

The Auditor-General  
Audit Report No.32 1999–2000  
Performance Audit

## **Management of Commonwealth Non-primary Industry Levies**

Australian National Audit Office

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ISSN 1036-7632  
ISBN 0 644 38908 7

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Canberra ACT  
17 February 2000

Dear Madam President  
Dear Mr Speaker

The Australian National Audit Office has undertaken an across-agency performance audit in accordance with the authority contained in the *Auditor-General Act 1997*. I present this report of this audit, and the accompanying brochure, to the Parliament. The report is titled *Management of Commonwealth Non-primary Industry Levies*.

Following its tabling in Parliament, the report will be placed on the Australian National Audit Office's Homepage—  
<http://www.anao.gov.au>.

Yours sincerely



P. J. Barrett  
Auditor-General

The Honourable the President of the Senate  
The Honourable the Speaker of the House of Representatives  
Parliament House  
Canberra ACT

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# Abbreviations/Glossary

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ACA	Australian Communications Authority
ACS	Australian Customs Service
AGS	Australian Government Solicitor
AMSA	Australian Maritime Safety Authority
ANAO	Australian National Audit Office
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
ATO	Australian Taxation Office
AUSTEL	Australian Telecommunications Authority
CAC Act	<i>Commonwealth Authorities and Companies Act</i>
CPI	Consumer Price Index
CRF	Consolidated Revenue Fund
DOCITA	Department of Communications, Information Technology and the Arts
DHAC	Department of Health and Aged Care
DTRS	Department of Transport and Regional Services
FMA Act	<i>Financial Management and Accountability Act</i>
ISC	Insurance and Superannuation Commission
LSL	Long Service Leave
MAB	Management Advisory Board
MIAC	Management Improvement Advisory Committee
MOU	Memorandum of Understanding
NRS	National Relay Service
NUSC	Net Universal Service Cost
PHIAC	Private Health Insurance Administration Council
PHIO	Private Health Insurance Ombudsman
SIFC	Stevedoring Industry Finance Committee
SIS Act	<i>Superannuation Industry Supervisory Act</i>
SLA	Service Level Agreement
USO	Universal Service Obligation.

# Summary and Recommendations





# Summary

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## Background

1. Industry levies play a significant role in the provision of many public services and fund a range of activities undertaken by regulatory bodies such as the Australian Prudential Regulation Authority (APRA), through to financing reform of the Australian waterfront labour force. Commonwealth entities collected some \$1 billion in industry levies in 1998–99. The Department of Agriculture, Fisheries and Forestry—Australia accounted for about half of these, mainly in the form of primary industry levies. The remainder are administered by the seven entities examined in this audit.

2. The term levy is a generic term usually referring to a particular kind of tax, namely a compulsory payment by a discrete group to fund a related public purpose. Under the Constitution, all Commonwealth taxes must be paid to the Consolidated Revenue Fund (CRF) with the result that identifiable revenue cannot be directly linked to a particular purpose. Levy funds that are in the nature of a tax must first go to CRF, after which an amount may be appropriated for a specific purpose. A levy is distinct from imposts that are generally regarded as non-taxes such as royalties, licence fees and fines or penalties. The legal view of the criteria that must be met for an impost to qualify as a tax is that it must be a compulsory extraction by a public authority for a purpose, and is not a payment for services rendered.

3. The 15 levies examined in the audit raised some \$485 million in revenue in 1998–99. These levies fall into four broad functional groupings that included safety and the environment; universal service obligations (USO); industry regulation; and employment (see Figure 1). The USO category comprised two levies but accounted for over half the revenue raised in non-primary industry levies in 1998–99. In contrast, the industry regulation group had the largest number of levies but accounted for the least amount of revenue, totaling some \$65 million. The safety and the environment group, with four levies, raised some \$84 million in revenue in 1998–99.

## Audit approach

4. The seven entities covered by this general performance audit of the financial management of non-primary industry levies are the Australian Prudential Regulation Authority (APRA); Australian Communications Authority (ACA); Australian Maritime Safety Authority (AMSA); Coal Mining Industry (Long Service Leave Funding) Corporation; Department of Transport and Regional Services (DTRS); Private Health Insurance Administration Council (PHIAC); and the Private Health Insurance Ombudsman (PHIO).

5. ANAO set qualifying criteria to select the levies that were included in the audit. For the purposes of this audit, to qualify as a levy the impost must:

- be a compulsory payment by a discrete industry group to fund a related public purpose;
- apply to a non-primary industry activity;
- derive revenue and have legislation in place as at 30 June 1999;
- have the word “levy” included in the title of the enabling legislation, or a clear reference to its status as a levy in the text of the enabling legislation.

6. The objectives of the general performance audit undertaken under section 18 of the *Auditor-General Act 1997* were to assess:

- the coverage, revenue and expenses of non-primary industry levies;
- the effectiveness of selected entities’ financial management of non-primary industry levies; and
- areas of better administrative practice relating to the financial management of non-primary industry levies.

**Figure 1**  
**Levy Financing Outcomes 1998–99<sup>a</sup>**

<i>Levy</i>	<i>Program Costs<sup>b</sup></i> \$m	<i>Admin Costs<sup>b</sup></i> \$m	<i>Total Costs<sup>b</sup></i> \$m	<i>Revenue</i> \$m	<i>Cost Recovery<sup>c</sup></i> %
<b><i>Safety and environment</i></b>					
Aircraft Noise Levy	60.3 <sup>d</sup>	0.3 <sup>d</sup>	60.6	37.7	62 <sup>e</sup>
Marine Navigation Levy	25.2	0.04 <sup>f</sup>	25.2	26.9	107 <sup>e</sup>
Marine Navigation (Regulatory Functions) Levy	14.9	0.04 <sup>f</sup>	14.9	16.1	108
Protection of the Sea Levy	4.2	0.04 <sup>f</sup>	4.2	3.6	86
<b><i>Universal service obligations</i></b>					
Telecommunication USO Levy	256	na	256	256	100 <sup>g</sup>
National Relay Service Levy	9.1	na	9.1	9.0	99 <sup>g</sup>
<b><i>Industry regulation</i></b>					
PHIO Levy	0.8	na <sup>h</sup>	0.8	0.7	85
PHIAC Levy	1.2	0.01	1.2	1.2	100
Superannuation (Excluded Funds) Supervisory Levy	3.5	na <sup>i</sup>	3.5	33.8	965
Superannuation (Non-excluded Funds) Supervisory Levy	32.7	na <sup>i</sup>	32.7	20.7	63
Retirement Savings Account Providers Supervisory Levy	0.09	na <sup>i</sup>	0.09	0.06	71
Life Insurance Supervisory Levy	6.1	na <sup>i</sup>	6.1	4.5	74
General Insurance Supervisory Levy	4.8	na <sup>i</sup>	4.8	4.1	84
<b><i>Employment</i></b>					
Coal Mining Industry (LSL) Payroll Levy	92.7	0.8	93.4	62.0 [80.9] <sup>j</sup>	66 <sup>e</sup> [87] <sup>j</sup>
Stevedoring Levy	na <sup>k</sup>	na <sup>k</sup>	na <sup>k</sup>	8.7	na <sup>ke</sup>
<b>Totals</b>	511.5	1.2	512.7	485.0	
Notes: a) Agencies moved to full accrual budgeting from 1999–2000. b) Costs relate to those reported by the entities primarily responsible for the delivery of the levy. c) Cost recovery percentages based on exact numbers. Cost and revenue numbers detailed in the figure have been rounded. d) Estimate, as DTRS does not disaggregate program and administration costs. e) Levy for which costs are recovered over more than one year with the result that the rate of cost recovery will vary between years (see Fig 4.2). f) Total administration costs only; this figure is derived by apportioning administration costs across the three AMSA levies. g) Administration costs recovered from carrier licence fees, levy recovers USO amount set by Government and NRS costs. h) The administration costs of Department of Health and Aged Care (DHAC) were reported as negligible. i) APRA does not disaggregate program and administration costs. j) Includes investment income of \$18.9 million. k) Levy commenced 1 February 1999 (estimates for 1998–99 were not available at the time of audit fieldwork).					

Source: ANAO analysis based on information provided by entities.

## Audit conclusions

7. The audit found that, in general, most Commonwealth entities had established sound governance, including control, structures to manage levy collections effectively. Nevertheless, the findings set out in this report indicate that the financial management of a minority of levies will require a stronger executive management focus if they are to achieve the results required.

8. The extent to which levy revenue is intended to recover costs, and the time period over which this should occur, need to be established at the outset. Levies may have the objective of full cost recovery, partial cost recovery, or they may be set at a predetermined level without reference to costs. Most levies examined in the audit were designed with the intention of recovering the costs associated with the levy activity. ANAO found that, for 1998–99, four of the short term levies, which accounted for over half of the revenue, achieved cost recovery levels that were within 10 per cent of reported costs; for other levies, entities had either not identified the cost of administration and/or the level of recovery did not bear a direct relationship to costs.

9. In the course of the audit ANAO developed a checklist of administrative requirements to evaluate entities' financial management of levies. The checklist summarises financial management issues comprising: legislative compliance; identification of levy payers; identification of costs; assessment of liability and invoicing; receipting and banking; debt recovery; records management; risk management; review and evaluation; and cost recovery. The development of these practices drew on examples of sound administration found in a number of entities covered in this audit.

## Compliance

10. The classification of a levy as a tax or a fee for service has significant implications for its administration. For a levy to qualify as a fee for service as opposed to a tax, a number of criteria need to be met including whether: a specific service must be provided; the service is rendered to, or at the request of, the party paying the account; and the charge is proportionate to the cost of the service rendered.

11. On the basis of the evidence gathered by the ANAO, 14 of the 15 levies examined in the audit had separate collection acts and also had their related administrative expenditure covered by an appropriate act. Revenue from 13 of the levies was paid into the Consolidated Revenue Fund (CRF) in conformity with administrative requirements.

12. However, deficiencies were found with the then receipting practices

of the DTRS in regard to the Stevedoring Levy in which funds were not swept from an account with a private sector bank to the CRF as soon as practicable after the levy funds became public monies. In addition, there were ambiguities concerning the compliance of the PHIAC Levy (administered by the PHIAC). In this context, relevant agencies are reviewing the implications of the recent High Court decision in the *Monarch Airlines* case concerning the characteristics of the PHIAC Levy as a tax or as a fee for service. The Department of Health and Aged Care advised the ANAO in December 1999 that they consider that *there is a firm basis for an argument that the current legislative provisions provide sufficient grounds for imposition and collection of the PHIAC Levy.*

## Financial management

**13.** The Commonwealth's financial management improvement initiatives have focussed on the need for entities to have financial management information systems that will enable the identification of accrual costs and revenues. The identification of costs is essential to make informed decisions about resource allocation and cost recovery. Ideally, cost recovery is based on a full accrual basis, that is, expenses and revenue are allocated to the particular reporting period to which they relate and levies are set accordingly.

**14.** Costing information was usually assembled by entities in response to external accountability requirements. Entities were generally able to identify levy program costs. However, a number of entities were unable to capture the administration costs associated with particular levies accurately. Entities that manage multiple levies, such as APRA and AMSA, face considerable cost allocation problems in devising transparent and efficient costing systems given the need to allocate significant indirect costs across levies.

**15.** The audit conclusions concerning specific aspects of entities' financial management are detailed below.

- **Collection practice.** Where levy collection was outsourced to another agency, this service should generally be carried out for a fee that is then recovered from the levy payers. The administration costs of collecting levies were generally identified and assessed by entities. The exception was that the Australian Customs Service (ACS) does not charge for their collection service to AMSA. ANAO recognises that AMSA's use of ACS is a cost efficient approach to levy collection but considers that, consistent with the need for transparency in the management of levies, the collection costs should be visible. As well, they should be included in the total costs attributed to the levy, even if this is at the reporting level and not imposed as a fee for service.

- Identification of levy payers. Most entities examined demonstrated effective identification systems which provided an adequate coverage of levy payers and the effective identification of new entrants, including arrangements to inform new entrants of levy responsibilities where there was a reasonable chance they may be overlooked. ANAO found deficiencies in APRA's former arrangements for the identification of leviable excluded superannuation funds that had the potential for some funds to avoid paying the levy. APRA advised ANAO it is now working on a transition plan for the orderly transfer of excluded superannuation funds administration to the Australian Taxation Office (ATO).
- Assessment of levy payers. Entities' levy assessment systems were generally soundly based and capable of providing a reasonable assurance that accurate assessment of the liability was achieved. Nevertheless, the earlier APRA/Insurance and Superannuation Commission arrangements for assessing levy liability from the excluded superannuation funds were found to have deficiencies in the financial management system which gave rise to the potential for levy payers to avoid paying the levy. APRA reported to the ANAO that investigations of records back to 1996–97 revealed that some 11 500 registered funds had not lodged returns. The total amount of Commonwealth revenue potentially at risk is at least some \$2.3 million. APRA advised ANAO that, as part of the transitional phase where both APRA and ATO share responsibility for the excluded superannuation funds, a project team has now been formed to identify all levy payers that are in arrears with the aim of reducing the balance of outstanding debt to a minimum by 30 June 2000.
- Banking and receipting. Three of the four entities reviewed generally had timely and effective arrangements for banking of receipts. However, ANAO found deficiencies in the management of the Stevedoring Levy whereby some levy payers failed to forward returns on a monthly basis. As well, DTRS' receipting and registering practice was not sufficiently comprehensive to ensure complete coverage. ANAO has been advised by DTRS that its practices have been reviewed and the collection system for the Stevedoring Levy has been modified to ensure that, as from 1 July 1999, all leviable stevedoring companies are required to submit a monthly return, including nil returns. As well, internal control measures have been strengthened to ensure accurate and timely registration and receipting of returns. Further, the Department advised that a reconciliation of returns and receipts has been completed and no deficiencies have been reported.

- *Debt recovery.* Most entities reviewed had soundly based systems for effective debt recovery. However, ANAO found that follow-up action against the excluded superannuation funds which failed to lodge an annual return to ISC/APRA has not always proceeded systematically with the result that a number of these funds were likely to be outstanding debtors. APRA reports that, at October 1999, the total debt outstanding in regard to superannuation funds was some \$6.1 million, which includes \$2.8 million from the current period and \$3.3 million applicable to earlier periods. APRA advised ANAO that administration systems have recently been developed to: identify all outstanding excluded superannuation levy debt as soon as it falls overdue; institute an effective system to recover outstanding debts; effectively monitor all outstanding debts; and review debt recovery actions.
- *Record keeping.* To maintain required standards of operational effectiveness, transparency and accountability, a levy collection system needs to include a sound record keeping system. ANAO generally found that most entities examined had appropriate record management practices. The importance of good records is underscored by the problems encountered with the APRA excluded superannuation funds and the wind-up arrangements associated with the *Stevedoring Industry Levy Act 1977* which was in operation until 1995. After the cessation of levy collection in August 1995, SIFC wind up procedures revealed that some \$14 million of levy funds had been collected in excess of the amount required to repay the redundancy loans for stevedores, which was the purpose of the levy. The records of transactions prior to the cessation of levy collection by SIFC were deficient. It is apparent that entities should ensure an effective accountability framework for Commonwealth revenue and expenses by maintaining an adequate standard of record keeping.
- *Risk management.* The management practices of entities did not generally include appropriate consideration of levy collection risk management. Risk management practice could be strengthened, with only four of the seven entities having a documented fraud control plan as at 30 June 1999. As well, most entities did not undertake formal risk management assessments specifically in relation to levies.
- *Cost recovery.* Most levies examined in the audit were designed with the intention of recovering the costs associated with the levy activity. The more material levies administered by APRA had the largest spread of cost recovery levels (including costs incurred by other agencies) ranging from under-recovery of 63 per cent for the non-excluded superannuation funds to over-recovery by 965 per cent for the excluded superannuation funds. The over-collection by nearly 10 times for the

superannuation excluded funds was the result of levy revenue substantially exceeding the regulatory costs of the excluded superannuation funds. The Department of the Treasury advised ANAO that the cross-subsidisation by the small superannuation funds of the larger financial institutions ceased following the Government's decision to reduce the levy for self managed funds by 77 per cent with effect from the 1998–99 fund income year. The reduced levy aims to recover only the regulatory and administration costs applicable to self managed superannuation funds.

- Accountability. Entities' management of levies should be more comprehensively monitored to ensure appropriate levels of efficiency and service quality. To ensure effective accountability and to assist in the application of efficient cost recovery arrangements, entities should develop appropriate internal accounting systems and reporting arrangements where they are not already in place. ANAO considers that levy management arrangements should take account of the importance of transparency in the financial reporting of each levy as this provides an effective means to guard against the concern of levy payers that the collection agency is not over-recovering costs. The majority of entities publish some information on levy revenue and expenses. However, the reporting arrangements were not generally sufficiently comprehensive to provide a clear understanding of levy costs and revenue to all stakeholders, including Parliament.

