement of income tax returns (commenced November 2007); and
- a review into aspects of the Tax Office's settlement of active compliance activities (commenced November 2007).

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

Significant non-review activity

In addition to the reviews undertaken and progressed by my office, during 2007-08 my office and I have been engaged in a range of consultative, taxation and general administrative matters of significance including:

- a presentation to and discussion with, the Technical Quality Assurance Forum of the Tax Office (see photo page 3) – a senior-level forum that provides assurance to the Commissioner of Taxation on the quality of technical decision making;
- a meeting with Mr Dick Warburton AO, Chairman of the Board of Taxation to discuss matters of common interest;
- consultation with a subcommittee of the Board of Taxation in respect of one of its reviews;
- a meeting and consultation with the Tax Design Review Panel;
- a visit by Ms Nina Olson, National Taxpayer Advocate, Inland Revenue Service (USA) and two of her senior staff with my staff and me to canvass issues of common interest. This meeting was one of regular ongoing meetings with other scrutineers of Revenue agencies in other countries with relatively similar roles to mine;

- a visit by senior members of the United States Government Accountability Office to canvass a myriad of issues associated with the possible introduction of a goods and services tax within the United States of America;
- appearances and the provision of evidence before Senate Estimates hearings in February 2008 and May 2008;
- the position of the Inspector-General was put to the market in line with the Government's guidelines on 'Merit-based selection of APS agency heads and statutory office holders'; and
- speaking and participating in a wide range of functions, including conferences, professional body functions, tax agent and industry group meetings 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.



Retention of the Office of Inspector-General of Taxation

The amalgamation of the Inspector-General within an existing agency was proposed as part of Labor's \$3 billion Savings Plan announced on 2 March 2007 with the aim of saving the total budget allocation of the Inspector-General of Taxation (the agency).

The Assistant Treasurer and Minister for Competition Policy and Consumer Affairs, Chris Bowen MP, announced on 9 April 2008 (Media Release 022) that the Government will retain the office of the Inspector-General of Taxation as a separate independent statutory office.

‘After consulting with the accounting and legal professions, the Government has decided that the transfer of the Inspector-General’s functions to another agency would not be appropriate,’ Mr Bowen said.

The Minister also said ‘The Inspector-General of Taxation plays an important role in ensuring high standards of tax administration for Australian taxpayers. The best way to ensure the Inspector-General’s work is not hampered in any way is to retain the Inspector-General’s status as a separate stand alone body.’

The Minister also said that the announcement provides certainty to the accounting and legal professions and to taxpayers.

Joint Committee of Public Accounts and Audit report on Tax Administration

The Joint Committee of Public Accounts and Audit (JCPAA) released, in June 2008, its report on the Committee’s inquiry into tax administration (Report 410, June 2008). The Inspector-General had made a substantial submission to the Inquiry and I had appeared twice before the Committee to give evidence. It was very pleasing to see that the report has quoted extensively from my submission, evidence and completed reviews of my office.

The role of my office in considering tax administration issues is clearly recognised by the Committee.

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.

Regular ongoing monitoring of the issues is carried out by my office. This includes identifying potential reviews from other full reviews either completed or underway. A

Potential review topics are short listed and scoped with either the Tax Office or private sector bodies or individuals.

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

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

Under the protocol between the Inspector-General and the Commissioner of Taxation, consultation occurs between our two agencies prior to announcing the annual update to the proposed work program.

In recent years my staff has undertaken considerable scoping of potential work program issues with the Tax Office and in a number of cases research with overseas revenue agencies prior to my announcement of 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 in May 2007 but not yet commenced include the following issues:

- 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).

The precise timing of these reviews will be determined in part by when reviews already underway are completed. Following the announcement by the Government on 4 August 2008 not to re-appoint me to the role of Inspector-General, future work programs, no doubt, will be announced by my replacement.

Improvements to tax administration

Looking back over the last five 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. 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: Number of Inspector-General recommendations accepted

IGT Reviews	Number accepted/total recommendations
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
Review into potential bias of private binding rulings for large businesses	10/10
Review into the Tax Office's administration of GST audits for large businesses	12/14
Total recommendations accepted/total recommendations	100/113

* Findings

A positive aspect of my Office's interaction with the Tax Office is its 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.

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 2007-08, 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, taxation academics and researchers 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 2007-08.

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 heading to Japan in October 2007 to undertake a 12 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 final annual report

I am disappointed that I will not be continuing as Inspector-General for another five years. But I will leave the role with a great sense of achievement and of a job well done.

In particular, the Government's decision to continue the role in full noted the strong record of improvements and community support that has developed during my five years as the first Inspector-General. Without those achievements the role would already be gone.

My successor will inherit an excellent team and a package of work in progress which will ensure further achievements in the future.

I will continue to be a keen observer of how the tax system develops and I look forward to the opportunities of the future.



