



Australian Government

Inspector-General of Taxation

IGT

ANNUAL
REPORT
2016–17

Inspector-General of Taxation

Annual Report 2016–17

October 2017

© Commonwealth of Australia 2017

ISSN 2204-0897 (p)

ISSN 2204-0900 (w)

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Inspector-General of Taxation

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3 October 2017

The Hon Kelly O'Dwyer MP
Minister for Revenue and Financial Services
Parliament House
Canberra ACT 2600

Dear Minister

I am pleased to present to you the Annual Report of the Inspector-General of Taxation (IGT) for the year ended 30 June 2017. This report has been prepared for the purposes of section 46 of the *Public Governance, Performance and Accountability Act 2013* and in accordance with section 41 of the *Inspector-General of Taxation Act 2003*.

In addition, and as required by the *Commonwealth Fraud Control Framework*, I certify that I am satisfied that the IGT has in place appropriate fraud control mechanisms that meet the IGT's needs and comply with the guidance applying in 2016–17.

Yours sincerely

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

Ali Noroozi
Inspector-General of Taxation

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INSPECTOR-GENERAL OF TAXATION REPORT



It has been another busy year for the office of the Inspector-General of Taxation (IGT).

I am pleased to report that complaints handling is now well and truly our bedrock service which directly assists the community. In addition, our review work continues apace. My previous work program concluded with the release of the *Taxpayers' Charter and protections*¹ and *Employer obligations*² reports. At the same time we developed the current work program³ which was publicly announced on 27 January 2017, following broad-based community consultation. We have already commenced the three reviews to which we have committed in the current program.

As foreshadowed last year, we are now realising the opportunities presented to us by the insights drawn from complaint investigations. Two of the current reviews have been undertaken largely as a result of themes emerging from complaints. These are the reviews into the *Pay As You Go (PAYG) instalments system*⁴ and *Goods and Services Tax (GST) refund verification*.⁵ We have also commenced our first 'own initiative'⁶ investigation which may be activated at any time in response to emerging needs. In this instance, it was in response to complaints made about the Australian Taxation Office's (ATO) management of tax evasion referrals made by the public.

1 Inspector-General of Taxation (IGT), *Review into the Taxpayers' Charter and taxpayer protections* (2016).

2 IGT, *Review into the ATO's employer obligations compliance activities* (2017).

3 IGT, 'IGT Work Program 2017' (2017) <www.igt.gov.au>.

4 IGT, *Aspects of the Pay As You Go Instalments System: Terms of reference* (2017) <www.igt.gov.au>.

5 IGT, *GST Refunds: Terms of reference* (2017) <www.igt.gov.au>.

6 Pursuant to paragraph 7(1)(c) of the *Inspector-General of Taxation Act 2003* (IGT Act).

The third review that we have commenced this year is the *Future of the tax profession*.⁷ This review is forward looking, aiming to seize opportunities and address challenges ahead by anticipating technological, social, policy and regulatory changes and forward planning to achieve optimal outcomes for all parties. It is being conducted at the request of the Commissioner of Taxation (Commissioner) as well as in response to concerns raised by a range of stakeholders, particularly tax practitioners.

A fourth review has also been launched into the *ATO's fraud control management*,⁸ at the request of the Senate Economics References Committee (Economics Committee) and in response to broad community concerns, following significant media attention on allegations of tax fraud that may have been linked to a senior ATO officer.

Further maturation of our complaints handling service has also led to direct improvements to tax administration through the ATO and Tax Practitioners Board (TPB) implementing Agreed Business Improvements (ABIs) without the need to conduct broader reviews. We are also effectively managing the increase in the number of complaints and their growing complexity as more taxpayers and tax practitioners become aware of and are satisfied with our services. It is a pleasing result for the community and the tax system.

Some of our other activities include assisting parliamentary committees such as the Economics Committee with its inquiry into 'The impact of non-payment of the Superannuation Guarantee (SG)'⁹ and the House of Representatives Standing Committee on Tax and Revenue (Tax and Revenue Committee) with its inquiry into 'Taxpayer engagement with the tax system'¹⁰ by lodging detailed submissions and giving further evidence at public hearings. In doing so, we have drawn on our independent expertise and experience in the tax and superannuation systems.

In the midst of the work above, we moved to new premises without any disruption to the services that we provide to the community. I would like to thank my staff for their hard work over the last year and also for the smooth transition to our new premises.

Ali Noroozi
Inspector-General of Taxation

7 IGT, *Review into the Future of the Tax Profession: Terms of reference* (2017) <www.igt.gov.au>.

8 IGT, *Review into the ATO's Fraud Control Management: Terms of reference* (2017) <www.igt.gov.au>.

9 Senate Economics References Committee, *Terms of Reference*, inquiry into 'The impact of non-payment of the Superannuation Guarantee' (2017) <www.aph.gov.au>.

10 House of Representatives Standing Committee on Tax and Revenue, *Terms of reference*, inquiry into 'Taxpayer engagement with the tax system' (2017) <www.aph.gov.au>.

OVERVIEW

COMPLETED REVIEWS

Review into the Taxpayers' Charter and taxpayer protections

The report of the *Taxpayers' Charter and taxpayer protections review* was publicly released on 13 December 2016.¹¹ It examined a range of issues, including the current framework for taxpayer rights in Australia and the ATO's *Taxpayers' Charter* (Charter).¹² It also considered the ATO's adherence to the model litigant obligations (MLO) which binds all Commonwealth agencies, the discretionary Scheme for Compensation for Detriment Caused by Defective Administration (CDDA Scheme) and the protection of taxpayer rights in the context of cross-border exchange of information.

A broad range of stakeholders were consulted and research undertaken on international developments in taxpayer rights and protections to ascertain how Australia compares with its counterparts. We also engaged the University of New South Wales to identify and report on the current status of taxpayer rights in Australia.¹³

We acknowledged the calls from stakeholders for the enactment of additional legislative rights or for the Charter, or a similar document, to be enshrined in legislation. However, our research of regimes of comparable jurisdictions indicated that none of these jurisdictions had a comprehensive legislated charter or taxpayer bill of rights and Australia compared favourably in terms of legislative protections. Moreover, it was noted that whilst legislated rights would provide the highest degree of protection, it is unlikely to be of significant assistance to taxpayers who are unable to enforce such rights due to the costs associated with doing so.

11 Above n 1.

12 Australian Taxation Office (ATO), 'Taxpayers' charter – what you need to know' (2017) <www.ato.gov.au>.

13 Kalmen Datt, *Report to the Inspector-General of Taxation on Taxpayer Rights* (2016) <www.igt.gov.au>.

Having regard to the above, the IGT has formed the view that, before any further enforceable remedies are considered, there are administrative measures which the ATO could implement to realise significant improvements. Such improvements include ensuring that the Charter is at the forefront of the ATO's interactions with the community and its performance against the Charter's principles is appropriately measured and publicly reported. Such public reporting is the key to promoting the ATO's adherence to the Charter as transparency and accountability better inform the community of an agency's performance.

In response to concerns raised about the CDDA Scheme, a recommendation was made to improve the awareness of its availability and to ensure that taxpayers can access internal review of decisions where there are sufficient grounds warranting reconsideration. With regard to the MLO, a recommendation was aimed at enhancing the effective investigation of allegations of MLO breaches, particularly where there may be perceptions of bias and lack of independence. In making these recommendations, we were mindful that the responsibilities for the relevant policy framework rest with the Department of Finance and the Attorney-General's Department who were consulted.

In relation to the emerging concerns about the ATO's exchange of taxpayer information with foreign revenue authorities, while it was observed that the ATO's procedures aligned with international practices, there was minimal public information on which taxpayers and tax practitioners could rely. Accordingly, a recommendation was made for increased public guidance on the ATO's approach in this regard, particularly with respect to data security, notification to taxpayers where their information is being exchanged with other revenue authorities and opportunities for such taxpayers to consider the information being exchanged.

In total, four recommendations were made with which the ATO has either agreed in full, in part or in principle. However the ATO's level of agreement and their accompanying commentary leave a level of uncertainty as to how and to what extent the recommendations would be implemented. Accordingly, to the extent that stakeholder concerns persist, a follow up review may need to be undertaken to assess the effectiveness of resulting ATO actions and, if necessary, recommendations may need to be made for Government to consider mandatory reporting of the ATO's compliance with the Charter and associated additional enforceable remedies.

Review into the ATO's employer obligations compliance activities

The *Employer obligations review* examined the ATO's activities to promote employers' compliance with their SG, PAYG Withholding and Fringe Benefits Tax (FBT) obligations.¹⁴ The report of this review was publicly released by the Government on 24 May 2017.

A key focus of this review was the uncertainty associated with the employee/contractor distinction which can lead to misclassification of workers with adverse impacts for all parties. Recommendations were made to improve worker classification outcomes and avoid adverse retrospective consequences, by allowing workers and businesses to seek upfront certainty from the ATO through a Voluntary Certification System to ensure correct classification at the earliest opportunity. Additional recommendations were made to further improve the ATO's online Employee/Contractor Decision tool to better inform businesses and workers of their respective obligations and entitlements.

Further opportunities for reducing employers' compliance costs and improving voluntary compliance were sought. In particular, recommendations were made for the ATO to consider improvements to the Small Business Superannuation Clearing House as well as encouraging adoption of Single Touch Payroll (STP) by providing a low or no cost STP software for qualifying small employers and alternative methods of electronic access for employers facing technological challenges.

The IGT also identified the ATO's heavy reliance on reporting by employees to identify non-compliance with SG obligations. Recommendations in this regard included more proactive compliance activities and increased interaction with trustees of superannuation funds.

A total of nine recommendations were directed to the ATO, of which seven were agreed in full or in part. Two recommendations were also made for Government's consideration. The first was to review the FBT administrative regime to reduce compliance costs in targeted areas in the short term whilst considering longer term fundamental reform. The other recommendation was to expand the Taxable Payments Reporting System (TPRS) to contractors across all industries and automating the associated required reporting.

14 Above n 2.

It is pleasing that the Government has accepted to consider the first recommendation as part of its ongoing improvement work program¹⁵ and has partly implemented the second recommendation by announcing that it would extend the TPRS to contractors in the courier and cleaning industries.¹⁶

Furthermore, in its report aimed at tackling non-compliance with SG obligations, the Economics Committee has extensively referred to the IGT's work on the SG and echoed a number of recommendations¹⁷ made in this IGT review as well as a previous IGT review.¹⁸

It should also be noted that the Government's SG Cross Agency Working Group, has released a report which echoes some of the IGT observations and recommendations.¹⁹ It is also pleasing that, in response, the Government has announced²⁰ additional funding for the ATO to improve employer compliance with their SG obligations.

WORK PROGRAM CONSULTATION

As in prior years, the development of the current work program was synchronised with the completion of the previous work program. It has been developed following extensive consultation with taxpayers, tax professionals and their representative bodies as well as government agencies such as the Australian National Audit Office (ANAO), the Commonwealth Ombudsman (Ombudsman), the ATO, the TPB and the Treasury. The Minister for Revenue and Financial Services (the Minister) and some parliamentary committees were also invited to provide input.

15 Australian Government, 'Australian Government response to the Inspector-General of Taxation report: Review into the Australian Taxation Office's employer obligations compliance activities' (22 May 2017) <www.igt.gov.au>.

16 Treasury, *Budget Measures 2017–18*, Budget Paper No. 2 (2017) p 35.

17 Senate Economics References Committee, *Superbad – Wage theft and non-compliance of the Superannuation Guarantee* (2017), recommendations 6, 12 and 31 (in part) pp 42, 62 and 93, respectively.

18 IGT, *Review into the ATO's administration of the Superannuation Guarantee Charge* (2009), recommendation 11, p 93 which is echoed in above n 17, recommendation 24, p 82.

19 For example, above n 18, recommendations 3 and 4, p 10 and above, n 2, recommendation 2.1(a) which are echoed by Working Group recommendation 2, Working Group agency action 12 and 8, respectively, in the Superannuation Guarantee Cross Agency Working Group, *Superannuation Guarantee Non-compliance – a report to the Minister for Revenue and Financial Services* (2017) Treasury (Cth).

20 The Hon Kelly O'Dwyer, Minister for Revenue and Financial Services, 'Turnbull Government backs workers on superannuation' (media release, 29 August 2017) <www.treasury.gov.au>.

Importantly, the current work program also draws on themes arising from the complaints made to our office, as foreshadowed in last year's annual report. The combination of public consultation and complaints handling data has led to a work program which reflects the issues of greatest community concern or significance in achieving a fairer, more efficient and transparent tax administration system.

The current work program was publicly announced on 27 January 2017²¹ and a commitment was given that the following three reviews would commence in 2017:

- Aspects of the PAYG instalments system;
- GST refund verification; and
- Future of the tax profession.

Four additional reviews were also identified and it was indicated that they may commence in the 2017 calendar year depending on time and resourcing considerations as well as competing priorities which may emerge such as the need to respond to risks identified through the complaints handling service, ministerial directions or parliamentary requests to undertake investigations. These potential reviews are:

- Strategies and opportunities for the ATO to work with others to encourage willing participation in the tax and superannuation systems;
- The ATO's approach to providing advice and guidance;
- The ATO's use of fraud or evasion opinions to examine and amend assessments outside of the standard periods of review; and
- The ATO's compliance activities concerning research and development tax incentive claims.

The likelihood that the above reviews will be conducted as part of the current work program is reduced due to undertaking another major review, namely the *ATO's fraud control management review*, at the request of the Economics Committee as well as the increasing demand for our complaints handling service.

21 Above n 3.

COMMENCEMENT OF NEW REVIEWS

Review into aspects of the PAYG instalments system

This review was commenced on 29 March 2017,²² largely as a result of themes arising from complaint cases, and seeks to identify improvements to the PAYG instalments system for taxpayers, the ATO and the system as a whole.

It will examine individual taxpayers' experiences with the PAYG instalments system with particular focus on the concerns raised in complaint cases and submissions to the review. These concerns broadly relate to the administrative criteria for entering taxpayers into the PAYG instalments system, the information technology (IT) systems to process correspondence, lodgements and payments as well as the clarity of ATO communication and guidance on payment and reporting obligations.

Review into GST refund verification

This review was commenced on 5 April 2017,²³ once again, in response to issues emerging from our complaint cases.