## Improvement opportunities

**16.** The audit identified a number of areas where entities need to review their financial management and control structures to ensure effective stewardship of resources, notably:

- collection processes would be improved if entities regularly reviewed the integrity of their financial management information systems to ensure that all levy payers are identified and assessed;
- debt recovery policies and procedures would be improved by regular review of outstanding levy debts against an appropriate financial threshold; and
- improvement to corporate governance arrangements in regard to individual levy programs would be strengthened if all entities produce a written fraud control plan; conduct periodic risk assessment; and undertake regular reviews of their programs' efficiency and effectiveness.



# Recommendations

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*ANAO made seven recommendations in regard to the management of Commonwealth non-primary industry levies as set out below. The ANAO considers that relevant agencies should give priority to Recommendations 1,3,4 and 5.*

## Recommendation

### No.1

#### Para. 2.19

*ANAO recommends* that the Private Health Insurance Administration Council and the Department of Health and Aged Care seek advice on the legal ambiguities that exist regarding the status of the Private Health Insurance Administration Council Levy under the *National Health Act 1953* as a fee for service or as a tax.

**Agree:** DHAC and PHIAC.

## Recommendation

### No.2

#### Para. 3.13

*ANAO recommends* that entities identify levy collection costs on an accrual basis to the extent consistent with cost-effective data capture, as a means of ensuring efficiency in resource allocation and achieving greater transparency of these costs.

**Agree:** ACA, AMSA, APRA, Coal Mining (LSL Funding) Corporation, DHAC, DTRS and PHIAC.

## Recommendation

### No.3

#### Para. 3.30

*ANAO recommends* that entities enhance their collection processes by regularly reviewing the integrity of their financial management information systems to ensure that all levy payers are properly identified and assessed.

**Agree:** ACA, AMSA, APRA, Coal Mining (LSL Funding) Corporation, DHAC, DTRS and PHIAC.

## Recommendation

### No.4

#### Para. 3.45

*ANAO recommends* that, having regard to the significant financial losses to the Commonwealth that can occur due to ineffective debt recovery policies and procedures, entities regularly review outstanding levy debts against an appropriate financial threshold to ensure timely recovery action is taken.

**Agree:** ACA, AMSA, APRA, Coal Mining (LSL Funding) Corporation, DHAC, DTRS and PHIAC.

**Recommendation No.5** ANAO *recommends* that entities strengthen their corporate governance by:

**Para. 3.67**

- a) producing a comprehensive and readily available fraud control plan;
- b) conducting periodic risk assessment of the individual levy program; and by
- c) undertaking regular reviews of individual levy programs to assess their efficiency and effectiveness.

**Agree:** ACA, AMSA, APRA, Coal Mining (LSL Funding) Corporation, DHAC, DTRS, PHIAC and PHIO.

**Recommendation No.6** ANAO *recommends* that entities review and develop capabilities within these financial management information systems in relation to levies that will

**Para. 4.23**

provide management with adequate and timely costing information on a full accrual basis for both input and output costs.

**Agree:** ACA, AMSA, APRA, Coal Mining (LSL Funding) Corporation, DHAC, DTRS, PHIAC and PHIO.

**Recommendation No.7** ANAO *recommends* that entities develop appropriate administrative systems to ensure that reporting processes are in place that will produce financial and

**Para. 4.37**

non-financial information for effective internal monitoring and review of levy performance and for related external accountability.

**Agree:** ACA, AMSA, APRA, Coal Mining (LSL Funding) Corporation, DHAC, DTRS, PHIAC and PHIO.

# Audit Findings and Conclusions



# 1. Introduction

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*This chapter outlines the background to non-primary industry levies, the audit approach taken and issues for consideration in improving administrative practice.*

## Background

**1.1** Industry levies play a significant role in the provision of many public services and fund a range of activities from regulatory bodies such as the Australian Prudential Regulation Authority (APRA) through to financing reform of the Australian waterfront labour force. Commonwealth entities imposed some \$1 billion in industry levies in 1998–99. The Department of Agriculture, Fisheries and Forestry—Australia accounted for about half of these, mainly in the form of primary industry levies.<sup>1</sup> The remainder are administered by the seven entities<sup>2</sup> examined in this audit.

**1.2** The term levy is a generic term usually referring to a particular kind of tax, namely a compulsory payment by a discrete group to fund a related public purpose. Under the Constitution, all Commonwealth taxes must be paid to the Consolidated Revenue Fund (CRF) with the result that identifiable revenue cannot be directly linked to a particular purpose. Levy funds that are in the nature of a tax must first go to CRF, after which an amount may be appropriated for a specific purpose. A levy is distinct from imposts which are generally regarded as non-taxes such as royalties, license fees and fines or penalties.

**1.3** The non-primary industry levies examined generally rely on the user charging principle that the beneficiary of a particular service should pay for the service provided. Such arrangements also provide an incentive to improve efficiency as the service is subject to scrutiny by both those

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<sup>1</sup> Such as those levies which contribute to the funding of Statutory Marketing Authorities and Research and Development Corporations and Councils which play a key role in funding research and development projects, providing marketing services and administering market regulations.

<sup>2</sup> Department of Transport and Regional Services (DTRS); Australian Prudential and Regulation Authority (APRA); Australian Maritime Safety Authority (AMSA); Australian Communications Authority (ACA); Coal Mining Industry (Long Service Leave Funding) Corporation; Private Health Insurance Ombudsman (PHIO); and Private Health Insurance Administration Council (PHIAC).

who are required to pay the levy as well as those who set the levy. The levies examined were usually aimed at achieving full cost recovery. In contrast, the Aircraft Noise Levy<sup>3</sup> was designed to recover the full costs of the Sydney Airport Noise Amelioration Program<sup>4</sup> over several years.

**1.4** Levies are commonly administered by Commonwealth Authorities and Companies (CAC) Act<sup>5</sup> entities such as the Australian Maritime Safety Authority (AMSA), to largely recover the costs of their operations. To a much lesser extent, levies are also administered by Financial Management Accountability (FMA) Act<sup>6</sup> agencies such as the Department of Transport and Regional Services (DTRS) to recover minor aspects of their administrative operations, and to fund levy programs.

**1.5** The 15 levies examined in the audit raised some \$485 million in revenue from levy collections in 1998–99. These levies fall into four broad functional groupings which included safety and the environment; universal service obligations (USO); industry regulation; and employment related matters (see Figure 1.1). The USO category comprised only two levies but accounted for over half the revenue raised in non–primary industry levies in 1998–99. In contrast, the industry regulation group had the largest number of levies but accounted for the least amount of revenue, totalling some \$65 million. The safety and the environment group, with four levies, raised some \$84 million in revenue in 1998–99.

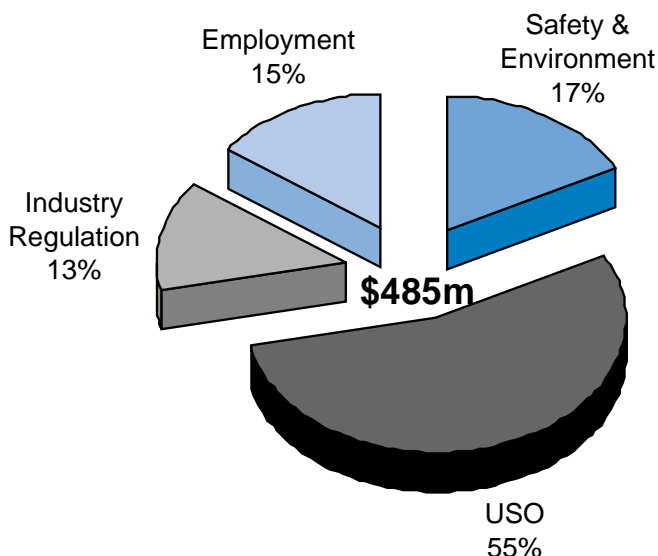
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<sup>3</sup> *The Aircraft Noise Levy Act 1995* and the *Aircraft Noise Collection Act 1995* allows the Minister for Transport and Regional Services to declare an airport to be subject to an aircraft noise levy. A declaration has been made in respect of Sydney Airport.

<sup>4</sup> A Commonwealth program announced in November 1994 to voluntarily acquire properties worst affected by aircraft noise, and provide for the noise insulation of community facilities and private homes.

<sup>5</sup> The *Commonwealth Authorities and Companies (CAC) Act 1997* contains reporting, accountability and other rules for Commonwealth authorities and Commonwealth companies.

<sup>6</sup> The *Financial Management and Accountability (FMA) Act 1997* contains a framework for the proper management of public money and public property (broadly money or property that is owned or held by the Commonwealth).

**Figure 1.1****Levy revenue in 1998–9 by functional groups**

Source: ANAO analysis based on information provided by entities.

## Audit approach

**1.6** The seven Commonwealth entities covered by this general performance audit of the financial management of non-primary industry levies were DTRS; APRA; AMSA; Australian Communications Authority (ACA); Coal Mining Industry (Long Service Leave Funding) Corporation; Private Health Insurance Ombudsman (PHIO); and the Private Health Insurance Administration Council (PHIAC).

**1.7** ANAO developed qualifying criteria to select the levies that were included in the audit.<sup>7</sup> For the purposes of this audit, to qualify as a levy the impost must:

- be a compulsory payment by a discrete industry group to fund a related public purpose;
- apply to a non-primary industry activity;
- derive revenue and have legislation in place as at 30 June 1999; and

<sup>7</sup> Whilst levies are usually taxes, some imposts designated as “licence fees” or “charges” may be part of arrangements where the revenue raised is used for a related public purpose. For example, the Ozone Protection Charges and the Migration Agents Registration Charges, administered by Environment Australia and the Migration Agents Registration Authority respectively are arrangements which have some of the characteristics of a levy in that a compulsory payment is made by a discrete group, but which were not included in this audit.

- have the word “levy” included in the title of the enabling legislation, or a clear reference to its status as a levy in the text of the enabling legislation.<sup>8</sup>

**1.8** The ANAO conducted a search of Commonwealth legal databases and found 19 levies explicitly mentioned in the title of the enabling legislation. Two of these levies were inactive as follows:

- The Sea Installations Levy, which was originally designed to deal with such constructions as floating hotels (currently none exists in Australian coastal waters).
- The Seafarers Rehabilitation and Compensation Levy, is a levy on participating industry employers to fund seafarers’ rehabilitation and compensation for injury sustained under certain specified circumstances. There is provision under the *Seafarers Rehabilitation and Compensation Act 1992* for this activity to be managed by the private sector in which case the Act becomes inactive, which is the present situation.

**1.9** Three other prudential supervision levies (Authorised Non-operating Holding Companies Supervisory Levy, Superannuation (Financial Assistance Funding) Levy and Authorised Deposit Taking Institutions Supervisory Levy) had legislation at 30 June 1999 but APRA was not collecting revenue.<sup>9</sup> Another levy was found by reference to the text of the relevant legislation<sup>10</sup> making a total of 15 levies examined in the audit.

**1.10** The audit commenced in November 1998 with the development of a questionnaire which was used to obtain information from the entities identified as having responsibility for financial management of non-primary industry levies. Field work was conducted between November 1998 and October 1999. Initial data from the questionnaire were used as a guide to gather detailed information from entities by way of interviews, file review and exchange of correspondence. The audit procedures included the specific examination of the Coal Mining Industry (LSL) Payroll Levy (managed by the Coal Mining Industry (LSL Funding) Corporation; the Stevedoring Levy (managed by DTRS); the Marine Navigation Levy (managed by AMSA), and the Superannuation (Excluded Funds) Supervisory Levy (managed by APRA).

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<sup>8</sup> ANAO did not examine every mention of the word levy in legislation. Accordingly, this audit does not purport to include all levies that would fully meet the third criterion for inclusion.

<sup>9</sup> Authorised Non-operating Holding Companies Supervisory Levy was not collected as there were no companies in this category. The Authorised Deposit Taking Institutions Supervisory Levy did not commence receiving revenue until 1 July 1999.

<sup>10</sup> The Private Health Insurance Administration Council Levy.



**1.11** The objectives of this general performance audit undertaken under section 18 of the *Auditor General Act 1997* were to assess:

- the coverage, revenue and expenses of non-primary industry levies;
- the effectiveness of selected entities' financial management of non-primary industry levies; and
- areas of better administrative practice relating to the financial management of non-primary industry levies.

**1.12** The ANAO set audit criteria that addressed the adequacy of entities' management of non-primary industry levies in relation to legal compliance, financial management and records management, and cost recovery.

**1.13** The audit was conducted in accordance with the ANAO Auditing Standards at an estimated cost of \$329 000.

## Improved administrative practice framework

**1.14** In the course of the audit ANAO developed a checklist of levy administrative requirements (outlined in Figure 1.2) to evaluate entities' financial management of levies. The checklist summarises financial management issues which are discussed in the audit. The development of these practices drew on examples of sound administration found in a number of entities.

**Figure 1.2**

### Improved levy administrative practice

Legal Compliance
<p>The framing of a levy's enabling legislation requires several threshold issues to be resolved, including:</p> <ul style="list-style-type: none"> <li>• whether the given impost/levy can be raised without legislation;</li> <li>• what legislation or regulation is required to duly authorise the activity;</li> <li>• whether the activity is within the Commonwealth's taxation powers; and</li> <li>• whether, under section 55 of the Constitution, the levy requires a separate imposition act.</li> </ul> <p>Commonwealth non-primary industry levy legislation and regulations together usually set out quite detailed legislative requirements in regard to the management of the levy. To ensure that a levy complies with constitutional and other legal requirements, an entity should:</p> <ul style="list-style-type: none"> <li>• establish the status of their levy as a tax (or otherwise);</li> <li>• if a tax, confirm that the legislative requirements for a tax have been met; and</li> <li>• periodically review legislation and regulations against current administrative practice.</li> </ul> <p style="text-align: right;"><i>continued next page</i></p>

## **Financial Management**

An entity's financial management system needs to facilitate: accurate identification of levy payers, levy costs and levy revenues; assessment and notification of the liability to pay the levy; prompt receipting and banking of revenue; efficient debt recovery; and sound record keeping.

### **Identification of Levy payers**

The classes of entities potentially liable for a given levy are usually specified in the relevant legislation. However, the actual liability to pay a levy is often contingent on threshold criteria or prescribed activities (such as loading containers onto ships, or employing coal miners). Some levies rely on self-identification and self-assessment by liable entities, and in these circumstances, it is incumbent on the entity responsible for managing the levy to inform levy payers of their obligations. To achieve comprehensive identification of levy payers, entities should have:

- a comprehensive data base of all levy payers;
- systems to identify new entrants and those who leave the industry; and
- arrangements to inform new and existing entrants of their responsibilities.

### **Identification of Costs<sup>a</sup>**

An entity's chart of accounts should facilitate the collection of information by area of operation to establish the cost of an activity. This informs management decision making in determining the effectiveness and efficiency of program outcomes. More specifically, the reporting of costs attributed to levy activity should:

- identify accurately all relevant costs associated with the levy program using an appropriate costing methodology;
- disaggregate the costs into program and administration costs; and
- facilitate the reporting of outcomes to stakeholders.

### **Assessment of Liability and Invoicing**

Accurate assessment of liability is important as under-assessment will result in a revenue shortfall, while over-collection may need to be reimbursed, creating administrative complexity and undermining stakeholder confidence in the system. A sound assessment system should include:

- a clearly defined method for assessing liability;
- a timely invoicing or notification system (for self assessment) with the due date for payment clearly specified; and
- appropriate record keeping to enable verification of the assessment.

### **Receipting and Banking**

Entities' payment, receipting and banking systems should incorporate:

- provision for payments in advance of, or simultaneously with, the issuing of invoices;
- flexible and accessible payment options including provision for electronic funds transfer;
- timely and comprehensive receipting and banking of payments;
- banking arrangements in accordance with Commonwealth Agency Banking arrangements; and
- arrangements to minimise administration costs of levy payers.

*continued next page*

### Debt Recovery

Action to minimise the level and incidence of debt includes: the establishment of formal policies for recovery of debt, including the setting of criteria for pursuing debt recovery; clear statements of roles and responsibilities in debt recovery; and the establishment of controls where exposures are noted. Under section 47 of the FMA Act, Chief Executive Officers are responsible for ensuring the recovery of all debts except debts which are written off as authorised by an Act; or irrecoverable at law; or uneconomical to pursue<sup>b</sup>.

Entities' debt recovery systems should ensure that:

- proper accounts and records are maintained for each debtor;
- all debtors are promptly brought to account in the entity's accounting records, including the aging of debt;
- a letter of demand is promptly forwarded to a debtor seeking payment in full of an amount owing, and follow up with a reminder notice if the debt is not paid within the entity's normal terms of trade conditions;
- there are clear payment deadlines, and consistent application of penalties or appropriate sanctions;
- debt is assessed against a financial threshold before proceeding with recovery action;
- the accuracy of invoices is verified following failure by debtors to respond to a letter of demand;
- debt is prioritised on the basis of risk indicators such as the size of the debt and the time overdue;
- staff have appropriate levels of authority to negotiate payment options; and
- specialist debt collectors are used where appropriate.

