



COMMONWEALTH OF AUSTRALIA

# Official Committee Hansard

JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT

**Reference: Review of Auditor-General's reports Nos 7 to 34 (2005-06)**

FRIDAY, 2 JUNE 2006

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**JOINT STATUTORY COMMITTEE OF  
PUBLIC ACCOUNTS AND AUDIT**

**Friday, 2 June 2006**

**Members:** Mr Anthony Smith (*Chair*), Ms Grierson (*Deputy Chair*), Senators Hogg, Humphries, Moore, Murray, Nash and Watson and Mrs Bronwyn Bishop, Mr Broadbent, Dr Emerson, Dr Jensen, Miss Jackie Kelly, Ms King, Mr Laming, Mr Tanner and Mr Ticehurst

**Members in attendance:** Senator Nash and Mrs Bronwyn Bishop, Mr Broadbent, Mr Laming and Mr Anthony Smith

**Terms of reference for the inquiry:**

To inquire into and report on:

Review of Auditor-General's reports Nos 7 to 34 (2005-06)

**WITNESSES**

<b>ANDERSON, Mr David, First Assistant Secretary, Corporate Strategies, Department of the Environment and Heritage.....</b>	<b>1</b>
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<b>SCHAEFFER, Mr Darren, Assistant Secretary, Financial Management, Department of the Environment and Heritage.....</b>	<b>1</b>
<b>YOUNGBERRY, Mr Timothy James, Chief Financial Officer, Department of Families, Community Services and Indigenous Affairs .....</b>	<b>1</b>



**Committee met at 12.38 pm**

**GROVES, Mr Steven, Assistant Commissioner, Accounting Operations, Australian Taxation Office**

**MOODY, Ms Madonna Imelda, Chief Finance Officer, Australian Taxation Office**

**HAZELL, Ms Anne, Chief Financial Officer, Department of Finance and Administration**

**KAUFFMAN, Mr Brett, Assistant Secretary, Financial Reporting, Department of Finance and Administration**

**ROBERTSON, Mr Neil, Acting Branch Manager, Financial Framework, Department of Finance and Administration**

**ANDERSON, Mr David, First Assistant Secretary, Corporate Strategies, Department of the Environment and Heritage**

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**ROCHOW, Mr Graeme John, Manager, Financial Services Branch, Department of Families, Community Services and Indigenous Affairs**

**YOUNGBERRY, Mr Timothy James, Chief Financial Officer, Department of Families, Community Services and Indigenous Affairs**

**CHAIR (Mr Anthony Smith)**—I declare open this public hearing. We are taking evidence of Audit report No. 21 2005-06: *Audits of the financial statements of Australian government entities for the period 30 June 2005*. On behalf of the committee I welcome representatives from the Australian National Audit Office; the Department for Finance and Administration; the Department for Environment and Heritage; the Department for Families, Community Services and Indigenous Affairs; and the Australian Taxation Office. As always, I ask participants to remember that only members of the committee can put questions to witnesses if the hearing is to constitute formal proceedings of the parliament and attract parliamentary privilege. But, if participants wish to raise issues for discussion, I ask them to direct comments to the committee.

Secondly, as always, given the time available, I ask you to keep statements and comments relevant and succinct. I remind witnesses that the hearings today are legal proceedings of the parliament and warrant the same respect as proceedings of the House itself. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. The evidence given today is recorded by *Hansard* and will attract parliamentary privilege. We have had a pretty thorough briefing from the Audit Office and, rather than each of the four organisations making opening statements, I propose that we open the questioning and perhaps committee members can go department by department. That is probably the best way to go.

**Mrs BRONWYN BISHOP**—I will start with the Tax Office, if I may—with a question that has worried me for some time. I know that, since the late eighties, you are not required to report

on the gap—that is, the gap between the amount of tax that you estimate you should receive and the amount of tax that you in fact receive. This matter has been looked at internationally, and internationally there is a return to reporting that figure. To my way of thinking, we do not get any meaningful picture of how well or badly you do your job if we do not see that figure. Although you are not required formally to report it, do you do that work internally? Do you have internal estimates of what you should and what you in fact do collect?

**Ms Moody**—We do not calculate that internally. There is from time to time discussion about how such a calculation could occur and the resources that would be required to undertake such a calculation in a meaningful statistical way. While we obviously do different surveys and things that try to gauge participation—we do work on cash economy—we do not actually undertake a process to calculate what is generally called the ‘tax gap’.