Since 2012, the ATO's discretion to withhold GST refunds for verification has been governed by section 8AAZLGA of the *Taxation Administration Act 1953*. The provision allows the ATO to retain a refund until it is no longer reasonable to require verification. Complaints data and submissions to the work program have suggested that the ATO's administration of this provision may, in some instances, result in inappropriate and unfair delays in GST refunds being issued.

Stakeholders raised concerns such as a lack of clarity on the scope and nature of verification activities, inadequate engagement and inaccurate risk identification processes as well as the adverse financial and emotional impact on taxpayers.

This review will consider the GST refund verification process, having regard to the above concerns, in order to identify improvement opportunities which minimise adverse impact on taxpayers whilst ensuring that the ATO has sufficient time to adequately address risks to government revenue.

²² Above n 4.

²³ Above n 5.

Review into the Future of the tax profession

This review is being conducted in response to a request by the Commissioner as well as concerns raised by stakeholders, particularly tax practitioners and their representatives. It was commenced on 6 June 2017.²⁴

In recent decades, technology has begun to change the way in which the ATO provides services and interacts with taxpayers and tax practitioners. Similarly, the business models of tax practitioners are also evolving. In coming years, it is likely that the pace of change will escalate with other professionals, such as software and hardware developers, data analysts and providers of banking and payment services, playing a greater role in the tax system.

Social changes, such as taxpayer expectations for 'real-time' response, are another result of technological advancements. There are also policy and regulatory changes which are shaping the tax profession. For example, in addition to the Government's digital transformation agenda, financial advisers, who are involved in the provision of tax advice, have recently become subject to the jurisdiction of the TPB.

The impending technological, social, policy and regulatory changes will have vast and lasting impacts on the tax profession, the ATO, the TPB and the wider community. The IGT will seek to foster a better understanding of the issues and challenges ahead and assist all parties to plan for change and achieve optimal outcomes.

Review into the ATO's fraud control management

This review is being conducted at the request of the Economics Committee and in response to community concerns following recent events including those relating to Operation Elbrus and allegations of tax fraud that may be linked to abuse of position by a public official. The review commenced on 28 June 2017.

The magnitude and importance of the ATO's role, both economically and socially is unparalleled in the Australian context and hence, it is not surprising that the community expects very high standards of integrity from its staff and the organisation as a whole. The ATO itself has acknowledged that its 'integrity is fundamental to maintaining community trust and confidence in the tax and superannuation systems'.²⁵

²⁴ Above n 7.

²⁵ ATO, 'Integrity' (accessed 28 June 2017) <www.ato.gov.au>.

This review will examine the ATO's fraud prevention and detection practices, procedures and structures and how they are practically applied to ensure that it maintains the standards befitting of such a key institution. Opportunities for improvement in these areas will also be sought.

COMPLAINTS HANDLING SERVICE

The second anniversary of our complaints handling service is another milestone achievement. Consistent with the growing awareness and recognition of our tax specialist service, there has been an increase both in number and complexity of the complaint cases that we have received this year. We have continued to meet this increasing demand.

For the 2016–17 financial year, we had received 2251 complaints which is an approximate 5 per cent increase compared to the number received in the previous financial year. Of these complaints approximately 90 per cent have been finalised within this same period and work will continue in the following year on the remainder.

The most common issues raised in these complaint cases concerned the ATO's:

- debt collection action, including payment arrangements, liquidation and bankruptcy actions, demand letters, offsetting of expected refunds against debts and garnishing amounts from taxpayers' bank accounts;
- processing delays and difficulties such as those associated with issuing refunds and in rectifying ATO errors in income tax assessments;
- audit and internal review activities, including auditor conduct, delays in processing amendments and information not being considered before decisions are finalised;
- SG investigations including action taken against relevant employers as well as transparency and communication with affected employees; and
- handling of complaints including how outcomes were communicated.

Table 1 below shows the proportion of complaints that relate to the above issues as a percentage of total complaints.

Table 1: The five most common issues raised in complaints during 2016–17

Type of issues	Approximate percentage of all issues raised
ATO debt collection actions	22%
Lodgment and processing issues	20%
ATO audit and internal review activities	12%
Superannuation compliance issues	8%
Dissatisfaction with how the ATO had handled a complaint	6%

Commencement of ‘own initiative’ investigations

In addition to using complaint data to develop the IGT work program as mentioned above, we have also begun to leverage the insights from such data to improve the tax system on a more real time basis by conducting targeted or specific investigations promptly. Technically, these kinds of investigations are referred to as ‘own initiative’ investigations in the relevant legislation.²⁶ The first such investigation was initiated this year. It aims to examine the ATO’s handling of allegations of tax evasion received from the community – colloquially referred to as ‘dob ins’.

This investigation was prompted as a result of complainants, who had reported allegations of tax evasion to the ATO, seeking assurance from the IGT that the ATO had registered their allegations and taken appropriate action. The ATO’s processes for considering and responding to such allegations will be scrutinised in this investigation to identify improvements where necessary and provide assurance to complainants and the public, particularly in the light of further funding being provided to the ATO for dealing with whistle-blower tax evasion referrals.²⁷

Own initiative investigations allow the IGT to take a prompt ‘deep dive’ on particular issues as the need for timely action outweighs the benefits of broader stakeholder consultation which requires extended timeframes. These investigations have a specific focus that facilitates more streamlined information access, recommendation making and reporting to seek more immediate improvements.

²⁶ Section 8 of the IGT Act.

²⁷ Above n 16 pp 32 and 59.

Agreed Business Improvements

The evolving maturity of our complaints handling service has fostered increasing opportunity to achieve improvements to tax administration without requiring the conduct of a broad review. ABIs arise where, as a result of dealing with a complaint or series of complaints, the IGT reaches agreement with the ATO and/or the TPB on improvements which go beyond the complaint case itself and have a wider impact. We track such improvements until implementation takes place.

This year, the ATO has agreed to implement 17 ABIs, two of which have already been implemented. One ABI has also been agreed and implemented with the TPB, bringing the total number of ABIs to 18.

Feedback on the complaints handling service

The feedback on our complaints handling service has been very positive and the results of the satisfaction survey, conducted for this year, show a 78 per cent satisfaction rate with our services and staff. This includes feedback from complainants who did not achieve their desired outcomes.

The results of this survey are provided in the Performance Report section of this report, together with examples of the improvements and insights resulting from complaint cases.

ASSISTANCE TO PARLIAMENTARY COMMITTEES

Insights which are drawn from our complaints handling service and review work are of assistance to other bodies who examine broader issues that interact with the tax and superannuation systems. During 2016–17, we drew upon such experience to assist other government agencies as well as parliamentary committees including the following.

Senate Economics References Committee

On 1 December 2016, the Senate referred an inquiry to the Economics Committee to examine the impact of non-payment of the SG,²⁸ with particular reference to its economic impact, the accuracy and adequacy of information and data collected by regulatory bodies as well as the appropriateness of regulatory responses to instances of non-payment of the SG.

28 Above n 9.

A detailed written submission²⁹ was made to this inquiry, drawing on our independent expertise and, in particular, our reviews into the *Administration of the Superannuation Guarantee Charge*³⁰ and *Employer obligations*³¹ as well as insights obtained through our complaints handling service. We also provided evidence during the Economics Committee's public hearing on 3 March 2017³² to highlight the challenges in the administration of the SG. A sustained focus of our office has been to emphasise the importance of early detection and action to recover unpaid SG.

The Economics Committee tabled its report on 2 May 2017³³ with extensive reference to the IGT's work in this area and echoing a number of our recommendations.³⁴

House of Representatives Standing Committee on Tax and Revenue

The Tax and Revenue Committee announced its inquiry into 'Taxpayer engagement with the tax system' on 25 November 2016³⁵ to examine how taxpayers, particularly individuals and small businesses, engage with Australia's tax system and identify opportunities to improve this experience. In response, the IGT made a detailed submission³⁶ to assist the Tax and Revenue Committee and also gave evidence at a public hearing.³⁷

The IGT also assisted the Tax and Revenue Committee with its review into the 2016 Annual Report of the ATO.³⁸ The report of this review, which was released in March 2017, extensively references the work of the IGT.

STAKEHOLDER ENGAGEMENT

We continue to consult with the community, the tax profession and other stakeholders, including other government agencies, parliamentarians and federal parliamentary bodies in developing our work program, conducting reviews and through our complaints handling service.

29 IGT, 'Submission to the Inquiry into Superannuation Guarantee non-payment' (2017) <www.igt.gov.au>.

30 Above n 18.

31 Above n 2.

32 Commonwealth, *Parliamentary Debates (Proof)*, Senate Economics References Committee, 3 March 2017.

33 Above n 17.

34 Above n 17 and 18.

35 Above n 10.

36 IGT, 'Submission to the Inquiry into Taxpayer Engagement with the Tax System' (2017) <www.igt.gov.au>.

37 Commonwealth, *Parliamentary Debates*, House of Representatives Standing Committee on Tax and Revenue, 10 May 2017.

38 House of Representatives Standing Committee on Tax and Revenue, *2016 Annual Report of the Australian Taxation Office: Performance Review 2015–16* (March 2017).

In this financial year, we have particularly focused on reaching out to the wider community as the satisfaction survey, mentioned above, has indicated we need to better inform the public of the presence of the IGT and the services that we provide. One of our initiatives in this regard has been to develop a newsletter, *IGoT News!*, the first edition of which was launched on 6 July 2017.³⁹ It is a new and more informal channel for us to communicate and better inform the public about our office and up-to-date developments.

We have also sought to increase our engagement with suburban and regionally-based tax practitioners by presenting and engaging with them at their events including discussion group meetings.

We continue with our other stakeholder activities including encouraging parliamentarians to refer any complaints they receive about the ATO or the TPB to us. Through parliamentary committees, they have also been invited to provide input into our work program or otherwise raise concerns with us. In one instance, as stated earlier, this has resulted in the IGT undertaking the review into the *ATO's fraud control management*.

We also engage and consult with the ANAO and Ombudsman to foster closer collaboration in areas of mutual interest and minimise any potential duplication of effort. For example, during the 2016–17 year, we assisted the Ombudsman in his investigation regarding the Child Support Agency's approach to amended income tax assessments. We have also consulted with the ANAO on our respective work programs and we have shared views on specific areas, for example, on the ANAO's audit into the ATO's use of settlements.⁴⁰

We also work closely with the Treasury, who provides us with a number of services and is a partner in many aspects of our core functions, as well as the Minister and her staff.

Engagement with the ATO and the TPB is a central part of our role. The professional assistance of both organisations and their staff is crucial to our work. The independence of the IGT as a consulting scrutineer is essential but it is also important to ensure that constructive relationships with the ATO and the TPB are maintained.

39 IGT, 'Newsletters' (2017) <www.igt.gov.au>.

40 ANAO, 'The Australian Taxation Office's use of settlements' (2017) <www.anao.gov.au>.

Our collaboration with revenue agencies, our counterparts and other relevant bodies overseas is continuing and expanding. We now exchange knowledge and experience with more jurisdictions than before. This is of great assistance in our review work as well as the complaints handling service.

Furthermore, we have extended our international networks by becoming a voting member of the International Ombudsman Institute and are providing regular updates on taxpayer rights in Australia to the International Bureau of Fiscal Documentation (IBFD).

New office location

Moving to a new office location was a major undertaking this year. It required significant planning and management to establish the necessary environment and facilities for our team to continue to provide uninterrupted service to the community.

We are pleased that our move took place smoothly in June 2017, prior to Tax Time 2017, with no disruption to our services.

FUTURE DIRECTIONS

Moving forward, we will focus on meeting the challenge of progressing the four reviews that were commenced this financial year whilst also managing an expected increase in the demand for our complaints handling service as well as dealing with other requests as they arise.

In order to maintain the successful delivery of these services, our office will continue with its innovation focus as we fine-tune our systems, processes and interactions. Indeed it is a credit to the IGT that for a second year in a row, we have achieved strong results in the annual Australian Public Service (APS) employee survey including continuing to lead the entire APS on innovation.

ROLE

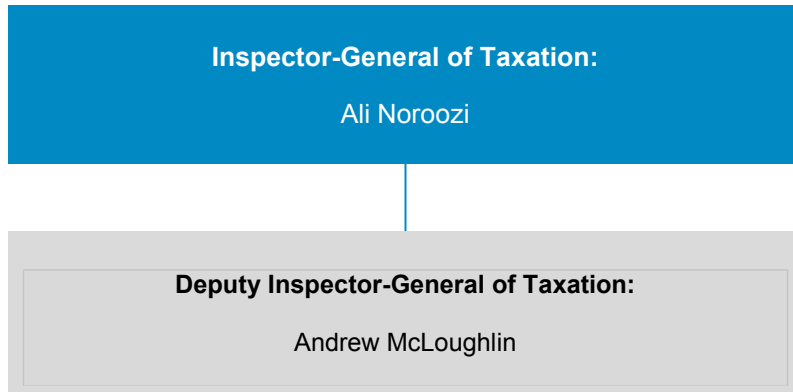
Our role is to improve tax administration through investigation of tax complaints, conducting broader reviews, public reporting and independent advice to Government and its relevant agencies.

Our objectives are to:

- maintain an effective and efficient complaints handling function;
- identify and prioritise areas of tax administration for improvement; and
- conduct reviews and make recommendations for improvement to Government, the ATO and the TPB.