### Records Management

To maintain the required standards of operational effectiveness, transparency and accountability, a levy collection system should have a sound record keeping system. The features of a sound levy collection record keeping system include:

- a comprehensive list of all levy payers;
- details of each leviable payer's liabilities and payment status;
- the recognition of defaulters and aging of debt;
- invoicing and receipting arrangements including any penalty provisions;
- automation of key milestones such as invoicing and notification of defaulters; and
- secure record storage facilities.

### Risk Management

A number of financial risks arise in levy collection process such as the risk of under-collection, over-collection, or fraud. The collection of levy revenue by an entity will be impacted upon by any limitations inherent in the internal control structures within an entity. Risks may be minimised where entities have a structured approach to the management of risk including fraud control measures and the incorporation of systematic review and evaluation.

Effective risk management planning involves:

- *establishing the context of the levy activity* including an analysis of the environment of the levy activity, the purpose of the levy and the establishment of appropriate risk criteria;

*continued next page*

- *identifying the risks to levy management* such as managerial risk, financial risk and systems risk;
- *analysing the risks* to gain an understanding of such matters as the current control arrangements, the consequences of failure and the likelihood of occurrence;
- *assessing and prioritising the risks* into acceptable and non acceptable risks;
- *treating the risks* by identifying feasible options and implementing action plans; and
- *periodic review* of the risk management plan.

### **Review and Evaluation**

To provide assurance and target areas for improvement, entities need to undertake periodic reviews of their levy program. The review and evaluation should:

- determine the purpose and scope of the evaluation;
- identify the key objectives and outcomes for the levy activity for inquiry and report;
- determine the appropriate evaluation methodology to address the areas of review, including identification of benchmarking priorities and criteria for measuring financial performance of levies administration; and
- include consultation with, and report the views of, key stakeholders.

### **Cost Recovery**

As a general principle, levy revenue should aim to recover, over a defined period, the total costs of the levy including administrative costs of the activities associated with the levy. Issues that need to be considered include:

- the costs to be recovered, for example program costs and administration costs;
- the recovery period, for example annual recovery or long term cost recovery;
- systematic alignment of charges with costs; and
- the financial system for accurate recording of acquittal of costs and revenue over time.

In reviewing their actual level of cost recovery, entities should have regard to the following issues as appropriate:

- comprehensive coverage of the facilities and services to be included for costing purposes;
- the basis for, and measurement of, costs associated with the provision of those facilities and services;
- the extent to which costs incurred by all entities in providing services for a discrete industry group should be borne by that group;
- the division of an industry for cost recovery purposes into component parts or sectors based on operational, functional or other characteristics; and
- the allocation to industry sectors of levy costs attributable to the sector, and the extent to which costs should be recorded on a disaggregated basis.

Notes:

- a) MAB Report, *Beyond Bean Counting — Effective Financial Management in the APS 1998 and Beyond*.
- b) Chief Executive Officers Instructions, Chapter 7, Debt Management.
- c) MAB/MIAC Exposure Draft, *Managing Risk*, July 1995.
- d) Department of Finance and Administration Publication, *FISC*, September 1994.

Source: ANAO.

## 2. Levy Management Framework

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*This chapter outlines the revenue raised by non-primary industry levies, management responsibilities, and legal compliance issues.*

### Introduction

**2.1** The audit examined the total annual revenue collected from selected levies from 1993–94 to 1998–99. The total revenue raised in this manner varied from year to year as some levies ceased, such as the Stevedoring Industry Levy (1977–1995), and new levies commenced, such as the new Stevedoring Levy that started on 1 February 1999. Over the period examined, there was a steady increase in the amounts collected from a total of some \$372 million generated in 1993–94 rising to \$485 million in 1998–99 (see Figure 2.1) for the levies examined.

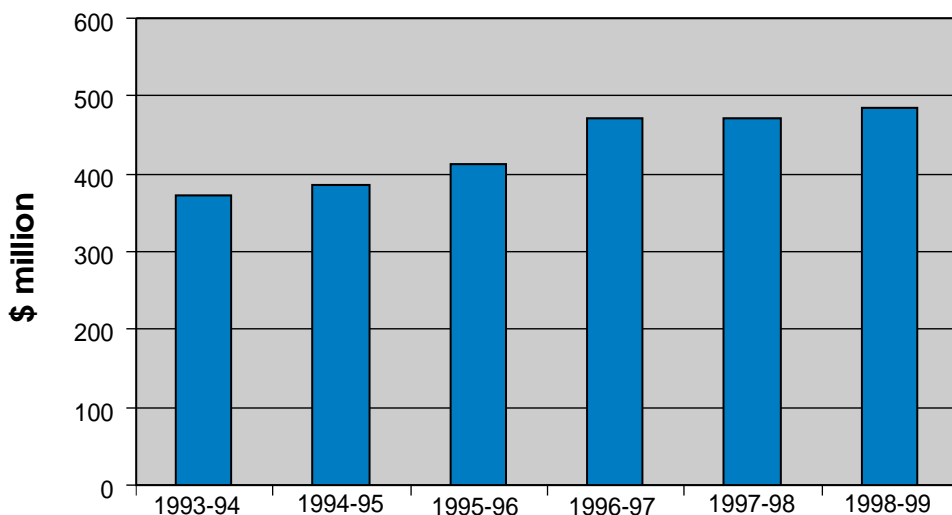
**2.2** The increase in levy revenue can be explained by the introduction of new levies (such as the Aircraft Noise Levy in 1995–96); and an increase in leviable activities (such as aircraft landings and ship movements). A significant increase of some \$60 million from 1995–96 to 1996–97 can also be attributed to the commencement of the Aircraft Noise Levy in October 1995 and a shortfall in the collection of the Insurance and Superannuation Commission (ISC) Superannuation Entities Levy in 1995–96 which was later made up in 1996–97.<sup>11</sup>

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<sup>11</sup> The shortfall related to the invoicing and collection of the levy from the excluded superannuation funds. ANAO was advised by APRA that the party responsible for collection of the levy encountered major problems in service delivery such that they failed to send out invoices for a period of some six weeks. Invoices are normally sent out towards the end of the financial year and delay meant that they were not sent until the next financial year.

**Figure 2.1**

**Annual non-primary industry levy revenue<sup>(a)</sup> 1993–94 to 1998–99**



Note: (a) Excludes investment income covered by entities.

Source: ANAO based on information provided by entities.

**2.3** Some entities have reduced their target revenue through cost savings in program delivery; or reduced their unit charges as the result of growth in the volume of leviable activities. For example, the AMSA Marine Navigation Levy revenue fell from \$33 million in 1996–97 to \$29.6 million in 1998–99. On 1 July 1997, AMSA reduced the Marine Navigation Levy by 10 per cent for vessels with a net registered tonnage in excess of 20 000 and followed this up in February 1998 with a further 5 per cent reduction for all vessels over 5000 tonnes.

**2.4** Structural change in the organisations/economy can also impact on levy collections. For example, the Coal Mining Industry (LSL Funding) Corporation has noted that restructuring in the black coal industry has resulted in many firms being engaged in the industry as contractors to coal mine operators for the first time. This has required the Corporation to increase efforts aimed at informing employers of their obligations under legislation to pay levies. The level of future funding required for miners' long service leave entitlements, and consequently the unit rate charged to employers, depends on the number of miners employed in the coal industry,

and the regularity of their employment. Another factor that impacts significantly on future funding is the earning rate of the Fund.<sup>12</sup>

## Management responsibilities

**2.5** An outline of the individual levies examined in the audit and the entities responsible for their management are outlined in Figure 2.2 under the four functional groupings of safety and the environment; USO payments; industry regulation; and employment. Other entities may be involved in managing levies, but this is typically in the collection process. For example, Australian Customs Service collects the maritime levies for AMSA and Airservices Australia carries out a similar role for DTRS in regard to the Aircraft Noise Levy.

**2.6** Details of levies examined in this audit are outlined below.

- **Safety and the environment levies:** This category included those levies that funded activities broadly related to safety regulation and related assets, or environmental protection issues. This category comprised four levies from the Transport and Regional Services portfolio namely, the Aircraft Noise Levy collected by Airservices Australia and the three maritime levies managed by AMSA. These four levies accounted for total revenue of \$84.3 million in 1998–99.
- **Universal service obligation levies:** The two levies in this category are both managed by ACA. They are the Telecommunications Universal Service Levy and the National Relay Service (NRS) Levy.<sup>13</sup> The two levies collected \$265 million in 1998–99. The Telecommunications USO accounted for \$256 million of this amount and involves carriers offsetting Telstra losses arising from services provided under the universal service regime in direct proportion to their share of total eligible revenue, or as determined by the Minister for Communications, Information

<sup>12</sup> The Fund has liabilities arising from two major sources: liability for benefits accrued from service prior to 1993; and liability for benefits accruing from current service. The current contribution rate of 5.0 per cent of eligible salary is a composite of two rates that relate to funding these liabilities. The Fund actuaries estimate that a contribution rate of 2.4 per cent for past service liability will extinguish it by 2003; while a rate of 2.6 per cent is needed to fund the accruing long service leave liability. If assumptions about the Fund earning rate and employment factors hold, the levy will eventually drop from 5.0 per cent to 2.6 per cent. It should be noted that, since the last actuarial review, the Government decided in 1999 that all black coal miners who were made redundant in 1999 without access to their accrued entitlements could have their entitlements paid from the Fund.

<sup>13</sup> The Telecommunications USO is defined in section 19 of the *Telecommunications (Consumer Protection and Service Standards) Act 1999* Act and is an obligation to: ensure that standard telephone service and payphones are reasonably accessible to all people in Australia on an equitable basis wherever they reside or carry on business; supply standard telephone services to people in Australia on request; and supply, install and maintain payphones in Australia.

Technology and the Arts. The USO for 1998–99 has been set at \$256 million. However, the contribution of each carrier for 1998–99 had not yet been calculated. The costs of this service for 1997–98 was set by the Government at \$253.3 million (plus CPI variations for future years). Telstra’s share of eligible revenue in 1997–98 was some 84 per cent of the total market which represents a contribution of some \$223 million to the total of \$253.3 million.

- **Industry regulation levies:** This category included those levies which were designed primarily to fund the regulation of certain industries and provide some level of consumer protection. This category accounted for nine levies,<sup>14</sup> seven of which related to the regulation of the financial industries, notably the insurance, and superannuation industries, and were managed by APRA which was established on 1 July 1998. Other levies included the Private Health Insurance Complaints Levy (managed by the Private Health Insurance Ombudsman); and the Private Health Insurance Administration Council Levy (managed by the Council of the same name). A total of \$65 million was collected through these levies in 1998–99.
- **Employment levies:** This category included those levies which fund employees’ entitlements or benefits in a particular industry. Two levies included in this category are the Coal Mining Industry (LSL) Payroll Levy managed by the Coal Mining Industry (LSL Funding) Corporation; and the Stevedoring Industry Levy managed by DTRS. The total amount collected by these levies in 1998–99 was some \$71 million.

**Figure 2.2**

**Non-primary industry levies: 1998–99**

<i>Levy</i>	<i>Responsible Entities</i>	<i>Revenue 1998–99 \$m</i>	<i>Purpose</i>
<b><i>Safety and the Environment</i></b>			
Aircraft Noise Levy	DTRS	37.7	A levy imposed on operators of jet aircraft landing at Sydney Airport to fund the Sydney Airport Noise Amelioration Program.
Marine Navigation Levy	AMSA	26.9	A levy paid by certain commercial vessels to recover the costs of AMSA’s navigation aids network.
Protection of the Sea Levy	AMSA	3.6	A levy paid by certain commercial vessels to fund the operations of the National Plan to Combat Pollution of the Sea by Oil.

<sup>14</sup> There is another levy entitled the Authorised Deposit-taking Institutions Supervisory Levy, which commences in 1999–2000.



Marine Navigation (Regulatory Functions) Levy	AMSA	16.1	A levy paid by certain commercial vessels to recover the costs of regulation from the maritime industry.
<b>Universal Service Obligations</b>			
Telecommunications USO Levy	ACA	256.0 <sup>a</sup>	A levy on all telecommunications carriers in Australia to fund the losses from supplying services to meet the Telecommunications USO which is delivered by an approved USO provider.
National Relay Service Levy	ACA	9.0	A levy on all telecommunications carriers in Australia to fund some of the costs of the National Relay Service which is delivered by an approved provider.
<b>Industry Regulation</b>			
Superannuation (Excluded Funds) Supervisory Levy	APRA	33.8	Levies imposed to help fund the majority of the costs of APRA and some of the costs of Australian Securities and Investment Commission and the Australian Taxation Office in undertaking consumer protection functions associated with prudentially regulated institutions.
Superannuation (Non-excluded Funds) Supervisory Levy	APRA	20.7	
Retirement Savings Account Providers Supervisory Levy	APRA	0.06	
Life Insurance Supervisory Levy	APRA	4.5	
General Insurance Supervisory Levy	APRA	4.1	
Private Health Insurance Complaints Levy	PHIO	0.7	A levy imposed on all registered health benefit organisations to fund the office of the Private Health Insurance Ombudsman.
Private Health Insurance Administration Council Levy	PHIAC	1.2	A levy imposed on all registered health benefit organisations to fund the operating costs of the Private Health Insurance Administration Council.
<b>Employment</b>			
Coal Mining Industry (LSL) Payroll Levy	Coal Mining Industry (LSL Funding) Corporation	62.0 <sup>b</sup>	A levy to fund the long service leave entitlements of employees in the black coal mining industry.
Stevedoring Levy	DTRS	8.7 <sup>c</sup>	A levy on stevedoring companies to meet the costs of payments for redundancies and other activities in connection with the reform and restructuring of the stevedoring industry.
Notes: a) At the time of this audit, each carrier's contribution had yet to be calculated for 1998–99. b) Excludes investment and earnings of \$18.9 million. c) The Stevedoring Levy commenced on 1 February 1999.			

Source: ANAO analysis based on information provided by entities.

## Legal compliance

**2.7** The classification of a levy as a tax or as a fee for service has significant legal implications for the proper administration of a levy program and the attendant recovery of costs. The issue of whether a levy is or is not a tax involves a number of legal considerations including:

- whether the activity is within the Commonwealth's taxation powers;
- whether the requirement of section 55 of the Constitution concerning taxation and non-taxation matters applies;
- whether the imposition and collection of the levy is duly authorised by legislation or regulation; and
- whether the given impost/levy can be levied without legislation.

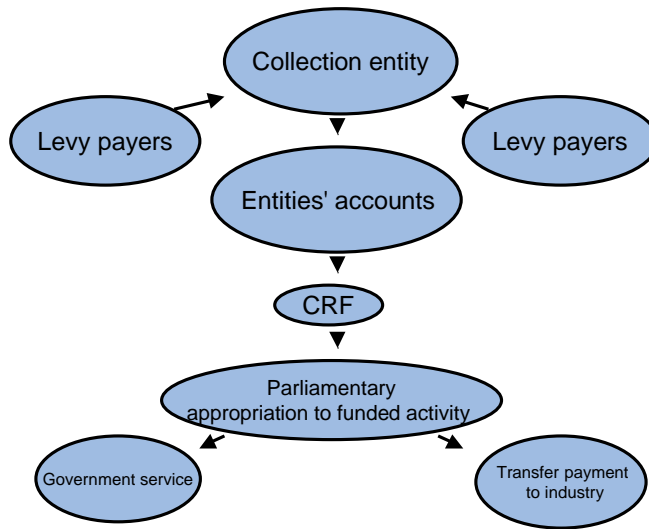
**2.8** Section 55 of the Constitution requires that legislation imposing a tax deal only with that subject. Accordingly, to comply with section 55, at least two acts are required to raise a tax, namely an act to impose the tax, and an act to authorise its collection. The act authorising the collection of a tax is not constrained to deal only with the collection of that particular tax. Therefore the laws authorising the collection of various levies may be consolidated into one Act.<sup>15</sup>

**2.9** A levy, which is a tax, must be paid into the CRF. Commonwealth revenue must be paid to CRF to accord with the requirement of section 81 of the Constitution. The disbursement of levy revenue paid into CRF, like other government expenditure, must be authorised by an appropriation act. The appropriation act may be in the form of an annual appropriation, a special appropriation, or a standing appropriation. For this reason the refund of a levy payment can impose administrative complexities because a specific appropriation may be required to effect reimbursement. The typical monetary flow of non-primary industry levies that are taxes is set out in Figure 2.3.

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<sup>15</sup> The exceptions to this general principle are excise duties and customs duties. A tax which is a duty of excise may be imposed by an act that imposes other excise duties. Similarly, a tax which is a duty of customs may be imposed by an act that imposes other customs duties.

**Figure 2.3**  
**Flow of levy funds**



Source: ANAO.

**2.10** The 15 levies in this audit were examined against the framework above as well as the Constitutional requirements for the enabling legislation. Anomalies were found with compliance aspects in regard to the PHIAC Levy and in the receipting practices of the Stevedoring Levy (see Figure 2.4). The PHIAC Levy collection is authorised under section 82 G (h) of the *National Health Act 1953* for the purpose of funding the operations of the Private Health Insurance Administration Council. To raise a tax in compliance with section 55 of the Constitution requires both an act to impose a tax and an act to authorise its collection. The latter is absent from the PHIAC Levy.

