

Chapter 2

Review of selected reports

2.1 The committee has selected the annual reports of the following bodies for closer examination:

- Department of Industry, Innovation and Science;
- National Offshore Petroleum Safety and Environmental Management Authority;
- Department of the Treasury;
- Australian Taxation Office (Commissioner of Taxation).

Department of Industry, Innovation and Science

Secretary's review

2.2 The 2017–18 annual report of the Department of Industry, Innovation and Science (the department) is the first annual report of the new departmental secretary Dr Heather Smith PSM. Dr Smith was previously Secretary of the Department of Communications and the Arts.

2.3 As in previous years, this document includes the annual reports of Geoscience Australia and IP Australia—non-corporate Commonwealth entities within the Industry, Innovation and Science portfolio.

2.4 In her review, the Secretary highlighted a number of the department's achievements in 2017–18, including the introduction of the Advanced Manufacturing Growth Fund, the establishment of five new Cooperative Research Centres (CRCs), the launch of an Australian quantum computing company, and progress in implementing the National Business Simplification initiative.¹

2.5 The five new CRCs support industry-led collaborations in five distinct fields: cyber security; reducing food waste; addressing declining mineral exploration; adoption of future fuels; and the development of digital health solutions.²

2.6 In relation to the implementation of the National Business Simplification initiative, the Secretary highlighted that the new Business Registration Service has seen the time required for a sole trader to register a business drop from 65 minutes to under 15 minutes.³ Further, the Business Grants Hub 'is making it easier for business to access grant programs and is providing a streamlined and standardised approach for government's design and delivery of these programs'.⁴

1 Department of Industry, Innovation and Science, *Annual Report 2017–18*, pp. 5–6.

2 Department of Industry, Innovation and Science, *Annual Report 2017–18*, p. 5.

3 Department of Industry, Innovation and Science, *Annual Report 2017–18*, p. 6.

4 Department of Industry, Innovation and Science, *Annual Report 2017–18*, p. 6.

2.7 The Secretary also noted the work that the department has done to provide a more inclusive and flexible workplace, through the creation of an inclusion strategy. This strategy encompasses multiple initiatives including the DIISability Internship Program, Inclusion Scholarship Program and a departmental Inclusion Expo.⁵

Portfolio overview

2.8 The annual report notes that between 20 December 2017 and 28 August 2018, the Department of Industry, Innovation and Science was one of two departments that made up the Jobs and Innovation portfolio.⁶

2.9 The administrative arrangements order of 28 August 2018 removed the department from that portfolio and re-created the Industry, Innovation and Science Portfolio

Annual performance statements

2.10 The department continues to deliver its one outcome through the following three programs:

- Program 1—Supporting Science and Commercialisation; and
- Program 2—Growing Business Investment and Improving Business Capability; and
- Program 3—Program Support.

2.11 The department continues to present its annual performance statements in a manner which is easy to read and provides a detailed yet not cumbersome assessment of its progress against each of its three Purposes. The committee notes the clarity of the brief 'Summary of the department's performance' against each Purpose. For example, for Purpose 1, the annual report summarises:

Measured by the performance criteria set out against the intended results, appreciable progress has been made in recent years towards the achievement of Purpose 1, particularly in enhancing performance in scientific research; sustaining growth in knowledge-intensive industries; sustaining Australia's performance in innovation above the Organisation for Economic Co-operation and Development average; and increasing the number of collaborations entered into by research institutions. The fall in [Business Expenditure on Research and Development] as a proportion of GDP has been driven by broader structural shifts in the Australian economy. This has also impacted the growth of investment in intangible capital as a share of total GDP by the private sector.⁷

2.12 The committee notes that the department has made progress in implementing each of its three Purposes in recent years; however, also notes that the assessments made in the summary of the department's performance against each Purpose does not

5 Department of Industry, Innovation and Science, *Annual Report 2017–18*, p. 6.

6 Department of Industry, Innovation and Science, *Annual Report 2017–18*, p. 6.

7 Department of Industry, Innovation and Science, *Annual Report 2017–18*, p. 26.

specifically indicate what progress has been made during the particular reporting period, in this case, during 2017–18.

