

The Auditor-General
Audit Report No.12 2000–2001
Performance Audit

Passenger Movement Charge —Follow-up Audit

Australian Customs Service

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Canberra ACT
3 October 2000

Dear Madam President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in the Australian Customs Service 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 *Passenger Movement Charge—Follow-up Audit*.

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

AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office. The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits and financial statement audits of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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For further information contact:
The Publications Manager
Australian National Audit Office
GPO Box 707
Canberra ACT 2601

Telephone (02) 6203 7505
Fax (02) 6203 7798
Email webmaster@anao.gov.au

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Audit Team

Mark Rogala
Anne Cronin
Peter White

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Abbreviations/Glossary

ACS	Australian Customs Service
ANAO	Australian National Audit Office
AQIS	Australian Quarantine Inspection Service
CBD	Central Business District
Charge Act	<i>Passenger Movement Charge Act 1978</i>
CIQ	Customs, Immigration and Quarantine
Collection Act	<i>Passenger Movement Charge Collection Act 1978</i>
DIMA	Department of Immigration and Multicultural Affairs
PMC	Passenger Movement Charge
RPT	Regular Public Transport

Summary and Recommendations

Summary

Introduction

1. The Passenger Movement Charge (PMC) was introduced in July 1995 (replacing Departure Tax). The PMC, which is the administrative responsibility of the Australian Customs Service (ACS), is levied under the *Passenger Movement Charge Act 1978* and collected under the *Passenger Movement Charge Collection Act 1978*.

2. The PMC was introduced as a cost recovery measure to recoup the notional cost of Customs, Immigration and Quarantine (CIQ) processing of inward and outward passengers and the cost of issuing short-term visitor visas.¹ However, in law PMC is a tax.

3. The PMC is relevant to two of the ACS' principal roles:

- to facilitate trade and movement of people across the Australian border while protecting the community and maintaining appropriate compliance with Australian law; and
- to efficiently collect customs revenue.

4. Although the PMC is relevant to core ACS roles, it is relatively small in terms of revenue collected. Aggregate revenue collections from PMC were \$226.2 million in 1999–2000, the bulk of which (98 per cent) was accounted for by departing air passengers on Regular Public Transport (RPT) airlines.² The ACS' total revenue for 1999–2000 was approximately \$4.2 billion.

5. The PMC is currently levied at \$30 per passenger departing Australia. Generally speaking, PMC is payable by all passengers (air and sea). However, there are 12 categories of exemption.³ Exemptions granted involving RPT airlines in 1999–2000 amounted to \$18.2 million.

¹ These activities are administered by the ACS, the Department of Immigration and Multicultural Affairs (DIMA), and the Australian Quarantine Inspection Service (AQIS).

² Regular Public Transport (RPT) is defined as the operation of an aircraft for the purpose of providing a service for a fee, conducted in accordance with fixed schedules to or from fixed terminals over specific routes and available to the general public on a regular basis.

³ Most exemptions provided are for diplomats and children under 12 years of age. The categories of exemptions are listed at Appendix 1.

6. The ACS administers the PMC legislation through arrangements with each carrier and the arrangements are standardised for each type of carrier. That is, RPT airlines have arrangements in one form to collect and remit the charge, charter airlines have a different form of arrangement and shipping companies have yet another. Where a passenger purchases a travel ticket through a travel agent rather than from an airline or shipping company, the agent is required to collect and forward the PMC to the relevant carrier. The existing formal arrangements for RPT airlines cover the period 1 July 1998 to 30 June 2001. The ACS is currently developing new formal arrangements to replace the existing ones. ACS formal arrangements with charter airlines and shipping companies are on-going.

7. The existing formal arrangements provide that each RPT airline will collect the PMC from liable passengers departing Australia under the airline's flight numbers and remit these amounts to the Commonwealth within agreed time-frames. Under these arrangements, the ACS has agreed to reconcile each airline's remittances against its own records and notify the airline of instances where, on its figures, the airline has under or over paid. Where there is an under-payment, the airline is required to remit this amount to the ACS. The ACS is required to refund any over-payment to the airline. The ACS also reconciles charter airline remittances however, it does not reconcile shipping company remittances as it considers that this category of payer does not represent a significant risk.