David R 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

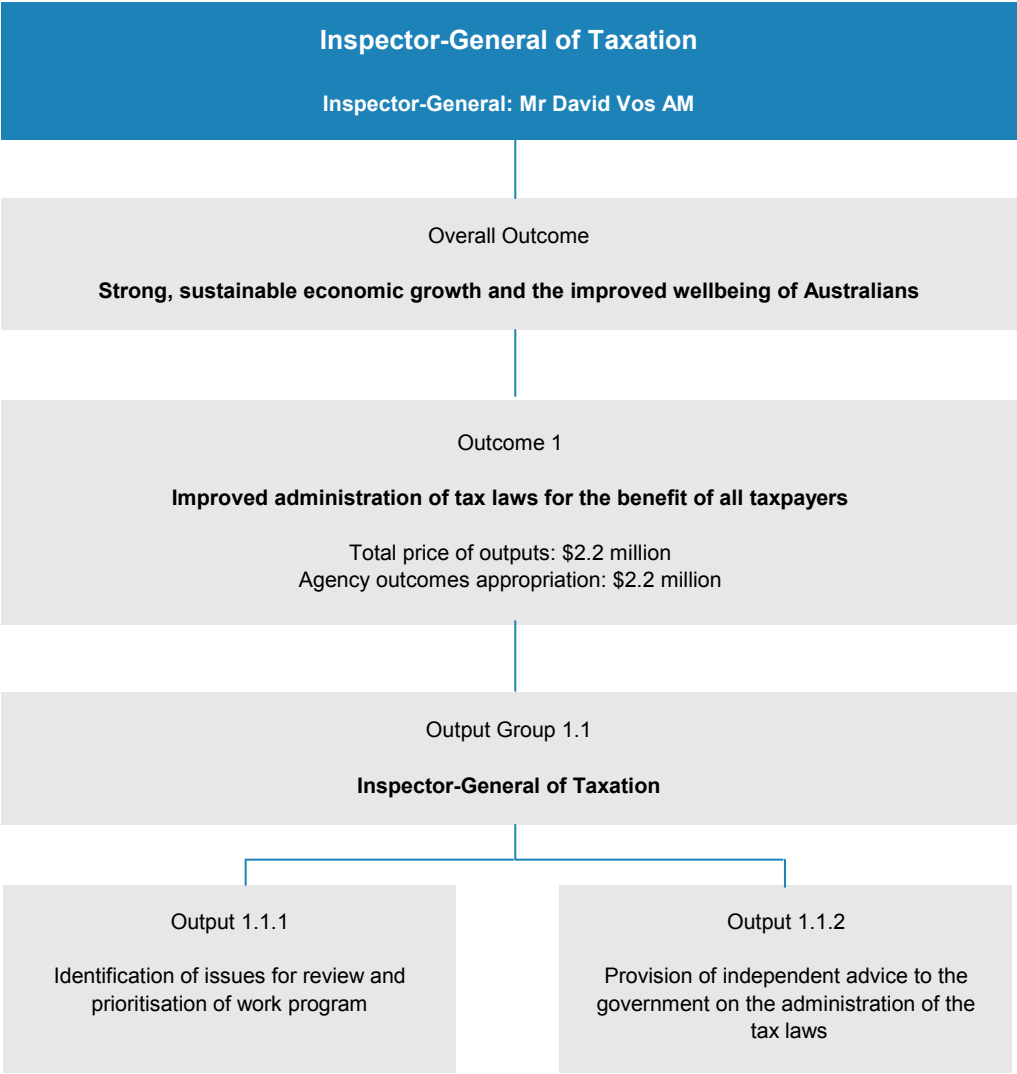
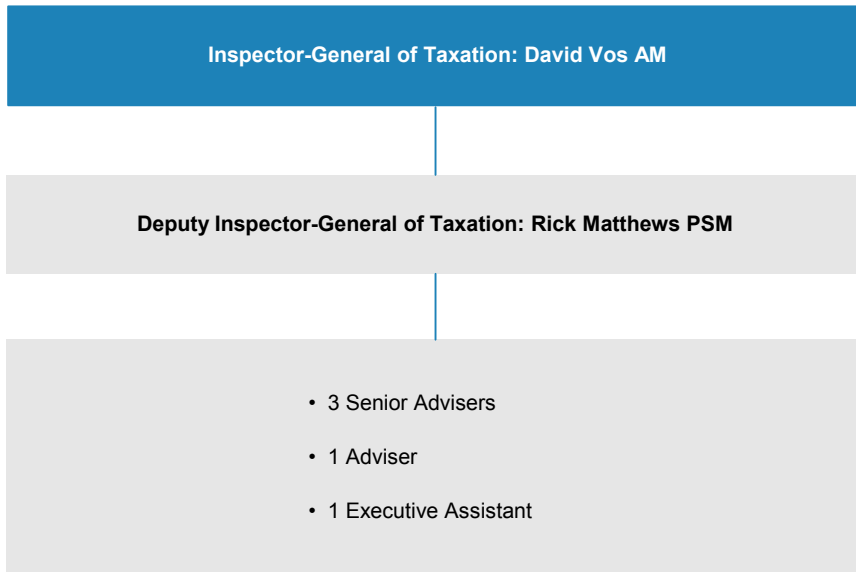


Figure 2: Inspector-General of Taxation management structure



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 2007-08 \$'000	Actual 2007-08 \$'000	Budget 2008-09 \$'000
Revenue from Government			
Output Group: Inspector-General of Taxation			
Output 1.1.1 - Identification of issues for review and prioritisation of work program	116	110	108
Output 1.1.2 - Provision of independent advice to the Government on the administration of the tax laws	2,072	2,067	2,059
Total revenue from Government contributing to the price of departmental outputs	2,188	2,178	2,167
Revenue from other sources			
Output Group: Inspector-General of Taxation			
Output 1.1.1 - Identification of issues for review and prioritisation of work program	4	3	3
Output 1.1.2 - Provision of independent advice to the Government on the administration of the tax laws	55	53	48
Total revenue for departmental outputs (Total revenues from Government and other sources)	2,247	2,234	2,218
Price of departmental outputs			
Output Group: Inspector-General of Taxation			
Output 1.1.1 - Identification of issues for review and prioritisation of work program	119	113	117
Output 1.1.2 - Provision of independent advice to the Government on the administration of the tax laws	2,128	2,022	2,101
Total price of departmental outputs	2,247	2,135	2,218
Total estimated resourcing (Total price of outputs and administered expenses)	-	99	-
Average staffing level (number)	7	7	7

PART 2:

PERFORMANCE REPORT

OUTCOME 1

IMPROVED ADMINISTRATION OF TAX LAWS FOR THE BENEFIT OF ALL TAXPAYERS

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

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

The Inspector-General's two outputs derive from the statutory functions. These outputs involve the identification of systemic issues for inclusion in the work 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 varies. 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. Improved administration of tax laws can also be achieved without formal advice to government by direct interaction between the Inspector-General and the Tax Office.

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 will be reviewed and updated during 2008-09 in the light of five years' experience. It is planned to undertake a new, broad-based scoping review to establish the extent of systemic issues in tax administration requiring consideration by the Inspector-General for undertaking of future reviews.

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 2007-08

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 reviews and reported to the Government on those reviews.

Key outcomes in 2007-08

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 continued 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 2007-08 year. A list of key speaking engagements is at Table 3.