Financial performance

2.13 The annual report clearly sets out the department's expenditure and revenue. Excluding depreciation, amortisation and adjustments through other comprehensive income, the department recorded a loss of \$37.1 million for the 2017–18 reporting period. The report offered the following explanation:

This loss is largely due to the transfer of the Australian Astronomical Observatory functions from the department to the research sector as part of the 'Maintaining Australia's Optical Astronomy Capability' measure announced in the 2017–18 budget.⁸

2.14 After taking into account depreciation and amortisation of \$37.7 million and the change in the asset revaluation reserve of \$1.4 million, the department recorded a loss of \$73.4 million for 2017–18. The department noted that:

...this reflects the introduction of the net cash appropriation arrangements where appropriation for depreciation and amortisation expenses ceased. Entities now receive a separate capital budget provided through equity appropriations.⁹

2.15 The committee notes that department's revenue is largely generated through three sources: royalty revenue (\$1072.7 million); levy receipts generated by the National Offshore Petroleum Safety and Environmental Management Authority (NOPSEMA) (\$36.5 million); and registration fees generated by National Offshore Petroleum Titles Administrator (\$15.4 million)—totalling just over \$1 billion in revenue for the reporting period 2017–18.¹⁰ The committee also notes that each of these figures shows a small increase on those from the previous financial year.

Conclusions

2.16 The committee considers that the department's annual report for the 2017–18 reporting period is apparently satisfactory.

National Offshore Petroleum Safety and Environmental Management Authority

2.17 NOPSEMA is a corporate Commonwealth entity within the Industry, Innovation and Science portfolio.

2.18 NOPSEMA has one outcome:

Promote and enforce the effective management of risks to the workforce, the environment and the structural integrity of facilities, well and well-

8 Department of Industry, Innovation and Science, *Annual Report 2017–18*, p. 47.

9 Department of Industry, Innovation and Science, *Annual Report 2017–18*, p. 47.

10 Department of Industry, Innovation and Science, *Annual Report 2017–18*, p. 47.

related equipment of the Australian offshore petroleum and greenhouse storage industries through regulatory oversight.¹¹

2.19 NOPSEMA's jurisdiction extends to all offshore areas in Commonwealth waters—comprising the first three nautical miles of the territorial sea—and in coastal waters where regulatory powers and functions have been conferred.

2.20 Mr Stuart Smith is the Chief Executive Officer (CEO), and the accountable authority of NOPSEMA. Mr Smith was appointed CEO of NOPSEMA in September 2014, prior to which he was the Director General of the Department of Fisheries in Western Australia.¹²

2.21 Mr Smith's review of the 2017–18 reporting period provided an overview of NOPSEMA's regulatory activities. In particular, Mr Smith highlighted the significant increase in the number of hours worked in NOPSEMA regulated waters. Mr Smith explained that this was due to 'an unprecedented level of commissioning activity that fundamentally changed the risk profile of the industry and as a result the level of NOPSEMA's regulatory oversight'.¹³

2.22 Mr Smith also noted that 2017–18 saw an increase in enforcement actions, with 19 breaches of the legislation leading to action. Mr Smith considered that this enforcement activity will serve to 'deter similar non-compliance from the wider industry'.¹⁴

Annual performance statements

2.23 NOPSEMA's outcome is implemented through one programme:

Programme 1.1 (as per PBS)

Regulatory oversight of safety cases, well operations management plans and environment plans coupled with effective monitoring, investigation and enforcement.¹⁵

2.24 The annual performance statements noted that NOPSEMA has 'fully met the targets for all 23 key performance indicators (KPIs) identified in its corporate plan'.¹⁶

11 National Offshore Petroleum Safety and Environmental Management Authority, *Annual Report 2017–18*, p. 15.

12 National Offshore Petroleum Safety and Environmental Management Authority, *Annual Report 2017–18*, p. 19.

13 National Offshore Petroleum Safety and Environmental Management Authority, *Annual Report 2017–18*, p. 8.

14 National Offshore Petroleum Safety and Environmental Management Authority, *Annual Report 2017–18*, p. 9.

15 National Offshore Petroleum Safety and Environmental Management Authority, *Annual Report 2017–18*, p. 40.

16 National Offshore Petroleum Safety and Environmental Management Authority, *Annual Report 2017–18*, p. 40.

2.25 NOPSEMA's assessment of its performance against each KPI is clear and provides the reader with a good picture of the organisation's activities over time through the inclusion of the two previous years' results.¹⁷