**Mrs BRONWYN BISHOP**—I love that expression: ‘meaningful statistical way’. You did it for decades, and you ceased doing it under Paul Keating, if my memory serves me correctly. That was about 1988, wasn’t it?

**Ms Moody**—I am sorry, my history with the tax office does not go back that far.

**Mrs BRONWYN BISHOP**—I am sure that if you were able to do it in previous times, you would be able to do it again. So the tax office has no calculation or handle on what your target figure should be?

**Ms Moody**—As far as I am aware, no, we do not. I will confirm that for the committee with other people in the tax office, because it is not necessarily my area of expertise.

**Mrs BRONWYN BISHOP**—You might take it on notice. If it is not as I have described it, you might tell me how you do check your own efficiency against whether or not you are collecting the amount you should. When you suddenly announce that you are going to have an attack on such and such a part of the economy—for instance, a particular area of small business—why do you pick on them as distinct from someone else? You must have some indicators that tell you that your tax collection is down in a particular area. And, if you have that for a whole range of areas, you must be able to add it up.

**Ms Moody**—We certainly undertake work in terms of risk assessment across a range of different risks to the revenue and to compliance within the tax system. Generally, when we are targeting risk, which we tend to articulate in our compliance program that we publish each year, we are looking at areas either of emerging risk, because we have become conscious of behaviour in that sector, or because there may have been analysis of particular issues that are causing us concern. There is a range of ways we formulate that, including intelligence about what is happening in the tax system. Sometimes, particular pilot investigations show a wider issue that we would then like to do more on. But, again, I think our published compliance program, which is published each year, tries to articulate why we have chosen particular risks and what we think those risks are.

**Mrs BRONWYN BISHOP**—I will just give you an example of why I think it is so essential to do that, and we will take barristers, who became very prominent in the question of bankruptcy reform. To me it was absolutely incomprehensible that the tax office had not realised that



barristers were not paying enough tax, particularly when a barrister that the tax office itself had taken on as a consultant had failed to file a tax return for years. There is a serious failure within the tax office that it did not predict that. The only thing that finally showed it up was the GST, because suddenly people were claiming the GST they had paid on barristers' fees. That was how it showed up. So there is a serious failure there which, again, is why I think the gap question is so important—and presumably you would get to that overall figure by looking at the various segments, seeing what they ought to pay and what they are paying, and there you would make your investigation. You might tell me what you are not doing.

**Ms Moody**—I will take that on notice and get something back to the committee on that.

**Mrs BRONWYN BISHOP**—Thank you.

**CHAIR**—Any further questions to the tax office?

**Senator NASH**—With regard to the financial statements, I believe there are adjustments of nearly \$7 billion made in response to the ANAO representations. Could you explain how it was that nearly \$7 billion of adjustments were required, and I think about \$3 billion occurred at the last minute? Can you just take us through what that actually means and how that eventuated—why it happened?

**Ms Moody**—Certainly. During the 2004-05 financial statements and in the course of 2004-05, we actually changed our methodology on some major estimates and we also changed our accounting policy on a number of major estimates. This is not the total of the \$6 billion.

**Senator NASH**—Why did you make those changes?

**Ms Moody**—I should just say that the \$6 billion to \$7 billion we are talking about relates to the administered expenses, not the departmental operation of the tax office, so it is about the tax revenue and the administered expenses that the tax office pays. In the past, the administered expenses had largely been done on what we call a cash and known liability basis. We were not doing estimates for the financial statements on a full accrual basis for many of those administered expenses. For example, the diesel fuel rebate is an administered expense, as is the baby bonus. There are a whole series of them, and certainly they have been a growth area for us over time. The super co-contribution is another one, for instance. We were not doing full accrual estimates on those in terms of the financial statements, mainly because in the first couple of years of a program it can be quite difficult to predict take-up and community response to some of those benefits. So during 2004-05 we recognised that we needed to move to a fully accrued method of bringing those benefits, those payments, to account and we did that for the first time in the 2004-05 statements.

