



Auditor-General for Australia



30 March 2017

Senator Chris Ketter
Chair
Senate Standing Committees on Economics
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Senator

Inquiry into Corporate Tax Avoidance

The Australian National Audit Office (ANAO) has published two performance audits in our current program that you may find relevant to the Standing Committees on Economics inquiry into Corporate Tax Avoidance:

1. Audit Report No.2 of 2016-17, *Conduct of the External Compliance Assurance Process pilot*; and
2. Audit Report No.28 of 2016-17, *Collection of North West Shelf Royalty Revenue*.

Information about what the audits assessed, concluded and recommended is outlined in an attachment to this letter.

Should the Committee require further information in relation to these matters, my office would be pleased to provide you with a briefing at a time convenient to you or appear as a witness at a hearing. To arrange a briefing, please contact our External Relations area at

Yours sincerely

Grant Hehir

Audit Report No.2 of 2016-17, *Conduct of the External Compliance Assurance Process pilot*; assessed the effectiveness of the Australian Taxation Office's External Compliance Assurance Process pilot conducted with large business taxpayers. The audit concluded that the Australian Taxation Office's pilot of an external compliance assurance process for large business taxpayers was conducted effectively and demonstrated the potential for better client experiences, cost reductions and increased efficiency, by satisfactorily verifying factual matters in company tax returns. The pilot provided the Australian Taxation Office with a sound basis for conducting external compliance assurance processes for large business taxpayers in the future. The audit did not make any recommendations.

Audit Report No.28 of 2016-17, *Collection of North West Shelf Royalty Revenue*, assessed whether the Department of Industry, Innovation and Science had effectively and efficiently administered the collection of NWS royalty revenue. The audit concluded that the administration of the collection of NWS petroleum royalties by the Department of Industry, Innovation and Science has not been sufficiently efficient or effective as the existing assurance arrangements do not effectively address key risks to the accurate calculation of royalty payable. The audit recommended:

Recommendation 1: The Department of Industry, Innovation and Science improve governance over the administration of the royalty calculation and collection function by:

- a) implementing an appropriate accountability framework with the Western Australian Department of Mines and Petroleum that clearly sets out the roles and responsibilities of each party; and
- b) developing a procedure manual that covers all aspects of its responsibilities in relation to the collection of North West Shelf royalties. This should include identifying the activities undertaken by the Western Australian Government that the department relies upon, and the compliance and reporting procedures that are to be employed to oversee and be assured about the conduct of those activities.

Recommendation 2: The Department of Industry, Innovation and Science, through the Joint Authority, set a timeline and regularly review progress against this timeline so as to expedite changes to the Royalty Schedule aimed at updating and improving the clarity of descriptions relating to deductible expenditure, and incorporating expenditure relating to new fields.

Recommendation 3: The Department of Industry, Innovation and Science work with the Western Australian Department of Mines and Petroleum to implement improved controls for the verification of North West Shelf petroleum production and sales to provide increased assurance that the approach taken when allocating production to fields is complete and accurate.

Recommendation 4: The Department of Industry, Innovation and Science work with the Western Australian Department of Mines and Petroleum to:

- a) verify the validity of deductions claimed prior to 2014; and
- b) develop and implement a comprehensive strategy for gaining a reasonable level of assurance that deductions claimed by the North West Shelf producers in 2015 and later years are valid and calculated in accordance with the Royalty Schedule.