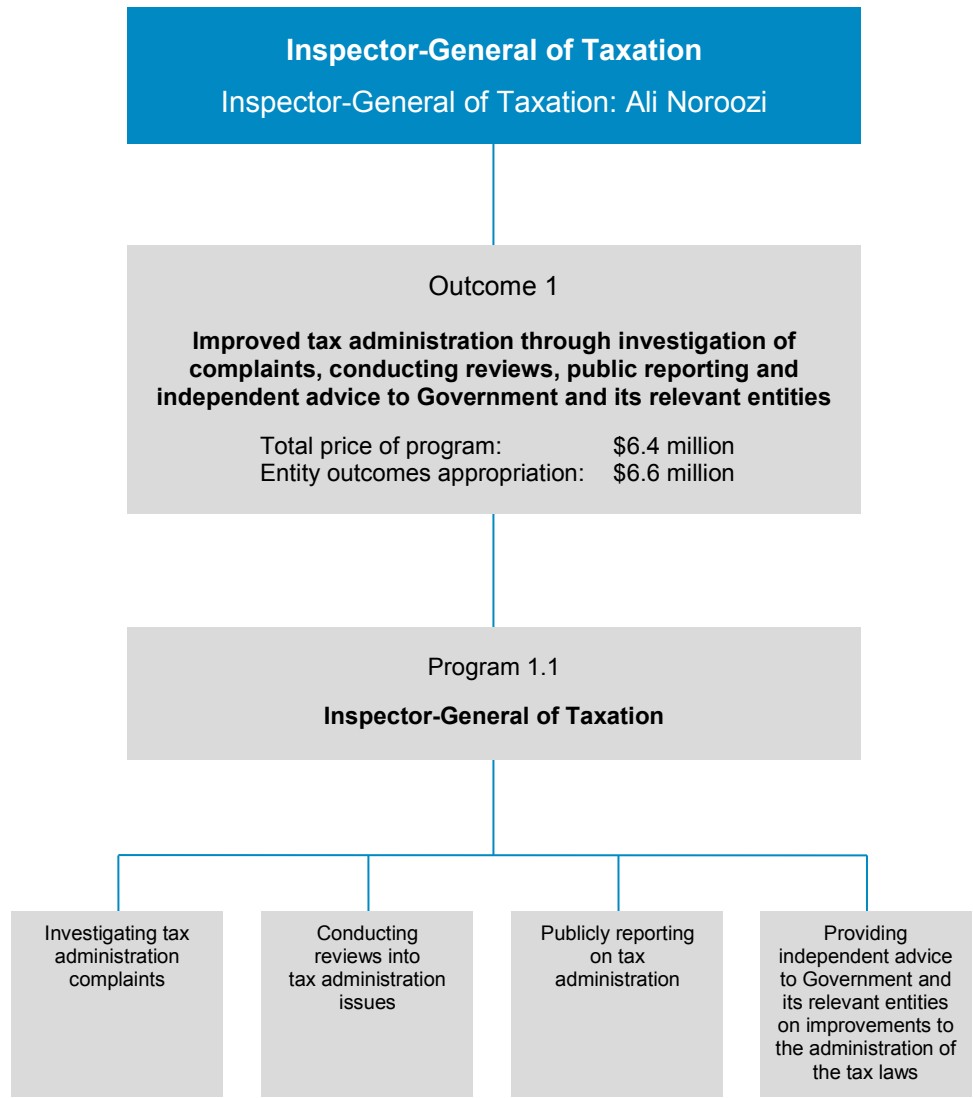
ORGANISATIONAL STRUCTURE

Figure 1: Inspector-General of Taxation executive structure



OUTCOME AND PROGRAM STRUCTURE

Figure 2: Outcome and program structure



APPENDIX 1 — EXPENSES FOR OUTCOMES

Table A1: Expenses for Inspector-General of Taxation outcomes

Outcome 1: Improved tax administration through investigation of complaints, conducting reviews, public reporting and independent advice to Government and its relevant entities.	Budget	Actual	Variation
	2016-17	2016-17	2016-17
	\$'000	\$'000	\$'000
	(a)	(b)	(a - b)
Program 1.1: Inspector-General of Taxation			
Departmental expenses			
Departmental appropriations ¹	6,565	5,944	621
Expenses not requiring appropriation in the budget year	29	495	(466)
Total expenses for Outcome 1	6,594	6,439	155

1. Ordinary annual services (Appropriation Bill No. 1 / Supply Act No. 1).

	2016-17	2015-16
Average staffing level (number)	35	34

APPENDIX 2 — AGENCY RESOURCE STATEMENT

Table A2: Inspector-General of Taxation resource statement for 2016–17 as at Budget May 2016

	Actual available appropriation 2016-17 \$'000 (a)	Payments made 2016-17 \$'000 (b)	Balance remaining 2016-17 \$'000 (a - b)
Departmental			
Ordinary annual services ¹			
Departmental appropriation ²	11,782	6,027	5,755
Total ordinary annual services	11,782	6,027	5,755
Other services - departmental non-operating			
Equity injections ³	323	323	-
Total other services - departmental non-operating	323	323	-
Total net resourcing and payments for the IGT	12,105	6,350	5,755

(1) *Supply Act (No. 1) 2016-17* and *Appropriation Act (No. 1) 2016-17*. This may also include prior-year departmental appropriation and section 74 relevant agency receipts.

(2) Includes an amount of \$0.029 million for the Departmental Capital Budget. For accounting purposes this amount has been designated as 'contributions by owners'.

(3) No equity injections for 2016-17. Opening balance is made up of *Appropriation Act (No. 6) 2014-15* & *Appropriation Act (No. 2) 2015-16*.

PERFORMANCE REPORT

The performance report for this financial year is divided into two key sections:

- the performance statement; and
- the analysis of the IGT's financial performance.

Our commitment to performance measurement and analysis is central and on-going. We carefully consider and monitor all aspects both within our annual corporate planning process and our day-to-day service delivery.

PERFORMANCE STATEMENT

This statement measures and assesses the IGT's performance in fulfilling our purpose and our deliverables.

The purpose of the IGT is to improve tax administration by providing the following deliverables:

1. maintain an effective complaints handling function;
2. identify and prioritise areas of tax administration for improvement; and
3. conduct reviews and make recommendations for improvement to Government, the ATO and the TPB.

The three deliverables are assessed by reference to the performance measures, the results of which are shown in the sections that follow.

Deliverable 1 — Effective handling of tax administration complaints

The IGT's performance in maintaining an effective complaints handling function for this financial year was assessed against five performance measures, being:

- the number of complaints received compared to complaints actioned;
- feedback provided by stakeholders about the IGT's complaints handling function;
- feedback from the ATO and the TPB about the IGT's complaints handling function;

- feedback from staff about the IGT's complaints handling function; and
- the percentage of correspondence that meets IGT quality standards.

Each performance measure is addressed in more detail in the specific sections that follow.

Performance measure — Number of complaints received compared to complaints actioned

A total of 2251 complaints were received in the 2016–17 financial year. Approximately 90 per cent of these were resolved during the same period — see Table 2 below.

Of the complaints received during this financial year, 2083 related to the ATO (93%), 53 related to the TPB (2%) and 115 related to other matters (5%), for example, referrals to other jurisdictions for consideration.

Table 2: Numbers of complaints received and resolved, by agency

Agency	Complaints received			Complaints resolved
	Carried forward from 2015–16	Received in 2016–17	Total handled in 2016–17	Total resolved in 2016–17
ATO	97	2083	2180	2031
TPB	0	53	53	49
Other	2	115	117	116
Total	99	2251	2350	2196

Every complaint received by the IGT is managed by a dedicated officer. Before proceeding with a complaint, the officer makes initial contact with the complainant to better understand their concerns and preferred outcomes as well as to determine the appropriate action to be taken.

The specific action taken in each complaint case depends upon its history, the nature of issues raised and the outcomes sought. Generally, there are two types of outcomes sought.

Firstly, complainants may seek information or independent advice and assurance in relation to ATO or TPB actions. In many of these cases, IGT officers are able to provide appropriate information, advice and assurance without needing to involve the ATO or TPB. In this financial year, approximately 42 per cent of all complaints were resolved by IGT staff in this manner.

Secondly, complainants may seek a review of ATO or TPB actions or decisions relating to the tax administration system which they consider to be inappropriate or unfair.

These complaints require ATO or TPB involvement and are initiated by way of an investigation.

Investigations allow the IGT to obtain information from the ATO or TPB which would otherwise be unavailable to complainant taxpayers or citizens due to the tax law secrecy provisions. The IGT may also serve formal notices requiring employees of the ATO or TPB to provide information relevant to the IGT's investigations.⁴¹ This financial year, no such notices were issued.

In total, 1411 investigations were undertaken by the IGT during this financial year. Approximately 98 per cent of the investigations commenced this financial year related to the ATO with the remainder relating to the TPB.

Over 90 per cent of all investigations were completed during the same period—see Table 3 below.

Table 3: Total numbers of investigations commenced and completed, by agency

Agency	Investigations commenced			Investigations completed
	Carried forward from 2015–16	Commenced in 2016–17	Total undertaken in 2016–17	Completed in 2016–17
ATO	91	1300	1391	1262
TPB	0	20	20	16
Total	91	1320	1411	1278

Performance measure — Feedback provided by stakeholders about the IGT's complaints handling function

The IGT is committed to providing and maintaining a high standard of service in our interactions with the community and values feedback received from complainants. In this regard, our work has included engaging ORIMA Research Pty Ltd (ORIMA) to conduct an independent survey to evaluate the performance of the IGT complaint handling service.

Approximately 51 per cent⁴² of the complainants who were contacted by ORIMA during 2016–17 provided feedback. This represents an increase from the 40 per cent of complainants who responded in the previous financial year.

41 Section 9 of the *Ombudsman Act 1976* which operates by virtue of section 15 of the IGT Act.

42 For the period July 2016 to March 2017.

The IGT continued to receive high levels of satisfaction. Table 4 below shows that in 2016–17, 78 per cent of survey respondents reported overall satisfaction with the complaints handling service, 59 per cent reported overall satisfaction with the outcome of their complaint and 93 per cent reported satisfaction with the professionalism of IGT staff.

Table 4: Complaints handling feedback survey results

Views of IGT’s complaints handling service	Proportion satisfied	Proportion dissatisfied
Overall satisfaction with the IGT’s complaints handling service	78%	14%
Overall satisfaction with the outcome of the complaint	59%	29%
Professionalism of IGT staff	93%	4%

The results of the survey reflect the effectiveness of our role in facilitating the resolution of complaints. Whilst not every complainant achieved their preferred outcome, they have still expressed high levels of satisfaction with the complaints handling service and the professionalism of IGT staff. In particular, it should be noted that of the complainants that were dissatisfied with the outcome of their complaint, 48 per cent expressed that they would still use the complaints handling service of the IGT in the future.

The survey also provided opportunities for the IGT to further improve performance to meet the service expectations of the community. As mentioned earlier, one area that requires improvement is the visibility of the IGT, work on which is already underway. Some complainants would also like to see further efficiencies and we are currently exploring how this may be achieved.

The IGT also receives feedback directly from complainants. During the 2016–17 financial year, 257 complainants provided such feedback⁴³ of which over 90 per cent were positive in nature. The majority of the positive feedback received was directed at the specific IGT officer managing the complaint, expressed overall satisfaction with the officer’s professionalism, helpfulness and quality of service.

43 233 positive, 18 negative and 6 neutral.

Examples of positive feedback are provided below:

Example 1

A tax practitioner was unable to update his client's bank account details for their activity statement accounts in real time using the Tax Agent Portal. In lodging his complaint with the IGT, he sought to understand when the ATO would be expected to rectify the system issue.

The IGT commenced an investigation of the matter and asked the ATO to provide evidence of how this issue has been logged and prioritised on the ATO's systems. During discussions with the IGT, the ATO acknowledged the impact of this issue on tax practitioners and confirmed that the system issue has been recorded and its rectification prioritised.

As a result of this investigation, the IGT obtained the ATO's commitment to test and implement a solution to the bank account update issue following the completion of major IT works that were underway at the time. This agreed business improvement was subsequently implemented.

The tax practitioner, who was satisfied with this outcome, emailed the IGT officer, stating "Again thank you for your kind support and consideration. Your assistance in this matter plus your continued complete understanding and professional processing of my complaint is beyond reproach and is greatly appreciated. Thank you once again."

Example 2

A taxpayer approached the IGT with concerns that the ATO had offset his expected tax refund against an old tax debt that the ATO had previously reversed. The taxpayer explained that this debt originally arose as a result of an ATO audit. He had been in the process of preparing an objection to the audit decision when, without explanation, the ATO had 'wiped the debt' from his account. The taxpayer assumed that the ATO auditors had reversed their decision and, as consequence, extinguished the debt. However, the ATO had recently explained to him that it did not extinguish the debt but had merely decided not to pursue the debt. The ATO's decision to re-raise the old debt and offset his expected refund placed the taxpayer into financial hardship as he needed the refund to pay for urgent medical bills.

The IGT investigated the matter and found that the ATO had not previously explained to the taxpayer why the old debt appeared to have been 'wiped' from his account or that the ATO may decide to pursue it at a later time. The IGT also formed the view that the ATO had not considered the taxpayer's circumstances in deciding to re-raise the old debt and offset it against his expected refund.

Example 2 (continued)

As a result of the IGT's investigation, the ATO agreed to release the taxpayer's refund and also agreed to extinguish his old tax debt. Although the ATO had since improved its process for alerting taxpayers to debts which are not pursued, it acknowledged that clearer guidance was needed for its staff when they make decisions to re-raise debts to ensure appropriate consideration of taxpayers' circumstances. Accordingly, the ATO agreed to review its relevant procedures with a view to making them clearer.

The taxpayer was very satisfied with the outcome of the IGT's investigation and commended the IGT officer's assistance.

Example 3

A taxpayer received a workers compensation payment due to a court judgement. As a result, the taxpayer was required to pay back income protection payments that he had received from the insurance provider. The taxpayer had already paid tax on the income protection payments and requested the ATO to refund the tax that had been paid. However, the ATO had refused to refund the tax paid on the basis that the tax paid on the income protection payments cannot be returned to the taxpayer under the relevant tax law.

The taxpayer approached the IGT with concerns that the ATO's decision resulted in an unfair outcome as it meant that he was effectively being double taxed for one compensation payment.

The IGT commenced an investigation and discussed resolution options with the ATO. As a result of the IGT's investigation, the ATO acknowledged that the outcome was unfair and took a pragmatic approach which was consistent with an ATO taxation ruling on a related issue. Rather than refunding the tax paid on the income protection payment, which would have been prohibited under the law, the ATO agreed to reduce the assessable amount of the workers compensation payment by the amount that the taxpayer had repaid to the insurance provider.

As a result of the IGT's investigation, the ATO apologised to the taxpayer for the manner in which it had handled the matter at first instance. In addition, the ATO agreed to improve ATO officer awareness and understanding of the appropriate treatment of such payments to ensure that a fair and reasonable decision is made at first instance in the future.

The taxpayer was satisfied with this outcome and telephoned the IGT officer, stating "I really do appreciate everything you've done and thank you very much for taking the time to help me out".

