

Passenger Movement Charge

Australian Customs Service

Performance Audit

Tabled 1 August 1996

Audit Report No. 1 1996-97

Abbreviations

ACS	Australian Customs Service
ANAO	Australian National Audit Office
AQIS	Australian Quarantine and Inspection Service
CIQ	Customs, Immigration and Quarantine
DIMA	Department of Immigration and Multicultural Affairs
DoF	Department of Finance
PASS	Passenger Automatic Selection System
PMC	Passenger Movement Charge

Summary

Passenger Movement Charge

1. The Passenger Movement Charge (PMC) is administered by the Australian Customs Service (ACS). It was introduced in January 1995 to replace Departure Tax. PMC of \$27 per departing passenger is designed to recover the notional cost of Customs, Immigration and Quarantine processing of the more than thirteen million incoming and outgoing passengers annually and the cost of issuing short-term visitor visas. Although the rationale for PMC is a cost recovery measure, in legal terms it is a tax. Revenues from the charge are paid into Consolidated Revenue.

2. PMC is payable by all liable departing passengers (air and sea). Air passengers account for the vast bulk of PMC collections. Of the \$147.8 million revenue collected from PMC in 1995-96, approximately \$146.4 million relates to the collection from air passengers.

3. ACS and airlines agreed to interim arrangements allowing airlines and their agents to collect PMC when passengers buy their tickets for overseas travel from Australia. This approach dispenses with the need for booths at airports to sell PMC stickers to international passengers before departure. Under the arrangements airlines remit the money they have collected to ACS. The interim arrangements applied from July 1995 to 30 June 1996. Longer-term arrangements were introduced in July 1996 following a review in the first part of 1996.

4. Although airlines are the major element of the PMC collection regime, the PMC administrative elements in the interim phase included booths to sell PMC stickers to air passengers, who had not paid PMC at the time of ticket sale, as well as air charter operators, military personnel and sea passengers. Booths were removed from airports in mid-1996.

The purpose of the audit

5. The objective of the audit was to examine how efficiently and effectively the ACS administers the PMC, including the interim arrangements with airlines.

6. PMC was of interest because it is a new cost recovery initiative and the PMC collection process via the airlines differs substantially from that for its predecessor, Departure Tax. Departure Tax was collected via the sale of Departure Tax stamps at airport booths.

7. As part of the audit, criteria were determined to consider how well revenue was protected and how well administrative arrangements were operating. In particular, the audit sought to examine how ACS protects the Commonwealth revenue and to identify areas for improvement in the formulation of the longer-term arrangements. ACS supported an audit of the interim arrangements, recognising that it could assist the development of more robust arrangements for the longer-term.

Overall conclusion

8. ACS is generally administering the PMC collection regime in an efficient and effective manner. ACS did well to negotiate and implement successfully the new collection arrangements with airlines. The PMC collection regime has achieved its objectives.

9. Some terms of the interim arrangements were generous to airlines, reflecting the Commonwealth's weak bargaining position in seeking to conclude voluntary arrangements with airlines in a very short period of time. The arrangements worked well, despite some inherent limitations. The audit highlighted a number of aspects of the interim arrangements deserving specific attention in the formulation of the longer-term arrangements.

10. Based on estimates provided by agencies, the ANAO assessed that PMC revenues for 1995-96 exceeded by approximately \$19.1 million the costs associated with Customs, Immigration and Quarantine processing and in issuing short-term visitor visas. While acknowledging that there need not necessarily be a one to one relationship between the revenue from the charge and agencies' costs, given the public rationale of PMC as a cost

recovery measure, it is appropriate that the charge be reviewed from time to time.

11. In addition, the audit was also able to illustrate how ACS' administrative processes could be improved. These relate to revenue control and checking processes for airlines and other categories of payers, and some administrative enhancements to staff training and program monitoring.

12. ACS responded positively to the audit and the recommendations in this report.

Key Findings

PMC collection regime has achieved its objectives

13. The PMC collection regime has achieved its objectives. Under the interim arrangements applying to July 1996, the airlines were collecting PMC under a voluntary arrangement, with reduced cost to government, faster outwards passenger processing at airports and more convenience for passengers. Remittances were in line with the amounts ACS expected and PMC collection booths had largely disappeared and were removed completely from 1 July 1996.

Revenue control is satisfactory but can be strengthened

14. Remittances of PMC collected by airlines on behalf of ACS represent approximately 87 per cent of PMC revenue (airlines accounting for \$128.8 million in 1995-96). The combination of arrangements with airlines plus the continued operation of booths at airports as a back-up for airlines meant that, overall, revenue due was paid.

15. The interim arrangements were designed to operate with compensating mechanisms, for a limited period of time. Although the arrangements operated satisfactorily, features of the interim arrangements with airlines did not provide a satisfactory basis for arrangements in the long term. Notable in this regard were provisions requiring airlines to remit only what they had collected from passengers at the time of ticket sale, the absence of penalty clauses for late payments by airlines, and limitations on ACS' performance monitoring and review functions.

16. PMC collection by airlines is an example of non-government agents performing or supplying government services and functions. It is essential that ACS can assure itself that these providers are performing adequately. It is therefore necessary that the terms of the arrangement provide adequate scope for ACS to monitor the performance of functions and adequate powers of enforcement.

17. The audit found that the interim arrangements did not ensure such powers of access to airline information to allow ACS to monitor satisfactorily the performance of providers. Powers of access deserve particular attention in the formulation of the new arrangements. ACS should continue to monitor cost-effectively airline performance under the contract. If necessary, to achieve better performance, ACS should consider developing options (including legislative options) that would enhance compliance for consideration by Ministers.

18. These aspects of the interim arrangement require ACS' attention when formulating the longer-term arrangements so that reasonable assurance can be provided that they contain

all the elements necessary to protect the Commonwealth's interests and to make the airlines unequivocally responsible for the collection of PMC.

19. Improvements are possible to streamline ACS' detailed checking of airline remittances. The audit process helped to identify some practical measures to assist in that respect.

20. With administrative processes for airlines reasonably settled, it is now timely that the PMC Unit improve its administrative processes for the other categories of payers. Other payers, such as shipping and charter operators, account for relatively small amounts of revenue (\$1.9 million in 1995-96).

Elements of the charge should be identified and costs monitored

21. Legal advice provided to ACS and the ANAO indicates that in legal terms, PMC is a tax. Based on estimates provided by agencies, the ANAO assessed that PMC collections for 1995-96 exceeded by approximately \$19.1 million Customs, Immigration and Quarantine processing costs and short-term visa issuing costs. The elements of the charge should be identified and relevant costs monitored so that agencies can collectively provide an assurance that these costs are fully offset, consistent with the PMC policy objective.

PMC Unit administration is sound and will improve

22. The PMC Unit of ACS is a small, highly motivated team which is well regarded by the industry representatives with which they deal. They successfully negotiated and implemented the interim airline collection arrangements in a short period of time. The PMC Unit has a solid administrative base on which to build its processes with airlines in the administration of the longer-term arrangements.

23. Nevertheless, there is scope for the PMC Unit to improve its own internal management processes.

Acknowledgments

24. We would like to recognise the contribution of the ACS officers who assisted in the conduct of this audit. We are also grateful for the cooperation of representatives of the airline, shipping and tourism industries consulted during the audit.