**2.11** The classification of a levy as a tax or a fee for service has significant implications for its administration. For a levy to qualify as a tax it must be a compulsory extraction by a public authority for a specified purpose, and is not a payment for services rendered.<sup>16</sup>

**2.12** For a levy to qualify as a fee for service as opposed to a tax, a number of criteria need to be met including whether:

- a specific service must be provided;
- the service is rendered to, or at the request of, the party paying the account; and
- the charge is proportionate to the cost of the service rendered.

<sup>16</sup> Mathews v Chicory Marketing Board (VICT.) (1938), 60 CLR 263.

**2.13** In view of the compliance testing outlined in Figure 2.4, ANAO obtained legal advice from the Australian Government Solicitor (AGS) in May 1999 concerning whether the PHIAC Levy was in the nature of a tax or a fee for service. ANAO was advised by AGS in May 1999 that:

*The Commonwealth recently argued before the High Court that a relationship to costs was only one of several factors which could be taken into account in determining whether an impost was a fee for services when setting that impost. That case, Airservices Australia v Monarch Airlines, concerns the validity of aeronautical charges imposed on airlines by Airservices Australia under the Civil Aviation Act 1988.<sup>17</sup>*

**2.14** In December 1999, AGS advised ANAO that:

*On 2 December 1999, the High Court handed down its decision in Airservices Australia v Monarch Airlines. In Monarch, the High Court has taken a more flexible approach to determining when a charge will be a fee for service rather than a tax. In particular, the High Court recognised that, at least in some circumstances, a charge that discriminates between users of a service, and recovers the costs of maintaining a network of services, not all of which may be used by particular users, may still be a fee for services, at least where the services are highly integrated. Other factors which may be relevant to the characterisation of a charge as a fee for services include the commercial context in which the charge is imposed, and whether it has a revenue-raising purpose.*

*In our advice to you of 14 May 1999 we had some concerns about the fact that the amount of levy collected by PHIAC varied between health funds; the variation depending on the size of fund – ie. the larger the fund, the greater the amount of levy imposed on the fund. This is despite the fact that a large fund may not receive an appreciably greater benefit than a smaller fund from the ‘services’ provided by PHIAC. The decision in Monarch makes it significantly less likely that the PHIAC levy would be invalidated on the basis of this ‘cross-subsidisation’.*

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<sup>17</sup> AGS further advised ANAO that: *The High Court, which heard argument in April/May 1999, has reserved its judgement. The Court’s decision may well tell us more about the level at which an exaction can be set and remain a fee for services. [therefore] ...on the information available, it is possible that the levy is a fee for services. Conclusive advice on this issue could only be given after the High Court hands down its judgement in Airservices Australia v Monarch Airlines, and in light of further information.*

**2.15** Section 18 of the FMA Act, which applied at 30 June 1999<sup>18</sup>, requires that public money be credited to the CRF as soon as practicable after it becomes public money. Levies which are paid to FMA agencies come within the definition of public money. DTRS established the Official DTRS Stevedoring Levy Account in March 1999 with a private sector bank but did not initially sweep revenue from the bank account to the CRF as soon as practicable after the levy funds became public monies.

**Figure 2.4**

**Legislative compliance of levies as at 30 June 1999**

<i>Levy</i>	<i>Imposition Act</i>	<i>Collection Act</i>	<i>Revenue to CRF</i>	<i>Appropriation Act</i>
APRA <sup>a</sup>	✓	✓	✓	✓
AMSA <sup>b</sup>	✓	✓	✓	✓
Telecommunications USO	✓	✓	✓	✓
National Relay Service	✓	✓	✓	✓
Private Health Insurance Complaints	✓	✓	✓	✓
Private Health Insurance Administration Council	✓	X <sup>c</sup>	X <sup>c</sup>	X <sup>c</sup>
Stevedoring	✓	✓	X <sup>d</sup>	✓
Coal Mining Industry (LSL) Payroll Levy	✓	✓	✓	✓
Aircraft Noise	✓	✓	✓	✓
Notes: a) Five APRA levies. b) Three AMSA levies. c) See paragraphs 2.10–2.14. d) See paragraph 2.15.				

Source: ANAO.

**2.16 Finding:** The classification of a levy as a tax or a fee for service has significant implications for its administration. For a levy to qualify as a fee for service as opposed to a tax, a number of criteria need to be met including whether a specific identifiable service must be provided; the service is rendered to, or at the request of, the party paying the account; and whether the charge is proportionate to the cost of the service rendered.

**2.17** On the basis of the evidence gathered by the ANAO, 14 of the 15 levies examined in the audit had separate collection acts and also had their related administrative expenditure covered by an appropriate act. Revenue from 13 of the levies was paid into the Consolidated Revenue Fund (CRF) in conformity with administrative requirements.

<sup>18</sup> Section 18 of the FMA Act has been subsequently repealed.

**2.18** However, deficiencies were found with the then receipting practices of the DTRS in regard to the Stevedoring Levy in which funds were not swept from an account with a private sector bank to the CRF as soon as practicable after the levy funds became public monies. In addition, there were ambiguities concerning the compliance of the PHIAC Levy (administered by the PHIAC). In this context, relevant agencies are reviewing the implications of the recent High Court decision in the *Monarch Airlines* case concerning the characteristics of the PHIAC Levy as a tax or as a fee for service. The Department of Health and Aged Care advised the ANAO in December 1999 that they consider that *there is a firm basis for an argument that the current legislative provisions provide sufficient grounds for imposition and collection of the PHIAC Levy.*

## Recommendation No.1

**2.19** ANAO recommends that the Private Health Insurance Administration Council and the Department of Health and Aged Care seek advice on the legal ambiguities that exist regarding the status of the Private Health Insurance Administration Council Levy under the *National Health Act 1953* as a fee for service or as a tax.

**2.20** Agencies responded to the recommendation as follows:

- *Agree:* DHAC and PHIAC.

**2.21** Specific comments by agencies are set out below.

- ***DHAC response:*** Agree. There are two major developments that have occurred since the report was completed. The first is the passage of the *Health Legislation Amendment Act (No.3) 1999* in the Parliament. The second is that on 2 December 1999 the High Court handed down their decision in the *Airservices Australia v Monarch Airlines*. The decision is significant for deciding whether the PHIAC levy is a 'tax' or a 'fee for service'.

The recently passed *Health Legislation Amendment Bill (No.3) 1999* makes a number of amendments to Part VI and VIAA of the *National Health Act 1953* which substantially alter the nature of PHIAC's functions. The Bill has been assented to on 7 December 1999. The relevant provisions will commence on proclamation. The proposed proclamation date is 1 January 2000. The amendments made by the Bill will establish PHIAC as an independent regulator with improved services and capacity to respond in an effective way to health funds in financial difficulty and a stronger commercial focus to bring prudential regulation of the health insurance industry in line with other prudential bodies.

We have approached the Government Solicitor's Office for further legal advice on the issue. We have already met with the Solicitor's Office and discussed some aspects of the services PHIAC delivers to its health fund clients. We believe that there is a firm basis for an argument that the current legislative provisions provide sufficient grounds for imposition and collection of the PHIAC levy.

- ***PHIAC response:*** Agree. PHIAC is seeking the advice as recommended and will liaise with the Department of Health and Aged Care in dealing with the advice when provided.

## 3. Levy Financial Management

*This chapter discusses elements of levy management including: collection processes; identification of levy payers; assessment of liability; banking and receipting arrangements; debt recovery; record keeping; risk management; and review and evaluation.*

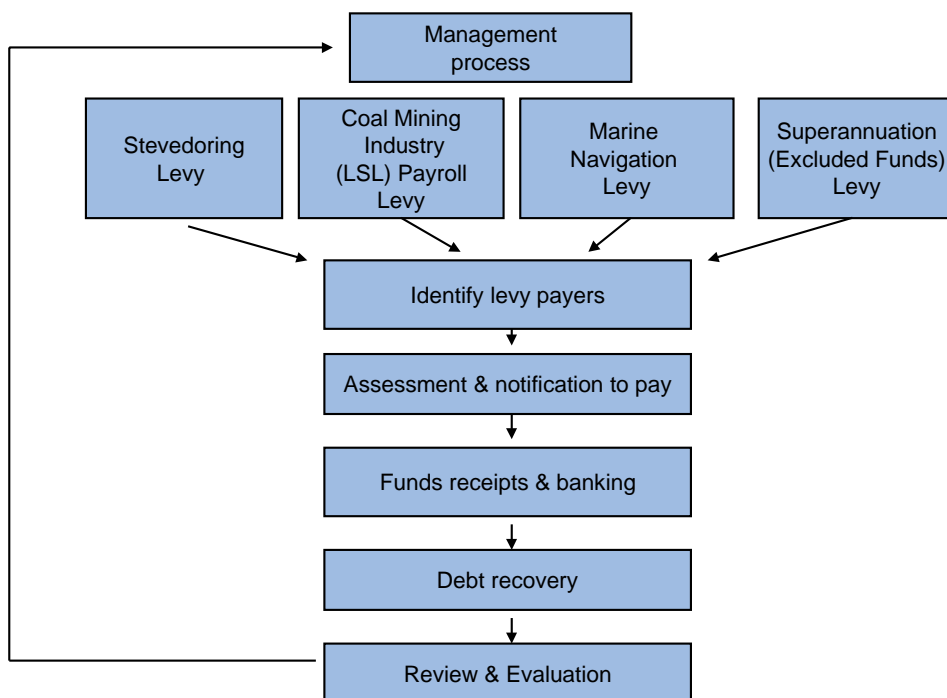
### Introduction

**3.1** This chapter addresses a range of financial management practices that apply to the administration of the levy schemes reviewed in this report. The features of a well managed system (see Figure 3.1) include:

- accurate identification of levy payers;
- assessment of the liability to pay the levy;
- prompt receipting and banking of revenue;
- efficient debt recovery; and
- systematic review and evaluation.

**Figure 3.1**

**A model of levy management processes**



Source: ANAO.



**3.2** The initial ANAO questionnaire sent to entities requested information about their levy collection, including about the nature of their collection systems, the flow of funds, banking, debt recovery, risk management and review arrangements. The majority of entities reported arrangements that meet the broad requirements of sound collection practice. The Coal Mining Industry (LSL) Payroll Levy embodied a number of features of a well managed system and is outlined in Figure 3.2.

### Figure 3.2

#### Case Study – Coal Mining Industry (LSL) Payroll Levy

**Sound administration practice by the Coal Mining Industry (LSL Funding) Corporation includes:**

**Comprehensive identification of levy payers.**

Records of all employers potentially liable to pay the levy are maintained, and there is a comprehensive set of superannuation records which are used to cross check those potentially liable against those who pay the levy. The superannuation records are also used to detect newcomers and there is an industry wide network of superannuation representatives who have an interest in ensuring newcomers are included in the system.

**Accurate and consistent assessment of levy liability.**

The assessment is based on a percentage of wages paid and the coal mining company auditor are required to provide an annual signed certification that the employer's levy liability has been accurately self-assessed.

**Sound invoicing arrangements.**

The self assessment system requires levy payers to forward their returns periodically within a strict timeframe. In the event of late payment an invoice is sent immediately to the defaulting employer.

**Effective and efficient collection, banking and receipting of levy revenue.**

Each levy payer is given a unique employer identifier which is recorded by the bank deposit taking system. All coal mining employers incurring a liability during a given month are required to pay their levy amount into the Corporation's bank account using their unique identifier by the end of the following month. Total and disaggregated levy payments can then be identified from the bank statement which reveals both individual employer amounts, and non-payers.

**Effective debt recovery.**

The debt recovery system is documented and levy payers are aware that it is enforced. The recovery process commences once a levy payment is late and penalties are applied.

**Sound review and evaluation.**

Review and evaluation is routinely carried out as part of the management of the levy.

Source: ANAO analysis based on information provided by entity.

**3.3** Four of the levies were examined to assess compliance with these features. The levies selected for audit examination were as follows:

- the Superannuation (Excluded Funds) Supervisory Levy, managed by APRA and contributes over half of the levy revenue raised by the APRA;
- the Marine Navigation Levy, managed by AMSA and is a charge against commercial shipping which is levied to recover all costs of operating the Commonwealth's marine aids to navigation;
- the Coal Mining Industry (LSL) Payroll Levy, managed by the Coal Mining Industry (LSL Funding) Corporation provides a centralised method of funding accruing long service leave entitlements and unfunded past service entitlements for employees in the black coal industry; and
- the Stevedoring Levy (commenced February 1999) is paid by stevedoring companies and managed by DTRS. The levy provides full recovery of the costs of activities approved under section 18 of the *Stevedoring Levy (Collection) Act 1998* in relation to the reform and restructuring of the Australian stevedoring industry.<sup>19</sup>

## Levy collection agents

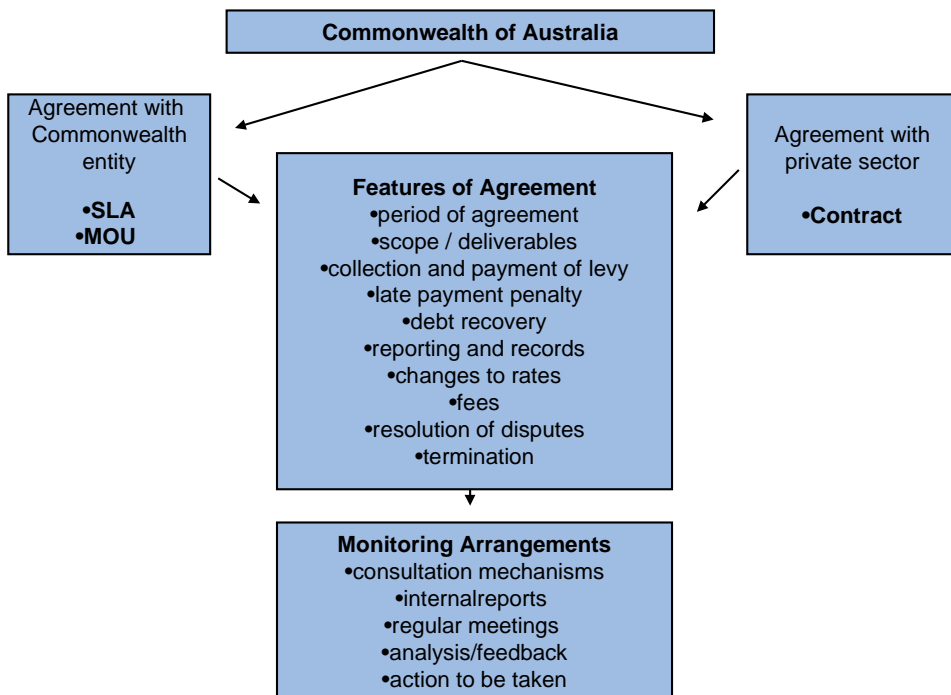
**3.4** A levy is collected either by the entity directly responsible for the management of the levy, or by another entity acting on its behalf. In the case where collection responsibility is vested in another Commonwealth agency, the arrangement needs to be formalised through a service level agreement (SLA) or memorandum of understanding (MOU). Where collection is undertaken by a non-Commonwealth entity, the arrangement needs to be formalised in a legal contract. The agreement-making process needs to ensure that all the relevant arrangements, including performance information, are part of the agreement.<sup>20</sup> An outline of some of the features that need to be considered in framing an effective agreement are detailed in Figure 3.3.

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<sup>19</sup> The Government initially set aside \$250 million which has since been raised to \$300 million.

<sup>20</sup> ANAO Report No 30, 1998–99, *The Use and Operation of Performance Information in the Service Level Agreements* p. 29.

**Figure 3.3**  
**Commonwealth agreement processes**



Source: ANAO.

**3.5** ANAO found that, where collection services had been outsourced, a formal service level agreement or contract had been established in all cases. ANAO examined the SLA between ACS and AMSA<sup>21</sup> and the agreement between Airservices Australia and DTRS. These agreements reflected the elements of sound practice, including defining the scope of the agreement, specifying deliverables, detailing debt recovery and collection responsibilities and providing for appropriate recording and reporting.

**3.6** The outsourcing of the collection function by entities has generally been driven by consideration of administrative effectiveness and efficiency. There were three examples of outsourced collection encountered in the audit as follows:

- Airservices Australia collects the Aircraft Noise Levy for DTRS;
- ACS collects the maritime levies for AMSA; and

<sup>21</sup> The SLA has been completed and AMSA advised the ANAO that the agreement has yet to be formalised as at the completion of ANAO fieldwork.

- Coal Mining Industry (LSL Funding) Corporation outsources collection of the Coal Mining (LSL) Payroll Levy to three superannuation fund managers (Queensland Coal & Oil Shale Mining Industry (Services) Pty Ltd for Queensland; Coalsuper Services Pty Ltd for New South Wales and Tasmania; and the Coal Industry Superannuation Board of Western Australia).