Performance measure — Feedback from the ATO and the TPB about the IGT's complaints handling function

The IGT senior management engages directly with senior ATO officers to discuss the progress of complaint investigations, the effectiveness of the complaints handling service and other complaint related matters on a scheduled weekly basis. These meetings provide a forum for the IGT and the ATO to provide professional and independent real time feedback on the complaints handling service and identify improvement opportunities.

The IGT also engages with the TPB on the complaints handling service as required, which is reflective of complaints levels regarding the TPB.

As a result of our ongoing communications with the ATO and TPB this year, consistent positive feedback was received regarding our complaints handling service as well as the identification of improvement opportunities.

Performance measure — Feedback from staff about the IGT's complaints handling function

The IGT complaints handling staff attend regular internal training and analysis forums to discuss current complaint issues and raise improvement or innovation ideas about the complaints service. These forums provide an opportunity for staff to provide real time feedback and discuss improvement opportunities. For example, this year, staff identified that complainants needed increased support during the complaints handling process and, as a result, identified improvements have been implemented to enable staff to provide the required support.

Performance measure — Percentage of correspondence that meets IGT quality standards

The IGT seeks to maintain high standards of communication throughout its complaints handling service, including written correspondence, through a number of measures. Consistency in style and approach is achieved through a structured process that incorporates specific tailoring of correspondence for the individual circumstance. Management review is also a feature of this process.

Complainants are also provided with an opportunity to clarify written correspondence to ensure that the communication is clearly understood and that relevant views and information have been considered. In the event that such correspondence is not of sufficient quality, it is reconsidered and re-issued. This financial year, over 99 per cent of cases were finalised without correspondence needing to be re-issued.

Periodic review is also undertaken of a random sample of correspondence with particular focus on whether the principles of procedural, interpersonal and distributive fairness have been appropriately applied. Observations and improvement opportunities are reported to management and staff for consideration and action.

During this financial year, it was observed that, whilst ultimate decisions were correct, enhancing the clarity and understanding of the complainant's perspective and personal circumstances, in more unusual and complex correspondence, could improve their perceptions of fairness or equity.

Deliverable 2 — Identify and prioritise areas of tax administration for improvement

In prior years, the IGT had relied on public consultation as a primary means of identifying tax administration issues of concern and prioritising topics for review in developing the work program. The themes emerging from our complaints handling service are increasingly informing this program of broader reviews.

Performance measure — Issues identified from complaints for further review

As mentioned earlier, we record and analyse complaint data in order to identify themes and determine areas where broader reviews may be usefully employed to deal with recurring issues.

A broader review may not always be the appropriate response to a recurring issue. For example, ATO debt collection activities continued to be the most common issue arising in complaint cases in this financial year. However, we had conducted a broad-based review into this area relatively recently.⁴⁴ It would be inappropriate to conduct another review before allowing sufficient time for the implementation of the recommendations in that report to bear fruit.

Similarly, we have received significant SG-related complaints but again many of the issues raised have already been examined by the IGT relatively recently.⁴⁵

Having analysed the complaint data, including consideration of areas that had been recently reviewed, a number of potential topics were identified as being best suited to a broader review. These were then further tested during our consultation on the current work program. As a result, as mentioned earlier, the following two topics became part of the work program and review into them is currently underway:

- Aspects of the PAYG instalments system; and
- ATO's verification of GST refunds.

⁴⁴ IGT, *Debt collection* (2015).

⁴⁵ Above n 2; see also above n 18.

A further area that was subsequently identified and was deemed to require prompt action was the ATO's management of tax evasion referrals received from the community. This has become the subject of an 'own initiative' investigation as previously mentioned.

Performance measure — Issues identified from general stakeholder forums and work program consultation for review

As in prior years, we undertook extensive community consultation to develop our work program. Submissions or input were received from a range of stakeholders including taxpayers, tax professionals and their representative bodies as well as government agencies, such as the ATO, TPB, ANAO, Ombudsman and Treasury. Input was also sought from the Minister as well parliamentary committees.

The IGT also capture areas of concern during the year through broader engagement with the public such as through the media (including social media), the IGT website as well as presenting at or participating in conferences, seminars and tax practitioner discussion groups.

The themes emerging from complaint cases, international trends as well as the submissions to the work program and input captured throughout the year, assist the IGT to identify issues of greatest community concern or significance in achieving a fairer, more efficient and transparent tax administration. More information on the identified issues is presented in the IGT's work program which is available on the IGT's website at www.igt.gov.au.

Performance measure — Issues identified from investigations requested by the Minister, Parliament, parliamentary committees or relevant agencies

The Minister, Parliament and parliamentary committees of either House of Parliament, including Joint Committees, as well as the Commissioner and the TPB may request the IGT to undertake a review.⁴⁶

As mentioned earlier in this report, in this financial year, the Economics Committee has requested the IGT examine the ATO's management of the risk of fraud and associated issues. The IGT accepted this request on 27 June 2017, publicly announced the terms of reference and invited submissions to this review, namely the *ATO's fraud control management review*.

⁴⁶ See subsection 8(3) of the IGT Act.

The Commissioner has also requested that the IGT undertake two reviews namely the *Future of the tax profession* and the *Influencing willing participation in the tax and superannuation systems reviews*. The former review was commenced on 6 June 2017⁴⁷ and the latter review was identified as a potential review that might be undertaken, competing priorities and resources permitting.⁴⁸

Performance measure — Prioritise identified issues

The IGT prioritises the identified issues by assessing their relative impact on delivering a fairer, more efficient and transparent tax administration, as well as time and resources available and the competing priorities faced such as ministerial direction for the IGT to undertake review and co-ordination with the activities of other government agencies.

The current work program reflects the process of prioritisation by setting out three selected review topics, four additional reviews that may be conducted and a number of areas that were identified but ultimately not chosen with an accompanying explanation.⁴⁹ For example, as stated earlier, ATO debt collection and unpaid SG were areas that were identified but not selected because they had been the subject of IGT reviews in the recent past.

As mentioned earlier, after the announcement of the current work program, we commenced the *ATO's fraud control management review* at the request of the Economics Committee as well as an 'own initiative' investigation into ATO's management of tax evasion referrals from the community. As a result, there is reduced likelihood that we will be able to conduct any of the four additional reviews identified in the current work program.

As is apparent from the above, the IGT has sought to be innovative and responsive in the design of the work program. The IGT has effectively leveraged his expanded powers to conduct broader reviews and 'own initiative' investigation into issues identified through the complaint handling service. At the same time, some flexibility has been built into the work program to allow prompt action to address significant issues that may arise.

47 IGT, 'IGT review into the future of the tax profession' (media release, 6 June 2017) <www.igt.gov.au>.

48 IGT, 'IGT Work Program 2017' (27 January 2017) <www.igt.gov.au>.

49 Above n 48.

Deliverable 3 — Conduct reviews and make independent recommendations for improvement

The conduct of reviews is determined by the bespoke nature of each review. They generally involve a consideration of all the submissions made as well as investigation of ATO or TPB systems. Detailed research and analysis is also required, including international comparison with comparable jurisdictions, to identify areas requiring improvement and determine the best course of action. Engagement and extensive consultation with the ATO or TPB at all levels is necessary throughout the review cycle.

Performance measure — Investigate identified issues

This financial year, the IGT publicly released reports of two completed reviews and commenced three additional reviews on the current work program. Furthermore, in response to a request by the Economics Committee, the IGT commenced a fourth review, namely the *ATO's fraud control management review*. Table 5, below, lists these reviews and their status as at 30 June 2017.⁵⁰ They have been outlined earlier in this report and are described in more detail on the IGT website, www.igt.gov.au.

Table 5: IGT reviews and their status at 30 June 2017

IGT review	Status at 30 June 2017
Taxpayers' Charter and taxpayer protections	Report publicly released
ATO's employer obligation compliance activities	Report publicly released
Aspects of the Pay As You Go instalments system	In progress
GST refund verification	In progress
Future of the tax profession	In progress
ATO's fraud control management	In progress

The IGT's performance in conducting reviews and making recommendations for improvement is measured with regard to the following two performance measures which are discussed below.

Performance measures — Report the findings and recommendations of the reviews

The reports of IGT reviews contain recommendations for improvement together with the relevant agency's responses.

⁵⁰ IGT reviews are conducted under paragraphs 7(1)(c) and (d) of the IGT Act which provide for the power to investigate systems established by the ATO, TPB or the taxation laws.

The ATO and TPB have statutory independence in their respective jurisdictions. The IGT is also an independent statutory appointment, but is not empowered to direct the Commissioner or the TPB. Historically, however, the vast majority of the IGT's recommendations have been accepted in full or in part, with this trend continuing in this financial year – refer to Table 6 below. No reviews were conducted into the TPB's activities in this financial year.

Table 6: Recommendations in publicly released IGT reports during 2016–17

IGT review	Number of recommendations accepted fully, in part or in principle by the ATO	Number of recommendations for Government's consideration	Number of recommendations disagreed by the ATO
Taxpayers' Charter and taxpayer protections	4	0	0
ATO's employer obligation compliance activities	7	2	2
Total	11	2	2

The recommendations for improvement may be effectively implemented in four ways. Firstly, recommendations made for government policy consideration generally require legislative change.

Secondly, recommendations which are made to the ATO or TPB for administrative change may be agreed and implemented by the relevant agency during an IGT review or following the release of the relevant report. The ATO's implementation of agreed recommendations is assured by its audit and risk committee. The IGT may conduct follow up reviews where there is a compelling reason to do so.

Thirdly, recommendations with which the ATO or TPB have disagreed, in full or in part, may be substantively implemented by the relevant agency over time.

Lastly, IGT recommendations may be subsequently adopted by others such as the Tax and Revenue Committee, Economics Committee and the Government's SG Cross Agency Working Group, who as mentioned before, have echoed some of the IGT's observations and recommendations in their respective reports.⁵¹

⁵¹ Above n 38, n 18 and n 19, respectively.

Analysis of performance against purpose

As evidenced above, the IGT continues to fulfil his central purpose in improving the tax administration system by providing an effective complaints handling service to the community, identifying issues which require further investigation as well as conducting reviews into the prioritised issues including making independent recommendations for improvement.

This view is also supported by the demand which the IGT continues to experience for our tax specialist expertise both in terms of assistance in resolving taxpayer and tax practitioner complaints about the ATO and the TPB and conducting broader reviews into systemic issues which seek to improve tax administration, provide assurances to the community and foster confidence in the tax system. The increasing demand for IGT services also presents challenges such as maintaining high service levels. In this financial year, innovative approaches were successfully implemented to meet these challenges in the face of growing numbers and complexity of complaints as well as the relocation of our office.

Statutory statement

I, Ali Noroozi, as the Accountable Authority of the IGT, present the above 2016–17 annual performance statement of the IGT, as required under subsection 39(1) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). In my opinion, this annual performance statement is based on properly maintained records, accurately reflects the performance of the entity and complies with subsection 39(2) of the PGPA Act.

FINANCIAL PERFORMANCE

The IGT received an unmodified audit report on the 2016–17 financial statements from the ANAO. These statements are reproduced in full later in this report.

The IGT ended 2016–17 with an attributable surplus of \$483,620, compared to a surplus of \$888,021 in 2015–16.

The entity has sufficient cash and reserves to fund its liabilities as and when they fall due.

MANAGEMENT AND ACCOUNTABILITY

CORPORATE GOVERNANCE

As a public office holder, the IGT reports and is accountable to the Minister for meeting his statutory role. As the Accountable Authority (AA), the IGT is responsible for the operation and performance of his office pursuant to the PGPA Act.

The corporate governance practices of the IGT office are designed to take into account its small office environment by aligning or adapting its administrative and governance processes with those of the Treasury. This approach also provides synergistic benefits under the Service Level Agreement (SLA) entered into by the two agencies. A range of policies, plans and procedures are in place to support these governance arrangements.

The IGT and the Deputy IGT together act as the agency Executive (the Executive) and oversee these arrangements.

The IGT Audit and Risk Committee is also an important element of the governance structure. The committee is appointed by the IGT and its membership is independent of the Executive.

Fraud prevention and control

The IGT Fraud Control Plan accords with the *Commonwealth Fraud Control Framework*.

The IGT Fraud Risk Assessment forms the basis of the Fraud Control Plan and has been developed with appropriate controls, prevention, detection and investigation, and reporting standards.

The IGT has undertaken all reasonable measures to minimise the incidence of fraud and to investigate and recover the proceeds of fraud against the agency. No cases of fraud were identified in 2016–17. The IGT reports fraud information data annually to the Australian Institute of Criminology.

Audit and Risk Committee

As noted above, the Audit and Risk Committee is independent of management and provides valuable assurance and advice by reporting to the AA. The committee met on three occasions during 2016–17.

Remuneration Committee

The IGT and the Deputy IGT comprise the Remuneration Committee. The IGT has an enterprise agreement with non-Senior Executive Service (SES) staff under the *Fair Work Act 2009*.

The IGT's Performance Management System provides for performance being reviewed, for remuneration purposes, on a six-monthly basis for all staff except for SES and Executive Level (EL) staff who are reviewed annually. The small office environment provides for regular and continual discussion of performance with staff. Since all staff report directly to either the Deputy IGT or the General Manager and have direct involvement with the IGT, they are provided with ongoing informal feedback on their performance.

Corporate planning and reporting

Corporate planning and reporting is undertaken by the Executive throughout the year.

The Deputy IGT as Chief Finance Officer (CFO) is responsible, with input from the IGT (as AA), for executive management of the portfolio budget statements and financial activities. Corporate governance, management and compliance reporting is also completed as required and overseen by the CFO.

As noted earlier, the IGT has a comprehensive SLA with the Treasury. Accordingly, financial and management activities, such as accounting preparation and processing, is undertaken by the Treasury.

For the IGT's work program of reviews and the role of tax complaints handling, reference should be made to earlier parts of this report under the headings of Overview and Performance Report.

Risk management

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

The key components of the risk management framework are as follows:

- Accountable Authority's Instructions (AAIs) provide the policy and procedural framework for resource management in the IGT office and put into effect the requirements of the PGPA Act. They also contain topics relating specifically to risk management and internal accountability.
- The Fraud Control Plan complies with the *Commonwealth Fraud Control Framework* developed under the PGPA Act.
- The Business Continuity Plan includes processes for identifying and assessing risks and contingency plans for events that could disrupt normal IGT office operations.
- Security Risk Management is managed in accordance with the requirement of the Australian Government *Protective Security Policy Framework*.
- Risk assessments are to be reviewed annually as part of the process of applying for insurance renewal. The program is based on the Risk Management Standard AS/NZS ISO 31000:2009 and measures the IGT's performance in implementing risk management processes and policies against the national benchmark.