Recommendations

Set out below are the ANAO's recommendations with the Report paragraph reference and abbreviated responses. More detailed responses and any ANAO comments are shown in the body of the report. The ANAO considers that ACS should give priority to Recommendations Nos. 1, 2, 3, 7 and 8.

Recommendation
No. 1
Para. 2.12

The ANAO recommends that the elements of the charge be identified in the forthcoming review and ACS, DIMA and AQIS collectively monitor the costs of their relevant activities to provide assurance that these costs are fully offset, consistent with the PMC policy objective.

Response: ACS, AQIS and DoF agree. DIMA notes the recommendation. ACS notes that an Inter-Departmental Committee is scheduled to convene in the last quarter of 1996 to review all aspects of the Passenger

Movement Charge, including the basis for the quantum of the charge.

The ANAO recommends that, in negotiating the longer-term arrangements with airlines concerning collection and remittance of PMC, ACS ensure that the arrangements effectively protect the Commonwealth's interests. ACS should address, in particular, the following aspects of the interim arrangements:

Recommendation
No. 2
Para. 3.31

- concessions to airlines regarding obligation for payment;
- the Commonwealth's exposure to risk in collecting debt;
- collections by third parties; and
- controls over exemptions.

Response: ACS agrees. The new arrangement addresses the issues of concessions to airlines and third party collections by making airlines fully responsible for payment. The Commonwealth's exposure to risk in collecting debt has been assessed, leading to the conclusion that the industry is stable and the risk of liquidation minimal.

The ANAO recommends that ACS develop a strategy to ensure timely and accurate remittance and adequate reporting by airlines, with prompt investigation of anomalies.

Recommendation
No. 3
Para. 4.28

Response: ACS agrees. The longer-term arrangement imposes obligations on airlines to provide reports and to remit within time-frames or be penalised. The arrangement obliges ACS to conduct reconciliations and to investigate discrepancies promptly.

The ANAO recommends that, given the difficulties which will be encountered in establishing the numbers for some categories of exemptions with the closure of the airport booths, ACS review the administrative effectiveness and efficiency of maintaining exempt categories for which there will be no reliable source of data.

Recommendation
No. 4
Para. 4.33

Response: ACS agrees. This issue will be examined by the inter-departmental review.

The ANAO recommends that, in order to strengthen its revenue control processes, ACS:

Recommendation
No. 5
Para. 4.46

- review the adequacy of legal and administrative provisions relating to its information gathering and access powers;
- determine, within the context of its overall operational demands, staffing and resourcing requirements for review of airline remittances; and
- develop approaches to undertake appropriate risk-based

investigation and analysis of airline remittances.

Response: ACS agrees.

The ANAO recommends that ACS:

- institute standard PMC remittance procedures for cruise ship passengers; and
- develop cost-effective procedures to identify charter operators and collect PMC from them, in consultation with relevant organisations (the Department of Transport and Regional Development, the Civil Aviation Safety Authority, Air Services Australia, the National Passenger Processing Committee and the Federal Airports Corporation).

Recommendation
No. 6
Para. 4.56

Response: ACS agrees. ACS has already negotiated a revised remittance procedure for the cruise shipping industry which has removed regional variations by centralising payments to the PMC Unit. A research project on charter operations has also been completed from which specific procedures for charter operations have been devised.

The ANAO recommends that the PMC Unit focus attention on improving the management and administrative processes associated with the collection of PMC. Aspects of Unit administration which would benefit from attention are management reporting, performance indicators and training.

Recommendation
No. 7
Para. 5.11

Response: ACS agrees. The Unit's Action Plan and performance indicators have been updated to accommodate recommendations made by the ANAO. A comprehensive management report linked to the Action Plan is currently under development. The training suggestions made by the ANAO will be dependent on co-operation from airlines and industry training bodies.

The ANAO recommends that, in addition to the specific risk management measures suggested to enhance revenue control, the PMC Unit devise an explicit risk management strategy as a clear framework for its Action Plan and the ongoing administration of PMC.

Recommendation
No. 8
Para. 5.14

Response: ACS agrees.

1. Introduction

Context

1.1 The Passenger Movement Charge (PMC), levied under the Passenger Movement Charge Act, is a \$27 per head charge on international passenger movements. PMC is designed to recover the cost of Customs, Immigration and Quarantine (CIQ) processing of

incoming and outgoing passengers at Australia's borders (numbering over thirteen million annually) and the cost of issuing short-term visitor visas.

1.2 PMC was introduced in January 1995, replacing Departure Tax introduced in 1978. Shipping companies have collected the relevant tax or charge at the time of ticket sale since 1978; however, the collection of PMC by airlines only commenced on 1 July 1995 on the basis of formal (but interim) arrangements with the Commonwealth. Airlines, which account for the bulk of collections, collected PMC on departing international passengers and remitted the revenue under interim arrangements. Longer-term arrangements were introduced in July 1996, following a review in the first part of 1996.

1.3 PMC is levied on all outgoing passengers (with some twelve categories of exemptions including children under twelve, diplomatic representatives, crew and transit passengers). Collections of PMC totalled \$147.8 million in 1995-96, of which some \$146.4 million derives from air passengers.

1.4 PMC is administered by the ACS Border Management Division's PMC Unit, based in Melbourne. The Unit has four staff.

1.5 In focusing on how efficiently and effectively ACS administers the new charge on overseas travellers, the bulk of which was collected via airline carriers under interim arrangements, the audit was designed to promote the development of robust and effective arrangements for the longer-term. The audit process, as much as this report, was designed to inform the review of the interim arrangements and the renegotiation of longer-term arrangements. ACS supported the audit, recognising that it could make a timely contribution to the development of the longer-term arrangements.

1.6 PMC is a new cost recovery initiative, involving a substantial change in the collection process compared with its antecedent, Departure Tax. Departure Tax was collected on an agency basis by Australia Post via the sales of the relevant stamps at airport booths. In contrast, since PMC can be collected at the time of ticket sale, its collection has much greater involvement of the airlines (and indirectly travel agents, which account for approximately 80 per cent of tickets sold). Airlines collect the PMC on the Commonwealth's behalf and remit it to ACS.

Audit objective and methodology

1.7 The objective of the audit was to examine how efficiently and effectively the ACS administers PMC, including the interim arrangements with airlines. The audit was intended to provide guidance to ACS on the key issues and areas of risk it should address in developing the system supporting the collection of PMC. As part of the audit, criteria were determined to consider how well revenue was protected and how well administrative arrangements were operating. In particular, the audit sought to examine how ACS protects the Commonwealth revenue and to identify areas for improvement in the formulation of the longer-term arrangements.

1.8 The analysis examined:

- the basis of the charge;
- the arrangements in legal and commercial terms;

- revenue control; and
- administrative effectiveness.

1.9 The ANAO examined material underlying the formulation of the charge and the negotiation of the arrangements with airlines. The ANAO was assisted by legal consultants from the firm Blake Dawson Waldron in assessing the terms of the arrangements. In addition, the ANAO and ACS jointly obtained legal advice from the Attorney-General's Department on specific issues connected with the arrangements. The audit focused particularly on the revenue control over airlines, as the major source of PMC revenue. The ANAO examined ACS' controls over airline payments and performed tests on a sample of airline tickets.

1.10 The ANAO's field work was conducted between December 1995 and February 1996. Field work concentrated on the operations of the PMC Unit in Melbourne, but also involved the ACS Central Office, and NSW Regional Office, the Department of Immigration and Multicultural Affairs and the Australian Quarantine and Inspection Service. We also had discussions with representatives of airline, shipping and tourism interests.