**3.7** Where levy collection was outsourced, the collection agency selected for the task was involved in the industry in a way that facilitated efficient collection of levy revenue. ACS collects the AMSA levies in the course of its barrier management inspection, while Airservices Australia collects the aircraft noise levy on behalf of DTRS using the same administrative system for the collection of aircraft landing fees.

**3.8** ANAO found that in all but one case of outsourced collection arrangements, a fee for service was charged and funded by the levy. The exception was that ACS does not charge for their collection service to AMSA. ANAO recognises that AMSA's use of ACS is a cost efficient approach to levy collection<sup>22</sup> but considers that, consistent with the need for transparency in the management of levies, the collection costs should be visible. As well, they should be included in the total costs attributed to the levy, even if this is at the reporting level and not imposed as a fee for service.

**3.9** Where levy collection is outsourced to another agency, the customary practice is to perform the service for a fee which is then recovered from the levy payers. This practice ensures that collection costs are attributable to the levy concerned. To do otherwise is to risk having one party subsidise another. AMSA advised ANAO that:

*AMSA and ACS exchange a number of services, although it is apparent that AMSA receives the larger benefit. Government vessels are exempt from levy under the legislation and the benefit to the Commonwealth from this would at least match the cost to the Commonwealth of ACS' collection of the AMSA levies. It is AMSA's view that any move to recover the cost of ACS' collection of the levies would only be appropriate in circumstances that would permit AMSA to re-engineer the current collection process and collect levy from Commonwealth vessels that are currently exempt.*

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<sup>22</sup> The ACS is required to liaise with every foreign ship that comes to port to check, among other things, registration and details of the cargo. It is a simple matter to include levy collection in this process.

**3.10** Collection arrangements need to be efficient, effective and appropriate to ensure an outcome which minimises the administration costs. In addition, the system needs to be understood and, ideally, supported by stakeholders. ANAO noted examples of sound collection and receipting during the course of the audit and these examples are outlined in Figure 3.4.

**Figure 3.4**

**Improved administrative practice-levy collection and receipting**

ANAO identified examples of sound administrative practice by entities in the collection and receipting of non-primary industry levies, including:

- effective identification systems which sought complete coverage of all levy payers, the effective identification of new entrants; including arrangements to inform new entrants of levy responsibilities where there was a reasonable chance they may be overlooked;
- sound arrangements for payments in advance of, or simultaneously with the provision of, services, the issuing of invoices with the due date for payment clearly specified;
- flexible and accessible payment options including provision for electronic funds transfer;
- timely and effective arrangements for banking of receipts in accordance with the FMA Act;
- efforts to minimise collection costs and administration costs of levy payers;
- debt management arrangements which provided clear payments dates, recorded the aging of debt, and invoked sanctions; and
- comprehensive record keeping arrangements; including effective capture of all levy payers; accurate recording of invoices; efficient payments and banking; record of defaulters, their payment histories and penalties.

Source: ANAO.

**3.11 Finding:** ANAO found that where collection services had been outsourced, a formal service level agreement or contract had been established in all cases. The two sample agreements examined were found to be soundly based specifying deliverables, detailing collection responsibilities and debt recovery, and providing for appropriate recording and reporting.

**3.12** Sound administrative practice suggests that, where levy collection is outsourced to another agency, this service should generally be carried out for a fee which is then recovered from the levy payers. To do otherwise is to risk having one party subsidise another. The administration costs of collecting levies were generally identified and assessed. However, the exception was that ACS does not charge for their collection service to AMSA. ANAO recognises that AMSA's use of ACS is a cost efficient approach to levy collection but considers that, consistent with the need for transparency in the management of levies, the collection costs should be visible. As well, they should be included in the total costs attributed to the levy, even if this is at the reporting level and not imposed as a fee for service.

## Recommendation No.2

**3.13** ANAO *recommends* that entities identify levy collection costs on an accrual basis to the extent consistent with cost-effective data capture, as a means of ensuring efficiency in resource allocation and achieving greater transparency of these costs.

**3.14** Agencies responded to the recommendation as follows:

- *Agree:* ACA, AMSA, APRA, Coal Mining (LSL Funding) Corporation, DHAC, DTRS and PHIAC.

**3.15** Specific comments by the agencies are set out below.

- **ACA response:** Agree. All ACA costs are calculated using full accrual data. Costs are recovered directly from industry through the application of carrier licence fees.
- **AMSA response:** Agree. AMSA intends to consult with ACS as to an appropriate means to provide the visibility of collection costs of the three AMSA levies.

## Identification of levy payers

**3.16** Effective identification of levy payers needs to comprehensively cover existing levy payers as well as capture new entrants. In general, entities either maintain, or have access to, comprehensive databases of potential levy payers. Some entities were able to take advantage of systems already in place, while others had relatively well known and stable payees, such as in the case of the Private Health Insurance Complaints Levy with 44<sup>23</sup> Health Benefits Fund payers or the Telecommunications USO Levy invoices some 30<sup>24</sup> carriers.

**3.17** There were a number of examples of entities which had experienced difficulty in identifying levy payers. For example, the Coal Mining Industry (LSL Funding) Corporation manages the Coal Mining Industry's (LSL) Payroll Levy which is collected from employers on the basis of eligible wages paid. The Corporation commented in its 1998 Annual Report that it was experiencing some difficulty in identifying some contractors to coal mine operators who were not meeting their obligations to pay the levy. The contractors in question typically claimed that they were unaware of their obligations. The ANAO has been advised by the Corporation that they now have access to the coal mining industry superannuation records which rely on State legislation to ensure that all employers meet their superannuation payment responsibilities. These same records enable the

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<sup>23</sup> As at 30 June 1998—PHIAC 1998 Annual Report, p. 18.

<sup>24</sup> Discussion Paper, *Telecommunications USO – Review of Funding Arrangements*, DOCITA, August 1999, p. 5.

verification of the Corporation's records to identify those required to pay the long service leave levy.

**3.18** APRA, and before it the ISC, had the task of identifying the some 180 000 excluded superannuation funds.<sup>25</sup> Under the *Superannuation Industry Supervisory Act 1993 Act* (SIS Act), superannuation funds elect to be regulated to qualify as complying funds as provided in the Act and in so doing meet one of the eligibility criteria for concessional tax treatment.<sup>26</sup> The Department of the Treasury in December 1999, advised ANAO that:

*More generally, the Superannuation Legislation Amendment Act (No.3) 1999 introduced a number of amendments to the regulatory arrangements applying to self managed funds, including passing the responsibility for the regulation of self managed funds and collection of the levy to the Australian Taxation Office. This reflects current policy that prudential concerns are no longer a key focus of self managed funds regulation.*<sup>27</sup>

**3.19 Finding:** Most entities examined demonstrated effective identification systems which provided an adequate coverage of levy payers and the effective identification of new entrants, including arrangements to inform new entrants of levy responsibilities where there was a reasonable chance they may be overlooked.

**3.20** ANAO found deficiencies in APRA's former arrangements for the identification of leviable excluded superannuation funds that had the potential for some funds to avoid paying the levy. APRA advised ANAO that it is now working on a transition plan for the orderly transfer of excluded superannuation funds administration to the ATO.

<sup>25</sup> A superannuation fund of which there are fewer than five members—section 10 *Superannuation Industry Supervisory Act 1993*. When excluded superannuation funds elect to be regulated they become, in most cases, levy payers.

<sup>26</sup> The concessional tax rate is 15 per cent.

<sup>27</sup> The Department of the Treasury further advised ANAO that: *There is currently no direct link in the superannuation legislation and regulations between the concept of a complying self managed fund and payment of the supervisory levy. More specifically, payment of the levy is not a pre-requisite for complying fund status and, hence, eligibility for concessional tax treatment. Concessionally taxed superannuation saving is a key element of the Government's retirement income policy. To ensure that retirement income policy objectives are met, only those superannuation funds that comply with the Government's retirement income policy requirements are eligible for concessional tax treatment. In order to earn complying fund status, a self managed fund (and all other superannuation funds) must elect to be regulated under the Superannuation Industry (Supervision) Act 1993 (SIS) and then must meet all of the regulatory requirements under the Act, for example, they must submit an annual return. Payment of the supervisory levy is not a regulatory requirement under the SIS Act and, hence, non-payment of the levy is not grounds for declaring a fund non-complying. Whether or not to formally link payment of the levy to complying fund status (ie, to make payment of the levy a pre-requisite for being a complying fund) is a policy issue for Government.*

## Assessment of liability

**3.21** An assessment system is an arrangement that enables the determination of the individual liability for each levy payer. A sound administrative system needs to have a clearly stated approach for assessing the liability; an effective and timely invoicing or notification system (for self-assessment); and appropriate record keeping to facilitate verification of the assessment. Accurate assessment is important as under-assessment will result in the liable entity not paying its dues, while over-collection may need to be reimbursed creating additional administrative costs, which undermines the overall credibility of the system.

**3.22** The two main ways of assessing levy liability are self-assessment or assessment by the collection agency. There are advantages with both systems<sup>28</sup> but under self-assessment arrangements, there is the risk that levy payers may under-state their liability intentionally, or inadvertently. Accordingly, effective self-assessment arrangements should include some form of independent verification to provide a level of assurance that the system is not being compromised and also provide an incentive for accurate reporting.

**3.23** Both forms of assessment were encountered in the audit with all but two levies relying on assessment by the collection agency. The majority of levies had a relatively simple formula for assessing the levies. Of the levies examined in detail, the AMSA levies were examples of independent assessment, whereas the Coal Mining Industry (LSL) Payroll Levy and the Stevedoring Levy relied on self-assessment. These latter levies required employers to self-assess by sending monthly returns of their levy calculations with supporting details to the relevant collection agency.<sup>29</sup>

**3.24** DTRS contracts an accounting firm to conduct a three-year program of regular audits of stevedoring companies. By contrast, the Coal Mining Industry (LSL Funding) Corporation's collection entities do not conduct verification of employers' self-assessment, but require the coal mining company's auditor to provide annual signed certification that the employer's levy liability has been accurately self-assessed.

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<sup>28</sup> Self-assessment is useful in situations where the amount of levy depends on leviable activity that is known only to the levy paying entity. For example, the number of containers unloaded from a vessel as in the case of the Stevedoring Levy. Assessment by the collection agency is appropriate where the amounts receivable comprise a relatively small number of large amounts that lend themselves to external assessment, for example, the AMSA levies.

<sup>29</sup> The Coal Mining Industry (LSL) Payroll Levy is calculated by the entity concerned as a multiple of an actuarially determined percentage of wages (currently five per cent industry wide). The Stevedoring Levy is calculated at a flat rate of \$12 per container and \$6 per vehicle.



**3.25** AMSA levies are assessed by ACS Boarding Officers and if the levy has expired<sup>30</sup> the Master of the vessel is advised of the liability that needs to be paid before the vessel departs port. The AMSA levy collection system works effectively as it is based largely on the compulsory and direct nature of the ACS involvement with the vessels concerned and the relative simplicity of the calculations that are readily verified at berthing.

**3.26** APRA assesses the prudential regulation levies according to a formula set out in the relevant legislation which is reviewed annually. Prior to 1999–00, the levy structure for excluded superannuation funds was \$200 per \$500 000 in assets.<sup>31</sup> From the 1998–99 fund income year onwards, the levy changed to a flat rate of \$45 for all self managed funds. Invoices are generated when returns are submitted by the excluded fund,<sup>32</sup> and the levy is calculated on the basis of the information contained in the return. Should a superannuation fund not lodge an annual return with APRA, no invoice is created as, under the Act, no liability has been established. In the past, there was no systematic follow-up action (for prudential supervision and/or revenue purposes), by APRA/ISC to determine why a return was not lodged, consequently there was potential for some funds to avoid their responsibilities to pay the levy.

**3.27** APRA advised the ANAO that investigations of records back to 1996–97 revealed that some 11 500 registered funds have not lodged returns.<sup>33</sup> The total amount of Commonwealth revenue potentially at risk is at least some \$2.3 million. APRA advised ANAO that as part of the transitional phase where both APRA and ATO share responsibility for the excluded superannuation funds, a project team was formed to identify all levy payers that are in arrears with the aim of reducing the balance of outstanding debt to a minimum by 30 June 2000.

**3.28** APRA advised ANAO in December 1999 that:

*The nature and number of excluded funds, and the requirements of the Superannuation Industry (Supervision) legislation, means the registration of all funds and the subsequent billing and collection of*

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<sup>30</sup> The levy is paid quarterly, and the status of the levy payment is checked each time the vessel arrives in port.

<sup>31</sup> The minimum levy was \$200 rising to a maximum of \$14 000.

<sup>32</sup> Normally at the end of March following a 30 June balance date the previous year.

<sup>33</sup> APRA also advised ANAO that: *The number of second reminders [sent] was 11500. We don't know fully why this population has still not lodged. A reason for non lodgment is that the funds may have no assets or no income (including contributions) in its first year of existence. APRA (ISC) does not insist on lodgment in these cases because technically, the underlying trust may not have come into existence. The funds election to be regulated may therefore not be valid and consequently, the SIS Act Regulations may not be enforceable against the fund.*

*levies are fraught with difficulties. The solution that has already been adopted by Government is to transfer all responsibility for these funds to the ATO. Meanwhile, APRA will continue to work on encouraging registration and collecting amounts owing to the Commonwealth. We have also introduced efficient and cost-effective procedures for collecting levies from industry sectors that provide the bulk of our funding.*

**3.29 Finding:** Entities' levy assessment systems were generally soundly based and capable of providing a reasonable assurance that accurate assessment of the liability was achieved. Nevertheless, the earlier APRA/ Insurance and Superannuation Commission arrangements for assessing levy liability from the excluded superannuation funds were found to have deficiencies in the financial management system which gave rise to the potential for levy payers to avoid paying the levy. APRA reported to the ANAO that investigations of records back to 1996–97 revealed that some 11 500 registered funds had not lodged returns. The total amount of Commonwealth revenue potentially at risk is at least some \$2.3 million. APRA advised ANAO that, as part of the transitional phase where both APRA and ATO share responsibility for the excluded superannuation funds, a project team has now been formed to identify all levy payers that are in arrears with the aim of reducing the balance of outstanding debt to a minimum by 30 June 2000.

### Recommendation No.3

**3.30** ANAO *recommends* that entities enhance their collection processes by regularly reviewing the integrity of their financial management information systems to ensure that all levy payers are properly identified and assessed.

**3.31** Agencies responded to the recommendation as follows:

- *Agree:* ACA, AMSA, APRA, Coal Mining (LSL Funding) Corporation, DHAC, DTRS and PHIAC.

**3.32** Specific comments by the agencies are set out below.

- **AMSA response:** Agree. AMSA regularly undertakes reviews to ensure levy collection is complete.

## Banking and receipting of payments

**3.33** The Commonwealth Agency Banking Arrangements that came into effect on 1 July 1999 require agencies covered by the FMA Act<sup>34</sup> to establish and manage their own bank accounts and payment arrangements. The arrangements also introduce private sector competition to the Commonwealth's domestic transactional banking services provided by the Reserve Bank of Australia (Reserve Bank) with agencies able to choose the transactional banking service provider that can best meet their business needs in terms of cost and quality of service.

**3.34** The Agency Banking Arrangements require that administered receipts be transferred daily from agency administered receipts accounts to the Commonwealth's Public Account (CPA) held within a group account arrangement with the Reserve Bank. The transfer is to occur either immediately following the close of Real Time Gross Settlement processing or as part of overnight sweeping arrangements.<sup>35</sup>

**3.35** The Coal Mining Industry (LSL Funding) Corporation system embodies characteristics of a sound receipting system. Each levy payer is given a unique employer identifier which is recorded by the bank deposit taking system. All coal mining employers incurring a liability during a given month are required to make their levy payment into the authorised bank account using their unique identifier by the end of the following month. Levy collection agencies can then identify, from bank statements, the total levy collected.

**3.36** DTRS reported problems in the management of the Stevedoring Levy whereby some levy payers failed to forward returns on a monthly basis. As well, DTRS receipting and registering practice was not sufficiently comprehensive to ensure complete coverage. The system has been modified strengthening follow up procedures for nil returns. As from 1 July 1999, all leviable stevedoring companies are required to submit a monthly return, including nil returns. As well, internal control measures have been strengthened to ensure accurate and timely registration and receipting of returns. Further, the Department advised that a reconciliation of returns and receipts has been completed and no deficiencies have been reported.

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<sup>34</sup> DTRS and DHAC are the only two FMA agencies involved in this audit. It does not apply to entities covered by the *Commonwealth Authorities and Corporations Act 1997* which form the bulk of entities involved in this audit.

<sup>35</sup> The requirement for daily transfers is a change from previous processing arrangements which required transfer only after recognition of receipt.