2.26 As a Commonwealth regulator, NOPSEMA is also required to implement the Regulator Performance Framework (RPF):

The framework consists of six outcomes-based KPIs covering reducing regulatory burden, communications, risk-based and proportionate approaches, efficient and coordinate monitoring, transparency, and continuous improvement.¹⁸

2.27 The RPF shows that NOPSEMA has met all targets for the 2017–18 reporting period.¹⁹ However, the performance statement for this section indicates that 'NOPSEMA has met five and substantially met one' of the six RPF KPAs.²⁰

Financial performance

2.28 In 2017–18, NOPSEMA returned a surplus of \$0.2 million. The annual report noted that the forecast for this financial year was to be in deficit by more than \$2 million. NOPSEMA's report explained that '[t]he actual result shows revenue was on budget whereas expenditure, specifically employee expense, was significantly under budget'.²¹

2.29 NOPSEMA recorded total revenue of \$31.9 million for the reporting period. NOPSEMA's revenue is sourced from levies collected from stakeholders that are planning or undertaking offshore petroleum activities in Commonwealth waters. Levy revenue has contributed to more than 99 per cent of total revenue since NOPSEMA's inception in 2012, after the cost of transitioning from NOPSA to NOPSEMA was removed.²²

Conclusions

2.30 NOPSEMA's annual performance statements (including against KPIs and RPFs) are well presented and easy to understand.

2.31 The committee considers that NOPSEMA's 2017–18 annual report is apparently satisfactory.

17 National Offshore Petroleum Safety and Environmental Management Authority, *Annual Report 2017–18*, p. 43.

18 National Offshore Petroleum Safety and Environmental Management Authority, *Annual Report 2017–18*, p. 63.

19 National Offshore Petroleum Safety and Environmental Management Authority, *Annual Report 2017–18*, pp. 64–69.

20 National Offshore Petroleum Safety and Environmental Management Authority, *Annual Report 2017–18*, p. 63.

21 National Offshore Petroleum Safety and Environmental Management Authority, *Annual Report 2017–18*, p. 71.

22 National Offshore Petroleum Safety and Environmental Management Authority, *Annual Report 2017–18*, p. 73.

Department of the Treasury

Secretary's review

2.32 This is the first annual report of Treasury Secretary Mr Philip Gaetjens, who commenced the role in August 2018. Mr Gaetjens acknowledged the contributions of his predecessor, Mr John Fraser, noting his 'lasting legacy' which included 'improving budget outcomes and increased outreach and accessibility to Treasury through our state offices'.²³

2.33 Mr Gaetjens' review of the 2017–18 reporting period was succinct and gave a brief overview of Treasury's activities:

In the past year, we provided advice on a series of tax reforms. This included significant changes to the personal income tax framework, better targeting the research and development tax incentive and proposed changes to the way the GST is distributed between the states and territories. We are also coordinating a whole-of-government strategy to tackle problems associated with the black economy.²⁴

2.34 Mr Gaetjens also noted Treasury's contribution to the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Royal Commission). He also highlighted Treasury's role in aiding public debate across a range of topics, including 'population growth and immigration, best practice modelling and the implications of US corporate tax reforms for the Australian and global economy'.²⁵

Annual performance statements

2.35 In the 2017–18 reporting period, Treasury had six Groups which contributed to the delivery of its main outcome:

Informed decisions on the development and implementation of policies to improve the wellbeing of the Australian people, including by achieving strong, sustainable economic growth, through the provision of advice to government and the efficient administration of federal financial relations.²⁶

2.36 The six Groups are the following: Macroeconomic, Markets, Fiscal, Revenue, Structural Reform, and Corporate Services and Business Strategy.²⁷

2.37 As set out in its corporate plan for 2017–18, Treasury measures its performance against three purposes: promoting fiscal sustainability; increasing productivity and workforce participation; and securing the benefits of global economic integration. The corporate plan and performance assessment also includes a section

23 The Treasury, *Treasury Annual Report 2017–18*, p. 4.

24 The Treasury, *Treasury Annual Report 2017–18*, p. 3.

25 The Treasury, *Treasury Annual Report 2017–18*, p. 3.

26 The Treasury, *Treasury Annual Report 2017–18*, p. 5.

27 The Structural Reform Group was removed in February 2019. Its functions have been re-distributed into the Macroeconomic and Fiscal Groups.

called 'organisational capability', which provides a broader view of Treasury's activities.²⁸

2.38 The analysis of Treasury's performance is followed by its results against each purpose. This is clearly set out and provides specific details as to how each criteria has been met.