1.11 The audit was conducted mid-way through the implementation of the PMC arrangements, knowing that the new arrangements with airlines should have been concluded by the time this report is presented. The ANAO provided a mid-term audit status report and issues papers to ACS during the audit to keep it informed of our assessments of the administration of PMC and the interim arrangements with airlines, in particular.

1.12 The audit was conducted in conformance with ANAO Auditing Standards and cost \$233 900.

1.13 As PMC is a recently introduced charge, there has not been any previous coverage of the topic by the ANAO. However, the ANAO was able to refer to audit work conducted on similar air passenger taxes overseas. Particularly useful for reference purposes were audits undertaken in the US, ¹ Canada ² and the UK. ³

2. Nature of the Charge

Summary

2.1 PMC is designed to recover the Customs, Immigration and Quarantine (CIQ) costs of inward and outward passenger processing and the costs associated with issuing short-term visitor visas. The charge notionally offsets the costs incurred in providing the service.

2.2 Although the rationale for the introduction of PMC is as a cost recovery measure, in law PMC is a tax. The elements of charge should be identified and relevant costs monitored for assurance that costs are fully offset, consistent with the PMC policy objective.

PMC as a cost recovery measure

2.3 According to the Treasurer's 1994 Budget Speech and the Second Reading Speech for

the PMC legislation, the \$27 PMC was introduced to recover or 'fully offset' the cost of CIQ processing of incoming and outgoing passengers and to recover the costs of issuing short-term visitor visas. It replaced Departure Tax, which was a general revenue item - not linked to costs associated with the provision of CIQ services and costs associated with the issue of short-term visitor visas. The level of the charge was determined as an average of actual processing costs following the National Passenger Processing Committee Cost Recovery Working Party Report on Cost Recovery Options for Passenger Processing.

2.4 It was calculated that the cost of these services was \$27 per departing passenger. The \$27 charge is imposed on all liable departing passengers - Australian citizens and residents as well as non-citizens and visitors.

PMC as a tax

2.5 PMC bears all the characteristics of a tax. It is a compulsory exaction of money for public purposes, not being a fee for service. PMC is levied on outgoing passengers even though the charge is also designed to cover incoming passenger processing costs. As well, the whole charge is levied on all liable departing passengers, including departing Australian citizens and residents who do not require visas to re-enter Australia.

2.6 The Attorney-General's Department and Blake Dawson Waldron advise that PMC is a tax. However, despite this, some descriptions of PMC to the public would suggest that the impost is a charge intended to (simply) recover CIQ and short-term visa issuing costs.

Extent of over-recovery

2.7 The Government decision to levy PMC at the rate of \$27 per departing passenger was based on estimates of CIQ passenger processing costs, stemming from the National Passenger Processing Committee's cost recovery exercise in 1993, and the estimated costs of issuing short-term visitor visas. While acknowledging that there is no requirement for a one to one relationship between the revenue from the charge and agencies' costs, based on estimates provided by agencies, the ANAO assesses that PMC collections for 1995-96 exceeded CIQ and short-term visa issuing costs by approximately \$19.1 million.

2.8 This over-recovery arises for two reasons. One is that the CIQ costs of passenger processing and the costs of issuing short-term visas are now actually lower than the \$27 per departure originally estimated. The other is that the rate of growth in the number of departures has been higher than expected, adding more to PMC collections than to passenger processing costs.

PMC adjustment

2.9 When deciding in early 1994 to implement the PMC, the Government agreed that the amount of the charge should be reviewed every two years. Such reviews of the charge should produce several benefits. Reviews would be useful to encourage agencies to secure efficiencies in the cost of the processing functions it recovers.

2.10 Reviews will also provide an opportunity to consider the extent to which passenger processing and visa issuing costs may change over time. Economies of scale and efficiencies expected to accrue from ACS measures associated with the Advance Passenger Clearance initiative, as well as electronic visa issue providing savings in labour costs for the Department of Immigration and Multicultural Affairs, are expected to contain processing costs.

2.11 Given the rationale of PMC as a cost recovery measure, reviews of the charge provide a means to take account of these movements. The reviews should entail detailed and accurate determinations of all appropriate costs that are to be recovered, for use in setting the charge.

Recommendation 1

2.12 The ANAO *recommends* that the elements of the charge be identified in the forthcoming review and ACS, DIMA and AQIS collectively monitor the costs of their relevant activities to provide assurance that these costs are fully offset, consistent with the PMC policy objective.

Entity responses

2.13 ACS, AQIS and DoF agree with this recommendation. DIMA notes the recommendation. ACS notes that an Inter-Departmental Committee is scheduled to convene in the last quarter of 1996 to review all aspects of the Passenger Movement Charge, including the basis for the quantum of the charge.

2.14 DoF, AQIS and DIMA note that there need not necessarily be a one to one relationship between the charge and costs. ANAO notes, however, that the public rationale and policy objective of PMC is clearly that of cost recovery.

Cost-effectiveness of collection

2.15 PMC is a more streamlined method of collection than Departure Tax. PMC collection by airlines has meant that passengers do not have to purchase a stamp separately from buying their ticket. As a result of this, booths are not required at airports, although they existed (until July 1996) for the transition period. Passenger processing is further facilitated because Customs officers do not have to cancel each stamp as they used to do with Departure Tax. This means that passengers can proceed more quickly through outward processing.

2.16 As well as the attractiveness of the PMC collection system from a passenger facilitation point of view, it is also attractive as a cost-effective mechanism for the collection of revenue. The administrative cost of collecting PMC is fundamental to assessing the overall effectiveness of the PMC arrangements.

2.17 A reason for introducing airline collection of PMC was to reduce the administrative collection costs of Departure Tax, which at 4 - 5 per cent, were high by world standards. In an answer to a Parliamentary Question the previous Government indicated its expectation that the administrative costs of PMC would be about 2 per cent of revenue collected.

2.18 PMC costs of collection compare favourably with that of Departure Tax. ACS figures for the first six months of 1995-96 indicate that PMC administrative costs represent approximately 1.58 per cent of revenue collected.⁴ ACS estimates that PMC administrative costs for 1995-96 will be approximately 2.35 per cent of revenue collected.

2.19 At this stage it is difficult to estimate accurately the administrative costs for PMC for the long term. The statistics for 1995-96 are affected by the fact that the system is in its early phase of establishment. Nonetheless the figures are encouraging⁵ and this

performance could be improved if other measures such as the electronic lodgment of data by airlines and payment by electronic funds transfer (by airlines, charter operators and shipping companies) could be introduced. These initiatives would help to contain administration costs now incurred in rekeying data and processing payments by cheque.

3. Scheme Design and Assessment of Interim Arrangements

Summary

3.1 ACS did well to negotiate the arrangements given pressing constraints and the interim arrangements operated satisfactorily in practice. However, the environment in which the terms were negotiated had a very material impact on the content of the final document negotiated for the interim phase. A number of issues evident in the interim arrangements require resolution to place the future arrangements on a firmer basis which better protects the Commonwealth's interests.

3.2 A major issue in the interim arrangements is airlines' obligation to remit moneys collected for PMC. In the absence of detailed collection, remittance and supervisory provisions, obligations on airlines to remit only what they have collected is inadequate for the long term.

3.3 The ANAO understands that ACS is seeking to address this matter in the negotiations on the longer-term arrangements with airlines. The ANAO considers that if the revised contractual arrangements cannot provide adequate safeguards for the Commonwealth, ACS should develop options (including legislation) that will enhance compliance, for consideration in the policy context.