8. The ACS is also required, as part of the formal arrangements, to pay the administration costs incurred by the RPT airlines in collecting and remitting the PMC. In 1999–2000, the ACS paid approximately \$1.2 million in administration costs. The relevant arrangements do not require the ACS to pay administration costs incurred by charter airlines and shipping companies.

9. Audit Report No.1 of 1996–97, *Passenger Movement Charge* (referred to as the 1996 Audit Report) examined how efficiently and effectively the ACS administered the PMC, including the then interim arrangements the ACS had in place with airlines. The report found that the ACS was generally administering the PMC collection regime in an efficient and effective manner. However, the audit highlighted a number of aspects of the interim arrangements that deserved specific attention when longer-term arrangements were being formulated. The audit also suggested improved revenue control administrative processes (including checking processes for airlines and other categories of payers), and improved staff training and program monitoring. The ANAO made eight recommendations to improve the ACS' administration of the PMC. The ACS agreed with all recommendations.

Follow-up audit approach

10. The objective of the follow-up audit was to report on the action taken by the ACS to address the recommendations of the 1996 Audit Report. The audit also reviewed key areas of the PMC administration identified in the 1996 audit, including the appropriateness of formal arrangements between the ACS and RPT airlines and assessed the proposed arrangements being developed by the ACS.

11. The arrangements with RPT airlines were a particular focus in the follow-up report (as they were in the 1996 Audit Report), because of the significance of that category of carrier in revenue terms.

Overall conclusion

12. The ANAO found that the ACS has taken action to implement all recommendations in the 1996 Audit Report.

13. The ACS' assessment of aggregate PMC collections indicates that overall, it receives 98 per cent of the PMC revenue it expects, given the numbers of passengers departing Australia and the numbers of people claiming exemptions for which it has data. This aggregate revenue result is reassuring.

14. The follow-up audit concluded that the ACS has enhanced its formal arrangements with airlines to collect and remit the PMC. However, there is scope for the ACS to pursue further improvements to the arrangements to better protect the Commonwealth's interests. The inclusion of a 'tolerance range'⁴ in the current formal arrangements with airlines provides for an acceptable margin in airline PMC remittances, making the current arrangements contrary to the relevant legislation. The ACS has advised it intends to remove the tolerance range from future PMC arrangements.

⁴ The current formal arrangements with Regular Public Transport airlines provides that if the PMC amount remitted to the Commonwealth by the airline is less than the lower limit of the tolerance range, the Commonwealth will demand payment of the difference between the amount remitted by the airline and the lower limit of the tolerance range. Conversely, if the amount remitted by the airline is greater than the upper limit of the tolerance range, the Commonwealth will refund the difference between the amount remitted by the airline and the upper limit of the tolerance range. The nominated tolerance range in the current formal arrangements is three per cent. The previous arrangements provided for a tolerance range of five per cent. (Arrangements with charter airlines and shipping companies do not include a tolerance range.)

15. The ACS has been unable to agree to terms for formal arrangements with two airlines. The Commonwealth's interests would be better protected if the ACS were able to secure formal arrangements with all carriers, particularly the RPT airlines, since they account for the bulk of PMC revenue. However, we acknowledge the ACS' limited scope to secure formalised written arrangements with all carriers because of the voluntary nature of the arrangements under the *Passenger Movement Charge Collection Act 1978*.⁵

16. In aggregate terms, most of the PMC revenue ACS expects to collect is received. However, we consider that the ACS could manage PMC remittances at the individual RPT airline level more effectively, consistent with the requirements of its formal arrangements with airlines. In essence, the ACS could seek to negotiate formal arrangements with airlines that provide the ACS with:

- more detailed information to assist it to verify and reconcile PMC remittances; and
- increased access to information on airline procedures and processes for calculating PMC moneys owing to assist the ACS to assess the completeness of airline PMC remittances.

⁵ The ACS enters into formal arrangements with carriers in accordance with section 10(1) of the *Passenger Movement Charge Collection Act 1978* which provides that *The Minister may make an arrangement with a person under which the person agrees to pay to the Commonwealth, in the manner provided in the arrangement, an amount equal to any charge that may become payable by an person to whom the arrangement applies.*

Key Findings

Nature of the charge

17. The PMC was introduced to recover or ‘fully offset’ the cost of CIQ processing of incoming and outgoing passengers and to recover the costs of issuing short-term visitor visas.⁶ The 1996 Audit Report noted that the PMC was introduced as a cost recovery measure, but that in law it was a tax.