In doing that—and this lies entirely within my responsibility—we did not fully follow through the implications of that to all items in the financial statements until quite late in the piece. Also, meeting time frames around some of this work, which is very complex, was very hard for us. We were pushed for time. We were preparing numbers and the auditors were auditing them at the same time, so we did not have time to put in some of the quality control processes that we would have liked. All of those things came together and, as a result, as the auditors audited them, they identified that, in changing the accounting treatment, we had not necessarily got all of that right.

As a result, there is probably about \$3 billion between different items that related to that particular accounting change. We certainly needed to have done it better. We have processes in place to make sure that we do that into the future. I would say that, of the \$6.79 billion—basically, \$7 million—worth of adjustments, probably half of them related to new things we were trying to do for the first time and we did not get right.

**Senator NASH**—Are you confident that that has been resolved now and that that sort of error will not happen again with the processes you are putting in place?

**Ms Moody**—Yes. There are two different parts to that. One is that during this financial year we have not changed any accounting policies, which should make the environment a lot more stable for producing this year's financial statements. The other is that we have done a great deal of work and continue to do a great deal of work around our estimation processes and around our financial statement processes so that we can streamline them, so that we have better clarity about what the numbers are, how they are being produced and what they mean. So we are still working in that space, but we have done a lot of work and we believe that the 2005-06 financial statements will show a considerable improvement in that space.

**Senator NASH**—You touched on the diesel fuel rebate as an example, and I think you referred to that as a growth area for the ATO. What did you mean by that?

**Ms Moody**—Sorry, I meant administered expenses as a whole. We tend to think of ourselves—and most people think of us—as the revenue agency, and the \$220 billion that we collect in terms of the Commonwealth's revenue, but we actually pay out through various special appropriations approximately \$8 billion in benefits. And they are not tax refunds or BAS input tax credits; they are actually different types of benefits going back to the community—around \$8 billion. It has probably, over the last four or five years, risen from probably somewhat less than \$4 billion up to \$8 billion, I think it will be, this year.

**Senator NASH**—Overall, it is—

**Ms Moody**—Not overall. There are a whole heap of things around energy grants, obviously—they change them and move them around—but if you take us as a payment agency we are actually a fairly significantly payment agency in our own right.

**Mrs BRONWYN BISHOP**—You were responsible for the change in the method of collecting the fuel excise, which is now being done in the BAS instead of being paid up-front, and people are having to make you a loan, effectively.

**Ms Moody**—That is a matter of government policy. We are implementing that.

**Mrs BRONWYN BISHOP**—Does it make your expenses smaller or larger?

**Ms Moody**—In a fully accrual environment, it will not make any difference. We may have to change the way we estimate it to make sure that we are taking timing differences into account, but it will not make the expenses either larger or smaller, because we are looking—

**Mrs BRONWYN BISHOP**—No, I mean the administration of the scheme.

**Ms Moody**—In terms of how much it will cost the tax office to operate the scheme? There are certainly some costs associated with the transition. Also, because different groups of people are being brought into the scheme at different times, I could not tell you the specific cost of running that component of it. There were a large number of changes to those schemes that—

**Mrs BRONWYN BISHOP**—Would you like to take on notice to give us a comparison of what the scheme cost prior to the changes in policy and what it will cost to administer after the changes—the administration costs.

**Ms Moody**—Yes.

**CHAIR**—That would be good. Any further questions for the tax office? We might move to Environment and Heritage. I have one brief question. There are a range of matters identified there, but I was particularly interested in the legislative breach relating to overdrawn bank accounts. Could you give us an update on that?

**Mr Anderson**—I could. We had a number of accounts that were technically overdrawn during the period of the financial statements. We have been in discussion with the Audit Office on those, because I understand that the Finance estimates memorandum give you a little bit of latitude in terms of repaying that overdraft within 30 days, which I think was the case with all our accounts. Some were very modest in their overdraft, like \$10 or \$12, where interest had been added to an account which just tipped it into being overdrawn. Whilst we should not be in a situation of having any overdrawn accounts, they were largely technical and they were all adjusted within a very short period of time.

**CHAIR**—How are you going generally with the progress of implementing the recommendations?

**Mr Anderson**—We have put new processes in place to deal with that particular issue and to deal with the other findings identified in the report.

**CHAIR**—Any further questions from the committee on Environment. Would any member of the committee like to move to Family and Community Services?