The PMC scheme design

3.4 Under the terms of the Passenger Movement Charge Act, PMC is payable by all liable departing passengers. Some twelve categories of passenger are exempt from PMC. Pursuant to s10 of the Act, the Commonwealth has agreed that airlines should collect an amount equivalent to the charge from passengers purchasing tickets. This amount is remitted to ACS after the passenger has departed Australia. These negotiated agreements are formalised in arrangements between the Commonwealth and over 50 individual airlines operating out of Australia.

3.5 Passengers who have not paid their PMC amount when purchasing their ticket (payment is recorded on the ticket) are identified by airline check-in staff at the airport on departure. They are directed to booths at which they can pay PMC or have their exempt status noted with an exemption sticker. Booths were the back-up element of the system to ensure that all passengers liable to pay PMC do so.

The process of implementation and review

3.6 The introduction of PMC was announced in May 1994 and it was indicated at that time that the Government was seeking to have airlines agree to collect it on the Commonwealth's behalf. The original intention was that airlines would start collection from 1 January 1995 but this was delayed to 1 July 1995. (During this period, PMC for airline passengers was collected by sales of PMC stickers at the established airport booths.)

3.7 There was considerable pressure on ACS to secure the airlines' agreement. The Government required ACS to negotiate a voluntary arrangement with airlines, to allow commencement on 1 July 1995. Airline representatives were not prepared to agree unless the arrangement was couched in acceptable terms. In the absence of agreement from the airlines, ACS would have been forced to seek legislation. The Commonwealth did not have legislation requiring airlines to collect the amount had the negotiations failed, and legislation could not have been ready by the announced commencement date. These factors weakened the Commonwealth's negotiating position and the terms of the interim arrangements reflect this position.

3.8 The interim arrangements were agreed to operate between 1 July 1995 and 30 June 1996. ACS intended that the interim arrangement period should enable airlines to establish their PMC collection systems before the longer-term arrangements require them to be totally responsible for its remittance. The longer-term arrangements were introduced in July 1996, following a review and negotiations with the airlines. ACS commenced preliminary discussions on the new arrangements with the airlines in December 1995 and negotiations were concluded by June 1996.

3.9 The ANAO reports its assessment of the interim arrangements, knowing that the new arrangements have now been concluded, as a benchmark for the assessment of the longer-term arrangements in the future.

Background - the arrangements with airlines

3.10 Under the terms of the Passenger Movement Charge Act (s10) and the interim arrangement, airlines do not collect the PMC as such, but agree to collect from passengers an amount equivalent to the charge.

3.11 Each airline is required to:

- remit to the Commonwealth the amount it actually collects on account of the charge;
- use its best endeavours to collect such an amount from each passenger so liable;
- identify those who have not paid; and
- use its best endeavours to direct them to a booth where they should make payment.

3.12 The relevant establishment and administration costs of the airlines are payable by the Commonwealth and the arrangements contain provisions dealing with matters such as the production of records, disclosure of information, dispute resolution and termination.

3.13 The Commonwealth has not entered into similar arrangements with the shipping companies.

3.14 In assessing the strength of the interim arrangements with airlines, the ANAO appreciates these are supported by the other arrangements with various agencies to sell PMC stamps at booths. This secondary collection system is an intrinsic element of the revenue collection regime devised for the interim period. Maintenance of the booths was required when ACS could not secure the intended contractual obligations with airlines by 1 July 1995. For proper revenue control, the longer-term arrangements to apply when booths are removed will have to secure the airlines' obligation to collect PMC.

The Commonwealth's negotiating position was relatively weak

3.15 The Commonwealth's negotiation of the arrangements was weakened by self-imposed constraints, including timing constraints, following the announcement at Budget time that PMC would be collected by airlines. The Commonwealth did not have a fall-back position in these negotiations in that, should the negotiations have failed, it could not have introduced legislation in time before the July 1995 deadline.

3.16 The arrangement's terms reflect the negotiating environment. Particularly notable in this respect are provisions requiring that airlines remit only what they have actually collected, not what they should have collected from passengers, and the Commonwealth agreeing to reimburse airlines' reasonable establishment and administration costs associated with the collection of PMC.

Interim arrangements - an assessment

3.17 Use of negotiated arrangements with airlines to collect PMC has both advantages and disadvantages. The most significant advantage is the flexibility such a device offers (relative to legislation), should changes be required. On the other hand, the parties must ensure that the arrangements agreed are workable, terms are enforceable and that parties adequately share risks. Many of the problems in the arrangements identified during the course of the audit were teething problems. They do indicate, though, that using negotiated arrangements as a device for PMC collection can be administratively difficult (e.g. obtaining signatures and remittances). Also, although the arrangements are generally well-drafted and have functioned adequately in practice, features of the arrangements undermine their practical usefulness and expose the Commonwealth to risk. These features are outlined in the following paragraphs.

Coverage of arrangements is not complete

3.18 The arrangement applies only to airlines which have signed the agreement. ACS invests considerable effort following up and attempting to conclude arrangements with all airlines operating flights to Australia and approaches new operators as they become known to it. Having secured agreement to the arrangement, ACS also ensures that remittances are made. As at March 1996, ACS was dealing with some 53 airlines currently operating in Australia. Although not all airlines had signed their arrangements, ACS advised that all (known) operating airlines were remitting PMC.

Some terms of the arrangements offer considerable concessions to airlines or expose the Commonwealth to risk

Airlines have very limited obligations

3.19 The arrangements apply only to a person who at the time of ticket sale, pays an amount to the airline equal to PMC. Airlines are required only to remit the amount they and their agents actually collect.

3.20 Under the interim arrangements, the Commonwealth has very limited ability to take action if there were significant slippage between airline payments and the amount ACS may calculate airlines should remit. The Attorney-General's advice highlights this weakness in the interim arrangements with airlines, noting that

... an arrangement between an airline and the Commonwealth entered into pursuant to s 10

(1) should include an unequivocal obligation on the airline to pay to the Commonwealth an amount equivalent to any amount of PMC which may become payable by persons to whom the arrangement applies - whether or not the airline actually collects such an amount. However, there is no such express, unequivocal provision in the arrangement ...

3.21 ACS relies on the operations of the booths to ensure that all relevant charges are collected. At best, the terms of the airline arrangement only allow the Commonwealth to use evidence of a gap between assessed payments and remittances to claim that an airline is not using its best endeavours to collect applicable charges. This is not adequate to protect the Commonwealth's interests for the longer-term.

Difficulties in the Commonwealth collecting debt

3.22 Section 10 of the Act allows the Commonwealth to collect as a debt an amount payable under an arrangement. However, this may not adequately protect the Commonwealth's interests in ensuring all relevant charges applicable to departing passengers are received. In the event of a liquidation of an airline, the Commonwealth would only rank with any other creditor, and in an insolvency there is unlikely to be any significant recovery of moneys owed under an arrangement.

3.23 Were an international airline to cease any involvement by way of flights to Australia, it might be difficult for the Commonwealth to collect moneys owing as a debt, especially if the airline has no effective physical presence, aircraft or assets ever in Australia. The Commonwealth may be financially exposed because it is unable to recover charges collected on behalf of such an airline.