Table 3: Key speaking engagements

Date	Organisation	Type of function	Location
9 August 2007	Taxation Institute of Australia	WA State Conference	Margaret River, WA
13 August 2007	Deloitte	Breakfast Presentation	Perth
13 August 2007	Deloitte	Lunch Presentation	Perth
30 August 2007	Taxation Institute of Australia	Television CPE	Sydney
8 October 2007	Corporate Tax Association	2007 GST Big Day and a Half	Palm Cove, Qld
26 October 2007	HLB Mann Judd	Practitioner Conference	Lorne Vic.
22 November 2007	CFO Forum	Lunch Presentation	Sydney
27 March 2008	University of NSW Faculty of Law — ATAX	8th International Tax Administration Conference	Sydney
12 April 2008	University of NSW Faculty of Law — ATAX	20th Annual GST Conference	Noosa, Qld
17 April 2008	National Institute of Accountants	National Public Practice Symposium	Perth

Table 3: Key speaking engagements (continued)

Date	Organisation	Type of function	Location
22 April 2008	University of Sydney Faculty of Law	Masters of Law — Tax Administration course	Sydney
12 May 2008	Corporate Tax Association	National Conference	Sydney
31 May 2008	CPA Australia	NSW Public Practitioners Conference	Hunter Valley, NSW
5 June 2008	National Institute of Accountants	NSW State Congress & Business Expo	Sydney
12 June 2008	Institute of Chartered Accountants in Australia	Corporate Tax Conference	Sydney
24 June 2008	Baker & McKenzie	Breakfast Briefing for GST Audits release	Sydney

Table 4: Private sector stakeholders

Australian Industry Group
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
NSW Business Chamber
Taxation Institute of Australia
Taxpayers Australia

Updated work program

Twice during the year 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 Commonwealth Ombudsman and the Tax Office have also been consulted.

As at 30 June 2008, the Inspector-General had five reviews underway, as follows:

- 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 2007 (commenced June 2007). This report was submitted to the Minister on 6 August 2008;
- a review into the Tax Office's administration of public binding advice (commenced November 2007);
- a review into the non-lodgement of income tax returns (commenced November 2007);
- a review into aspects of the Tax office's settlement of active compliance activities (commenced November 2007).

Proposed reviews announced by the Inspector-General in May 2007 but not yet commenced include the following issues:

- 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).

The precise timing of these reviews will be determined in part by when reviews already underway are completed. Following the announcement by the Government on 4 August 2008 not to re-appoint David Vos to the role of Inspector-General, future work programs, no doubt, will be announced by his replacement.

Reviews completed in 2007-08

During 2007-08, the Inspector-General completed three reviews:

- a review of the potential revenue bias in private binding rulings (publicly released 25 February 2008);
- a review of the extent to which the ATO has implemented recommendations from completed reports by my office (publicly released 5 March 2008);
- a review into the Tax Office's administration of GST audits (publicly released 11 June 2008).

Completed reviews have been relevant in that they focussed on identifying systemic improvements arising from major 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 2007-08 the Inspector-General had 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 2007-08

During 2007-08, the Inspector-General completed three reviews and has five reviews underway into issues identified through consultation as relevant to stakeholders:

- a review of the potential revenue bias in private binding rulings (publicly released 25 February 2008);
- a review of the extent to which the ATO has implemented recommendations from completed reports by my office (publicly released 5 March 2008);
- a review into the Tax Office's administration of GST audits (publicly released 11 June 2008);
- 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 2007 (commenced June 2007). This report was submitted to the Minister on 6 August 2008;
- a review into the Tax Office's administration of public binding advice (commenced November 2007);
- a review into the non-lodgement of income tax returns (commenced November 2007);
- a review into aspects of the Tax Office's settlement of active compliance activities (commenced November 2007).

The Commissioner of Taxation has accepted fully or in part most (100 of 113) of the recommendations of reviews published since the inception of the Inspector-General – refer Table 1. The outcomes of these reviews, combined with feedback from community stakeholders, provide clear evidence that the role of the Inspector-General is working well and is very effective in improving tax administration for the benefit of all taxpayers.

PART 3:

MANAGEMENT AND ACCOUNTABILITY

CORPORATE GOVERNANCE

In 2007-08 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 Assistant Treasurer and Minister for Competition Policy and Consumer Affairs, as well, the Treasurer for meeting his statutory role. As the Chief Executive Officer of the Office of the Inspector-General (the agency), the Inspector-General is responsible for the operation and performance of the operation of his Office.

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

Audit Committee

Pursuant to section 46 of the *Financial Management and Accountability Act 1997*, the Inspector-General continues to maintain an Audit Committee with an independent chair. The Audit Committee met twice during 2007-08.

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 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 2007-08. There have not been any comments by the Commonwealth Ombudsman on administrative matters within the Office of the Inspector-General in 2007-08.

Judicial decisions

In 2007-08, 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 2008

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

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

Remuneration of SES staff

Table 6: Salary scales — SES

Classification	6 September 2007	
	Minimum	Maximum
	\$	\$
SES Band 2	200,633	234,833

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	6 September 2007	
	Minimum	Maximum
	\$	\$
APS4	52,792	55,554
EL1	78,802	100,434
EL2	97,003	122,677

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.

Typically, consultants are engaged to carry out defined research, provide independent advice or provide information or creative solutions to assist the Inspector-General complete particular reviews or for him to undertake his statutory function. The most common reasons for engagement of consultancy services are:

- unavailability of specialist in-house resources in the short timeframe available;
- the need for an independent study or review; and
- specialist skills and knowledge are not available in-house.

Providers of consultancy services are selected through open tender, select tender, direct sourcing or panels. These processes are detailed in Table 8.

During 2007-08 new consultancy contracts were entered into involving total actual expenditure of \$76,191. This amount includes GST.

Table 8: List of new consultancies over \$10,000 in 2007-08

Consultant name	Description	Contract price \$	Selection process	Justification
Colmar Brunton Social Research	Perception on the likelihood to lodge a tax return	74,491	Select tender	C
Total consultancies over \$10,000		74,491		

Contract prices are inclusive of GST.

(1) Explanation of selection process terms:

- Open tender – public tenders are sought from the marketplace using national and major metropolitan newspaper advertising and the Australian AusTender internet site.
- Select tender – tenders are invited from a short list of competent suppliers.
- Direct sourcing – one supplier (or a limited number of suppliers) is approached directly in certain defined circumstances.
- Panel – standing offers and supplier panels where the consultant offers to supply goods and services for a pre-determined length of time and usually at a pre-arranged price.

(2) Justification for decision to use consultancy:

- A Skills currently unavailable within agency.
- B Need for specialist or professional skills.
- C Need for independent research or assessment.