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

Information technology

The IGT has strategies in place to ensure that risks associated with the delivery of IT services are identified and managed. The IGT office uses Treasury's IT infrastructure, governance and support systems under the SLA. Examples of such use include:

- the IT Disaster Recovery Plan (including Business Continuity Planning) which sets out strategies and processes to restore service disruptions;
- the Information Security Policy which sets out the technical requirements for the protection of electronic data and the expectations of all users of IT resources for the secure operation of IT systems. This overarching policy covers acceptable internet and email use as well as information storage, access and maintenance in conformity with Australian Government and legislative requirements; and
- website development standards and guidelines based on the Australian Government Digital Service Standard, the *Information Security Manual* and Australian Signals Directorate guidelines. The standards ensure compliance with best practice in relation to website security.

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

Compliance reporting

No statements pursuant to paragraph 19(1)(e) of the PGPA Act were issued in 2016–17.

Ethical standards and accountability

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

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

EXTERNAL SCRUTINY

Audit

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

Internal audits

The IGT's internal audit activities are carried out pursuant to the SLA with Treasury. The IGT Audit and Risk Committee may seek input directly from Treasury regarding such activities.

Reports on the operations of the IGT

There were no reports in 2016–17 on the operations of the IGT issued by the Commonwealth Auditor-General (Auditor-General) (other than the report on financial statements which are reproduced later in this report), a parliamentary committee or the Ombudsman. There was also no agency capability reviews regarding the IGT in 2016–17.

Judicial, administrative tribunal or Australian Information Commissioner decisions

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

MANAGEMENT OF HUMAN RESOURCES

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

Performance management

The Performance Management System is based on an annual performance cycle with a formal six-monthly review for all staff except SES and EL staff whose performance is subject to formal annual review and an informal half-yearly review.

The IGT has been utilising the design features and infrastructure of the Treasury Performance Management System in its own system. An important feature is transparency in the process used by the Executive in measuring performance and communicating to each staff member.

Employment agreements

IGT non-SES staff are employed under an enterprise agreement pursuant to the *Fair Work Act 2009*. Table 7 below sets out the salary range paid to such staff, by classification.

Table 7: Salary scales — non-SES staff

Classification	30 June 2017	
	Minimum	Maximum
	\$	\$
APS3	58,878	62,317
APS5	73,937	78,671
APS6	83,403	101,044
EL1	108,790	124,794
EL2	132,883	152,504

The IGT may provide alternative remuneration arrangements in specific circumstances.

At 30 June 2017, one permanent SES employee was engaged under an employment agreement and one was engaged under a determination. The table below sets out the salary range paid to such staff, by classification.

Table 8: Salary scales — SES staff

Classification	30 June 2017	
	Minimum	Maximum
	\$	\$
SES Band 1	198,406	230,592
SES Band 2	243,173	284,621

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

Workplace relations

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

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

Recruitment and succession planning

The IGT recruits staff based on merit and competency. Opportunity exists under the IGT Act to second staff to the office.

Learning and development

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

The IGT has provided a considerable range of skills training for staff in this financial year to bolster the development and expansion of its complaints handling and broader review functions.

Staffing information

Table 9 details the number of staff employed in the IGT office, by classification and gender. The IGT is a statutory appointee. All other staff are employed under the *Public Service Act 1999* and are required to apply the APS Values.

Table 9: Operative staff by classification and gender
(30 June 2017)

Classification	Male	Female	Total
APS3		1	1
APS5	2	2	4
APS6	9	3	12
EL1	1	2	3
EL2	3	1	4
SES Band 1	1		1
SES Band 2	1		1
Inspector-General	1		1
Total	18	9	27

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

PROCUREMENT AND ASSETS MANAGEMENT

Procurement

The IGT adopts the Treasury's policies for procurement and utilises the Treasury's services under the SLA. For example, IT procurement is undertaken by the Treasury IT Procurement Unit. Accordingly, these policies and procedures are consistent with the IGT's AAI and the *Commonwealth Procurement Rules* (CPRs).

To maintain procurement expertise and procedural compliance with the CPRs, all internal procurement documentation is available to the IGT's staff on the Treasury intranet. The Treasury regularly updates the intranet site to incorporate contemporary procurement practice.

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

The IGT supports small business participation in the Commonwealth Government procurement market. Small and Medium Enterprise (SME) and Small Enterprise participation statistics are available on the Department of Finance's website: www.finance.gov.au/procurement/statistics-on-commonwealth-purchasing-contracts.

Consistent with paragraph 5.4 of the CPRs and through adoption of the Treasury's procurement policies, the agency provides appropriate opportunities for SMEs to compete and ensures that SMEs are not unfairly discriminated against. For example, the Treasury uses the Commonwealth Contracting Suite for low-risk procurements valued under \$200,000. Many small businesses do not have the sufficient scale, skills or resources to prepare complex tender documents. Using this suite, which has simple and consistent contract terms and insurance requirements, simplifies this process and makes it easier for SMEs to bid for work.

Assets management

The IGT has an asset management framework which includes:

- a register of all assets which are subject to an annual stocktake;
- the Treasury asset management guide which sets out the Treasury's policies and asset management guidelines for the day-to-day care and custody of assets⁵²; and
- a capital management plan that sets out the IGT's longer term asset requirements and funding sources for ongoing asset replacement and investment. This is integrated with the strategic planning and capital budget process that occurs before the beginning of each financial year in conjunction with the IGT's annual operating budget process.

52 Further details on the IGT's asset policies are in note 2.2A of the IGT's Financial Statements.

CONSULTANCIES

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

Prior to engaging consultants, the agency takes into account the skills and resources required for the task, the skills available internally, and the cost-effectiveness of engaging external expertise. The decision to engage a consultant is made in accordance with the PGPA Act and related regulations including the CPRs and relevant internal policies.

During 2016–17, four new consultancy contracts were entered involving total actual expenditure of \$239,634. Selection of two of these consultancies was by Limited Tender and the remaining two by Open Tender. In addition, two ongoing consultancy contracts were active during the period, involving total actual expenditure of \$6,936. Selection of one of these consultancies was by Limited Tender, and the other by Open Tender.

The above consultants were engaged to provide specialist expertise not available within the IGT to assist with the relocation to new premises, independent evaluation of the agency complaints handling service, and the provision of an independent report relating to an IGT review.

Annual reports contain information about actual expenditure on contracts for consultancies. Information on the value of contracts and consultancies is available on the AusTender website, www.tender.gov.au.

AUSTRALIAN NATIONAL AUDIT OFFICE ACCESS CLAUSES

The IGT is required to provide details of any contract entered during 2016–17 of \$100,000 or more (inclusive of GST) that does not provide for the Auditor-General to have access to the contractor's premises.

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

EXEMPT CONTRACTS

The IGT has not exempted any contracts or standing offers from being published on AusTender in this reporting period on the basis that it would disclose exempt matters under the *Freedom of Information Act 1982* (FOI Act).

WORKPLACE DIVERSITY

The IGT, as noted earlier, recruits its small workforce based on merit and current competence. In doing so, it is mindful of the need for workplace diversity in terms of gender, age and ethnicity. Table 10 below demonstrates the significant level of diversity achieved in the IGT office.

Table 10: Operative staff by equal employment opportunity target group
(30 June 2017)

Classification	Female	Born Overseas	ESL	ATSI	Disability
APS3	1				
APS5	2	3	3		
APS6	3	4	7		
EL1	2	2	2		
EL2	1	3	2		
SES Band 1					
SES Band 2					
Inspector-General		1	1		
Total	9	13	15	0	0

The IGT evaluates the Treasury's policies and plans regarding workplace diversity and continues to consider options available to a small agency. For example, this year, the IGT published the *Gender Equality Action Plan 2017–2019*⁵³ which contributes to the government initiative to improve gender equality and diversity within the APS.⁵⁴

⁵³ IGT, *Gender Equality Action Plan 2017–2019* (2017) <www.igt.gov.au>.

⁵⁴ Australian Government, *Balancing the Future: Australian Public Service Gender Equality Strategy 2016–19* (2016) <www.apsc.gov.au>.

Disability action plan

The Commonwealth's National Disability Strategy 2010–2020 sets out a ten-year national policy framework to improve the lives of people with disability, promote participation and create a more inclusive society. A high level two-yearly report will track progress against each of the six outcome areas of the strategy and present a picture of how people with disability are faring. The first of these progress reports was published in 2014, and can be found at www.dss.gov.au.

FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR'S REPORT

To the Minister for Revenue and Financial Services

Opinion

In my opinion, the financial statements of the Inspector-General of Taxation for the year ended 30 June 2017:

- (a) comply with Australian Accounting Standards – Reduced Disclosure Requirements and the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*; and
- (b) present fairly the financial position of the Inspector-General of Taxation as at 30 June 2017 and its financial performance and cash flows for the year then ended.

The financial statements of the Inspector-General of Taxation, which I have audited, comprise the following statements as at 30 June 2017 and for the year then ended:

- Statement by the Inspector-General of Taxation and Chief Finance Officer;
- Statement of Comprehensive Income;
- Statement of Financial Position;
- Statement of Changes in Equity;
- Cash Flow Statement; and
- Notes to and forming part of the financial statements, comprising an Overview, Summary of Significant Accounting Policies and other explanatory information.

Basis for Opinion

I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Inspector-General of Taxation in accordance with the relevant ethical requirements for financial statement audits conducted by the Auditor-General and his delegates. These include the relevant independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* to the extent that they are not in conflict with the *Auditor-General Act 1997* (the Code). I have also fulfilled my other responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Accountable Authority's Responsibility for the Financial Statements

As the Accountable Authority of the Inspector-General of Taxation the Inspector-General of Taxation is responsible under the *Public Governance, Performance and Accountability Act 2013* for the preparation and fair presentation of annual financial statements that comply with Australian Accounting Standards – Reduced Disclosure Requirements and the rules made under that Act. The Inspector-General of Taxation is also responsible for such internal control as the Inspector-General of Taxation determines is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Inspector-General of Taxation is responsible for assessing the Inspector-General of Taxation's ability to continue as a going concern, taking into account whether the entity's operations will cease as a result of an administrative restructure or for any other reason. The Inspector-General of Taxation is also responsible for disclosing matters related to going concern as applicable and using the going concern basis of accounting unless the assessment indicates that it is not appropriate.

Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian National Audit Office Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with the Australian National Audit Office Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Accountable Authority;
- conclude on the appropriateness of the Accountable Authority's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern; and
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Australian National Audit Office



Jodi George

Acting Executive Director

Delegate of the Auditor-General

Canberra

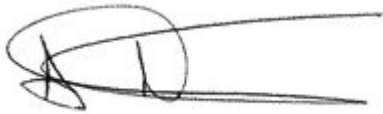
6 September 2017

THE INSPECTOR-GENERAL OF TAXATION

Statement by the Inspector-General of Taxation and Chief Finance Officer

In our opinion, the attached financial statements for the year ended 30 June 2017 comply with subsection 42(2) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), and are based on properly maintained financial records as per subsection 41(2) of the PGPA Act.

In our opinion, at the date of this statement, there are reasonable grounds to believe that the Inspector-General of Taxation will be able to pay its debts as and when they fall due.

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

Ali Noroozi
Inspector-General of Taxation
6 September 2017

A stylized, handwritten signature in black ink, featuring a large, flowing 'A' followed by a series of loops and a long horizontal tail.

Andrew McLoughlin
Chief Finance Officer
6 September 2017

Statement of Comprehensive Income
for the period ended 30 June 2017

	Notes	2017 \$	2016 \$
NET COST OF SERVICES			
Expenses			
Employee benefits	1.1A	3,788,206	3,089,685
Suppliers	1.1B	2,215,747	2,600,420
Depreciation and amortisation	2.2A	297,184	245,571
Write-down and impairment of assets	1.1C	137,427	-
Total Expenses		6,438,564	5,935,676
LESS:			
Own-source revenue			
ANAO audit services received free of charge		60,000	60,000
Total own-source revenue		60,000	60,000
Net cost of services		(6,378,564)	(5,875,676)
Revenue from Government	1.2A	6,565,000	6,503,000
Surplus / (Deficit) attributable to the Australian Government		186,436	627,324
OTHER COMPREHENSIVE INCOME			
Items not subject to subsequent reclassification to net cost of services			
Changes in asset revaluation reserves		-	15,126
Total other comprehensive income		-	15,126
Total comprehensive income / (loss) attributable to the Australian Government		186,436	642,450

This statement should be read in conjunction with the accompanying notes.

Statement of Financial Position*as at 30 June 2017*

	Notes	2017 \$	2016 \$
ASSETS			
Financial assets			
Cash and cash equivalents		13,192	109,063
Trade and other receivables	2.1A	5,757,209	5,417,003
Total financial assets		5,770,401	5,526,066
Non-financial assets			
Property, plant and equipment	2.2A	312,604	169,050
Leasehold improvements	2.2A	1,309,712	169,276
Intangibles	2.2A	182,054	248,698
Other non-financial assets	2.2B	113,910	-
Total non-financial assets		1,918,280	587,024
Total assets		7,688,681	6,113,090
LIABILITIES			
Payables			
Suppliers	2.3A	993,046	35,192
Other payables	2.3B	31,966	10,923
Total payables		1,025,012	46,115
Provisions			
Employee provisions	3.1A	1,224,020	1,035,185
Other provisions	2.4A	312,104	119,681
Total provisions		1,536,124	1,154,866
Total liabilities		2,561,136	1,200,981
Net assets		5,127,545	4,912,109
EQUITY			
Contributed equity		1,231,573	1,202,573
Reserves		397,535	397,535
Retained surplus		3,498,437	3,312,001
Total equity		5,127,545	4,912,109

This statement should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

for the period ended 30 June 2017

	2017	2016
	\$	\$
CONTRIBUTED EQUITY		
Opening balance		
Balance carried forward from previous period	1,202,573	975,573
Adjusted opening balance	1,202,573	975,573
Transactions with owners		
Contributions by owners		
Departmental capital budget appropriation	29,000	29,000
Equity injection appropriation	-	198,000
Total transactions with owners	29,000	227,000
Closing balance as at 30 June	1,231,573	1,202,573
RETAINED EARNINGS		
Opening balance		
Balance carried forward from previous period	3,312,001	2,684,677
Adjusted opening balance	3,312,001	2,684,677
Comprehensive income		
Surplus/(deficit) for the period	186,436	627,324
Total comprehensive income	186,436	627,324
Closing balance as at 30 June	3,498,437	3,312,001
ASSET REVALUATION RESERVES		
Opening balance		
Balance carried forward from previous period	397,535	382,409
Adjusted opening balance	397,535	382,409
Comprehensive income		
Other comprehensive income		
Revaluations	-	15,126
Total comprehensive income	-	15,126
Closing balance as at 30 June	397,535	397,535
TOTAL EQUITY		
Opening balance		
Balance carried forward from previous period	4,912,109	4,042,659
Adjusted opening balance	4,912,109	4,042,659
Comprehensive income		
Surplus/(deficit) for the period	186,436	627,324
Other comprehensive income		
Revaluations	-	15,126
Total comprehensive income	186,436	642,450
Transactions with owners		
Contributions by owners		
Departmental capital budget appropriation	29,000	29,000
Equity injection appropriation	-	198,000
Total transactions with owners	29,000	227,000
Closing balance as at 30 June	5,127,545	4,912,109

This statement should be read in conjunction with the accompanying notes.