3.24 The rights of the Commonwealth are limited to the airline with which it has a relationship. The arrangement would not, for example provide the Commonwealth with any rights of access to moneys collected by others such as travel agents unless they are in an agency or trust relationship with the contracted airline. Yet travel agents, estimated to sell approximately 80 per cent of airline tickets, often collect the charges. The Commonwealth may wish to consider means by which it can access those who collect the charges.

Terms do not address some important practical situations

3.25 Legal advice on the arrangements highlights the need for more robust obligations on airlines and their agents.

3.26 The arrangement does not clearly cover the range of legal relationships which exist in the airline industry between the airline and the parties selling tickets (possibly involving agents, wholesalers and consolidators). Although Clause 3.1 defines payments 'to the airline' to include an airline's agents, there may be cases in which the travel agent may not be acting as the agent for 'the airline' on whose aircraft and under whose flight number the passenger ultimately departs, but as the agent for another airline.

3.27 The Attorney-General's Department advises that the obligations imposed on the airline do not bind the airline's agents. In view of the significance of collections of third parties, more explicit and detailed provisions concerning such collections and the obligation of the airline to the Commonwealth despite non-remittance by the third party should be considered.

The granting of exemptions is an area of risk

3.28 For revenue control, it is necessary to ensure that only people entitled to claim exemptions actually do so. The Commonwealth must be satisfied that the airlines and travel agents in Australia and overseas have procedures to establish properly the eligibility of those claiming exemptions. These procedures are not clearly expressed in the arrangements and this is an area of risk to Commonwealth revenue.

3.29 Under the interim arrangements, airlines are only generally obliged to use 'best endeavours' to collect the PMC amount at the time of ticket sale from each passenger liable to pay the charge, but 'best endeavours' are not defined. The initial determination of exempt status at the time of ticket sale is crucial: not only is it the threshold point for the operation of the arrangements but it is likely to be the definitive assessment of status.

3.30 The Commonwealth would be in a much better position if it were able to include specific provisions to ensure that the airlines establish and continue to operate procedures to ensure that those claiming exempt status are properly assessed. The amount of revenue currently involved is very small for all exemption categories other than children and diplomats (these two categories representing an estimated \$10.7 million in 1995-96). However, when booths cease operations, procedures governing the assessment of eligibility at the time of ticket sale will assume importance in terms of Commonwealth revenue control.

Recommendation 2

3.31 The ANAO *recommends* that, in negotiating the longer-term arrangements with airlines concerning collection and remittance of PMC, ACS ensure that the arrangements effectively protect the Commonwealth's interests. ACS should address, in particular, the following aspects of the interim arrangements:

- concessions to airlines regarding obligation for payment;
- the Commonwealth's exposure to risk in collecting debt;
- collections by third parties; and
- controls over exemptions.

ACS Response

3.32 ACS agrees with this recommendation. The new arrangement addresses the issues of concessions to airlines and third party collections by making airlines fully responsible for payment. The Commonwealth's exposure to risk in collecting debt has been assessed, leading to the conclusion that the industry is stable and the risk of liquidation minimal.

Legislation may ultimately be required

3.33 In the absence of detailed collection, remittance and supervisory provisions, obligations on airlines to remit only what they have collected are inadequate for the long term. This may well require attention to the very basis of the whole set of arrangements. Indeed, instead of a voluntary agreement, the Commonwealth may ultimately need a legislative framework which includes explicit Commonwealth powers relating to late payment, payment of penalties, and the seeking and supply of information.

Arrangements should be reviewed

3.34 The performance of airlines under the longer-term arrangements should be reviewed over the next eighteen months, within the context of the ongoing reviews of PMC. The ANAO considers that if adequate progress is not made to overcome the inadequacies of the interim arrangements and especially to include detailed collection, remittance and supervisory provisions, or that the results of the review show that the revised contractual arrangements cannot provide adequate safeguards for the Commonwealth, ACS should consider developing options (including legislative options) that would enhance compliance, for consideration in the policy context.

1

United States General Accounting Office, *Customs Service: Passenger User Fee Collection Needs to be Reevaluated*, GAO, Washington, 1995.

2

Office of the Auditor General, *Report of the Auditor General of Canada*, Chapter 16, Revenue Canada: Air Transportation Tax, Canada, 1995.

3

National Audit Office, *Annual Audit Report on HM Customs and Excise Appropriations Account 1994-95*, 1996. Paras 36-48 deal with the Air Passenger Duty.

4

This figure is lower than otherwise would be the case because delays in billing processes have impacted on the recording of some expenditure for the period.

5

In the UK, the administrative collection costs of the Air Passenger Duty (including, for comparative purposes, costs which in the UK are borne by industry but which in the Australian system are reimbursed by ACS) were estimated to be 8-20 per cent in the establishment phase of 1994-95 and estimated to be 2-5 per cent on an ongoing basis. See National Audit Office, *Annual Audit Report on HM Customs and Excise Appropriations Account 1994-95*, 1996, paras 38-39.

4. Revenue Control - For Airlines and Other Payers

Summary

4.1 The ACS revenue control system refers to the process of collecting and checking PMC remittances. ACS has had in place an interim control system since the scheme began in July 1995 and is currently developing proposals to improve aspects of the system.

4.2 The ANAO examined a sample of remittances for the period July 1995 to September 1995 in detail and reviewed further payments to February 1996 to assess risks to revenue. Overall, the ANAO considers ACS has developed a satisfactory revenue control system and collections are currently in line with passenger numbers overall.

4.3 The main means by which ACS can improve its performance are by enhancing the legal and administrative framework for revenue control, including streamlining review processes and undertaking more systematic analysis of data. There is also scope for ACS to improve revenue collection and reconciliation procedures for some categories of payers.

Introduction

4.4 The PMC revenue collection system involves three groups of collectors: commercial airlines, airport booths and other payers.

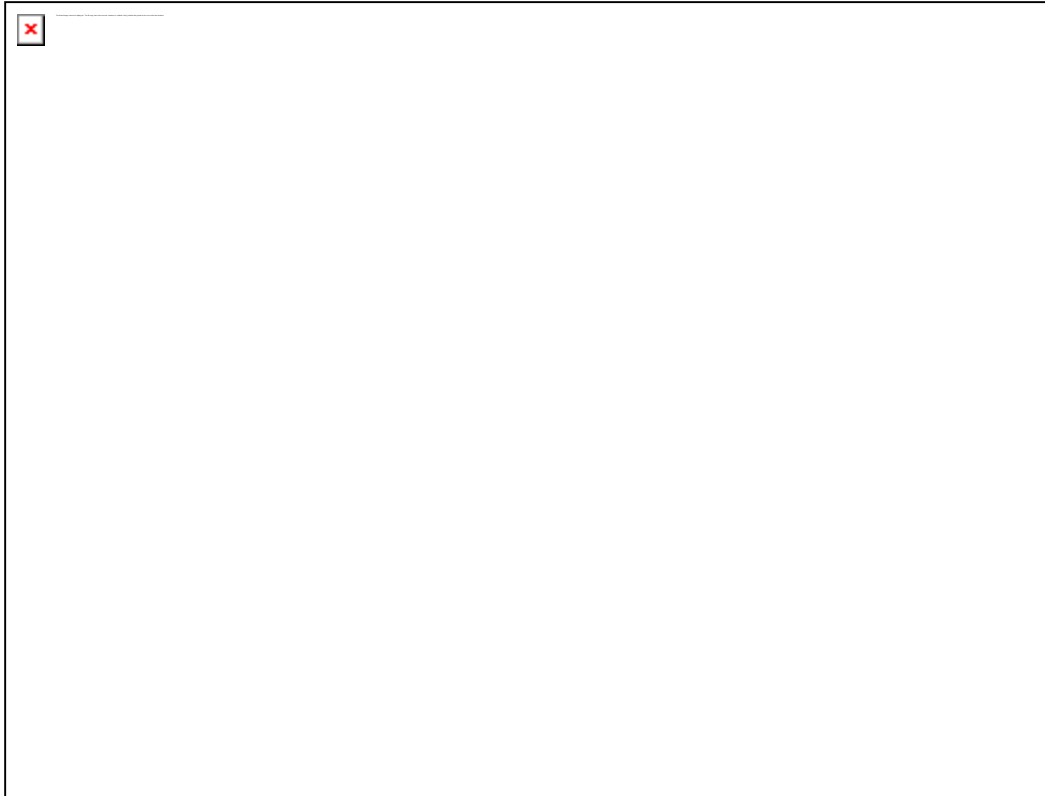
4.5 PMC is collected from airline passengers at the time of ticket sale. Airlines pay PMC collections to ACS either monthly or two-monthly and at the same time report the number of passengers who have paid PMC and the total number of passengers carried.