18. The follow-up audit found that with the 1998–99 Budget decision to increase the PMC from \$27 to \$30 per passenger, a policy shift has taken place. The PMC is levied under Commonwealth taxing powers and is now applied partly as a general revenue raising source. As a consequence, the PMC is no longer solely linked to cost recovery of Customs, Immigration and Quarantine services.

PMC collection system

Terms significantly improve the Commonwealth's position regarding PMC collection

19. ACS’ formal arrangements and proposed arrangements being developed represent a significant improvement over the provisions contained in the interim arrangements examined in the 1996 Audit Report. Both the current formal arrangements and proposed arrangements impose on the airlines an unequivocal obligation to pay the amount of the PMC due to the Commonwealth, irrespective of whether the airline has actually collected that amount from its agents or its passengers.

Tolerance range under the existing formal arrangements

20. ACS’ formal arrangements with airlines include a ‘tolerance range’ for airline PMC remittances. This is because the ACS lacks the necessary information on airline code-share activities and some minor categories of PMC exempt passengers to verify and reconcile precisely airlines’ PMC liabilities. The interim arrangements with airlines, which were the subject of the 1996 Audit Report, did not include a tolerance range although it was being considered as a possible provision in the longer-term arrangements.

⁶ The Treasurer’s 1994 Budget Speech announcing the PMC and the Second Reading Speech for the PMC legislation.

21. The ACS' inclusion of a tolerance range in its formal arrangements is not consistent with the requirements of section 10(1) of the *Passenger Movement Charge Collection Act 1978*. The inclusion of a tolerance range in relation to a particular airline's PMC remittance, may result in the ACS accepting a remittance that is not equal to the charge payable by liable passengers. This is because the remittance may fall within the tolerance range acceptable to the ACS, but may not be the amount that the airline should be remitting for its liable passengers. The ACS has advised it intends to remove the tolerance range from future PMC arrangements. We support the removal of the tolerance range from the formal arrangements as this will provide the required focus on the liability to pay an amount equal to any charge. We also recognise that, in practice, the ACS would determine airlines' PMC liability based on sound risk management principles which would be consistent with the ACS' administration of other administered revenue items.

Risks associated with the ACS not having formal arrangements with airlines

22. There is no legislative requirement for airlines and shipping companies to enter into formal arrangements with the ACS to collect and remit the PMC. The ACS has formal arrangements for the period 1 July 1998 to 30 June 2001 with 56 RPT airlines to collect and remit the PMC. However, the ACS has been unable to agree to terms for formal arrangements with two airlines, because the airlines would not agree to the proposed reduction in the tolerance range from five per cent to three per cent in effect requiring increased precision in their remittances compared to the ACS' estimates.⁷ Notwithstanding the two airlines have not signed a current formal arrangement, both airlines continue to collect and remit the PMC to the ACS. The ANAO considers that it is in the Commonwealth's interests, for administrative clarity and to establish a legal basis, to ensure that all airlines and shipping companies have signed formal arrangements to collect and remit the PMC. However, we recognise that airlines enter into formal arrangements with the ACS on a voluntary basis.

23. If the airlines do not agree to collect and remit the PMC, the ACS would be required to set up alternative collection mechanisms. Some of these alternatives may not sit easily with objectives to facilitate international air travel in a commercial environment. To reduce the

⁷ Both airlines had formal arrangements with the ACS to collect and remit PMC for the period 1 July 1996 to 30 June 1998. One of these airlines remitted PMC revenue of about \$70.6 million in 1998–99 (that is 31 per cent of all PMC revenue collected by the ACS in that period).

likelihood of having to implement such alternatives, the ACS may need to develop legislative options for Government consideration regarding the collection and remittance of the charge by airlines if a negotiated outcome that protects the Commonwealth's position is not able to be achieved.

Controls over exemptions

24. At present, the application of some categories of exemption (admittedly ones accounting for very small amounts of money) appears difficult to determine⁸ and there is no detailed explanatory information provided to assist PMC collectors assessing claims for PMC exemptions. The ACS could improve the administration of exemptions by ensuring that all clients with whom formal arrangements exist, have a clear understanding of the exempt categories and their responsibility to clearly identify all such passengers in their remittances. Suitable provisions in airlines' and shipping companies' arrangements would also reinforce the need to apply PMC exemptions, consistent with the requirements of the PMC legislation.