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 9: Operative and paid inoperative staff by EEO target group

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

Disability Action Plan

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

PART 4:
FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR'S REPORT

To the Assistant Treasurer and Minister for Competition Policy and Consumer Affairs

Scope

We have audited the accompanying financial statements of the Inspector-General of Taxation for the year ended 30 June 2008, which comprise: a statement by the Chief Executive 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 for the Financial Statements

The Inspector-General of Taxation's Chief Executive 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 the 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.

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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 to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Inspector-General of Taxation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Inspector-General of Taxation's Chief Executive, as well as evaluating the overall presentation of the financial statements.

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

Independence

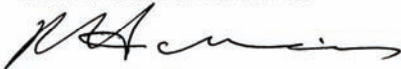
In conducting the audit, we have followed the independence requirements of the Australian National Audit Office, which incorporate the requirements of the Australian accounting profession.

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 2008 and 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
26 August 2008

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 2008 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
26 August 2008



Rick Matthews
Chief Finance Officer
26 August 2008

Income statement
for the period ended 30 June 2008

	Notes	2008 \$	2007 \$
INCOME			
Revenue			
Revenue from government	3A	2,178,000	2,170,000
Rental income	3B	51,843	51,843
Other revenue	3C	3,003	-
Total revenue		2,232,846	2,221,843
Gains			
Sale of assets	3D	955	1,800
Other gains	3E	18,000	18,000
Total gains		18,955	19,800
TOTAL INCOME		2,251,801	2,241,643
EXPENSES			
Employee benefits	4A	1,200,397	1,175,630
Suppliers	4B	867,787	756,948
Finance costs	4C	3,865	3,197
Depreciation and amortisation	4D	73,249	76,319
Write-down and impairment of assets	4E	7,906	117
TOTAL EXPENSES		2,153,204	2,012,211
Surplus attributable to the Australian Government		98,597	229,432

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

Balance sheet

as at 30 June 2008

	Notes	2008 \$	2007 \$
ASSETS			
Financial assets			
Cash and cash equivalents	5A	70,000	70,000
Trade and other receivables	5B	1,932,711	1,630,673
Total financial assets		2,002,711	1,700,673
Non-financial assets			
Infrastructure, plant and equipment	6A,6C	57,960	80,688
Leasehold improvements	6B,6C	33,156	84,710
Other non-financial assets	6D	23,958	24,629
Total non-financial assets		115,074	190,027
Total assets		2,117,785	1,890,700
LIABILITIES			
Payables			
Suppliers	7A	40,996	28,908
Other payables	7B	99,396	29,448
Total payables		140,392	58,356
Provisions			
Employees	8A	274,973	240,070
Other provisions	8B	69,245	65,380
Total provisions		344,218	305,450
Total liabilities		484,610	363,806
Net assets		1,633,175	1,526,894
EQUITY			
Parent entity interest			
Contributed equity		1,573	1,573
Reserves		7,684	-
Retained surplus		1,623,918	1,525,321
Total equity		1,633,175	1,526,894
Current assets		2,026,669	1,725,302
Non-current assets		91,116	165,398
Current liabilities		425,500	265,876
Non-current liabilities		59,110	97,930

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

Cash flow statement

for the period ended 30 June 2008

	Notes	2008 \$	2007 \$
OPERATING ACTIVITIES			
Cash received			
Appropriations		1,892,664	1,809,224
Rents		51,895	54,160
Other cash received		3,003	-
GST received from the Australian Taxation Office		61,050	55,041
Total cash received		2,008,612	1,918,425
Cash used			
Employees		(1,165,494)	(1,143,583)
Suppliers		(844,072)	(768,586)
Total cash used		(2,009,566)	(1,912,169)
Net cashflows from or (used by) operating activities	9	(954)	6,255
INVESTING ACTIVITIES			
Cash received			
Proceeds from sales of property, plant and equipment		954	1,800
Total cash received		954	1,800
Net cashflows from or (used by) investing activities		954	1,800
Net increase or (decrease) in cash held		-	8,055
Cash and cash equivalents at the beginning of the reporting period		70,000	61,945
Cash at the end of the reporting period	5A	70,000	70,000

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

**Statement of changes in equity
for the period ended 30 June 2008**

	Accumulated results		Asset revaluation		Contributed equity		Total equity	
	2008	2007	2008	2007	2008	2007	2008	2007
	\$	\$	\$	\$	\$	\$	\$	\$
Opening balance								
Balance carried forward from previous period	1,525,321	1,295,889	-	-	1,573	1,573	1,526,894	1,297,462
Adjustment for errors	-	-	-	-	-	-	-	-
Adjustment for changes in accounting policies	-	-	-	-	-	-	-	-
Adjusted opening balance	1,525,321	1,295,889	-	-	1,573	1,573	1,526,894	1,297,462
Income and Expenses								
Revaluation adjustment	-	-	7,684	-	-	-	7,684	-
Subtotal income and expenses recognised directly in equity	-	-	7,684	-	-	-	7,684	-
Surplus/(deficit) for the period	98,597	229,432	-	-	-	-	98,597	229,432
Total income and expenses	98,597	229,432	7,684	-	-	-	106,281	229,432
Closing balance at 30 June	1,623,918	1,525,321	7,684	-	1,573	1,573	1,633,175	1,526,894

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

Schedule of commitments as at 30 June 2008

	2008 \$	2007 \$
BY TYPE		
Commitments Receivable		
Sublease rental income ³	38,043	100,753
GST recoverable on commitments	31,279	51,243
Total commitments receivable	69,322	151,996
Other commitments		
Operating leases ¹	175,401	448,062
Other commitments ²	168,667	124,773
Total other commitments	344,068	572,835
Net commitments by type	274,746	420,839
BY MATURITY		
Commitments receivable		
Operating lease income		
One year or less	38,043	62,709
From one to five years	-	38,043
Total operating lease income	38,043	100,752
Other commitments receivable		
One year or less	30,538	35,298
From one to five years	741	15,946
Total other commitments receivable	31,279	51,244
Commitments payable		
Operating lease commitments		
One year or less	167,247	278,361
From one to five years	8,154	178,860
Total operating lease commitments	175,401	457,221
Other commitments		
One year or less	168,667	115,614
From one to five years	-	-
Total other commitments	168,667	115,614
Net commitments by maturity	274,746	420,839

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.