4.6 Under the interim arrangements if passengers do not pay the PMC at time of ticket sale, airline employees direct passengers to a booth. Booth operators determine whether the passenger is exempt from paying PMC under one of the twelve categories of exemptions in the legislation. If the passenger is not exempt from payment the booth sells the passenger a PMC-paid sticker. Booths report monthly to ACS the number of exemptions granted and the number of PMC-paid stickers sold.

4.7 In addition to the airline paying system, other payers include shipping companies, charter operators and government departments such as the Departments of the Prime Minister and Cabinet, and Defence which are responsible for relevant officials' travel. Shipping companies and air charter operators are responsible for collecting PMC from passengers and remitting the money to ACS. Officials of state or military personnel on military flights, for example, have their PMC paid by the Department of the Prime Minister and Cabinet or the Department of Defence.

4.8 The PMC revenue collection scheme is illustrated below.

Figure 1. PMC Revenue Collection System - Interim Arrangements



Commercial airlines

4.9 PMC revenue totalled \$147.8 million in 1995-96. Airlines accounted for \$128.8 million of this and the remainder was collected from booths (approximately \$17 million) and other payers (\$1.9 million). ACS has focused most attention on revenue control over airlines, as the major source of PMC revenue. Over the period of the interim arrangements since mid-1995, ACS finalised the legal arrangements with airlines and developed a method to check airline payments.

4.10 PMC revenue within the airline industry is highly concentrated. During the July-September 1995 period, for instance, the top ten airlines accounted for over 80 per cent of revenue received. This means that, if ACS can exercise a high level of revenue control over those airlines, it can ensure that the bulk of PMC revenue due will be collected.

4.11 ACS checks airline payments by what it refers to as a 'reconciliation process'. ACS estimates the amount of PMC which the airlines should be paying and compares this with airline reports.

4.12 As the starting point for the reconciliation, ACS uses its passenger database, the Passenger Automatic Selection System (PASS). PASS contains information about the numbers of passengers on airlines departing Australia. ACS then deducts the number of exemptions granted and PMC stickers sold by booths to estimate the airline payments. (A table setting out the various categories of exemptions and the sources of data on their numbers is at Appendix 1.)

4.13 In principle the reconciliation process is straightforward. However, there are some limitations in the data which mean that the airline and PASS figures are not directly comparable and this complicates the reconciliation system. Although PASS provides a reliable source of information on the total number of passengers, flight coding

technicalities mean that there are some inaccuracies in the number of passengers by flight. Additionally, airline total passenger numbers include transit passengers but transit passengers are not recorded in PASS as they do not go through ACS barrier processing. These differences in the two underlying sets of data make the initial comparisons difficult.

4.14 A further administrative difficulty in the reconciliation process is caused by the 'single journey exemption'. Passengers who take more than one flight departing Australian as part of 'a single journey' may be eligible for the exemption. However, details of these passengers' exempt flights may not be available in the carrying airlines' or ACS' data. (Neither flight coupons nor PASS identify these categories of passengers; numbers of passengers receiving the exemption are only available from booth data.) The carrying airlines may remit PMC for these passengers, not realising that they are exempt.

4.15 Compounding these problems is the difficulty that the length of time it takes airlines to compile information for their reports to ACS varies. This is because some airlines rely on fully automated systems which require passenger tickets to be processed through their payment system before accurate statistics can be reported, while others rely on manual data capture immediately after the time of departure. A short time-frame between the end of the payment period and reporting increases the likelihood of some passenger tickets not being included in reports provided to ACS. ACS arranged the payment and reporting period to accommodate airlines' requirements.

4.16 Despite these difficulties, the reconciliation process is important as it provides an indication of the number of passengers not paying PMC under the interim system. The reconciliation will presumably continue to be necessary under the longer-term arrangements as a guide on the reasonableness of airline payments.

4.17 At the aggregate level, the results of the ACS reconciliations indicate that airline payments are reasonably in line with PASS passenger numbers overall. Although this is reassuring, the ACS' checks also indicate that payments by individual airlines differ significantly from ACS expected receipts.

4.18 ANAO analysis of the reconciliation found that three main factors caused additional difficulties for ACS in completing the reconciliation in a timely manner, namely:

- late airline remittances;
- poor quality airline reports ; and
- little remittance investigation and analysis of data by ACS.

Late remittances

4.19 Receiving payments on time is an essential element of maintaining revenue control. Although airline payment performance varies, in the September quarter 1995 the majority of airlines remitted late and some were six weeks late. Late payments delay ACS' ability to assess performance of the new PMC scheme and its impact on passenger processing. Additionally ACS incurs extra costs of following up non-payment and the Commonwealth forgoes the opportunity of using the funds it should have received.

4.20 Under the interim arrangement ACS has no ability to penalise airlines failing to remit on time. This reduces airline incentives to remit on time voluntarily, as they can gain the

financial benefit of holding funds for a longer period of time without incurring any costs. It is therefore important that ACS has an ability to take action against airlines which remit PMC late.

Poor-quality airline reports

4.21 Airline information such as total passenger numbers per flight and the number of passengers who paid PMC is necessary for the completion of the reconciliation and forms an integral part of revenue control. Over half of airline reports were provided late or not at all and many of the reports did not contain the information specified in the arrangements.

4.22 Poor quality information further delays finalisation of the reconciliation and reduces ACS' scope to assess the accuracy of airline remittances. This is because ACS has to either attempt to check remittances without sufficient information or request additional information from the airline.

4.23 The ANAO considers that provision of 'model' reports illustrating presentation of the data required could improve the quality and timing of airline reports. This would also provide accurate information which is consistent with ACS needs and would avoid airlines providing inadequate or inappropriate information to ACS.

ACS investigation and analysis

4.24 It is important that ACS investigate large discrepancies between what it expected to be paid and actual airline payments and reports. Investigations improve revenue control by maximising the opportunity for detecting errors and minimising the chances of misunderstandings developing between the airlines and ACS.

4.25 Under the interim arrangements airlines are not required to make up discrepancies between what they collected and what ACS anticipated. ACS did limited investigation of reports and did not resolve discrepancies in remittances.