Financial performance

2.39 Treasury's annual report provided the following summary of its financial performance for 2017–18:

The Treasury has a sound financial position, with sufficient cash reserves to fund its debts as and when they fall due. After adjusting for depreciation, amortisation and changes in asset revaluation reserves, the Treasury reported an operating surplus of \$3.2 million in 2017–18, which was driven by underspends in sustained functions, overheads, reserves and one-off activities, rather than the base functions of the Treasury. This compares with an operating surplus of \$3.3 million in 2016–17 after adjusting for depreciation, amortisation and changes in asset revaluation reserves. The Treasury's administered expenses in 2017–18 were \$133.9 billion, compared with \$94.5 billion in 2016–17. The first Medicare Guarantee Fund payment was processed in 2017–18 for the amount of \$34.8 billion.²⁹

Conclusions

2.40 The committee considers that Treasury's annual report for the 2017–18 reporting period is apparently satisfactory.

Commissioner of Taxation

2.41 The Commissioner of Taxation, Mr Chris Jordan AO, is the accountable authority of the Australian Taxation Office (ATO). The ATO is a non-corporate Commonwealth entity under the Treasury portfolio.

2.42 The ATO has one outcome:

Confidence in the administration of aspects of Australia's taxation and superannuation systems through helping people understand their rights and obligations, improving ease of compliance and access to benefits, and managing non-compliance with the law.³⁰

2.43 This outcome is delivered through four agency programs and 14 administered programs. The agency programs are run through the ATO, the Tax Practitioners

28 The Treasury, *The Treasury Corporate Plan 2017–18*, <https://treasury.gov.au/sites/default/files/2019-03/corporate-plan-2017-18-3.pdf> (accessed 29 March 2019).

29 The Treasury, *Treasury Annual Report 2017–18*, p. 8.

30 Australian Taxation Office, *Commissioner of Taxation Annual report 2017–18*, p. 4.

Board, the Australian Business Register, and the Australian Charities and Not-for-profits Commission.³¹

Commissioner's review

2.44 In his review of the 2017–18 reporting period, Mr Jordan stated that he was proud of the ATO and its performance.³² Mr Jordan commented:

In 2017–18, the people in the ATO delivered on a multitude of commitments to government and to the community through our business lines, taskforces and projects. We also continued our transformation to improve the client and staff experiences; focusing on delivering contemporary services to make it easier to do the right thing, and targeting and bringing to account those who do not meet their obligations.³³

2.45 Mr Jordan also highlighted a number of the ATO's achievements including:

- Increase in collection of company tax (up \$16 billion on the previous financial year);
- Increased take up of myTax and faster refunds;
- Implementation of the first phase of the Single Touch Payroll; and
- Earlier resolution of objection disputes, with approximately two-thirds of all objections being resolved within three weeks.³⁴

2.46 Mr Jordan also put forward that, although pleased with the ATO's results in this reporting period, 'they can be better'.³⁵ Mr Jordan stated:

I am committed to listening, empathising and understanding what and how we can improve our performance—particularly in terms of how the community and stakeholders perceive us; our services efficiency, effectiveness and integrity.³⁶

Annual performance statements

2.47 In accordance with its 2017–18 corporate plan, the ATO's annual performance statements set out its purpose:

The ATO purpose is to contribute to the economic and social wellbeing of Australians by fostering willing participation in the tax and superannuation systems. We achieve this through the delivery of our goals:

- Making it easier for people to participate
- Providing contemporary and tailored services

31 Australian Taxation Office, *Commissioner of Taxation Annual report 2017–18*, pp. 4–5.

32 Australian Taxation Office, *Commissioner of Taxation Annual report 2017–18*, p. ii.

33 Australian Taxation Office, *Commissioner of Taxation Annual report 2017–18*, p. ii.

34 Australian Taxation Office, *Commissioner of Taxation Annual report 2017–18*, pp. ii–iii.

35 Australian Taxation Office, *Commissioner of Taxation Annual report 2017–18*, p. iii.

36 Australian Taxation Office, *Commissioner of Taxation Annual report 2017–18*, p. iii.

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- Maintaining purposeful and respectful relationships
 - Being a professional and productive organisation³⁷

2.48 The ATO has in place nine strategic objectives that guide it towards achieving this purpose, which are grouped into five perspectives: Government, Client, Workforce, Operational, and Financial.³⁸

2.49 The statements provide a general overview of the ATO's performance as well as a detailed assessment of performance and analysis of results against each of the nine strategic objectives.