Accounting Policy

Equity injections

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

Cash Flow Statement*for the period ended 30 June 2017*

	2017	2016
	\$	\$
OPERATING ACTIVITIES		
Cash received		
Appropriations	5,895,639	5,018,018
S74 receipts received	58,442	494,365
Other cash received	-	6,058
Net GST received	128,716	98,738
Total cash received	6,082,797	5,617,179
Cash used		
Employees	3,582,592	2,860,584
Suppliers	1,325,038	2,767,051
Total cash used	4,907,630	5,627,635
Net cash from (used by) operating activities	1,175,167	(10,456)
INVESTING ACTIVITIES		
Cash used		
Purchase of plant and equipment	316,544	198,790
Purchase of leasehold improvements	1,335,413	258,193
Purchase of computer software	-	54,313
Total cash used	1,651,957	511,296
Net cash from (used by) investing activities	(1,651,957)	(511,296)
FINANCING ACTIVITIES		
Cash received		
Contributed equity	380,919	516,983
Total cash received	380,919	516,983
Net cash from (used by) financing activities	380,919	516,983
Net increase (decrease) in cash held	(95,871)	(4,769)
Cash at the beginning of the reporting period	109,063	113,832
Cash at the end of the reporting period	13,192	109,063

This statement should be read in conjunction with the accompanying notes.

Notes to and forming part of the financial statements

for the period ended 30 June 2017

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OVERVIEW

BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

Statement of compliance

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of section 42 of the *Public Governance, Performance and Accountability Act 2013*.

The Financial Statements have been prepared in accordance with:

- *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015* (FRR) for the reporting periods ending on or after 1 July 2015;
- Australian Accounting Standards and interpretations – Reduced Disclosure Requirements issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

The financial statements have been prepared on an accrual basis and are 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 statements are presented in Australian dollars. The financial report is rounded to the nearest dollar.

Significant accounting judgements and estimates

In the process of applying the accounting policies listed in this note, the Inspector-General of Taxation (IGT) has made the following judgements that have the most significant impact on the amounts recorded in the financial statements:

- the liability for long service leave has been determined by reference to FRR 24 *Employee benefits*, which allows the use of the shorthand method for entities with less than 1,000 full-time equivalent employees.
- the employee provision has been determined with reference to the IGT's expected tenure of staff and future salary movements and standard parameters (future discount rates) provided by the Department of Finance.
- the fair value of leasehold improvements and property, plant and equipment has been taken to be the market value of similar properties or depreciated replacement value as determined by an independent valuer.

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

Taxation

The entity 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.

Breach of Section 83 of the Constitution

Section 83 of the Constitution provides that no amount may be paid out of the Consolidated Revenue Fund except under an appropriation made by law. The Department of Finance provided information to all agencies in 2011 regarding the need for risk assessments in relation to compliance with statutory conditions on payments from special appropriations, including special accounts.

The IGT has continued to review its exposure to risks of not complying with statutory conditions on contravention of section 83 of the Constitution.

Events After the Reporting Period

There are no known events occurring after the reporting period that could impact on the financial statements.

1. DEPARTMENTAL FINANCIAL PERFORMANCE

This section analyses the financial performance of the Inspector-General of Taxation for the year ended 2017.

1.1. Expenses

	2017 \$	2016 \$
Note 1.1A: Employee benefits		
Wages and salaries	2,902,379	2,310,978
Superannuation:		
Defined contribution plans	301,368	209,908
Defined benefit plans	155,524	136,489
Leave and other entitlements	409,690	414,621
Other employee expenses	19,245	17,689
Total employee benefits	3,788,206	3,089,685

Accounting Policy

Accounting policies for employee related expenses are contained in Note 3: People and Relationships.

Note 1.1B: Suppliers

Goods and services supplied or rendered

Consultants, contractors and secondees	463,430	247,450
Travel	131,622	128,673
Service level agreement with Treasury	509,943	509,944
Fees - audit, membership and other	72,728	72,372
Property operating expenses	204,138	171,305
Advertising and printing	13,917	13,979
Seminars and conferences	84,634	69,939
Subscriptions and periodicals	16,480	12,393
Information communication technology	54,679	709,326
Other	259,106	320,158
Total goods and services supplied or rendered	1,810,677	2,255,539
Goods supplied	38,682	333,551
Services rendered	1,771,995	1,921,988
Total goods and services supplied or rendered	1,810,677	2,255,539

Other suppliers

Operating lease rentals

External parties		
Minimum lease payments	388,856	329,497
Workers compensation expenses	16,214	15,384
Total other suppliers	405,070	344,881
Total suppliers	2,215,747	2,600,420

Lease commitments

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

Within 1 year	485,560	490,012
Between 1 to 5 years ¹	2,387,338	122,503
Total operating lease commitments	2,872,898	612,515

1. A new lease agreement was entered for the provision of office accommodation and a car parking license in Kent Street, Sydney, which resulted in an increase of lease commitments.

Accounting Policy**Leases**

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

The IGT does not currently hold any assets under finance lease.

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

Note 1.1C: Write-down and impairment of assets

Plant and equipment	135,038	-
Intangibles	2,389	-
Total write-down and impairment of assets	137,427	-

1.2. Income

	2017	2016
	\$	\$
Note 1.2A: Revenue from Government		
Appropriations		
Departmental appropriations	6,565,000	6,503,000
Total revenue from Government	6,565,000	6,503,000

Accounting Policy**Revenue****Revenue from Government**

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

Appropriations receivable are recognised at their nominal amounts.

Resources received free of charge

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

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

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

Sale of assets

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

2. DEPARTMENTAL FINANCIAL POSITION

This section analyses the Inspector-General of Taxation assets used to generate financial performance and the operating liabilities incurred as a result. Employee related information is disclosed in the People and Relationships section.

2.1. Financial Assets

	2017 \$	2016 \$
Note 2.1A: Trade and other receivables		
Appropriations Receivable:		
From operational funding	5,662,226	5,051,307
From capital funding	-	351,919
Total appropriations receivable	5,662,226	5,403,226
Other receivables:		
GST receivable from the Australian Taxation Office	94,983	13,777
Total other receivables	94,983	13,777
Total trade and other receivables (gross)	5,757,209	5,417,003
Total trade and other receivables (net)¹	5,757,209	5,417,003

1. All receivables are expected to be recovered within 12 months.

Accounting Policy

Loan and Receivables

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

2.2. Non-Financial Assets

Note 2.2A: Reconciliation of the opening and closing balances of property, plant and equipment and intangibles (2017)

	Plant and equipment \$	Leasehold improvements \$	Computer Software \$	Total \$
As at 1 July 2016				
Gross book value	169,050	169,276	315,572	653,898
Accumulated depreciation, amortisation and impairment	-	-	(66,874)	(66,874)
Total as at 1 July 2016	169,050	169,276	248,698	587,024
Additions	316,544	1,335,413	-	1,651,957
Depreciation and amortisation expense	(37,952)	(194,977)	(64,255)	(297,184)
Disposals	(135,038)	-	(2,389)	(137,427)
Total as at 30 June 2017	312,604	1,309,712	182,054	1,804,370
Total as at 30 June 2017 represented by:				
Gross book value	318,144	1,504,689	310,411	2,133,244
Accumulated depreciation, amortisation and impairment	(5,540)	(194,977)	(128,357)	(328,874)
Total as at 30 June 2017	312,604	1,309,712	182,054	1,804,370

No indicators of impairment were found for leasehold improvements, plant and equipment or computer software.

No plant and equipment and computer software are expected to be sold or disposed of in the next 12 months.

All revaluations are independent and are conducted in accordance with the revaluation policy stated at Note 5.3.

Accounting Policy

Acquisition of assets

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

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

Asset recognition threshold

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

Revaluations

Following initial recognition at cost, property plant and equipment are carried at fair value less subsequent accumulated depreciation and accumulated impairment losses. Cost is considered an acceptable fair value proxy for assets under construction. 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. A fair value review was undertaken by the independent valuer for make-good relating to leasehold improvements as at 30 June 2017.

Revaluations (continued)

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

Any accumulated depreciation as at the last revaluation date was 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 entity using, in all cases, the straight-line method of depreciation. Leasehold improvements are depreciated on a straight-line basis over the lesser of the estimated useful life of the improvements or the unexpired period of the lease.

Depreciation rates (useful lives), 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:

	2017	2016
Plant and equipment	1-15 years	1-15 years
Leasehold improvements	Lease term	Lease term

Impairment

All assets were assessed for impairment as at 30 June 2017. 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. No indicators of impairment were found for non-financial assets as at 30 June 2017 (2016: nil).

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

Intangibles

The IGT's intangibles comprise purchased software for internal use. These assets are carried at cost less accumulated amortisation and any accumulated impairment losses.

Software is amortised on a straight-line basis over its anticipated useful life, being 5 years (2016: 5 years).

All software assets were assessed for indications of impairment at 30 June 2017. No indicators of impairment were identified as at 30 June 2017 (2016: none).

	2017 \$	2016 \$
Note 2.2B: Other non-financial assets		
Prepayments	113,910	-
Total other non-financial assets	113,910	-

2.3. Payables

	2017	2016
	\$	\$
Note 2.3A: Suppliers		
Trade creditors	993,046	35,192
Total suppliers	993,046	35,192
Note 2.3B: Other payables		
Wages and salaries	24,065	9,420
Superannuation	3,637	1,503
Rent payable	4,264	-
Total other payables¹	31,966	10,923

Settlement is usually made within 30 days.

1. All payables are expected to be settled within 12 months.

2.4. Provisions

	2017	2016
	\$	\$
Note 2.4A: Other provisions		
Provision for onerous lease	150,104	-
Provision for make good	162,000	-
Provision for lease incentive	-	119,681
Total other provisions	312,104	119,681
Other provisions expected to be settled		
No more than 12 months	150,104	95,745
More than 12 months	162,000	23,936
Total other provisions	312,104	119,681

	Provision for onerous lease ¹	Provision for make good ²	Provision for lease incentive ³
	\$	\$	\$
As at 1 July 2016	-	-	119,681
Additional provisions made	150,104	162,000	-
Unwinding of discount or change in discount rate	-	-	(119,681)
Total as at 30 June 2017	150,104	162,000	-

1. The early relocation of the IGT staff out of the existing accommodation in the Bridge Street Office constituted an onerous contract in the form of an abandoned lease.

2. It is related to a newly entered lease agreement in Kent Street, Sydney.

3. This reduction is in relation to the existing lease agreement in Bridge Street, Sydney.

3. PEOPLE AND RELATIONSHIPS

This section describes a range of employment and post-employment benefits provided to our people and our relationships with other key people.

3.1. Employee Provisions

	2017 \$	2016 \$
Note 3.1A: Employee provisions		
Leave	1,224,020	1,035,185
Total employee provisions	1,224,020	1,035,185
Employee provisions expected to be settled		
No more than 12 months	652,927	464,092
More than 12 months	571,093	571,093
Total employee provisions	1,224,020	1,035,185

Accounting Policy

Employee benefits

Liabilities for termination benefits due within twelve months of the end of the reporting period are measured at their nominal amounts. The nominal amount is calculated with regard to the rates expected to be paid on settlement of the liability.

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

Leave

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

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

The estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and inflation.

Separation and redundancy

Provision is made for separation and redundancy benefit payments. The entity recognises a provision for termination when it has developed a detailed formal plan for the terminations and has informed those employees affected that it will carry out the terminations.

Superannuation

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

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

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

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

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

3.2. Key Management Personnel Remuneration

Key management personnel (KMP) are those having authority and responsibility for planning, directing and controlling the activities, directly or indirectly, of IGT. The IGT has determined the key management personnel to be the Portfolio Ministers, Inspector-General of Taxation and Deputy Inspector-General of Taxation. Key management personnel remuneration is reported in the table below:

	2017
	\$
Short-term employee benefits	627,965
Post-employment benefits	62,849
Other long-term benefits	104,908
Total key executive remuneration expenses	795,722

The total number of key management personnel that are included in the above table is 2.

The above key management personnel remuneration excludes the remuneration and other benefits of the Treasurer and other Portfolio Ministers. Their remuneration is set by the Remuneration Tribunal and is not paid by the IGT.

3.3. Related Party Disclosures

Related party relationships:

The IGT is an Australian Government controlled entity. Related parties to the IGT are key management personnel including the Portfolio Minister and Executive, and other Australian Government entities.

Transactions with related parties:

Given the breadth of Government activities, related parties may transact with the government sector in the same capacity as ordinary citizens. Such transactions include the payment or refund of taxes, receipt of a Medicare rebate or higher education loans. These transactions have not been separately disclosed in this note.

Significant transactions with related parties can include:

- the payments of grants or loans;
- purchases of goods and services;
- asset purchases, sales transfers or leases;
- debts forgiven; and
- guarantees.

Giving consideration to relationships with related entities, and transactions entered into during the reporting period by the IGT, it has been determined that there are no related party transactions to be separately disclosed.

4. FUNDING

This section identifies the Inspector-General of Taxation funding structure.