Revenue control

25. The ACS' assessment of aggregate PMC collections indicates that, overall, it receives 98 per cent of the PMC revenue it expects, given the numbers of passengers departing Australia and the numbers of people claiming exemptions for which it has data. The ANAO considers this aggregate revenue result is reassuring, but there is scope for tighter revenue control for individual airlines.

ACS remittance investigation and analysis of data

26. The ACS cannot reliably reconcile each RPT airline's PMC remittances as required by its formal arrangements. This is because the ACS' information systems cannot completely verify and reconcile RPT airline remittances in relation to all exemptions granted and all airlines' code-share arrangements.⁹ Code-share arrangements are an important factor because they affect the airlines' PMC statistics (and remittances) for a significant, but unknown, number of departing passengers. The

⁸ As noted earlier, the categories of exemptions are listed at Appendix 1.

⁹ A code-share arrangement between airlines occurs where a passenger is sold a travel ticket by one airline but, by agreement, departs Australia on another airline's flight (code). Where an airline code-shares with another airline, the boarding pass of the airline selling the travel ticket may not reflect that the passenger is actually departing under another airline's flight code. Where this is the case, the ACS incorrectly assess the airline selling the ticket as being liable to remit the PMC to the ACS rather than the airline owning the departure flight code as the terms of the ACS' formal arrangements specifies. Not all RPT airlines engage in code-share.

ACS would be able to improve its revenue control for each RPT airline if it were able to obtain additional information concerning exemptions granted and code-share arrangements in reports required under the formal arrangements with airlines.

27. The ACS does not have the same difficulties in relation to remittance investigation and analysis of data for other PMC remitters, in part because the code-share issue does not apply for charter airlines or shipping. We note though, that the ACS does require charter airlines to report the numbers of passengers to whom exemptions were provided, under each category of exemption. A comparable level of detail in the exemption reports from the RPT airlines, as we suggest, would enable the ACS to improve its revenue control.

Adequacy of legal and administrative provisions for access

28. The ANAO's legal advice is that neither the *Passenger Movement Charge Act 1978* nor the *Passenger Movement Charge Collection Act 1978* include provisions entitling the ACS to access records or documents held by the carriers relating to any aspect of the PMC or the carrier's collection process. Access to this information would be particularly relevant in the case of RPT airlines which account for the bulk of PMC revenue collected by the Commonwealth, however the principle applies to all types of PMC remitters.

29. If the terms of the formal arrangements negotiated between the ACS and RPT airlines were to have an access provision to allow the ACS to examine airlines' PMC administrative processes, this would strengthen the ACS' revenue control and administration. Such access could be conducted using protocols to ensure that only information relevant to the reasonable assessment of the administration of the PMC collection and remittance process was accessed and material of a commercially sensitive nature was protected. Use of such an access provision, with the appropriate boundaries as specified, would allow the ACS to assess whether airlines' PMC administrative arrangements were sufficient to enable the identification and collection of the correct amount of the PMC (including where code-share is involved). Such a provision would also mean that the ACS would be better able to assess the cost-effectiveness of the PMC administrative processes that airlines had put in place, with the Commonwealth's financial assistance since the introduction of the PMC.

30. The lack of formal arrangements with two airlines may inhibit the ACS' access and information gathering ability for these airlines. This is because the ACS cannot insist on exercising its audit powers in relation to the collection of the PMC unless there is an arrangement, since that is

the source of authority for access to information. In the absence of any formal arrangements, the ACS is unable to audit these airlines' PMC records and processes, unless they agree. We are aware, however, that the ACS has conducted an audit of one of the airlines with its agreement.¹⁰ While this demonstrates good will on the part of the airline, it would be advisable for the ACS to continue to seek formal arrangements with all airlines in order to secure its ability to audit PMC records and processes.