**Mrs BRONWYN BISHOP**—I am ashamed to say I would like to go back to Tax for one moment.

**CHAIR**—Any questions of the department of finance?

**Mr BROADBENT**—I do. Is there sufficient time to get all these accounts together and submit them before the Charter of Budget Honesty deadline? Because, if you do not have time to put them together, it is only an estimation or a guess about what you are doing.

**Ms Hazell**—Under the Charter of Budget Honesty, you have up until the end of September for the final budget outcome to be released. The consolidated financial statements for the Australian government actually have different timing requirements. Legislatively, they only have to be provided to the Auditor-General for audit by 30 November each year. So there are actually two different sets of requirements. The final budget outcome can be released without all the entities

having received their audit clearance, and that is traditionally how we have handled issues of timing. The 30 November deadline for the CFS is when, in theory, the whole-of-government statements have to be ready and presented to the Auditor-General.

**CHAIR**—I would like to briefly ask a question of Finance and the Audit Office with respect to the status of the review of the method of measuring tax revenue for the consolidated financial statements—perhaps the department of finance first. Committee members will find this on page 32.

**Ms Hazell**—That review has been concluded. If you look in Budget Paper No. 1 for the 2006-07 budget, in the notes to the AAS statements at the back, you will see that there have been some changes in the disclosure. What has happened is that there has been an agreement to move forward with a change in the accounting treatment to adopt the fuller accrual method, except for certain items which will still remain on the other methodology because they are not accurately available in the accrual methodology.

**CHAIR**—And the Audit Office?

**Mr M Watson**—That is a fair representation of what has happened.

**CHAIR**—Are there any further questions on that issue?

**Mrs BRONWYN BISHOP**—We had evidence from DIMA earlier that they have established a purchasing assurance committee, and DOFA is a member of that committee. Do other departments have a similar purchasing assurance committee or is this something that has been created in DIMA because of their failure on the GSL contract?

**Ms Hazell**—The area that is responsible for procurement policy in the Department of Finance and Administration is not represented here today, so I cannot really answer your question directly. I would need to take it on notice if you wish us to pursue it.

**Mrs BRONWYN BISHOP**—Yes, I would like you to take it on notice. That would be great.

**CHAIR**—Do any other members of the committee have any further questions of any of the departments or agencies?

**Senator NASH**—Just to the ATO, if I can follow up on Mrs Bishop's request that you took on notice about the administration cost comparison between the current arrangements for the diesel fuel rebate and the potential scenario under the BAS. Obviously, there will be a great increase in businesses going to that. Could we also add to that, if Mrs Bishop does not mind? Could we have the administration costs of running those two scenarios concurrently, as we will be doing, for the next two years? So could you do the admin costs for the current situation, then the two running concurrently, and then just purely the BAS from 2008?

**Mrs BRONWYN BISHOP**—Bearing in mind that there are a whole lot of other things being put in, not just diesel; there are solvents for the paint industry and the make-up industry and a whole lot of things.

**Ms Moody**—And there are different groups of taxpayers and a different number of taxpayers who will be a part of that.

**Mrs BRONWYN BISHOP**—People who have never been in the system before who will be entering it.

**Ms Moody**—Yes.

**Mrs BRONWYN BISHOP**—The only question I wanted to ask was about the superannuation guarantee charge. There have been cases that have come to me where there has been confusion—I think that is the best word—over the role that the ATO plays in reassuring employees that the superannuation charge has in fact been paid. I have a case where an employee had been assured by his employer that the money had been paid to the tax office, and they had a signed statement to that effect. The tax office said, ‘It’s not our role.’ There is a degree of difficulty in employees being able to check and being assured that the right thing is being done with their money.

**Ms Moody**—There was an announcement in the budget context. The tax office received some additional resources for a measure that will allow it to give reports to the employee. At the moment under privacy and secrecy provisions, even when an employee has complained to the tax office and said, ‘I don’t think my employer has done the right thing’, the tax office cannot go back to that employee later and say, ‘We are following that up for you, and this is where we are with the inquiry’. The employee does not get any feedback until eventually some money flows to them. There is a proposed change to allow the tax office to give certain progress reports to the employee, so that the employee can know that we are progressing it, and it is at the stage where we have issued an assessment, or, in some cases, the employer is now insolvent or bankrupt, and therefore we are pursuing that. So there are some changes proposed. We are also hoping, as part of that, when an employee does complain, to get to that complaint and progress it faster than is currently the case.