4.1. Appropriations

Note 4.1A: Annual appropriations ('recoverable GST exclusive')

Annual appropriations for 2017

	<i>Appropriation Act</i>		<i>PGPA Act</i>		Total appropriation	Appropriation applied in 2017 (current and prior years)	Variance ¹
	Annual Appropriation	\$	Section 74	Section 75			
Departmental							
Ordinary annual services	6,565,000		58,442	-	6,623,442	(5,968,747)	654,695
Capital budget	29,000		-	-	29,000	(58,000)	(29,000)
Other services							
Equity	-		-	-	-	(322,919)	(322,919)
Total departmental	6,594,000		58,442	-	6,652,442	(6,349,666)	302,776

1. Variance due to lower than anticipated expenditure relating to the Tax Complaints Handling Function.

Prior year capital budget and equity funds were applied in 2016-17 for the fitout of the IG's new premises.

Annual appropriations for 2016

	<i>Appropriation Act</i>		<i>PGPA Act</i>		Total appropriation	Appropriation applied in 2016 (current and prior years)	Variance ¹
	Annual Appropriation	\$	Section 74	Section 75			
Departmental							
Ordinary annual services	6,503,000		494,365	-	6,997,365	(5,517,151)	1,480,214
Capital budget	29,000		-	-	29,000	(90,000)	(61,000)
Other services							
Equity	198,000		-	-	198,000	(426,983)	(228,983)
Total departmental	6,730,000		494,365	-	7,224,365	(6,034,134)	1,190,231

1. Variance due to lower than anticipated expenditure relating to the Tax Complaints Handling Function.

Prior year capital budget and equity funds were applied in 2015-16.

Note 4.1B: Unspent annual appropriations

	2017	2016
	\$	\$
Departmental		
Appropriation Act (No. 1) 2013-14 ¹	1,000	1,000
Appropriation Act (No. 1) 2014-15 ²	541,000	541,000
Appropriation Act (No. 6) 2014-15	-	124,919
Appropriation Act (No. 1) 2015-16 ³	-	5,159,370
Appropriation Act (No. 1) 2015-16 (DCB)	-	29,000
Appropriation Act (No. 2) 2015-16	-	198,000
Supply Act (No. 1) 2016-17	1,832,226	-
Appropriation Act (No. 1) 2016-17 ³	3,842,192	-
Total departmental	6,216,418	6,053,289

1. Includes quarantined funds of \$1,000.

2. Includes funds of \$541,000 that have been permanently withheld under s51 of the PGPA Act.

3. Cash held amounts (2017: \$13,192, 2016: \$109,063) are included in Appropriation Act (No. 1) for the relevant year.

4.2. Net Cash Appropriation Arrangements

	2017	2016
	\$	\$
Total comprehensive income (loss) less depreciation/amortisation expenses previously funded through revenue appropriations and other comprehensive income¹	483,620	888,021
Plus: depreciation/amortisation expenses previously funded through revenue appropriation	(297,184)	(245,571)
Total comprehensive income (loss) - as per the Statement of Comprehensive Income	186,436	642,450

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

5. MANAGING UNCERTAINTIES

This section analyses how the Inspector-General of Taxation manages financial risks within its operating environment.

5.1. Contingent Assets and Liabilities

There were no quantifiable contingent assets or liabilities in 2017 (2016: \$0).

Accounting Policy

Contingent liabilities and contingent assets are not recognised in the Statement of Financial Position but are reported in the relevant schedules and notes. They may arise from uncertainty as to the existence of a liability or asset, or represent an asset or liability in respect of which the amount cannot be reliably measured. Contingent assets are disclosed when settlement is probable but not virtually certain, and contingent liabilities are recognised when settlement is greater than remote.

5.2. Financial Instruments

	2017 \$	2016 \$
Note 5.2A: Categories of financial instruments		
Financial Assets		
Loans and receivables		
Cash and cash equivalents	13,192	109,063
Total loans and receivables	13,192	109,063
Total financial assets	13,192	109,063
Financial Liabilities		
Liabilities at amortised cost		
Payables - suppliers	993,046	35,192
Total liabilities at amortised cost	993,046	35,192
Total financial liabilities	993,046	35,192

There was no interest income from financial assets not at fair value through profit and loss in 2017 (2016: nil).

Accounting Policy

Financial assets

The IGT classifies its financial assets as loans and receivables.

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

Loans and receivables

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

Impairment of financial assets

Financial assets are assessed for impairment at each balance date.

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

Financial liabilities

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

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. These liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

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

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

5.3. Fair Value Measurement

Note 5.3A: Fair value measurement

	Fair value measurements at the end of the reporting period	
	2017	2016
	\$	\$
Non-financial assets		
Property, plant and equipment	312,604	169,050
Leasehold improvements	1,309,712	169,276
Total non-financial assets	1,622,316	338,326

1. Valuations are based on advice from independent certified practicing valuers. There has been no change in this method from prior years.
2. A reconciliation of movements in leasehold improvements and plant and equipment has been included in Note 2.2A: Non-Financial Assets.

Accounting Policy

Fair value measurements - valuation processes

The IGT engaged the service of the Australian Valuation Solutions Pty Limited (AVS) to conduct a fair value confirmation of all non-financial assets at 30 June 2017 and has relied upon those outcomes to establish carrying amounts. An annual assessment is undertaken to determine whether the carrying amount of the assets is materially different from the fair value. Comprehensive valuations are carried out at least once every three years. AVS has provided written assurance to the IGT that the models developed are in compliance with AASB 13.

Fair value measurement

The entity deems transfers between levels of the fair value hierarchy to have occurred at the end of the reporting period.

6. BUDGETARY REPORTS AND EXPLANATION OF MAJOR VARIANCES

6.1. Departmental Budgetary Reports

Statement of Comprehensive Income

for the period ended 30 June 2017

	Actual 2017 \$	Budget estimate Original 2017 \$	Variance 2017 \$
NET COST OF SERVICES			
Expenses			
Employee benefits	3,788,206	5,348,000	(1,559,794)
Suppliers	2,215,747	1,217,000	998,747
Depreciation and amortisation	297,184	29,000	268,184
Write-down and impairment of assets	137,427	-	137,427
Total Expenses	6,438,564	6,594,000	(155,436)
LESS:			
Own-Source Income			
Own-source revenue			
ANAO audit services received free of charge	60,000	-	60,000
Total own-source revenue	60,000	-	60,000
Total own-source income	60,000	-	60,000
Net cost of services	(6,378,564)	(6,594,000)	215,436
Revenue from Government	6,565,000	6,565,000	-
Surplus / (Deficit) attributable to the Australian Government	186,436	(29,000)	215,436
OTHER COMPREHENSIVE INCOME			
Items not subject to subsequent reclassification to net cost of services			
Changes in asset revaluation reserves	-	-	-
Total other comprehensive income	-	-	-
Total comprehensive income / (loss) attributable to the Australian Government	186,436	(29,000)	215,436

Explanations of major variances	Affected line items
The original budget provided for increased funding associated with the Tax Complaints Handling function. A phased approach to implementing the function resulted in lower than anticipated employee numbers as at 30 June 2017.	Employee benefits
Increased supplier expenditure in 2016-17 related to a focus on enhancing the IGT's capabilities and operational efficacy throughout the year.	Supplier expenses
Increased expenditure on infrastructure to implement and operate the Tax Complaints Handling function resulted in higher than anticipated depreciation for the year.	Depreciation and amortisation

Statement of Financial Position
as at 30 June 2017

	Actual	Budget estimate	Variance
	2017	Original	2017
	\$	\$	\$
ASSETS			
Financial assets			
Cash and cash equivalents	13,192	114,000	(100,808)
Trade and other receivables	5,757,209	4,216,000	1,541,209
Total financial assets	5,770,401	4,330,000	1,440,401
Non-financial assets			
Land and buildings	1,309,712	100,000	1,209,712
Infrastructure, plant and equipment	312,604	212,000	100,604
Intangibles	182,054	248,000	(65,946)
Other non-financial assets	113,910	25,000	88,910
Total non-financial assets	1,918,280	585,000	1,333,280
Total assets	7,688,681	4,915,000	2,773,681
LIABILITIES			
Payables			
Suppliers	993,046	71,000	922,046
Other payables	31,966	50,000	(18,034)
Total payables	1,025,012	121,000	904,012
Provisions			
Employee provisions	1,224,020	543,000	681,020
Other provisions	312,104	-	312,104
Total provisions	1,536,124	543,000	993,124
Total liabilities	2,561,136	664,000	1,897,136
Net assets	5,127,545	4,251,000	876,545
EQUITY			
Contributed equity	1,231,573	1,230,000	1,573
Reserves	397,535	438,000	(40,465)
Retained surplus	3,498,437	2,583,000	915,437
Total equity	5,127,545	4,251,000	876,545

Explanations of major variances	Affected line items
The original budget provided for increased funding associated with the Tax Complaints Handling function. A phased approach to implementing the function, along with the higher than expected operating surplus, resulted in appropriation receivables being higher than expected for 2016-17.	Trade and other receivables Retained surplus
The value of land and buildings, infrastructure, plant and equipment and supplier payables is more than budgeted due to higher than anticipated expenditure on office fitout following the commencement of a new lease in 2016-17.	Land and buildings, Infrastructure, plant and equipment and supplier payables
Employee provisions were higher than budgeted as a result of changes in the IGT's staffing (e.g. number of employees and length of service).	Employee provisions

Cash Flow Statement*for the period ended 30 June 2017*

	Actual	Budget estimate	
	2017	Original	Variance
	\$	2017	2017
		\$	\$
OPERATING ACTIVITIES			
Cash received			
Appropriations	5,895,639	6,565,000	(669,361)
S74 receipts received	58,442	-	58,442
Net GST received	128,716	-	128,716
Total cash received	6,082,797	6,565,000	(482,203)
Cash used			
Employees	3,582,592	5,348,000	(1,765,408)
Suppliers	1,325,038	1,217,000	108,038
Total cash used	4,907,630	6,565,000	(1,657,370)
Net cash from (used by) operating activities	1,175,167	-	1,175,167
INVESTING ACTIVITIES			
Cash used			
Purchase of plant and equipment	1,651,957	29,000	1,622,957
Total cash used	1,651,957	29,000	1,622,957
Net cash from (used by) investing activities	(1,651,957)	(29,000)	(1,622,957)
FINANCING ACTIVITIES			
Cash received			
Contributed equity	380,919	29,000	351,919
Total cash received	380,919	29,000	351,919
Net cash from (used by) financing activities	380,919	29,000	351,919
Net increase (decrease) in cash held	(95,871)	-	(95,871)
Cash at the beginning of the reporting period	109,063	114,000	(4,937)
Cash at the end of the reporting period	13,192	114,000	(100,808)

Explanations of major variances	Affected line items
The original budget provided for increased funding associated with the Tax Complaints Handling function. A phased approach to implementing the function resulted in lower employee numbers than budgeted for and higher appropriation receivable balances as at 30 June 2017.	Appropriations Employees
Increased supplier expenditure in 2016-17 related to a focus on enhancing IGT's capabilities, operational efficacy and office fitout throughout the year.	Suppliers
Increased expenditure on plant and equipment in 2016-17 related to the fitout at the IGT's new office.	Net cash from (used by) investing activities
Prior year equity reserves were used to fund increased purchases of plant and equipment in 2016-17.	Net cash from (used by) financing activities

OTHER INFORMATION

WORK HEALTH AND SAFETY

The IGT office fosters and maintains a safe and healthy working environment in accordance with the *Work Health and Safety Act 2011* (WHS Act). During 2016–17, the IGT received no accident and incident reports. No notices were given under sections 90, 191, 195 or 198 of the WHS Act.

INFORMATION PUBLICATION SCHEME

Agencies subject to the FOI Act are required to publish information as part of the Information Publication Scheme (IPS). This requirement is set out in Part II of the FOI Act that each agency must include on its website a plan showing what information it publishes in accordance with the IPS requirements.

The IGT’s IPS plan can be found at www.igt.gov.au.

ADVERTISING AND MARKET RESEARCH

The IGT’s advertising costs for reporting purposes are outlined in the table below:

Table 11: Advertising costs for 2016–17

Purpose	Vendor	Cost (\$)
Recruitment advertising	Dentsu Mitchell Media Australia Pty Ltd	1,272
Calling for submissions to the work program and reviews	Dentsu Mitchell Media Australia Pty Ltd	12,214
Total		13,486

No market research or campaign advertising costs were incurred during 2016–17.

ECOLOGICALLY SUSTAINABLE DEVELOPMENT AND ENVIRONMENTAL PERFORMANCE

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

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

DISCRETIONARY GRANTS

No discretionary grant programs are administered by the IGT.