**3.37** DTRS advised ANAO concerning the banking arrangements for the Stevedoring Levy that:

*Initially, it was not considered practicable to open an official RBA account for the collection of the Stevedoring Levy. The bases upon which it was considered to be impractical included:*

- *administrative weaknesses identified in the administration of the previous SIFC stevedoring levy collection by another agency, from which it was difficult to determine how much levy had been paid by each individual levy payers. The establishment of the official DTRS account with the [private sector bank] allowed greater control over the recording and monitoring of levy payments made by each individual stevedore; and*
- *accommodating the needs of large and small stevedores in isolated locations around the country where RBA access may be limited. The establishment of the official DTRS account with the [private sector bank] was considered to offer the best alternatives having regard to terms, convenience and facilities available.<sup>36</sup>*

**3.38 Finding:** Three of the four entities reviewed generally had timely and effective arrangements for banking of receipts. However, ANAO found deficiencies in the management of the Stevedoring Levy whereby some levy payers failed to forward returns on a monthly basis. As well DTRS' receipting and registering practice was not sufficiently comprehensive to ensure complete coverage.

**3.39** ANAO has been advised by DTRS that their practices have been reviewed and the collection system for the Stevedoring Levy has been modified to ensure that, as from 1 July 1999, all leviable stevedoring companies are required to submit a monthly return, including nil returns. As well, internal control measures have been strengthened to ensure accurate and timely registration and receipting of returns. Further, the Department advised that a reconciliation of returns and receipts has been completed and no deficiencies have been reported.

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<sup>36</sup> DTRS also advised ANAO that: *Given the historical situation with SIFC, political sensitivities relating to waterfront reform, and embedding of a new financial management information system, the establishment of the official DTRS account with the [private sector bank] was a cautious approach to the administration of levy collection. Following an internal review of DTRS banking operations, resulting from the introduction of the new agency banking arrangements, and subsequent liaison with stevedores, the stevedoring levy payments have now been centralised to the Official Department of Transport & Regional Services Administered Receipts Account with the RBA. This account now being distinct from the previous whole of Government RBA account. New payment arrangements ensure full compliance with all aspects of the Financial Management and Accountability Act 1997 (as amended 1 July 1999).*

## Debt recovery

**3.40** Under section 47 of the FMA Act, Chief Executives must pursue each debt for which the Chief Executive is responsible. This reflects the general expectation of the community that all debts owing to the Commonwealth represent a cost to taxpayers that need to be pursued to the extent reasonably possible. Figure 3.5 outlines the responsibilities of Chief Executive Officers for the recovery of debt.<sup>37</sup>

**3.41** Action taken to minimise the incidence of debt may include the establishment of clear and concise policies for recovery of debt including the setting of criteria against which debt recovery decisions might be considered; clear statements of roles and responsibilities in debt recovery; and the establishment of controls where exposures are noted. The timely identification of outstanding levy defaulters allows for effective action to be taken to recover debts. This involves the identification of the liability of the levy payer and the assessment of any components of debts that are disputed. Some of the features of a sound debt collection system include:<sup>38</sup>

- assessment of debts against a financial threshold before proceeding with recovery action;
- review of the accuracy of invoices following failure by debtors to respond to a letter of demand;
- categorisation of debtors based on their ability and willingness to pay;
- prioritisation of debt on the basis of risk indicators;
- effective communications with debtors;
- appropriate levels of authority for staff to negotiate payment options; and
- use of specialist debt collectors where appropriate.

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<sup>37</sup> Chief Executive Instructions, Chapter 7, *Debt Management*.

<sup>38</sup> ANAO Better Practice Guide December 1997, *Management of Accounts Receivable*, p. 12.

**Figure 3.5**

**Chief Executive Officers responsibilities—debt recovery**

Chief Executive Officers must ensure the recovery of all debts except debts which are:

- written off as authorised by an Act; or
- irrecoverable at law; or
- uneconomical to pursue.

Chief executive officers must also ensure that:

- proper accounts and records are maintained for each debtor in the agency;
- all debtors are promptly brought to account in the accounting records of the agency;
- a letter of demand is promptly forwarded to a debtor seeking payment in full of an amount owing, and follow up with a reminder notice if the debt is not paid within the agencies normal terms of trade conditions;
- all debtor receipts are promptly brought to account against the appropriate debtor record in the accounting records of the agency; and
- there is provision for the inclusion in the annual financial statements of the agency, the amount of debts outstanding as at 30 June and an estimated provision for doubtful debts as at 30 June.

Source: Chief Executive Instructions, Chapter 7, *Debt Management*.

**3.42** Entities were asked to report on their debt recovery arrangements and most reported systems in place. The Coal Mining Industry (LSL Funding) Corporation debt collection arrangement reflects most of the features of the system described above including rigorous identification of late payments and potentially outstanding debt. Late payments are followed up with an invoice that sets out the liability and uniform interest penalties incurred by late payers. Any debt outstanding after three months is automatically referred to a specialised debt collection agency.

**3.43** As discussed previously, follow up action against superannuation excluded funds which fail to lodge an annual return to ISC/APRA (which is the basis for determining the individual levy) has not always proceeded systematically, with the result that a number of these funds were likely to be outstanding debtors.<sup>39</sup> APRA reports that, at October 1999, the total debt outstanding in regard to superannuation funds was some \$6.1 million which includes \$2.8 million from the current period and \$3.3 million applicable to earlier periods. APRA advised the ANAO that:

*Debt recovery against defaulters is managed on a risk-based process, whilst system changes are being implemented to automatically issue dunning letters and calculate the applicable penalty. In the first stage, the largest debtors were targeted. The classification selected was that*

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<sup>39</sup> APRA advise that there were some 11 500 second reminders sent to potential debtors which have not yet to be finalised.

*all debts equal to or exceeding \$5000. This is not a threshold for recovery but the class of debtors, which provided the highest cost-benefit return with the current tools available. All debtors in this class have been actively chased with 80 per cent of the debt recovered. A similar process is focussed on the next highest class of accounts ... APRA does not charge a late payment penalty because the legislative calculation was too complex to practically apply systematically. A risk based approach, which considers the materiality of amounts owing in comparison to the cost of application, has been taken to the calculation of the penalty.*

**3.44 Finding:** Most entities reviewed had soundly based systems for effective debt recovery. However, ANAO found that follow-up action against the excluded superannuation funds which failed to lodge an annual return to ISC/APRA has not always proceeded systematically with the result that a number of these funds were likely to be outstanding debtors. APRA reports that, at October 1999, the total debt outstanding in regard to superannuation funds was some \$6.1 million which includes \$2.8 million from the current period and \$3.3 million applicable to earlier periods. APRA advised ANAO that administration systems have recently been developed to: identify all outstanding excluded superannuation levy debt as soon as it falls overdue; institute an effective system to recover outstanding debts; effectively monitor all outstanding debts; and review debt recovery actions.

## Recommendation No.4

**3.45** ANAO *recommends* that, having regard to the significant financial losses to the Commonwealth that can occur due to ineffective debt recovery policies and procedures, entities regularly review outstanding levy debts against an appropriate financial threshold to ensure timely recovery action is taken.

**3.46** Agencies responded to the recommendation as follows:

- *Agree:* ACA, AMSA, APRA, Coal Mining (LSL Funding) Corporation, DHAC, DTRS and PHIAC.

**3.47** Specific comments by the agencies are set out below.

- **ACA response:** Agree. The ACA has in place strict debt recovery policies and practices and is in the process of reviewing the need to include late payment penalties for the USO levy payments in legislation.
- **AMSA response:** Agree. AMSA levies are collected by the ACS at the time a liability is determined.

## Record keeping

**3.48** Sound record keeping practice impinges on most aspects of levy management. To maintain required standards of operational effectiveness, transparency and accountability, a levy collection system needs to have a sound record keeping system that should include:

- a comprehensive and up to date list of all levy payers;
- details of each levy payer's liabilities, and payment status including under and over payment;
- the recognition of defaulters and aging of debtors;
- invoicing and receipting arrangements including any penalty provisions;
- electronic operation that integrates the features above with hard copy back up;
- automation of key milestones such as notification of defaulters; and
- secure record storage facilities.

**3.49** The importance of good records is underscored by the problems encountered with the excluded superannuation funds and the wind-up arrangements associated with the Stevedoring Industry Finance Committee (SIFC) and the *Stevedoring Industry Levy Act 1977* which was in operation until 1995. This levy funded the operations of the SIFC which was established under the *Stevedoring Industry Finance Committee Act 1977* to ensure public scrutiny of the money collected by stevedoring levies. The *Stevedoring Industry Levy Act* was in operation from 1977 to 1995. After the cessation of the levy collection in August 1995, SIFC wind-up procedures revealed that some \$14 million of levy had been collected in excess of the amount required to repay the redundancy loans for stevedores, which was the purpose of the levy. DTRS advised ANAO that:

*Section 32 of the Stevedoring Industry Finance Committee Act 1977 (the Act) requires SIFC to be satisfied that all of its obligations and liabilities have been discharged before a surplus can be declared. On the basis that SIFC is currently defending claims for damages from ex-waterside workers who have contracted asbestos related diseases, it has yet to discharge all its liabilities. It is therefore not in a position to declare surplus funds. Should it eventuate that there is a declared surplus, SIFC must, in accordance with the Act, develop a scheme for distributing those funds in an equitable manner to such persons, as it thinks appropriate. Good records, had they existed, would arguably assist in the development of such a scheme.*



**3.50** The records of transactions prior to the cessation of levy collection by SIFC were deficient, with the result that there was uncertainty about how much had been paid by each levy payer. The then Department of Workplace Relations and Small Business commissioned an audit to examine levy collections over the five year period leading up to the cessation of the levy. However, difficulties in gathering relevant data resulted in the audit being terminated. Alternative arrangements are still being considered and the matter has not been resolved.

**3.51** The cessation of levy collection by SIFC brought to light deficiencies in the record keeping arrangements. Problems with record keeping are more likely to be observable initially with levies that have a finite life.<sup>40</sup> ANAO considers that entities should ensure an effective accountability framework for Commonwealth receipts and expenditure by maintaining a minimum standard of record keeping.

**3.52 Finding:** To maintain required standards of operational effectiveness, transparency and accountability, a levy collection system needs to include a sound record keeping system. ANAO generally found that most entities examined had appropriate record management practices.

**3.53** The importance of good records is underscored by the problems encountered with the APRA excluded superannuation funds and the wind-up arrangements associated with the *Stevedoring Industry Levy Act 1977* which was in operation until 1995. After the cessation of levy collection in August 1995, SIFC wind up procedures revealed that some \$14 million of levy funds had been collected in excess of the amount required to repay the redundancy loans for stevedores, which was the purpose of the levy. The records of transactions prior to the wind-up of SIFC were deficient. ANAO considers that entities should ensure an effective accountability framework for Commonwealth receipts and expenditure by maintaining a minimum standard of record keeping.

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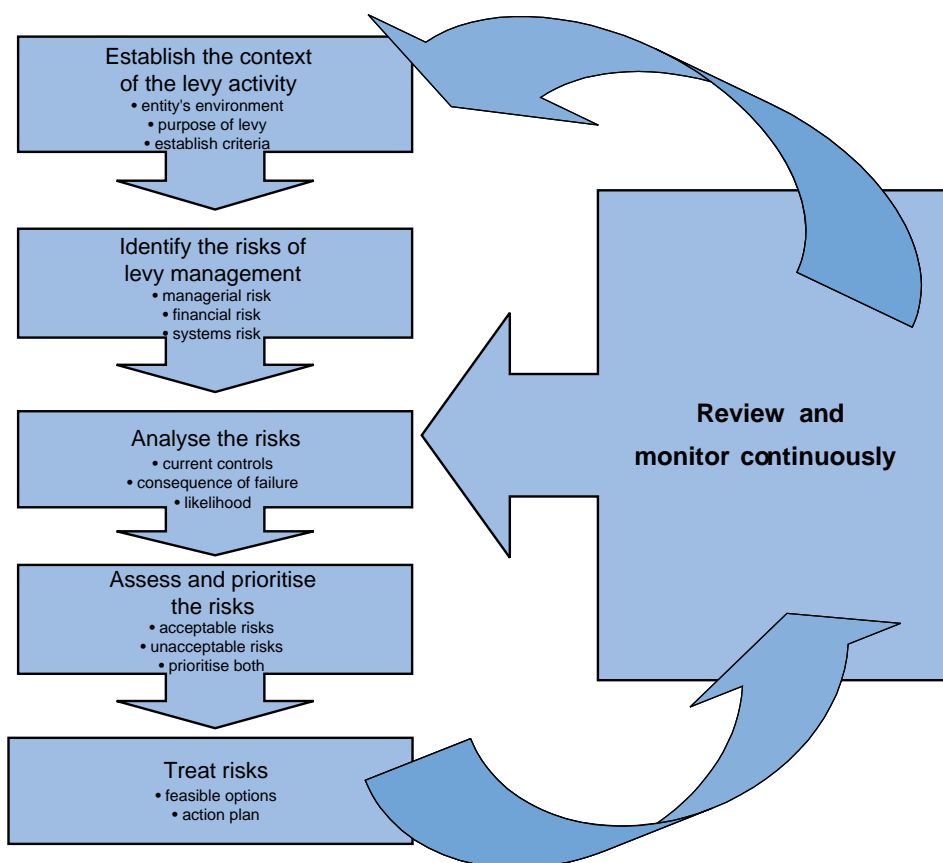
<sup>40</sup> Two levies were identified with a finite life namely the Aircraft Noise Levy and the Stevedoring Levy. The Coal Mining Industry (LSL) Levy was not included noting that the Funding Act provides that legislation be reviewed when the unfunded liability has been fully realised. The target date is June 2003.

## Risk management

**3.54** Managing risk is about making decisions where there is uncertainty, both as to whether an action or event will happen, and what its consequences will be if it did happen. The broad risk management process as it applies to the financial management of non-primary industry levies is outlined in Figure 3.6.

**Figure 3.6**

**Levy risk management process**



Source: MAB MIAC Exposure Draft—*Managing Risk* July 1995.

**3.55** A number of risks arise in the financial management of Commonwealth levies including risks arising from levy collection methods (such as the risk of under-collection, over-collection and fraud); and risks associated with the levy program outcomes. The emphasis in this across portfolio audit was directed at the former (financial risks). An overview of entities' risk management practices is outlined in Figure 3.7.

**3.56** Risks associated with levy collection are common to the risks associated with the general collection, receipting and disbursement of payments to the Commonwealth, and entities need to have fraud control plans to manage financial risk. ANAO sought to identify entities which, as a minimum, had documented fraud control plans that addressed financial risk. A comprehensive approach to risk management would also include a formal assessment of risk specific to the particular levy, as well as regular review and evaluation, and where possible, benchmarking of the processes involved.

**3.57** The collection of levy revenue by an entity will be impacted upon by any limitations inherent in internal control structures within an entity. These include:

- management's usual requirement that the cost of an internal control does not exceed the expected benefits to be derived;
- the potential for human error due to carelessness, distraction or fatigue; misunderstanding of instructions; and mistakes in judgement;
- the possibility of circumvention of internal controls through the collusion of employees with one another or with parties outside the entity;
- the possibility that a person responsible for exercising an internal control could abuse that responsibility;
- the possibility that management may not be subject to the same internal controls applicable to other personnel; and
- the possibility that internal controls may become inadequate due to changes in conditions, and compliance with procedures may deteriorate.<sup>41</sup>

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<sup>41</sup> *Reporting on Internal Control*. Auditing Standards Board of the Australian Accounting Research Foundation.

## Figure 3.7

### Risk management practice overview

#### **Fraud Control Plan<sup>a</sup>**

All FMA agencies had fraud control plans but ANAO noted that few had undertaken specific fraud risk assessment of levy collection processes.

#### **Risk Management Assessment<sup>b</sup>**

Only two entities had undertaken formal risk assessment of their levies. This process included identifying the context of the risk; identifying the risks; analysing the risks and their consequences; assessing the importance and probability of the risks; and developing strategies to reduce the impact and likelihood of the risk.

#### **Review and Evaluation**

Entities generally undertook some form of review and evaluation in relation to their levies. The most common form of review and evaluation was in regard to the setting of levy charges and expenditure under the levy program, to ensure that the costs of the program were being appropriately captured and that levy charges were aligned to costs. One entity had commissioned a major external review of its levy program, but for most entities, review of program performance was not a formal, systematic process.

Notes:

- a) Under the *Financial Management and Accountability Act 1997* Chief Executive Officers are responsible for the implementation of a fraud control plan. The requirements of fraud risk assessments and resulting plans are prescribed by the Interim Ministerial Direction on Fraud Control which is included in the Commonwealth Law Enforcement Board Guide, *Best Practice for Fraud Control*, Canberra, 1994.
- b) MAB/MIAC *Guidelines for Managing Risk in the Australian Public Service*, Exposure Draft July 1995 outlines the steps in implementing a corporate program for managing risk.

Source: ANAO.

**3.58** The Government has produced a fraud control policy incorporating an interim Ministerial Direction on fraud control.<sup>42</sup> This policy is directed to all FMA and CAC entities which are budget funded for their proposed operating costs. Under this policy entities are required to (inter alia) conduct periodic risk assessments and produce fraud control plans designed to prevent fraud. Entities were surveyed to identify whether they had fraud control plans, and if formal risk assessment had been undertaken of levy collection programs.