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

Schedule of contingencies
as at 30 June 2008

	2008	2007
	\$	\$
Contingent liabilities	-	-
Contingent assets	-	-
Net contingent liabilities	-	-

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

Notes to and forming part of the financial statements for the year ended 30 June 2008

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 toward 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 2007; 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 or a future sacrifice of economic benefits will be required and the amounts of assets or liabilities can be reliably measured. However, assets and liabilities arising under 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

Adoption of new Australian Accounting Standard requirements

No accounting standard has been adopted earlier than the application date as stated in the standard. The following new standards are applicable to the current reporting period:

Financial instrument disclosure

AASB 7 *Financial Instrument: Disclosures* is effective for reporting periods beginning on or after 1 January 2007 (the 2007-08 financial year) and amends the disclosure requirements for financial instruments. In general AASB 7 requires greater disclosure than that previously required. Associated with the introduction of AASB 7 a number of accounting standards were amended to reference the new standard or remove the present disclosure requirements through 2005-10 Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]. These changes have no financial impact but will affect the disclosure presented in future financial reports.

The following new standards (including reissued standards), amendments to standards, erratum or interpretations for the current financial year have no material financial impact on the Inspector-General of Taxation:

AASB 101 *Presentations of Financial Statements* (reissued October 2006);

AASB 1048 *Presentations and Application of Standards* (reissued September 2007);

2007-04 *Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments and Erratum: Proportionate Consolidation*;

2007-05 *Amendments to Australian Accounting Standard – Inventories Held for Distribution by Not-for-Profit Entities* [AASB 102];

2007-07 *Amendments to Australian Accounting Standards* [AASB 1, AASB 2, AASB 4, AASB 5, AASB 107 & AASB 128];

AASB interpretation 10 *Interim Financial Reporting and Impairment*;

AASB Interpretation 11 *AASB2 – Group and Treasury Share Transactions and 2007-1 Amendments to Australian Accounting Standards arising from AASB Interpretation 11*; and

AASB Interpretation 1003 *Australian Petroleum Resource Rent Tax*.

Future Australian Accounting Standard requirements

The following new standards, amendments to standards or interpretations have been issued by the Australian Accounting Standards board but are effective for future reporting periods. It is estimated that adopting these pronouncements when effective will have no material financial impact on future reporting periods:

AASB 3 Business Combinations;

AASB 8 Operating Segments and 2007-3 Amendments to Australian Accounting standards arising from AASB 8;

AASB 101 Presentation of Financial Statements (reissued September 2007) and 2007-08 Amendments to Australian Accounting Standards arising from AASB 101;

AASB 123 Borrowing costs and 2007-06 Amendments to Australian Accounting Standards arising from AASB 123;

AASB 127 Consolidated and Separate Financial Statements and 2008-03 Amendments to Australian Accounting Standards from AASB 3 and ASB127[AASBs1, 2, 4, 5, 7, 101, 107, 112, 114, 116, 121, 128, 131, 132, 133, 134, 136,137,138 & 139 and Interpretations 9 & 107];

AASB 1004 contributions;

AASB 1050 Administered Items and 2007-9 Amendments to Australian Accounting standards arising from the Review of AASs 27, 29 and 31;

AASB 1051 Land under Roads;

AASB 1052 Disaggregated Disclosures;

2008-1 Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations [AASB 2];

2008-2 Amendments to Australian Accounting Standards – Puttable financial Instruments and Obligations arising on Liquidation [AASB7, AASB 101, AASB 132, AASB 139 & Interpretations 2];

AASB Interpretation 1 Changes in Existing Decommissioning, Restoring and Similar Liabilities;

AASB Interpretation 4 Determining whether an Arrangement contains a Lease;

AASB Interpretation 12 Service Concession Arrangements and 2007-2 Amendments to Australian Accounting Standards arising from Interpretation 12;

AASB Interpretation 13 Customer Loyalty Programmes;

AASB Interpretation 14 AASB 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction;

AASB Interpretation 129 Service Concession Arrangements; Disclosures; and

AASB Interpretation 1038 Contributions by Owners Made to Wholly-Owned Public Sector Entities.

Other

The following standards and interpretations have been issued but are not applicable to the operations of the Inspector-General of Taxation:

AASB 1049 Financial Reporting of General Government Sectors by Governments

AASB 1049 Financial Reporting of General Government Sectors by Governments 2008-4 Amendments to Australian Accounting Standard – Key Management Personnel Disclosures by Disclosing Entities [AASB 124].

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 types of revenue

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

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

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

Receivables for services, which have 30 day terms, are recognised at the nominal amounts due, less any 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

Other 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.

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

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 2008. 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.

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 assets

IGT classifies its financial assets in the following categories:

- financial assets as 'at fair value through profit or loss';
- 'held-to-maturity investments';
- 'available-for-sale' financial assets; and
- 'loans and receivables'.

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

Effective interest method

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

Income is recognised on an effective interest rate basis except for financial assets 'at fair value through profit or loss'.

Financial assets at fair value through profit or loss

Financial assets are classified as financial assets at fair value through profit or loss where the financial assets:

- have been acquired principally for the purpose of selling in the near future;
- are a part of an identified portfolio of financial instruments that the agency manages together and has a recent actual pattern of short-term profit-taking; or
- are derivative that are not designated and effective as a hedging instrument.

Assets in this category are classified as current assets.

Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest earned on the financial asset.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the asset within 12 months of the balance sheet date.

Available-for-sale financial assets are recorded at fair value. Gains and losses arising from changes in fair value are recognised directly in the reserves (equity) with the exception of impairment losses. Interest is calculated using the effective interest method and foreign exchange gains and losses on monetary assets are recognised directly in profit or loss. Where the asset is disposed of or is determined to be impaired, part or all of the cumulative gain or loss previously recognised in the reserve is included in profit for the period.

Where a reliable fair value cannot be established for unlisted investments in equity instruments cost is used. IGT has no such instruments.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less impairment, with revenue recognised on an effective yield basis.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are measured at amortised cost using the effective interest method less impairment. Interest is recognised by applying the effective interest rate.

Impairment of financial assets

Financial assets are assessed for impairment at each balance date.