LIST OF REQUIREMENTS

PGPA Rule Reference	Part of Report (Page/s)	Description	Requirement
17AD(g)	Letter of transmittal		
17AI	iii	A copy of the letter of transmittal signed and dated by accountable authority on date final text approved, with statement that the report has been prepared in accordance with section 46 of the Act and any enabling legislation that specifies additional requirements in relation to the annual report.	Mandatory
17AD(h)	Aids to access		
17AJ(a)	v–vi	Table of contents.	Mandatory
17AJ(b)	85	Alphabetical index.	Mandatory
17AJ(c)	80–82	Glossary of abbreviations and acronyms.	Mandatory
17AJ(d)	75–79	List of requirements.	Mandatory
17AJ(e)	ii	Details of contact officer.	Mandatory
17AJ(f)	ii	Entity's website address.	Mandatory
17AJ(g)	ii	Electronic address of report.	Mandatory
17AD(a)	Review by accountable authority		
17AD(a)	1–15	A review by the accountable authority of the entity.	Mandatory
17AD(b)	Overview of the entity		
17AE(1)(a)(i)	16, 21–32	A description of the role and functions of the entity.	Mandatory
17AE(1)(a)(ii)	17	A description of the organisational structure of the entity.	Mandatory
17AE(1)(a)(iii)	18	A description of the outcomes and programs administered by the entity.	Mandatory
17AE(1)(a)(iv)	21	A description of the purposes of the entity as included in corporate plan.	Mandatory
17AE(1)(b)	N/A	An outline of the structure of the portfolio of the entity.	Portfolio departments – mandatory
17AE(2)	N/A	Where the outcomes and programs administered by the entity differ from any Portfolio Budget Statement, Portfolio Additional Estimates Statement or other portfolio estimates statement that was prepared for the entity for the period, include details of variation and reasons for change.	If applicable, mandatory
17AD(c)	Report on the Performance of the entity		
Annual Performance Statements			
17AD(c)(i); 16F	21–33	Annual performance statement in accordance with paragraph 39(1)(b) of the Act and section 16F of the Rule.	Mandatory

PGPA Rule Reference	Part of Report (Page/s)	Description	Requirement
17AD(c)(ii)	Report on Financial Performance		
17AF(1)(a)	33, 47–72	A discussion and analysis of the entity's financial performance.	Mandatory
17AF(1)(b)	19–20	A table summarising the total resources and total payments of the entity.	Mandatory
17AF(2)	N/A	If there may be significant changes in the financial results during or after the previous or current reporting period, information on those changes, including: the cause of any operating loss of the entity; how the entity has responded to the loss and the actions that have been taken in relation to the loss; and any matter or circumstances that it can reasonably be anticipated will have a significant impact on the entity's future operation or financial results.	If applicable, mandatory
17AD(d)	Management and Accountability		
	Corporate Governance		
17AG(2)(a)	35	Information on compliance with section 10 (fraud systems).	Mandatory
17AG(2)(b)(i)	iii, 35	A certification by accountable authority that fraud risk assessments and fraud control plans have been prepared.	Mandatory
17AG(2)(b)(ii)	iii, 35	A certification by accountable authority that appropriate mechanisms for preventing, detecting incidents of, investigating or otherwise dealing with, and recording or reporting fraud that meet the specific needs of the entity are in place.	Mandatory
17AG(2)(b)(iii)	iii, 35	A certification by accountable authority that all reasonable measures have been taken to deal appropriately with fraud relating to the entity.	Mandatory
17AG(2)(c)	17, 35–38	An outline of structures and processes in place for the entity to implement principles and objectives of corporate governance.	Mandatory
17AG(2)(d) – (e)	38	A statement of significant issues reported to Minister under paragraph 19(1)(e) of the Act that relates to non-compliance with Finance law and action taken to remedy non-compliance.	If applicable, mandatory
	External Scrutiny		
17AG(3)	38–39	Information on the most significant developments in external scrutiny and the entity's response to the scrutiny.	Mandatory
17AG(3)(a)	39	Information on judicial decisions and decisions of administrative tribunals and by the Australian Information Commissioner that may have a significant effect on the operations of the entity.	If applicable, mandatory
17AG(3)(b)	38	Information on any reports on operations of the entity by the Auditor-General (other than report under section 43 of the Act), a Parliamentary Committee, or the Commonwealth Ombudsman.	If applicable, mandatory

PGPA Rule Reference	Part of Report (Page/s)	Description	Requirement
17AG(3)(c)	38	Information on any capability reviews on the entity that were released during the period.	If applicable, mandatory
Management of Human Resources			
17AG(4)(a)	39–41	An assessment of the entity's effectiveness in managing and developing employees to achieve entity objectives.	Mandatory
17AG(4)(b)	41, 44	Statistics on the entity's APS employees on an ongoing and non-ongoing basis; including the following: <ul style="list-style-type: none"> • Statistics on staffing classification level; • Statistics on full-time employees; • Statistics on part-time employees; • Statistics on gender; • Statistics on staff location; and • Statistics on employees who identify as Indigenous. 	Mandatory
17AG(4)(c)	39–40	Information on any enterprise agreements, individual flexibility arrangements, Australian workplace agreements, common law contracts and determinations under subsection 24(1) of the <i>Public Service Act 1999</i> .	Mandatory
17AG(4)(c)(i)	39–40	Information on the number of SES and non-SES employees covered by agreements, etc, identified in paragraph 17AG(4)(c).	Mandatory
17AG(4)(c)(ii)	40	The salary ranges available for APS employees by classification level.	Mandatory
17AG(4)(c)(iii)	41	A description of non-salary benefits provided to employees.	Mandatory
17AG(4)(d)(i)	N/A	Information on the number of employees at each classification level who received performance pay.	If applicable, mandatory
17AG(4)(d)(ii)	N/A	Information on aggregate amounts of performance pay at each classification level.	If applicable, mandatory
17AG(4)(d)(iii)	N/A	Information on the average amount of performance payment, and range of such payments, at each classification level.	If applicable, mandatory
17AG(4)(d)(iv)	N/A	Information on aggregate amount of performance payments.	If applicable, mandatory
Assets Management			
17AG(5)	42	An assessment of effectiveness of assets management where asset management is a significant part of the entity's activities.	If applicable, mandatory
Purchasing			
17AG(6)	41–42	An assessment of entity performance against the <i>Commonwealth Procurement Rules</i> .	Mandatory

PGPA Rule Reference	Part of Report (Page/s)	Description	Requirement
Consultants			
17AG(7)(a)	43	A summary statement detailing the number of new contracts engaging consultants entered into during the period; the total actual expenditure on all new consultancy contracts entered into during the period (inclusive of GST); the number of ongoing consultancy contracts that were entered into during a previous reporting period; and the total actual expenditure in the reporting year on the ongoing consultancy contracts (inclusive of GST).	Mandatory
17AG(7)(b)	43	A statement that <i>"During [reporting period], [specified number] new consultancy contracts were entered into involving total actual expenditure of \$[specified million]. In addition, [specified number] ongoing consultancy contracts were active during the period, involving total actual expenditure of \$[specified million]"</i> .	Mandatory
17AG(7)(c)	43	A summary of the policies and procedures for selecting and engaging consultants and the main categories of purposes for which consultants were selected and engaged.	Mandatory
17AG(7)(d)	43	A statement that <i>"Annual reports contain information about actual expenditure on contracts for consultancies. Information on the value of contracts and consultancies is available on the AusTender website"</i> .	Mandatory
Australian National Audit Office Access Clauses			
17AG(8)	43	If an entity entered into a contract with a value of more than \$100,000 (inclusive of GST) and the contract did not provide the Auditor-General with access to the contractor's premises, the report must include the name of the contractor, purpose and value of the contract, and the reason why a clause allowing access was not included in the contract.	If applicable, mandatory
Exempt contracts			
17AG(9)	44	If an entity entered into a contract or there is a standing offer with a value greater than \$10,000 (inclusive of GST) which has been exempted from being published in AusTender because it would disclose exempt matters under the FOI Act, the annual report must include a statement that the contract or standing offer has been exempted, and the value of the contract or standing offer, to the extent that doing so does not disclose the exempt matters.	If applicable, mandatory
Small business			
17AG(10)(a)	42	A statement that <i>"[Name of entity] supports small business participation in the Commonwealth Government procurement market. Small and Medium Enterprises (SME) and Small Enterprise participation statistics are available on the Department of Finance's website"</i> .	Mandatory

PGPA Rule Reference	Part of Report (Page/s)	Description	Requirement
17AG(10)(b)	42	An outline of the ways in which the procurement practices of the entity support small and medium enterprises.	Mandatory
17AG(10)(c)	N/A	If the entity is considered by the Department administered by the Finance Minister as material in nature—a statement that “[Name of entity] recognises the importance of ensuring that small businesses are paid on time. The results of the Survey of Australian Government Payments to Small Business are available on the Treasury’s website”.	If applicable, mandatory
Financial Statements			
17AD(e)	47–72	Inclusion of the annual financial statements in accordance with subsection 43(4) of the Act.	Mandatory
17AD(f)	Other Mandatory Information		
17AH(1)(a)(i)	N/A	If the entity conducted advertising campaigns, a statement that “During [reporting period], the [name of entity] conducted the following advertising campaigns: [name of advertising campaigns undertaken]. Further information on those advertising campaigns is available at [address of entity’s website] and in the reports on Australian Government advertising prepared by the Department of Finance. Those reports are available on the Department of Finance’s website”.	If applicable, mandatory
17AH(1)(a)(ii)	73	If the entity did not conduct advertising campaigns, a statement to that effect.	If applicable, mandatory
17AH(1)(b)	N/A	A statement that “Information on grants awarded by [name of entity] during [reporting period] is available at [address of entity’s website]”.	If applicable, mandatory
17AH(1)(c)	45	Outline of mechanisms of disability reporting, including reference to website for further information.	Mandatory
17AH(1)(d)	73	Website reference to where the entity’s Information Publication Scheme statement pursuant to Part II of FOI Act can be found.	Mandatory
17AH(1)(e)	N/A	Correction of material errors in previous annual report.	If applicable, mandatory
17AH(2)	73–74	Information required by other legislation.	Mandatory

GLOSSARY

Activities	The actions/functions performed by agencies to deliver government policies.
Appropriation	An amount of public money that Parliament authorises for spending (that is, funds to be withdrawn from the Consolidated Revenue Fund). Parliament makes laws for appropriating money under the Annual Appropriation Acts and under Special Appropriations, with spending restricted to the purposes specified in the Appropriation Acts.
Consolidated Revenue Fund	The principal operating fund from which money is drawn to pay for the activities of the Government. Section 81 of the Australian Constitution provides that all revenue raised or monies received by the Executive Government forms one consolidated revenue fund from which appropriations are made for the purposes of the Australian Government.
Corporate governance	<p>The process by which agencies are directed and controlled. It is generally understood to encompass authority, accountability, stewardship, leadership, direction and control.</p> <p>The PGPA Act establishes a coherent system of governance and accountability for public resources, with an emphasis on planning, performance and reporting. It is the primary piece of Commonwealth resource management legislation.</p> <p>The PGPA Act applies to all Commonwealth entities and Commonwealth companies. A list of Commonwealth entities and companies can be found at: www.finance.gov.au/sites/default/files/pgpa_flipchart.pdf?v=2.</p>
IGT website	The IGT website can be found at: www.igt.gov.au .
Operations	The functions, services and processes performed in pursuing the objectives or discharging the functions of an agency.
Outcomes	The results, impacts or consequence of actions by the Commonwealth on the Australian community.
Portfolio Budget Statements (PBS)	The Budget related papers detailing budget initiatives and explanations of appropriations specified by outcome and program by each agency within a portfolio.
Programs	An activity or groups of activities that deliver benefits, services or transfer payments to individuals, industry/business or the community as a whole and are the primary vehicles for government agencies to achieve the intended results of their outcome statements.

SHORTENED FORMS

AA	Accountable Authority
AAIs	Accountable Authority's Instructions
ABIs	Agreed Business Improvements
ANAO	Australian National Audit Office
APS	Australian Public Service
ATO	Australian Taxation Office
ATSI	Aboriginal and Torres Strait Islander
Auditor-General	Commonwealth Auditor-General
CDDA Scheme	discretionary Scheme for Compensation for Detriment Caused by Defective Administration
Charter	<i>Taxpayers' Charter</i>
CFO	Chief Finance Officer
Commissioner	Commissioner of Taxation
CPRs	Commonwealth Procurement Rules
Economics Committee	Senate Economics References Committee
EL	Executive Level
ESL	English as a Second Language
the Executive	the agency Executive
FBT	Fringe Benefits Tax
FOI Act	<i>Freedom of Information Act 1982</i>
GST	Goods and Services Tax
IGT	Inspector-General of Taxation
IGT Act	<i>Inspector-General of Taxation Act 2003</i>
IT	Information Technology
Minister	Minister for Revenue and Financial Services
MLO	Model litigant obligations
Ombudsman	Commonwealth Ombudsman
PAYG	Pay As You Go
PGPA Act	<i>Public Governance, Performance and Accountability Act 2013</i>
SES	Senior Executive Service
SG	Superannuation Guarantee
SLA	Service Level Agreement
STP	Single Touch Payroll

Tax and Revenue Committee	House of Representatives Standing Committee on Tax and Revenue
TPB	Tax Practitioners Board
TPRS	Taxable Payments Reporting System

APPENDIX 3 – PERFORMANCE CRITERIA

The purpose, deliverables and performance measures set out in the IGT's *Corporate Plan* align with the outcome, performance criteria and targets in the Portfolio Budget Statement for the IGT – see Table 12 below.

Table 12: Alignment of Portfolio Budget Statement and Corporate Plan performance criteria

Portfolio Budget Statement	Corporate Plan
Outcome Improved tax administration through investigation of complaints, conducting reviews, public reporting and independent advice to Government and its relevant entities	Purpose Our role is to improve tax administration through: maintaining an effective and efficient complaints handling function; identifying and prioritising areas of tax administration requiring improvement; conducting reviews and making recommendations for improvement to Government, the ATO and the TPB
Performance criterion 1 Effective handling of tax administration complaints	Deliverable 1 Effective handling of tax administration complaints
Performance criterion 2 Efficient conduct of reviews into tax administration issues	Deliverable 2 Identify and prioritise areas of tax administration for improvement Deliverable 3 Conduct reviews and make independent recommendations for improvement to Government, the ATO and the TPB
Performance criterion 3 Publication of reports on tax administration Performance criterion 4 Independent advice to Government and relevant entities on improvements to tax administration	Deliverable 3 Conduct reviews and make independent recommendations for improvement to Government, the ATO and the TPB
Target 1 Positive feedback on IGT complaints handling and broader reviews from community stakeholders including taxpayers, tax practitioners, other citizens and relevant government entities	Performance measure (Deliverable 1) Feedback provided by stakeholders about the IGT's complaints handling function, including providing assurance about the tax administration system (via surveys, consultative forums and case studies) Feedback from the ATO and the TPB about the IGT's complaints handling function (via regular inter-agency meetings) Feedback from staff about the IGT's complaints handling function (via internal complaints meetings) Percentage of correspondence that meets IGT quality standards

Table 12: Alignment of Portfolio Budget Statement and Corporate Plan performance criteria (continued)

Portfolio Budget Statement	Corporate Plan
Target 2 Responding to tax administration complaints	Performance measure (Deliverable 1) Number of complaints received compared to complaints actioned by the IGT Performance measure (Deliverable 2) Issues identified from complaints for further review
Target 3 Responding to tax administration issues through reviews	Performance measure (Deliverable 2) Issues identified from general stakeholder forums and work programme consultation for review Issues identified from investigations requested by Ministers, the Parliament and parliamentary committees or relevant agencies Prioritise identified issues Performance measure (Deliverable 3) Investigate identified issues
Target 4 Issuing public reports on tax administration issues Target 5 Providing independent advice and recommendations to Government and its relevant entities on improvements in tax administration	Performance measure (Deliverable 3) Report the findings and recommendations of the reviews

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