**3.59** Of the entities covered in this audit four reported having a documented fraud control plan<sup>43</sup> as at 30 June 1999 (see Figure 3.8). Most entities generally had not undertaken a formal risk management assessment specifically in relation to their levies, although some undertook risk assessment in relation to specific problems or issues as they arose.

<sup>42</sup> *Best Practice in Fraud Control*, Fraud Control Policy of the Commonwealth, 1994.

<sup>43</sup> DTRS reported having processes in place which were designed primarily to minimise financial loss

**Figure 3.8****Entity risk management profile as at 30 June 1999<sup>a</sup>**

<b>Entity</b>	<b>Formal Fraud Control Plan</b>	<b>Entity Risk Assessment</b>	<b>Entity Review &amp; Evaluation</b>
<b>DTRS</b> • Aircraft Noise levy • Stevedoring Levy	✓	X X	X <sup>b</sup> X
<b>Coal Mining Industry (LSL Funding) Corporation</b> • Coal Mining Industry (LSL) Payroll Levy	X	X	✓
<b>APRA</b> • Five APRA levies	✓	X	✓
<b>AMSA</b> • Three AMSA levies	✓	✓	✓
<b>Private Health Insurance Advisory Council</b> • PHIAC Levy	X	X	✓
<b>Private Health Insurance Ombudsman</b> • PHIO Levy	X <sup>c</sup>	X <sup>c</sup>	✓
<b>Australian Communications Authority</b> • Telecommunications USO Levy • NRS levy	✓	✓ ✓	✓ ✓
Notes: a) Levies were marked in the affirmative if the entities involved in the management of the levy were able to demonstrate that reasonable and identifiable arrangements were in place under each category. b) ANAO Report No 17 1997–98, <i>Sydney Airport Noise Amelioration Program</i> , examined some of the financial aspects of the Aircraft Noise Levy. c) PHIO formally implemented a risk management plan on 12 November 1999, and a fraud control plan on 1 December 1999.			

Source: ANAO analysis based on information provided by entities.

## Review and evaluation

**3.60** The review and evaluation function is important to provide entities with an assurance that the costs of the program are being fully captured; levy charges are aligned to costs in the most appropriate way; and that the levy program meets its objectives in the most effective and efficient manner possible. It is also desirable that stakeholders are involved in the review process to ensure that their views are incorporated in any assessment of the effectiveness and efficiency of the levy program.

**3.61** Entities were requested to provide information on the extent to which they carried out review and evaluation of the levies they managed. Most reported that the costs associated with the levy and the determination of charges were the subject of annual review and evaluation (see Figure 3.8).

**3.62** Benchmarking levy activities can assist the review and evaluation process, and may be undertaken at a number of levels with the choice depending on the objectives of the exercise. The objectives could range from external accountability, such as the entity outlining the value for money provided by services such as collection expenses rendered in comparison to like entities, through to reviewing internal control requirements to ensure full receipting of collections.

**3.63** In the development of actual performance measurement techniques for levies, entities should give consideration to the basis on which performance indicators are selected. The actual basis of comparison of levy financial management with regard to benchmarking is likely to be primarily on the basis of time series and cross-sectional data. Generic criteria that entities may consider in selecting performance indicators to evaluate their key levy management functions are as follows:

- *Comprehensive coverage.* The number of indicators selected needs to cover all material aspects of activity that significantly impact on levy management.
- *Understandability.* Relatively few key outcome indicators avoids confusion from having excessive numbers of complex activity indicators.
- *Transparency.* The methodology and source data used to derive the indicators needs to be transparent to external users of the information.
- *Resource costs.* The costs involved in assembling the data both from internal and external sources must be at an acceptable cost for the order of precision required.
- *Timeliness.* The selected indicators need to be capable of being produced within a reasonable time period and at frequent intervals in order that performance can be monitored on a continuous basis to ensure that the process is ex ante oriented.

**3.64** Of the 15 levies examined, only one entity reported conducting some form of benchmarking activity in relation to a levy or levies under their management. The exception being DTRS which reported that maritime levies managed by AMSA had been examined to inform decision making when establishing the new Stevedoring Levy.

**3.65 Finding:** The management practices of entities did not generally include appropriate consideration of levy collection risk management. Risk management practice could be strengthened, with only four of the seven entities having a documented fraud control plan as at 30 June 1999. As well, most entities did not undertake formal risk management assessments specifically in relation to levies.

**3.66** Entities' management of levies should be more comprehensively monitored to ensure appropriate levels of efficiency and service quality. The most common form of review and evaluation was in regard to the setting of levy charges and expenditure under the levy program, to ensure that the costs of the program were being appropriately captured and that levy charges were aligned to costs.

## Recommendation No.5

**3.67** ANAO *recommends* that entities strengthen their corporate governance by:

- a) producing a comprehensive and readily available fraud control plan;
- b) conducting periodic risk assessment of the individual levy program; and by
- c) undertaking regular reviews of individual levy programs to assess their efficiency and effectiveness.

**3.68** Agencies responded to the recommendation as follows:

- *Agree:* ACA, AMSA, APRA, Coal Mining (LSL Funding) Corporation, DHAC, DTRS, PHIAC and PHIO.

**3.69** Specific comments by the agencies are set out below.

- **PHIO response:** Agree. PHIO developed and formally implemented a risk management plan on 12 November 1999, and a fraud control plan on 1 December 1999.
- **ACA response:** Agree. The ACA has in place a Fraud Control Plan. All ACA programs undergo a risk assessment process annually. As noted in the body of the ANAO report the USO process is currently under review.
- **AMSA response:** Agree. AMSA will review the extent to which its current practice is consistent with the recommendation.

## 4. Cost Recovery

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*This chapter discusses the identification of costs, categories of cost recovery and charging regimes.*

### Introduction

**4.1** The Commonwealth's financial management improvement initiatives have focussed on the need for entities to have financial management information systems that will enable the identification of accrual<sup>44</sup> costs and revenues. The identification of costs is essential to make informed decisions about resource allocation and cost recovery. The capture of the costs of an activity can be a complex and expensive exercise, requiring judgment as well as the application of appropriate cost allocation procedures. Effective management requires that the resources expended on a costing system does not exceed the expected benefits to be derived.

**4.2** In most structures it is appropriate that full costs of an activity be recorded as well as marginal costs (which represent the amount of costs flowing from an increment or decrement of the actual change in the amount of an output). Fully distributed costs include the program costs and the direct and indirect costs of collecting and distributing funds. Entities were generally able to identify levy program costs, however, a number of entities were unable to accurately capture the administration costs associated with their levies.

**4.3** Fully distributed costing methods are extensively used by many commercial undertakings and government as they generally offer effective ways to distribute joint costs and overheads. However, fully distributed costs may not measure the amount by which cost functions alter with changes in production. For example, this cost method may over estimate levy costs by attributing to a levy costs that would remain unchanged whether or not the levy existed.

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<sup>44</sup> Accrual accounting records economic transactions and events at the time they occur, irrespective of when cash is paid or received. These financial effects may take place independently of cash transactions, but they also include cash transactions.



**4.4** The underestimation of the full costs of a levy (including the cost of the Commonwealth entities collection and distribution) is likely to translate to the undercharging of current levy payers, with the shortfall being borne either by the Commonwealth or future levy payers. The reporting of costs to stakeholders, including both levy payers and the Commonwealth, is required to provide appropriate accountability for how funds are managed.

**4.5** For an entity established to manage a single levy such as the Coal Mining Industry (LSL Funding) Corporation, the costing is relatively straightforward. Entities that manage multiple levies such as APRA and AMSA face considerable cost allocation issues devising transparent and efficient costing systems given the need to allocate significant indirect costs across levies.

**4.6** Notwithstanding the importance of accurate costing of activities in relation to the levy, a mature costing system is more than an arrangement that identifies and attributes costs alone. Information on costing functionality and how to use that information is addressed in two recently released ANAO publications<sup>45</sup> on better financial management practice, in addition, the Management Advisory Board Report *Beyond Bean Counting*<sup>46</sup> outlines the development of costing systems as a three stage process (see Figure 4.1). In the first or primary stage, cost information is generally only used in one-off situations, mainly in response to external accountability requirements. In the second phase, cost information is regularly obtained and monitored in order to support decision making and in the third and final stage, the demand for cost information is driven by the requirements of management, as the use of cost information is fully integrated into the organisation's reporting and decision making process.

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<sup>45</sup> ANAO Better Practice Guides, November 1999, *Building a Better Financial Management Framework* and *Building Better Financial Management Support*.

<sup>46</sup> Management Advisory Board, *Beyond Bean Counting—Effective Financial Management in the APS—1998 and Beyond* (December 1997).

**Figure 4.1****Development of a costing system**

<b>Stage 1</b>	<b>Primary Use</b>	<b>Reason for Existence</b>	<b>System</b>	<b>Ownership</b>
An immature backward looking system typically used to acquit external demands for output budgeting and reporting.	Cost allocation tool.	External demands.	Secondary reporting system.	Finance area.
<b>Stage 2</b>				
A more sophisticated model to inform decisions which are aligned with operational realities and have regard for future actions.	Support for decision making.	Internal reporting.	Key internal reporting system.	Finance driven but used by managers at all levels.
<b>Stage 3</b>				
A refinement of Stage 2 with more emphasis away from satisfying internal demands to one where operations of the agency are being analysed to learn where gains in efficiency and quality can be made.	Integrated into the decision making framework.	informs all decision making.	Key internal and external reporting tool.	Owned and supported by whole organisation.

Source: Management Advisory Board Report – *Beyond Bean Counting – Effective Financial Management in the APS 1998 and Beyond*.

**4.7** The non-primary industry levies examined in this audit primarily reflected the first stages of the costing process. For example, the DTRS costing associated with the Aircraft Noise Levy is essentially the recording of costs associated with work done on the Sydney Airport Noise Amelioration Program to ensure an accurate acquittal of levy revenue against these costs over time, to meet external accountability requirements. There were no levies examined in the audit that met all the criteria that would place them in the third stage category of the above costing system.

**4.8 Finding:** Costing information was usually assembled by entities in response to external accountability requirements. Entities were generally able to identify levy *program costs*, however, a number of entities were unable to accurately capture the administration costs associated with particular levies. Entities that manage multiple levies such as APRA and AMSA face considerable cost allocation problems devising transparent and efficient costing systems given the need to allocate significant indirect costs across levies.

## Categories of cost recovery

**4.9** In establishing a levy, the extent to which levy revenue is intended to recover costs, and the time period over which this should occur, needs to be established. Levies may have the objective of full cost recovery, partial cost recovery, or they may be set at a predetermined level without reference to costs.

**4.10** Ideally cost recovery is based on a full accrual basis, that is, all costs, cash and non-cash, are recognised in the time period and levies are set accordingly. In April 1997, as part of its public service reform agenda, the Government decided to implement an accrual-based, outcome and output focused resource management framework for the Commonwealth, with future annual budgets to be presented on an accrual accounting basis. The 1999–00 Budget was the first Commonwealth Budget to be prepared on a full accrual accounting basis.

**4.11** Another dimension to the issue of cost recovery is the time frame over which costs are fully or partially recovered. The time frame may be either short term (typically annual) or long term (over several years).<sup>47</sup> The levies examined in the audit were categorised into three broad groups based on the reported level of cost recovery and the time taken to recover the costs. These categories are outlined in Figure 4.2.

**Figure 4.2**

### Categories of cost recovery

<i>Timeframe</i>	<i>Full Cost Recovery</i>	<i>Partial Cost Recovery</i>
<b>Short Term</b> (annual) <ul style="list-style-type: none"> <li></li> </ul>	<ul style="list-style-type: none"> <li>• Australian Prudential Authority Regulatory Authority Levies</li> <li>• Telecommunications Universal Service Obligation Levy</li> <li>• National Relay Service Levy</li> <li>• Marine Navigation Regulatory Functions Levy</li> <li>• Private Health Insurance Administrative Council Levy</li> <li>• Private Health Insurance Ombudsman Levy</li> </ul>	<ul style="list-style-type: none"> <li>• Protection of the Sea Levy</li> </ul>
<b>Longer Term</b> (>1 year)	<ul style="list-style-type: none"> <li>• Aircraft Noise Levy</li> <li>• Stevedoring Levy</li> <li>• Marine Navigation Levy</li> <li>• Coal Mining Industry (LSL) Payroll Levy</li> </ul>	

Source : ANAO—based on information provided by entities.

<sup>47</sup> Another factor which potentially affects the actual level of cost recovery is the presence of statutory floors and ceilings for the levy, for example the limits for general insurers for 1999–00 was 0.02 per cent of assets, with a minimum levy payment of \$5 000 and a maximum of \$75 000. However, these limits have not limited the level of cost recovery for any levies examined in the audit.

**4.12** Some entities did not identify their costs precisely and therefore it was not possible to determine the exact level of cost recovery. The actual situation across the levies examined in the audit is outlined in Figure 4.3 and discussed below.

### **Short term cost recovery**

**4.13** These arrangements were based on an annual cycle where levy revenue is intended to equate to levy costs in the same year. With annual full cost recovery arrangements, over-collection or under-collection can occur due to the difficulties in estimating costs and revenue in advance, and most levies adjust for over and under-collection in subsequent years. Four of the short term cost recovery levies were within 10 per cent of total costs, namely: the Marine Navigation (Regulatory Functions) Levy, the Telecommunications USO Levy; the National Relay Service Levy; and the Private Health Insurance Administration Council Levy (see Figure 4.3).

**4.14** Prior to 1999–00 when excluded superannuation funds paid a minimum of \$200 per fund, the cost recovery outcomes achieved by APRA and its predecessor the ISC, bear little relationship to the actual cost of prudential regulation of these funds. The large over-collection by nearly 10 times for the excluded superannuation funds was the result of levy revenue substantially exceeding the regulatory costs by some \$30 million. For industry stakeholders this practice of over-collection and cross subsidisation by small superannuation funds of other larger organisations in the various financial services sectors was a matter of concern.

**4.15** The Department of the Treasury advised ANAO that, for the 1998–99 fund income year onwards, self managed funds (most of the former excluded funds) will pay a flat rate levy of \$45, which is intended to end the practice of over-collection and aims to recover the costs of regulating and administering the self managed funds only.

**4.16** The apparent under-collection by the Private Health Insurance Ombudsman Levy is a compensating adjustment for previous over-collection the year the Office of the Ombudsman was established.<sup>48</sup> From 1999–00 the statutory ceiling for the levy will be \$950 000 which is expected to result in full or near full cost recovery of the levy program and administration costs.

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<sup>48</sup> The Office was not functioning for the full year.

**4.17** The Telecommunications USO is an atypical example of short term full cost recovery. AUSTEL originally administered this levy,<sup>49</sup> apportioning the liability for the levy by timed local calls, collecting the levy, and arranging reimbursement to Telstra. Telstra recently independently calculated that its Net Universal Service Cost (NUSC) in 1997–98<sup>50</sup> for meeting the USO were \$1.8 billion, an amount seven fold greater than the negotiated figure. Other USO providers contested this figure, and the Government capped the USO base at some \$253 million plus Consumer Price Index (CPI) increases while ACA (AUSTEL's successor) independently assessed Telstra's cost claim. It has since been decided to conduct a review into the delivery of USO services and pending the outcome of that review the Government has passed legislation to cap the amount carriers can claim in the years from 1997–98 to 1999–00 to \$253.32 million plus increases in line with movements of the CPI.

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<sup>49</sup> The original base used to calculate the levy was not determined on the basis of Telstra's actual costs in undertaking the USO.

<sup>50</sup> The NUSC is calculated based upon avoidable costs, less revenue, in particular net loss areas. Avoidable costs are essentially the costs that would be avoided if the party was not required to provide the service.