**CHAIR**—Would you be able to provide us with some further information on that by way of an additional submission, or take the question on notice?

**Ms Moody**—Yes, certainly.

**CHAIR**—That is an important issue. As you know, we have a separate inquiry on tax administration.

**Mrs BRONWYN BISHOP**—There is also one other very difficult area. I believe there has been some change made now, but it has certainly affected someone I am currently looking after. The person concerned had obligations to make superannuation payments. They in fact signed the cheques. They happened to sit on the accountant’s desk for more than two months. The business was sold. The person was of the view that all his obligations were met. He then received a bill from the tax office because what the accountant had finally done, after the two-month period, was paid the money to the superannuation funds but there was still a requirement that that money be paid to the tax office. The tax office made him pay it again. We are talking about \$40,000.

**Ms Moody**—I would need to take that on notice. I am not familiar enough with the actual operation of the super guarantee law to explain the—

**Mrs BRONWYN BISHOP**—What I would like you to do is to see if there is any discretion that you may have to refund that money, because it has been paid twice.

**Ms Moody**—I can certainly take that back and talk to the Deputy Commissioner of Superannuation about that. If there are particular details of the taxpayer you would like us to be aware of, we could do that separately.

**Mrs BRONWYN BISHOP**—If we could do that, I would be most grateful. I will undertake to get those to you if you would come back to me.

**Mr BROADBENT**—The tax office receives \$220 billion each year.

**Ms Moody**—In rough terms.

**Mr BROADBENT**—Do you have an estimation of what that figure is going to be next year?

**Ms Moody**—It is included in the government's 2006-07 budget. I do not have the number in my head.

**CHAIR**—You mean the forward estimates.

**Ms Moody**—It is in the forward estimates.

**CHAIR**—Finance should be able to go straight to the page. It is your document as well. It is at the back isn't it?

**Mr BROADBENT**—While you are looking for that, I also sit on the Standing Committee on the Environment and Heritage. We have been hearing from different departments just how well they are doing with changing green practice, or greening their departments. The Audit Office has certainly come up trumps in their reflection into the mirror in regard to their office practices. I just wonder whether they are filtering through to other departments. I know that the Department of Environment and Heritage have taken a lead in supplying a worm farm with their green waste, which is commendable. Are any other departments into worms?

**Mr Youngberry**—Yes. FaCSIA, from the 2002-03 financial year, has produced a triple bottom liner, a sustainability report, each year. One key element of that is environmental performance. We have—and I will not call it a program—a systematic approach to working through each of our buildings and ensuring that they adopt green practices. We also supply biological waste, being foodstuffs and so on, to a worm farm. I could not tell you exactly where the worm farm is, but we do that. We aim for a very high level of recycling. We contribute many of our computer printer cartridges and so on to Planet Ark. We have just completed a mobile phone muster, so that they can be recycled. We have looked at implementing triphosphate tubing in the lighting in a lot of our buildings to actually reduce energy consumption. We have implemented a whole range of those types of things over the last few years.

**Mr BROADBENT**—Have you recorded a financial benefit to the department?

**Mr Youngberry**—Yes, there have been some financial gains in respect of those initiatives. What the exact amount is I cannot recall off the top of my head. They are not large, but there certainly are financial benefits to be had.

**CHAIR**—I think Ms Moody might have found the number.

**Ms Moody**—In the actual budget strategy and outlook document, in section 5, on page 5-3—and remember that this is total taxation revenue of the Commonwealth and does not include the GST, whereas probably my \$220 billion approximate is the amount the tax office collects, which does include the GST—the estimate for the current financial year, which is just about to finish, is \$208.1 billion and for next year, 2006-07, it is \$217.2 billion.

**CHAIR**—As there are no further questions, I thank all of the departments for their evidence. I thank the Audit Office for its long session this morning without a break. As we have indicated, for questions on notice, the secretariat will be in touch with you shortly. Perhaps, if you have been asked for a question on notice, you could stay behind briefly for a discussion with the secretariat. On behalf of the committee, I thank you all again and declare this public hearing closed.

Resolved (on motion by **Mr Laming**):

That this committee authorises publication, including publication on the parliamentary database, of the transcript of the evidence given before it at public hearing this day.

**Committee adjourned at 1.07 pm**