- *Financial assets held at amortised cost* — If there is objective evidence that an impairment loss has been incurred for loans and receivables 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.
- *Available for sale financial assets* — If there is objective evidence that an impairment loss on an available for sale financial asset has been incurred, the amount of the difference between its cost, less principal repayments and amortisation, and its current fair value, less any impairment loss previously recognised in expenses, is transferred from equity to the Income Statement.
- *Available for sale financial assets (held at cost)* — If there is objective evidence that an impairment loss has been incurred 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.
- 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 Financial liabilities

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or other financial liabilities.

Financial liabilities are recognised and derecognised upon 'trade date'.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are initially measured at fair value. Subsequent fair value adjustments are recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

Other financial liabilities

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

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

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

Supplier and other payables

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

1.14 Contingent liabilities and contingent assets

Contingent liabilities and contingent assets are not recognised in the Balance Sheet but are 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.

1.15 Financial guarantee contracts

Financial guarantee contracts are accounted for in accordance with AASB 139. They are not treated as a contingent liability, as they are regarded as financial instruments outside the scope of AASB 137.

1.16 Acquisition of assets

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

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

1.17 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:

Asset class	Fair value measured at
Leasehold improvements	Depreciated replacement cost
Plant and 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 2008. 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.

1.18 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

	2008	2007
	\$	\$
Revenues		
Note 3A: Revenue from government		
Appropriations:		
Departmental outputs	2,178,000	2,170,000
Total revenue from government	2,178,000	2,170,000
Note 3B: Rental income		
Property sub-lease rent received	51,843	51,843
Total rental income	51,843	51,843
Note 3C: Other revenue		
Other revenue	3,003	-
Total other revenue	3,003	-
Gains		
Note 3D: Sale of assets		
Infrastructure, plant and equipment		
Proceeds from sale	955	1,800
Carrying value of assets sold	-	-
Net gain from sale of assets	955	1,800
Note 3E: Other gains		
Resources received free of charge	18,000	18,000
Total other gains	18,000	18,000

Note 4: Expenses

	2008 \$	2007 \$
Note 4A: Employee benefits		
Wages and salaries	931,655	910,002
Superannuation:		
Defined contribution plans	13,193	12,735
Defined benefit plans	121,848	124,949
Leave and other benefits	130,489	123,916
Other employee expenses	3,212	4,028
Total employee benefits	1,200,397	1,175,630
Note 4B: Suppliers		
Provision of goods - related entities	7,588	8,237
Provision of goods - external entities	164,658	133,318
Rendering of services - related entities	170,374	146,042
Rendering of services - external entities	253,569	205,985
Operating lease rentals(*)	265,780	256,680
Workers compensation premiums	5,818	6,686
Total supplier expenses	867,787	756,948
* These comprise minimum lease payments only		
Note 4C: Finance costs		
Unwinding of discount	3,865	3,197
Total finance costs	3,865	3,197
Note 4D: Depreciation and amortisation		
Depreciation		
Infrastructure, plant and equipment	61,919	64,989
Total depreciation	61,919	64,989
Amortisation		
Leasehold improvements - make good provision	11,330	11,330
Total amortisation	11,330	11,330
The aggregate amounts of depreciation or amortisation expensed during the reporting period for each class of depreciable assets are as follows:		
Leasehold improvements	54,766	55,844
Infrastructure, plant and equipment	18,483	20,475
Total depreciation and amortisation	73,249	76,319
No depreciation or amortisation was allocated to the carrying amounts of other assets		
Note 4E: Write-down and impairment of assets		
Asset write-downs from		
Impairment of Property, Plant and equipment	7,393	117
Other	513	-
Total write-down of assets	7,906	117

Note 5: Financial assets

	2008	2007
	\$	\$
Note 5A: Cash and cash equivalents		
Cash on hand or on deposit	70,000	70,000
Total cash and cash equivalents	70,000	70,000
Note 5B: Trade and other receivables		
Goods and services	9,505	5,316
GST receivable from ATO	18,095	5,580
Appropriations receivable for existing outputs	1,905,111	1,619,777
Total trade and other receivables (gross)	1,932,711	1,630,673
Less: Allowance for doubtful debts	-	-
Total trade and other receivables (net)	1,932,711	1,630,673
Receivables are represented by:		
Current	312,936	371,673
Non-current	1,619,775	1,259,000
Total trade and other receivables (net)	1,932,711	1,630,673
Receivables are aged as follows:		
Not overdue	308,183	371,673
Overdue by:		
Less than 30 days	-	-
30 to 60 days	-	-
61 to 90 days	-	-
31 to 60 days	4,752	-
More than 90 days	1,619,776	1,259,000
	1,624,528	1,259,000
Total receivables (gross)	1,932,711	1,630,673

Note 6: Non-financial assets

	2008	2007
	\$	\$
Note 6A: Infrastructure, plant and equipment		
Infrastructure, plant and equipment		
- gross carrying value (at fair value)	68,732	122,800
- accumulated depreciation	(10,772)	(42,112)
Total infrastructure, plant and equipment (non-current)	57,960	80,688
Note 6B: Leasehold improvements		
Leasehold improvements		
- fair value	210,000	155,800
- accumulated depreciation	(183,452)	(89,028)
	26,548	66,772
Leasehold improvements 'make good'		
- at fair value	56,649	56,649
- accumulated amortisation	(50,041)	(38,711)
	6,608	17,938
Total leasehold improvements (non-current)	33,156	84,710
Total infrastructure, plant and equipment (non-current)	91,116	165,398

All property, plant and equipment are at valuation as at 30 November 2007 in accordance with the agency's revaluation policy (Note 1.18). In 2008, assets were assessed for indications of impairment. No indications of impairment were found.