4.26 ANAO audit work highlighted the importance of timely investigation of discrepancies between airline payments and ACS estimates. ANAO analysis of payments found several errors in airlines' calculations of PMC payable. Although most errors were minor, one resulted in an airline underpaying by \$91 000 in one quarter. The long delay in discovery of the problems meant that ACS did not pursue the errors with individual airlines. Instead, all airlines were notified of the mistakes to avoid repetition.

4.27 In addition to these regular reconciliation checks, it is important that ACS from time to time undertake risk-based analysis of available information on payments. This analysis should seek to identify patterns and trends in PMC payments and to investigate any detected anomalies on the basis of pre-set criteria.

Recommendation 3

4.28 The ANAO *recommends* that ACS develop a strategy to ensure timely and accurate remittance and adequate reporting by airlines, with prompt investigation of anomalies.

ACS Response

4.29 ACS agrees with this recommendation. The longer-term arrangement imposes obligations on airlines to provide reports and to remit within time-frames or be penalised.

The arrangement obliges ACS to conduct reconciliations and to investigate discrepancies promptly.

ACS streamlining proposals

4.30 ACS has developed two proposals to reduce the difficulty and time required to complete the reconciliation process while maintaining revenue control. These proposals are the Notional Exemption Rate (NER) and the Tolerance Range.

Notional Exemption Rate

4.31 The NER replaces the actual number of exemptions with an estimate of the number of exempt passengers carried by an airline. An estimate of exemptions is necessary because ACS cannot identify a cost-effective way to collect data on the actual numbers of exemptions granted following the closure of booths in July 1996.

4.32 Although the NER concept has merit, the ANAO has reservations about its use by the ACS. The ACS method of determining the NER places reliance on data which may be out of date and the method disadvantages airlines which carry proportionately more exempt passengers. Also, the ANAO is concerned how the ACS would redetermine exemption levels underlying the NER in the future when actual numbers are not available.

Recommendation 4

4.33 The ANAO *recommends* that, given the difficulties which will be encountered in establishing the numbers for some categories of exemptions with the closure of the airport booths, ACS review the administrative effectiveness and efficiency of maintaining exempt categories for which there will be no reliable source of data.

ACS Response

4.34 ACS agrees with this recommendation. This issue will be examined by the inter-departmental review.

Tolerance Range

4.35 The Tolerance Range is a risk management approach which aims to maintain revenue control and reduce the PMC Unit workload. Payments falling outside the allowable range will be investigated for potential errors. ACS proposes that, following investigation, it would repay overpayments and collect full payment from airlines found to have underpaid.

4.36 The tolerance range reflects both ACS and airline feeling that the reconciliation process of matching data is difficult and imprecise and the tolerance range allows a margin of error by both parties.

4.37 ACS has conducted little analysis on the effect of the proposal on PMC revenue or on workload for the PMC Unit. ANAO analysis of the proposal showed that the proposal specified in early 1996 would have had little effect on PMC collections but would not have significantly reduced the PMC Unit workload. It would be appropriate for ACS to reconsider aspects of its Tolerance Range proposal to reduce the amount of investigation it would require of the PMC Unit.

Remittance reviews

4.38 Remittance reviews are another element of the revenue control process. Such remittance reviews involve the examination of an airline's payment details over a period of time or the processes that an airline goes through to prepare and lodge the PMC payment. The aim of these reviews is for ACS to assure itself that remittances received from airlines are correct. At the time of the audit ACS had not had the opportunity to address the issue of remittance reviews.

4.39 The ability to undertake reviews and impose penalties for incorrect payments could be expected to encourage airlines to comply voluntarily with ACS' payment requirements. Additionally, a sound review program can complement other measures ACS undertakes to ensure PMC requirements are being met.

4.40 Overseas experience indicates that a well-designed, planned and resourced ¹ program of review is required to ensure revenue control. However, there are real, practical issues of legal ability, resourcing and approach to be resolved before this can be achieved.

Legal capability

4.41 The existence and use of appropriate information collection powers are important to ensure that reviews can be conducted in an effective manner. They help to ensure that ACS gains information required in a timely manner to examine and assess the remittances of airlines and to detect errors.

4.42 ACS' access to airline information is restricted to that specified in the terms of the interim arrangements. The arrangements permit ACS to enter airline premises for purposes associated with the arrangements; however, if ACS enters their premises airlines are only required to provide information specified in the arrangements.

4.43 To establish the correct PMC remittance value, ACS relies on airline reports on passengers carried as well as airlines' systems, internal controls and procedures. It is therefore important that ACS ensure it has an appropriate level of access to this information to determine that PMC is correctly collected from passengers and remitted to ACS.

Resourcing

4.44 Overseas experience ² indicates that appropriate levels of resources are an important aspect of the success of reviews. This is because a well-designed and resourced review can maximise the ability of ACS to detect errors occurring in payments. ACS has not considered resource and staffing levels and skill requirements required to undertake detailed reviews of airline remittances.

Approach

4.45 It would be appropriate in the longer-term for ACS to consider the costs and benefits of potential methodologies and approaches that could be taken to review airline payments. Some approaches which can be included in the design of a review program include:

- sampling airline tickets and comparing them with airline reports and remittances;
- passenger sampling at airports and comparing results with airline reports; and

- examining airline systems and controls for collecting and remitting PMC.

Recommendation 5

4.46 The ANAO *recommends* that, in order to strengthen its revenue control processes, ACS:

- review the adequacy of legal and administrative provisions relating to its information gathering and access powers;
- determine, within the context of its overall operational demands, staffing and resourcing requirements for review of airline remittances; and
- develop approaches to undertake appropriate risk-based investigation and analysis of airline remittances.

ACS Response

4.47 ACS agrees with this recommendation.

Other payers

4.48 Other payers, including shipping companies, air charter operators and government departments such as the Department of Defence, which pays PMC for liable departing military personnel, collectively paid PMC of \$1.9 million in 1995-96. Although these payers constitute a small portion of total PMC collections, it is important that ACS has a cost-effective method of collecting PMC from these payers to ensure completeness of revenue collections.

Shipping companies

4.49 Remittances from shipping companies account for only a very small portion of PMC collections, generating \$1.4 million in 1995-96.

4.50 Cruise vessels frequent several ports in Australia, but Sydney accounts for most cruise vessel activity. Cruise processing, including the collection of PMC, is the responsibility of the relevant ACS Regional Office.

4.51 ACS Regional Offices do not have standard procedures for collecting PMC payments from shipping passengers and making PMC payments to the PMC Unit. Additionally, the NSW Regional Office undertakes unnecessary checking on cruise shipping remittances (eg a 100 per cent check of the ship's manifest listing all passengers). Given the small amounts of revenue involved and the accuracy with which companies calculate their payments, it may be more cost-effective for ACS to check only a sample of payments.

Air charter operators

4.52 Remittances from air charter operators generated less than \$0.6 million in 1995-96. Although air charter payments represent an insignificant amount of PMC payments, ACS does not have processes in place to ensure payment.

4.53 Charter operators are characteristically small, provide irregular flights from Australia and are not subject to the formal PMC arrangements that apply to commercial airlines. The nature and scale of their operations make them administratively more difficult for

ACS than the major commercial airlines.

4.54 There are five organisations responsible for different aspects of the administration of air charter operations: the Department of Transport and Regional Development, the National Passenger Processing Committee, Air Services Australia, the Civil Aviation Safety Authority and the Federal Airports Corporation. Each organisation has a different area of responsibility and none provides comprehensive coverage of the industry.