2.50 The overview stated:

The ATO performance results for 2017–18 indicate a year of solid performance in achieving our purpose, with some specific areas for improvement. The ATO has 23 measures for Program 1.1 to demonstrate how well we are achieving our purpose. These are set out in the Australian Taxation Office Budget Statements in the Treasury Portfolio Budget Statements (PBS), and in the ATO corporate plan 2017–18. Fifteen of these measures had a 2017–18 performance target, with the target fully achieved for nine and substantially achieved for the remaining six. In 2018–19 we will be looking at what we need to do differently to fully meet our own and the community's expectations.³⁹

2.51 The detailed information on ATO's performance is set out in tables for each strategic objective. The tables are clear and also provide data on the ATO's results against each objective in the preceding two financial years. This is valuable as it shows trends in performance.

Financial performance

2.52 The ATO provided a summary of its financial performance for 2017–18 in three parts: operating expense budget, capital budget, and administering the GST.⁴⁰

2.53 The summary noted that the ATO's financial result was an operating deficit of \$36.1 million, or 1 per cent of budget (excluding depreciation).⁴¹ In relation to the capital budget, the annual report noted that the capital budget increased by \$28.9 million 'as a result of carrying forward funding from the previous year and the

37 Australian Taxation Office, *ATO Corporate Plan 2017–18*, p. 1, https://www.ato.gov.au/uploadedFiles/Content/CR/downloads/n7769_08_2017_js39469.pdf (accessed 29 March 2019).

38 Australian Taxation Office, *ATO Corporate Plan 2017–18*, p. 1, https://www.ato.gov.au/uploadedFiles/Content/CR/downloads/n7769_08_2017_js39469.pdf (accessed 29 March 2019).

39 Australian Taxation Office, *Commissioner of Taxation Annual report 2017–18*, p. 13.

40 Australian Taxation Office, *Commissioner of Taxation Annual report 2017–18*, pp. 84–85.

41 Australian Taxation Office, *Commissioner of Taxation Annual report 2017–18*, p. 85.

ATO's decision to reallocate operating funding to ensure the ongoing stability of our services to the community'.⁴²

2.54 The ATO met the agreed outcomes, including expenditure for administering the GST. In 2017–18, this was capped at the agreed estimate of \$631.1 million.⁴³

Conclusions

2.55 The committee considers that the Commissioner of Taxation's annual report on the ATO for the 2017–18 reporting period is apparently satisfactory.

General comments

Compliance index

2.56 The committee notes that in the annual reports of a number of agencies, the compliance indexes continued to indicate large page ranges and, in some cases, whole chapters in which to locate specific information. The committee suggests that providing a more precise page range for each requirement will improve the overall accessibility of annual reports.

2.57 The committee also notes that two agencies, the Australian Reinsurance Pool Corporation and the Financial Adviser Standards and Ethics Authority, did not include a compliance index identifying where the PGPA requirements can be located in the reports.

2.58 The committee suggests that all agencies of the Industry, Innovation and Science and Treasury portfolios ensure that their compliance indexes are in line with PGPA Act and Rule requirements.

Pro forma phrases

2.59 The committee also notes that where the PGPA requirements prescribe a pro forma phrase to respond to certain compliance requirements, a number of annual reports failed to use the exact wording provided. The committee encourages all departments and agencies to use the wording as set out in the requirement.

Apparently satisfactory

2.60 As noted in chapter 1, the committee finds that all reports of the Industry, Innovation and Science and Treasury portfolios for 2017–18 are apparently satisfactory.

Senator Jane Hume

Chair

42 Australian Taxation Office, *Commissioner of Taxation Annual report 2017–18*, p. 85.

43 Australian Taxation Office, *Commissioner of Taxation Annual report 2017–18*, p. 85.