Note 6: Non-financial assets (continued)

	Plant and equipment \$	Leasehold improvements \$	Total \$
Note 6C: Analysis of property, plant and equipment			
<i>Reconciliation of the opening and closing balances of property, plant and equipment (2007-08)</i>			
As at 1 July 2007			
Gross book value	122,800	212,449	335,249
Accumulated depreciation/amortisation and impairment	(42,112)	(127,739)	(169,851)
Net book value 1 July 2007	80,688	84,710	165,398
Additions by purchase	-	-	-
Depreciation/amortisation expense	(18,483)	(54,766)	(73,249)
Disposals:			
other disposals	-	-	-
Revaluations	(4,245)	3,212	(1,033)
Net book value at 30 June 2008	57,960	33,156	91,116
Net book value as of 30 June 2008 represented by:			-
Gross book value	68,732	266,649	335,381
Accumulated depreciation/amortisation and impairment	(10,772)	(233,493)	(244,265)
	57,960	33,156	91,116
	Plant and equipment \$	Leasehold improvements \$	Total \$
<i>Reconciliation of the opening and closing balances of property, plant and equipment (2006-07)</i>			
As at 1 July 2006			
Gross book value	127,500	212,449	339,949
Accumulated depreciation/amortisation and impairment	(26,220)	(71,895)	(98,115)
Net book value 1 July 2006	101,280	140,554	241,834
Additions by purchase	-	-	-
Depreciation/amortisation expense	(20,475)	(55,844)	(76,319)
Disposals:			
other disposals	(117)	-	(117)
Revaluations	-	-	-
Net book value at 30 June 2007	80,688	84,710	165,398
Net book value as of 30 June 2007 represented by:			-
Gross book value	122,800	212,449	335,249
Accumulated depreciation/amortisation and impairment	(42,112)	(127,739)	(169,851)
	80,688	84,710	165,398

Note 6: Non-financial assets (continued)

	2008	2007
	\$	\$
Note 6D: Other non-financial assets		
Prepayments	23,958	24,629
Total other non-financial assets	23,958	24,629

All other non-financial assets are current assets.

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

Note 7: Payables

	2008	2007
	\$	\$
Note 7A: Suppliers		
Trade creditors	40,996	28,908
Total supplier payables	40,996	28,908
Supplier payables are represented by:		
Current	40,996	28,908
Total supplier payables	40,996	28,908
Settlement is usually made net 30 days		
Note 7B: Other payables		
Accrued expenses	94,644	24,696
Prepayments received	4,752	4,752
Total other payables	99,396	29,448

All other payables are current liabilities.

Note 8: Provisions

	2008	2007
	\$	\$
Note 8A: Employee provisions		
Salaries and wages	9,798	7,563
Leave	263,597	231,351
Superannuation	1,578	1,156
Total employee provisions	274,973	240,070
Employee provisions are represented by:		
Current	215,863	207,520
Non-current	59,110	32,550
Total employee provisions	274,973	240,070
Note 8B: Other provisions		
Provision for 'Makegood'	69,245	65,380
	69,245	65,380
	Provision for	
	Makegood	
Carrying amount at 1 July 2007	65,380	62,183
Unwinding of discount	3,865	3,197
Closing balance 30 June 2008	69,245	65,380

The agency currently has an agreement for the leasing of premises which has a provision requiring the agency to restore the premises to their original condition at the conclusion of the lease. The agency has made a provision to reflect the present value of this obligation.

All other provisions are non-current liabilities.

Note 9: Cash flow reconciliation

	2008	2007
	\$	\$
Reconciliation of cash and cash equivalents per Balance Sheet to Cash Flow Statement		
Report cash and cash equivalents as per:		
Cash Flow Statement	70,000	70,000
Balance Sheet	70,000	70,000
Reconciliation of operating result to net cash from operating activities:		
Net surplus	98,597	229,432
Depreciation and amortisation	73,249	76,319
Gain on disposal of assets	-	(1,800)
Net write-down of non-financial assets	7,906	117
Finance costs	3,865	3,197
(Increase)/decrease in receivables	(302,038)	(360,757)
(Increase)/decrease in prepayments	671	5,015
Increase/(decrease) in employee provision	34,903	28,019
Increase/(decrease) in payables	81,894	26,713
Net cash from/(used by) operating activities	(954)	6,255

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:

	2008	2007
The number of senior executives who received or were due to receive total remuneration of \$130,000 or more:		
\$265,000-\$279,999	-	1
\$280,000-\$294,999	1	-
\$295,000-\$309,999	-	1
\$325,000-\$339,999	1	-
Total	2	2
The aggregate amount of total remuneration of executives shown above	\$609,157	\$580,829

Note 12: Remuneration of auditors

	2008	2007
	\$	\$
Financial statement audit services are provided free of charge to the agency.		
The fair value of the services provided was	18,000	18,000
Total	18,000	18,000

No other services were provided by the Auditor-General.

Note 13: Financial instruments

	2008	2007
	\$	\$
Note 13A: Categories of financial instruments		
Cash and cash equivalents	70,000	70,000
Trade receivables	9,505	5,316
Carrying amount of financial assets	79,505	75,316
Financial liabilities		
Payables - suppliers	40,996	28,908
Prepayments received/unearned income	4,752	4,752
Other payables	94,644	24,696
Carrying amount of financial liabilities	140,392	58,356
	2008	2007
	\$	\$
Note 13B: Net income and expense from financial assets		
Loans and receivables		
Interest revenue	-	-
Net gain/(loss) from financial assets	-	-
As all financial assets are at fair value, there is no interest income arising through the profit and loss in the year ending 2008. (2007: NIL)		
	2008	2007
	\$	\$
Note 13C: Net income and expense from financial liabilities		
Other liabilities		
Interest expense	-	-
Net gain/(loss) from financial liabilities	-	-
As all financial liabilities are at fair value, there is no interest expense arising through the profit and loss in the year ending 2008. (2007: NIL)		

Note 13: Financial instruments (continued)

		2008		2007	
	Notes	Carrying amount	Fair value	Carrying amount	Fair value
		\$	\$	\$	\$
Financial assets					
Cash & cash equivalents	5A	70,000	70,000	70,000	70,000
Receivables	5B	9,505	9,505	5,316	5,316
Total financial assets		79,505	79,505	75,316	75,316
Financial liabilities					
Supplier payables	7A	40,996	40,996	28,908	28,908
Other payables	7B	99,396	99,396	29,448	29,448
Total financial liabilities		140,391	140,391	58,356	58,356

Note 13E: Credit risk

The agency is exposed to minimal credit risk as receivables are cash and trade receivables. The maximum exposure to credit risk is the risk that arises from the potential default of a debtor. This amount is equal to the total amount of the trade receivables (2008: \$9,505 and 2007: \$5,316). The agency has assessed the risk of the default on payment and has made no allocations to doubtful debts in 2008 (2007: *NIL*).