**Figure 4.3****Costs and cost recovery outcomes for 1998–99**

<i>Levy</i>	<i>Program Costs<sup>b</sup> \$m</i>	<i>Admin Costs<sup>b</sup> \$m</i>	<i>Total Costs<sup>b</sup> \$m</i>	<i>Revenue \$m</i>	<i>Cost Recovery<sup>c</sup> %</i>
<b><i>Safety and environment</i></b>					
Aircraft Noise Levy	60.3 <sup>d</sup>	0.3 <sup>d</sup>	60.6	37.7	62 <sup>e</sup>
Marine Navigation Levy	25.2	0.04 <sup>f</sup>	25.2	26.9	107 <sup>e</sup>
Marine Navigation (Regulatory Functions) Levy	14.9	0.04 <sup>f</sup>	14.9	16.1	108
Protection of the Sea Levy	4.2	0.04 <sup>f</sup>	4.2	3.6	86
<b><i>Universal service obligations</i></b>					
Telecommunication USO Levy	256	na	256	256	100 <sup>g</sup>
National Relay Service Levy	9.1	na	9.1	9.0	99 <sup>g</sup>
<b><i>Industry regulation</i></b>					
PHIO Levy	0.8	na <sup>h</sup>	0.8	0.7	85
PHIAC Levy	1.2	0.01	1.2	1.2	100
Superannuation (Excluded Funds) Supervisory Levy	3.5	na <sup>i</sup>	3.5	33.8	965
Superannuation (Non-excluded Funds) Supervisory Levy	32.7	na <sup>i</sup>	32.7	20.7	63
Retirement Savings Account Providers Supervisory Levy	0.09	na <sup>i</sup>	0.09	0.06	71
Life Insurance Supervisory Levy	6.1	na <sup>i</sup>	6.1	4.5	74
General Insurance Supervisory Levy	4.8	na <sup>i</sup>	4.8	4.1	84
<b><i>Employment</i></b>					
Coal Mining Industry (LSL) Payroll Levy	92.7	0.8	93.4	62.0 [80.9] <sup>j</sup>	66 <sup>e</sup> [87] <sup>e</sup>
Stevedoring Levy	na <sup>k</sup>	na <sup>k</sup>	na <sup>k</sup>	8.7	na <sup>ke</sup>
<b><i>Totals</i></b>	<b>511.5</b>	<b>1.2</b>	<b>512.7</b>	<b>485.0</b>	

Notes:

- Agencies moved to full accrual budgeting from 1999–2000.
- Costs relate to those reported by the entities primarily responsible for the delivery of the levy.
- Cost recovery percentages based on exact numbers. Cost and revenue numbers detailed in the figure have been rounded.
- Estimate, as DTRS does not disaggregate program and administration costs.
- Levy for which costs are recovered over more than one year with the result that the rate of cost recovery will vary between years (see Fig 4.2).
- Total administration costs only, this figure is derived by apportioning administration costs across the three AMSA levies.
- Administration costs recovered from carrier licence fees, levy recovers USO amount set by Government and NRS costs.
- The administration costs of Department of Health and Aged Care (DHAC) were reported as negligible.
- APRA does not disaggregate program and administration costs.
- Includes investment income of \$18.9 million.
- Levy commenced 1 February 1999 (estimates for 1998–99 were not available at the time of audit fieldwork).

Source: ANAO analysis based on information provided by entities.

## Partial cost recovery

**4.18** Of the levies examined, the only levy that was designed for partial cost recovery was the Protection of the Sea Levy which was designed to fund the operations of the National Plan to Combat Pollution of the Sea by Oil. In general, the levy is intended to meet the clean up costs arising from ship-sourced marine pollution.

**4.19** The Government has agreed that AMSA's responsibility should be limited to a maximum outlay of \$10 million. AMSA advised ANAO that, in the event of it sustaining costs above that limit, funds will be provided by the Government. AMSA has accumulated surpluses of some \$1.5 million at 30 June 1999 and has entered into a standby loan facility arrangement to fund any major incident up to the maximum of its liability.<sup>51</sup>

## Long term full cost recovery

**4.20** Levies for which costs are recovered over more than one year usually have more complex pricing arrangements. The Coal Mining Industry (LSL Funding) Corporation is responsible for the long term management of levy revenue in an investment fund, as well as managing levy collections and expenditure. The Corporation uses an actuarial assessment to set charges to match accruing liabilities. The actuarial approach captures long term total costs while smoothing variations in the levy required to recover costs.

**4.21** Notwithstanding a 62 per cent cost recovery ratio for 1998–99, the Sydney Airport Noise Amelioration Program is designed to meet the full costs of noise reduction measures in buildings affected by Sydney aircraft noise, subject to certain criteria. The program was in operation one year prior to the commencement of levy collection. Program expenditure is subject to peaks and troughs with costs of \$62 million in the first full year of operation, \$49 million in the second, and \$68 million in the third year. Apart from the difficulty in forecasting the annual program costs, attempting to fully recover costs in the same financial year would impose an onerous financial burden on levy payers. It would also be inequitable from the viewpoint of current airlines, because the investment is designed to reduce the noise from future as well as current airport users. As a result the costs associated with this program will be recovered over several years.

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<sup>51</sup> AMSA advised ANAO that: "the Protection of the Sea Levy funds the National Plan to break even over time. During the last two financial years deficits have been planned in light of the extent of accumulated surpluses. It is correct that AMSA's liability is capped at \$10 million at any one time with the Commonwealth to provide funding above that. However, it would then be AMSA's responsibility to pursue recovery and ensure subsequent reimbursement to the Commonwealth for any such outlay."

DTRS advised the ANAO that, under these arrangements, it is estimated that the levy will pay for the program costs by around 2005–06, depending on future program expenditure levels and levy receipts.

**4.22 Finding:** ANAO found that in 1998–99, four of the short term levies, which accounted for over half of the revenue, achieved cost recovery levels that were within 10 per cent of reported costs, for other levies, entities had either not identified the cost of administration and/or the level of recovery did not bear a direct relationship to costs. The more material levies administered by APRA had the largest spread of cost recovery levels (including costs incurred by other agencies) ranging from under-recovery of 63 per cent for the non-excluded superannuation funds to over-recovery by 965 per cent for the excluded superannuation funds. The over-collection by nearly 10 times for the superannuation excluded funds was the result of levy revenue substantially exceeding the regulatory costs of the excluded superannuation funds. The Department of the Treasury advised ANAO that the cross-subsidisation by the small superannuation funds of the larger financial institutions ceased following the Government's decision to reduce the levy for self managed funds by 77 per cent with effect from the 1998–99 fund income year. The reduced levy aims to recover only the regulatory and administration costs applicable to self managed superannuation funds.

## Recommendation No.6

**4.23** ANAO *recommends* that entities review and develop capabilities within these financial management information systems in relation to levies that will provide management with adequate and timely costing information on a full accrual basis for both input and output costs.

**4.24** Agencies responded to the recommendation as follows:

- *Agree:* ACA, AMSA, APRA, Coal Mining (LSL Funding) Corporation, DHAC, DTRS, PHIAC and PHIO.

**4.25** Specific comments by the agencies are set out below.

- **APRA response:** Agreed subject to the cost benefit of providing such information.
- **ACA response:** Agree. The ACA's financial management procedures are based on full accrual concepts.
- **AMSA response:** Agree. AMSA undertakes asset replacement and infrastructure investment from retained earnings and so adopts a longer term perspective in regard to cost recovery.



## Charging regime

**4.26** The structure of industry levies represent a system of prices that are paid by discrete industry groups. A number of financial issues are raised with any charging system including whether the levies imposed on different industry participants are fair and appropriate.

**4.27** In reviewing cost recovery levels entities should have regard to the following issues as appropriate:

- comprehensive coverage of the facilities and services to be included for costing purposes;
- the basis for, and measurement of, costs associated with the provision of those facilities and services;
- the consideration of the extent to which costs incurred by all entities in providing services for a discrete industry group should be borne by the group;
- the division of an industry for cost recovery purposes into component parts or sectors based on operational, functional or other characteristics; and
- the allocation to industry sectors entity costs attributable to the industry and the extent to which allocated costs should be recorded from each industry sector.

**4.28** It is important to ensure that the costs of the levy activity are recovered from those who give rise to the need for a levy. Stakeholders in various industries have expressed concerns that, in the past they have not had a clear knowledge of entities' levy expenditure, and the potential for cross subsidy. For example, this view was expressed in regard to the excluded superannuation fund levies where levy revenue significantly exceeded the cost of regulation. The Department of the Treasury advised ANAO that this situation has now been addressed with the rate of the levy for self managed funds (most of the former excluded funds) being reduced to a flat rate of \$45 which is intended to eliminate over-collection and cross subsidisation.<sup>52</sup>

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<sup>52</sup> APRA also advised ANAO that: *In 1998–99 levies from excluded superannuation funds flowed to CRF. An appropriation of \$1.5 million was provided to APRA to assist in the administration of the excluded funds pending the transfer to the ATO. The setting of the levy for the fiscal year 1999–00 is not APRA's business, the decision to levy at \$45 being a determination by the Treasurer in consultation with the ATO.*

**4.29** User pays charging is an important issue as it can address relativities that may exist to the advantage or disadvantage of some levy payers. For example, where a levy is designed to deal with an environmental issue such as the protection of the sea from oil pollution there is a view that those operators with the most potential for causing an oil spill should pay a proportionately higher levy, with lower charges applying to operators who meet certain standards of good practice aimed at reducing the incidence of oil spills.<sup>53</sup>

**4.30** The majority of charges examined were a fixed price per leviable unit with the total revenue varying according to the number of leviable units. For example, the PHIAC Levy on each health fund varies with the number of leviable units, which in this case are fund members, and the Maritime Navigation Levy charges are linked to tonnage which decrease on the attainment of specified threshold levels (see Figure 4.4).<sup>54</sup>

**4.31** Exemptions may enhance or detract from the equity of a levy arrangement. Of the 15 levies examined in this audit only four (Aircraft Noise Levy; Marine Navigation Levy; Marine Navigation (Regulatory Functions) Levy; and the Protection of the Sea Levy) included exemptions to the arrangements. It is not uncommon to exempt individuals or organisations from the payment of a levy even though they may benefit directly from the activity funded by the levy or be partly responsible for the existence of the levy. For example, fishing vessels do not pay the Marine Navigation Levy as they are generally below the minimum leviable size limit set by legislation that was aimed at the larger commercial vessels.

**4.32** Parties paying the levies also have an interest in knowing how much revenue is collected from the levy and how it is used. The details of actual expenditure can provide an assurance to various stakeholders that the setting of the levy charge is reasonable and funds are being expended as intended. A number of stakeholders, particularly in the financial services industries, have expressed concern about the lack of transparency between revenue collection and expenditure.

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<sup>53</sup> In the case of the Protection of the Sea Levy, these were among the issues addressed in some detail in the June 1997 AMSA Levy Review. Also AMSA advised ANAO that the oil industry has provided and maintains a significant stockpile of response assets and other contingency arrangements.

<sup>54</sup> Minimum and maximum amounts payable are usually provided for in the enabling legislation.

**Figure 4.4****Levy charges as at 1 July 1999**

<b>Levy</b>	<b>Nature and Value of Levy Unit</b>
Aircraft Noise Levy	Variable levy on jet aircraft operators based on the volume of jet aircraft noise emissions above a certain threshold at qualifying airports. Calculated by formula to derive a base levy unit which as at 1 July 1999 was \$167.18. A ceiling applies based on a prescribed maximum percentage increase and movements in the CPI.
Stevedoring Levy	Variable levy on stevedoring companies based on the number of containers or vehicles loaded or unloaded from a vessel. Rates may vary for different classes of containers or vehicles. Rates at present are a flat \$12.0 per container and \$6.0 per vehicle, which are unchanged from the original settings on 1 February 1999.
APRA Levies	Primarily variable levies <sup>a</sup> based on the levy payers asset value on entities in the financial industry determined in writing by the Treasurer.
Marine Navigation Levy and Marine Navigation Regulatory Functions Levy	Variable levy on certain vessels based on four rates for each of four thresholds of net registered tonnages. <sup>b</sup> Increase in levy limited to 15 per cent in any period of 12 consecutive months.
Protection of the Sea Levy	Variable levy on certain vessels based on the vessel size (24 metres and above), tonnage and amount of bulk oil on board (not less than 10 tonnes). As at 1 July 1999 the levy was a flat rate of 3.3 cents per tonne.
Private Health Insurance Ombudsman Levy	Variable levy on health benefits funds based on the number of contributors to the fund. As at 1 July 1999 the levy was a flat rate of 17.68 cents per single contributor, or 35.32 cents for a family contribution. <sup>c</sup>
Private Health Insurance Administration Council Levy	Variable levy on health funds based on the number of contributors to the fund. As at 1 July 1999 the levy was a flat rate of 35 cents per contributor.
Telecommunications USO Levy	Variable levy on Australian telecommunications carriers based on annual eligible revenue. <sup>d</sup>
National Relay Service Levy	Variable levy based on the number of relayed call minutes. The rate also varies with the volume of traffic. <sup>e</sup>
Coal Mining Industry (Long Service Leave) Payroll Levy	Variable levy on employers in the Black Coal Industry based on eligible wages paid to eligible employees. <sup>f</sup>
<p>Notes:</p> <p>a) Commonly percentage of assets held with maximum and minimum amounts. For example, for 1999–00, Life Insurers are levied at 0.02 per cent of their assets, with a minimum levy of \$500 and a maximum of \$280 000. Non-excluded Superannuation funds are 0.04 percent, \$300 and \$41 000 respectively.</p> <p style="text-align: right;"><i>more notes next page</i></p>	

- b) The Marine Navigation Levy as at 1 July 1999 is 35.5 cents per tonne for the first 5000 tonnes, 21.0 cents from 5000 to 20 000 tonnes, 8.5 cents from 20 000 to 50 000 tonnes, and 3.0 cents over 50 000 tonnes. For the same ranges the Regulatory Functions Levy is 18.5 cents, 18.0 cents, 15.5 cents and 14.0 cents respectively.
- c) The levy is set to recover the assessed costs of the Office of the PHIO which has been assessed at \$950 000 for 1999–00.
- d) For example, in 1997–98 *Telstra's* eligible revenue was reported by ACA to be 84.46 per cent of the total for all carriers, therefore *Telstra's* "levy" contribution would be 84.46 per cent of the total costs of providing the USO.
- e) The NRS Levy is based on the number of relayed minutes provided by this service to which a flat per minute is applied depending on the volume of traffic.
- f) The amount is determined actuarially and reviewed periodically. Currently, the levy is set at 5.0 per cent of eligible wages which includes 2.6 per cent to defray an unfunded liability.

Source: ANAO.

**4.33** ANAO considers that levy management arrangements should address the importance of transparency in the financial reporting of each levy as this provides an effective means to guard against the concern of levy payers that the collection agency is not over-recovering costs. Of particular interest is how much is spent on a program compared to how much is actually outlaid on collecting and administering the levy. Also, reporting details of the relationship between the total costs and the setting of charges provides transparency to stakeholders and assists in promoting confidence and acceptance of the system by levy payers.

**4.34** Entities were generally able to identify levy program costs. However, a number of entities were unable to accurately capture the administrative costs of their levies. For example, AMSA collects the three maritime levies simultaneously and was able to identify the total administration costs across all three maritime levies but could only provide an estimate of these costs for each levy. DTRS could only estimate their administration costs as the departmental management information system did not allow the disaggregation of levy administrative costs from other departmental expenses.<sup>55</sup> APRA could not differentiate between program costs (in this case, the cost of delivering regulatory functions) and collection costs<sup>56</sup>.

<sup>55</sup> DTRS advised ANAO in January 2000 that: *In line with continuing improvements in management reporting DTRS is currently reviewing the timing, areas and extent to which activity based costing will be included within its financial management information.*

<sup>56</sup> Levy functions were often spread across more than one entity with no single entity responsible for capturing all the costs associated with the levy. In the case of APRA, there were at least six entities involved in the financial regulatory levies. The Department of the Treasury had policy oversight; Attorney Generals' Department developed the legislation; APRA had primary carriage of levy management and program delivery; ATO and Australian Securities and Investment Commission (ASIC) delivered specialised components of the program; and a private sector firm printed and mailed out invoices.

**4.35** Most levies have a direct relationship between program costs and the levy revenue collected.<sup>57</sup> The majority of entities publish some information on levy revenue and expenditure, usually in their annual report. However, the reporting arrangements generally did not provide a clear understanding of levy collection costs, program outcomes and revenue.

**4.36 Finding:** To ensure effective accountability and to assist in the application of efficient cost recovery arrangements, entities should develop appropriate internal accounting systems and reporting arrangements where they are not already in place. ANAO considers that levy management arrangements should take account of the importance of transparency in the financial reporting of each levy as this provides an effective means to guard against the concern of levy payers that the collection agency is not over-recovering costs. The majority of entities publish some information on levy revenue and expenditure. However, the reporting arrangements were generally not sufficiently comprehensive to provide a clear understanding of levy costs and revenue to all stakeholders, including Parliament.

## Recommendation No.7

**4.37** ANAO *recommends* that entities develop appropriate administrative systems to ensure that reporting processes are in place that will produce financial and non-financial information for effective internal monitoring and review of levy performance and for related external accountability.

**4.38** Agencies responded to the recommendation as follows:

- *Agree:* ACA, AMSA, APRA, Coal Mining (LSL Funding) Corporation, DHAC, DTRS, PHIAC and PHIO.

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<sup>57</sup> This relationship is generally referred to as hypothecation and has been defined as the creation of a nexus between a particular source of tax revenue and a particular expenditure program. (*Department of the Treasury Economic Roundup—Summer 1996, p. 19*).

**4.39** Specific comments by the agencies are set out below.

- **APRA response:** Agreed subject to the cost benefit of providing such information.
  - **ACA response:** Agree. Although, the ACA has in place a comprehensive performance management quarterly reporting process that includes financial and non-financial performance indicators against its defined business outcomes it will review specifically the indicators used for the levy programs.
  - **AMSA response:** Agree. AMSA is working toward providing more comprehensive information for internal management and greater transparency for stakeholders.
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Canberra ACT  
17 February 2000

P.J. Barrett  
Auditor-General

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