4.55 Although charter operators seek clearance by ACS Regional Border Control officers before departing, information provided on passengers and the charter operator is often incomplete or outdated.

Recommendation 6

4.56 The ANAO *recommends* that ACS:

- institute standard PMC remittance procedures for cruise ship passengers; and
- develop cost-effective procedures to identify charter operators and collect PMC from them, in consultation with relevant organisations (the Department of Transport and Regional Development, the Civil Aviation Safety Authority, Air Services Australia, the National Passenger Processing Committee and the Federal Airports Corporation).

ACS Response

4.57 ACS agrees with this recommendation. ACS has already negotiated a revised remittance procedure for the cruise shipping industry which has removed regional variations by centralising payments to the PMC Unit. A research project on charter operations has also been completed from which specific procedures for charter operations have been devised.

5. PMC Administration

Summary

5.1 The PMC Unit has been administered well. With enthusiasm and dedication the staff of the Unit have done much to develop and implement the interim PMC arrangements. Aspects of the collection regime which have not been fully addressed to date will benefit from the Unit's attention over the coming months.

5.2 The Unit is well-regarded by representatives of the industries with which it interacts.

5.3 The PMC Unit administration can be enhanced with some specific training and operational measures and the introduction of processes to facilitate risk management and improve performance monitoring and management reporting.

PMC Unit has been administered well

5.4 Since the 1994 Budget announcement of the PMC initiative ACS, and particularly the PMC Unit in Melbourne, have worked to develop and implement systems to collect PMC. The PMC Unit's tasks included negotiating the legal arrangements with airlines,

developing systems to monitor payments from airlines, scrutinising and paying airline claims for reimbursement of reasonable costs, arranging alternative suppliers of PMC stamps at airports to replace the dedicated booths of Australia Post, and developing collection systems for other payers.

5.5 The PMC Unit has done its tasks with diligence. This is apparent not only to the ANAO but also to the industry representatives with which the PMC Unit has had to deal. Representatives of the airlines, the shipping industry and tourism bodies the ANAO consulted during the audit were supportive of the PMC Unit's efforts in devising and implementing the new charge and its supporting administrative systems.

Administration would be enhanced with procedural guidelines and some specific training

5.6 While acknowledging the Unit's achievements in a short period of time, the administration of the PMC Unit could be enhanced in the future were staff to have procedural guidelines setting out the detailed processes associated with staff members' functions. These guidelines would clarify the processes for staff on an ongoing basis and assist the training of new staff.

5.7 At present there are not training programs specifically for the PMC Unit. Although general training is important, PMC Unit administration could be improved with some specific training. It would be useful, for example, for staff members devising the airline reconciliation and reporting arrangements to have a good general appreciation of the revenue and passenger processing systems in the airline industry, and especially the airline ticketing and clearance systems. Better industry exposure would assist ACS to devise secure payment, control and reporting systems and importantly, to appreciate the practical impact of these schemes on large and small airlines. Such a knowledge could be obtained through a brief placement in an airline's office or by taking brief training modules delivered by travel agents.

Unit management

5.8 The PMC Unit has an Action Plan outlining the Unit's main operational and corporate tasks for the period November 1995 to mid 1996. There may be merit in the PMC Unit producing a regular management report to complement the current Action Plan, and to report to management against tasks.

5.9 Responsibilities for the management and staffing responsibilities of the PMC Unit are divided between the Central Office and the Victorian Regional Office. Regular reporting of performance (including a range of performance measures relating to work effort and results) and targets would help to make explicit the possible impact of staffing decisions on the Unit's performance.

5.10 The PMC Unit monitors key administrative and financial aspects of the program on an ongoing basis. Reports outline the status of contracts with airlines (those signed, those unsigned and future entrants to be approached) and highlight PMC revenues and expenditures. The monthly PMC management report could be enhanced by including additional performance indicators. This would give management an insight into the administrative effort required, and results achieved, by the PMC Unit and the administrative effectiveness of the current system. Additional performance information could indicate:

- the timeliness and completeness of airline payments and reports;
- the time the PMC Unit spends on its major activities such as the time spent seeking and clarifying data from airlines;
- the time entering data from airlines and booths;
- the time performing the reconciliation of airline reports; and
- the time monitoring other payers such as ships and charter operators.

Recommendation 7

5.11 The ANAO *recommends* that the PMC Unit focus attention on improving the management and administrative processes associated with the collection of PMC. Aspects of Unit administration which would benefit from attention are management reporting, performance indicators and training.

ACS Response

5.12 ACS agrees with this recommendation. The Unit's Action Plan and performance indicators have been updated to accommodate recommendations made by the ANAO. A comprehensive management report linked to the Action Plan is currently under development. The training suggestions made by the ANAO will be dependent on co-operation from airlines and industry training bodies.

Risk management strategy

5.13 The PMC Unit has an implicit risk management strategy but management of the PMC Unit would benefit from the preparation of an explicit risk management plan. Such a process would help to identify the relative risks associated with elements of the overall system and also help to clarify whether the PMC Unit's management processes were appropriate, given the revenue involved and assessed risks. As such, an explicit risk management plan would be a good basis on which to develop the PMC Unit's Action Plan.

Recommendation 8

5.14 The ANAO *recommends* that, in addition to the specific risk management measures suggested to enhance revenue control, the PMC Unit devise an explicit risk management strategy as a clear framework for its Action Plan and ongoing administration of PMC.

ACS Response

5.15 ACS agrees with this recommendation.



1

Office of the Auditor General, *Report of the Auditor-General of Canada*, Chapter 16, Revenue Canada: Air Transportation Tax, Canada, 1995.

2

Office of the Auditor General, *Report of the Auditor-General of Canada*, Chapter 16, *Revenue Canada: Air Transportation Tax*, Canada, 1995.

Appendix 1 - Exemption Categories

Exemption Category	Source of numbers of exemptions granted
Children under the age of 12.	ACS (PASS).
Diplomatic and consular representatives of countries other than Australia.	Department of Immigration and Multicultural Affairs.
Operational and positioning flight crew members.	ACS (PASS) and Airlines.
Passengers landing in Australia beyond their control due to illness, bad weather or other emergency.	Airlines.
Travel between Australia and Indian Ocean Territories where the passenger is not continuing to an international destination.	Booths (until July 1996).
Travel between Australia and Norfolk Island where the passenger is not continuing to an international destination.	Booths (until July 1996).
When travel between the Australian mainland and/or an Indian Ocean Territory or/and Norfolk Island can only be reasonably accomplished by first departing through another country.	Booths (until July 1996).
Traditional Inhabitants of Torres Strait Island or Papua New Guinea travelling in connection with traditional activities.	Booths (until July 1996).
Single-journey passengers who depart Australia more than once in the course of the same journey.	Booths (until July 1996).
Transit passengers arriving and departing by air who do not undergo Customs and Immigration processing.	Airlines.
Member of a Foreign Defence Force departing on a military aircraft or military ship.	Booths (until July 1996).
Passengers departing Australia to an installation in Area A of the Zone of Cooperation under Timor Gap Treaty.	Booths (until July 1996).

Appendix 2 - Performance Audits in the Australian Customs Service

Set out below are the titles of the reports of the main performance audits by the ANAO in the Australian Customs Service tabled in the Parliament in the past three years.

Audit Report No. 25 1993-94

Australian Customs Service

Investigations Function - Directions of Change

Audit Report No. 20 1995-96

Australian Customs Service

Diesel Fuel Rebate Scheme