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

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

	Not past due nor impaired 2008 \$	Not past due nor impaired 2007 \$	Past due or impaired 2008 \$	Past due or impaired 2007 \$
Loans and receivables				
Cash and cash equivalents	70,000	70,000	-	-
Trade receivables	4,752	5,316	4,752	-
Total	74,752	75,316	4,752	-

Ageing of financial assets that are past due but not impaired for 2008

	0 to 30 days \$	31 to 60 days \$	61 to 90 days \$	90+ days \$	Total \$
Loans and receivables					
Trade receivables	-	4,752	-	-	4,752
Total	-	4,752	-	-	4,752

Ageing of financial assets that are past due but not impaired for 2007

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

Note 13: Financial instruments (continued)**Note 13F: Liquidity risk**

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

The following tables illustrate the maturities for financial liabilities.

	On demand 2008 \$	Within 1 year 2008 \$	1 to 5 years 2008 \$	> 5 years 2008 \$	Total 2008 \$
Other liabilities					
Payables - suppliers	-	40,996	-	-	40,996
Prepayments received/ unearned income	-	4,752	-	-	4,752
Other payables	-	94,644	-	-	94,644
Total	-	140,392	-	-	140,392

	On demand 2007 \$	Within 1 year 2007 \$	1 to 5 years 2007 \$	> 5 years 2007 \$	Total 2007 \$
Other liabilities					
Payables - suppliers	-	28,908	-	-	28,908
Prepayments received/ unearned income	-	4,752	-	-	4,752
Other payables	-	24,696	-	-	24,696
Total	-	58,356	-	-	58,356

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

Note 13G: Market risk

IGT holds basic financial instruments that do not expose the agency to certain market risks. The agency is not exposed to 'Currency risk' or 'Other price risk'.

Note 14: Appropriations**Table A: Acquittal of Authority to Draw Cash from the Consolidated Revenue Fund (CRF) for Ordinary Annual Services Appropriations**

	Departmental outputs		Total	
	2008 \$	2007 \$	2008 \$	2007 \$
Balance brought forward from previous period	1,695,356	1,331,077	1,695,356	1,331,077
Appropriation Act:				
<i>Appropriation Act (No. 1) 2007-08</i>	2,178,000	2,170,000	2,178,000	2,170,000
Comcover receipts (Appropriation Act s12)	-	-	-	-
FMA Act:				
Appropriations to take account of recoverable GST (FMA s30A)	69,786	54,885	69,786	54,885
Annotations to 'net appropriations' (FMA s31)	51,843	51,843	51,843	51,843
Total appropriations available for payments	3,994,986	3,607,805	3,994,986	3,607,805
Cash payments made during the year (GST inclusive)	2,009,566	1,912,169	2,009,566	1,912,169
Balance of Authority to Draw Cash from the CRF for Ordinary Annual Services appropriations	1,985,420	1,695,636	1,985,420	1,695,636
Represented by:				
Cash at bank and on hand	70,000	70,000	70,000	70,000
Receivable - departmental appropriations	1,905,111	1,619,776	1,905,111	1,619,776
Receivables - GST receivable from ATO	10,309	5,580	10,309	5,580
Total	1,985,420	1,695,356	1,985,420	1,695,356

Note 15: Compensation and debt relief

	2008	2007
	\$	\$
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: Reporting of outcomes

The Inspector-General of Taxation has one outcome:

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

Note 16A: Net cost of outcome delivery

	2008	2007
	\$	\$
Expenses		
Departmental	2,153,204	2,012,211
Total expenses	2,153,204	2,012,211
Costs recovered from provision of goods and services to the non government sector		
Departmental	-	-
Total costs recovered	-	-
Other external revenues		
Departmental	73,801	71,643
Total other external revenues	73,801	71,643
Net cost of outcome	2,079,403	1,940,568

Note 16B: 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 2007-08 Budget, which estimated the proportion of agency activities to be assigned to each of the outputs. This basis was evaluated during 2007-08 through monitoring of agency activities and no adjustment was considered necessary.

Outcome 1	Output Group 1.1			Output 1.1.2			Outcome 1 Total		
	Output 1.1.1		2007	2008		2007	2008	2007	2008
	2008	\$		\$	\$				
Departmental expenses									
Employees	60,021	58,782		1,140,376	1,116,848		1,200,397	1,175,630	
Suppliers	43,390	37,848		824,397	719,100		867,787	756,948	
Finance costs	192	159		3,673	3,038		3,865	3,197	
Depreciation and amortisation	3,662	3,816		69,587	72,503		73,249	76,319	
Write down of assets	395	6		7,511	111		7,906	117	
Total departmental expenses	107,660	100,611		2,045,544	1,911,600		2,153,204	2,012,211	
Funded by:									
Revenues from government	108,900	108,500		2,069,100	2,061,500		2,178,000	2,170,000	
Rents	2,592	2,592		49,251	49,251		51,843	51,843	
Other revenue	150	90		2,853	1,710		3,003	1,800	
Gains	900	900		17,100	17,100		18,000	18,000	
Total departmental revenues	112,542	112,082		2,138,304	2,129,561		2,250,847	2,241,643	

Outcome 1	Output Group 1.1				Output 1.1.2				Outcome 1 Total		
	Output 1.1.1		2007	\$	2008		\$	2007	\$	2007	\$
	2008	\$			2008	\$					
Departmental expenses											
Employees	60,021		58,782		1,140,376		1,116,848		1,200,397		1,175,630
Suppliers	43,390		37,848		824,397		719,100		867,787		756,948
Finance costs	192		159		3,673		3,038		3,865		3,197
Depreciation and amortisation	3,662		3,816		69,587		72,503		73,249		76,319
Write down of assets	395		6		7,511		111		7,906		117
Total departmental expenses	107,660		100,611		2,045,544		1,911,600		2,153,204		2,012,211
Funded by:											
Revenues from government	108,900		108,500		2,069,100		2,061,500		2,178,000		2,170,000
Rents	2,592		2,592		49,251		49,251		51,843		51,843
Other revenue	150		90		2,853		1,710		3,003		1,800
Gains	900		900		17,100		17,100		18,000		18,000
Total departmental revenues	112,542		112,082		2,138,304		2,129,561		2,250,847		2,241,643

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.

Documents open to public access

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

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

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

Facilities for access of documents

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

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

Level 19,
50 Bridge Street
SYDNEY NSW 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 2007-08.

ADVERTISING AND MARKET RESEARCH

No advertising or market research activities were undertaken during 2007-08.

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 programs are administered by the Inspector-General of Taxation.

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ACRONYMS

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

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