Remittance reviews

31. The 1996 Audit Report found the ACS undertook an unnecessary level of checking of cruise shipping remittances. We found during the follow-up audit that ACS no longer reconciles or audits PMC remittances from cruise shipping companies. We acknowledge that these categories of payers do not account for significant revenue overall and may not represent a significant risk. However, we consider that the ACS should have some mechanism to give it assurance in that regard and to confirm that the risk of non-compliance is being appropriately managed. A sampling approach to check selected PMC remittances from cruise shipping companies could be a cost-effective way for the ACS to assure itself that PMC collection requirements were being met without having to allocate significant resources to checking these remittances.

PMC administration

Performance indicators and management reporting

32. The 1996 Audit Report found that the ACS' management reports could be enhanced by including additional performance indicators for, amongst other things, the timeliness and completeness of airline payments and reports. The follow-up audit, found, that because of its limited data on exemptions granted and code-share arrangements, the ACS' management reporting on the completeness of most RPT airline's PMC remittances, was of very limited value for the purposes of monitoring PMC collections and the adequacy of airline PMC administrative processes.

Risk management strategy

33. The 1996 Audit Report found that the ACS PMC Unit would benefit from the preparation of an explicit risk management plan to identify the relative risks associated with elements of the overall PMC system. This would also help to clarify whether the ACS' management processes were appropriate, given the revenue involved and assessed risks.

¹⁰ The other airline with which the ACS does not have an arrangement advised the ANAO that it would be prepared to accommodate an ACS request to conduct an audit of its PMC remittances.

34. In early 1998, the ACS developed a comprehensive risk management strategy for the then PMC Unit. However, the ACS has not taken action to treat some risks (such as loss of revenue due to code-share) identified in the strategy as being unacceptable. This indicates that the ACS is only partially implementing the principles of good risk management in its administration of the PMC. The follow-up audit also found that although steps have been taken to re-assess the risk management strategy, this has not resulted in the ACS updating its strategy document.

Recommendations

The ANAO's recommendations arising from this report, with report paragraph references and the ACS' abbreviated responses are set out below. More detailed responses are shown in the body of the report. Recommendations 1 and 2 have the highest priority.

Recommendation No.1
Para. 2.38

The ANAO recommends that, where the ACS makes arrangements with a carrier to collect and remit the Passenger Movement Charge, the ACS continue to seek to make the arrangements formal and consistent with the relevant legislation to reduce the potential for misunderstanding between the parties.

ACS response: Agreed.

Recommendation No.2
Para. 2.84

To improve its verification and reconciliation of PMC remittances, the ANAO recommends that for greater effectiveness, the ACS seek to negotiate formal arrangements with airlines to ensure that their reports accompanying PMC remittances include relevant information on code-share passengers and on each category of exemption granted.

ACS response: Agreed.

Recommendation No.3
Para. 2.105

The ANAO recommends that to improve accountability and the ACS' ability to assess the completeness of airline PMC remittances, the ACS seek to negotiate formal arrangements with airlines that will provide it with increased access to information on airline procedures and processes for calculating PMC moneys owing.

ACS response: Agreed.

Recommendation No.4
Para. 2.117

The ANAO recommends that to enhance revenue control, the ACS implement a cost-effective method for checking PMC remittances from cruise ships.

ACS response: Agreed.

Audit Findings and Conclusions

1. Introduction

This chapter provides an overview of the PMC, overall findings and conclusions of the 1996 Audit Report, the follow-up audit's objective, scope, methodology and the report structure.

Overview of Passenger Movement Charge

Passenger Movement Charge description and collection

1.1 The Passenger Movement Charge (PMC) was introduced in July 1995 (replacing Departure Tax). The PMC, which is the administrative responsibility of the Australian Customs Service (ACS), is levied under the *Passenger Movement Charge Act 1978* (hereafter referred to as the Charge Act) and collected under the *Passenger Movement Charge Collection Act 1978* (hereafter referred to as the Collection Act).

1.2 The PMC was introduced as a cost recovery measure to recoup the notional cost of Customs, Immigration and Quarantine (CIQ) processing of inward and outward passengers and the cost of issuing short-term visitor visas.¹¹ However, in law PMC is a tax.

1.3 The PMC is relevant to two of the ACS' principal roles:

- to facilitate trade and movement of people across the Australian border while protecting the community and maintaining appropriate compliance with Australian law; and
- to efficiently collect customs revenue.

1.4 Aggregate revenue collections from PMC were \$226.2 million in 1999–2000, the bulk of which (98 per cent) was accounted for by departing air passengers on Regular Public Transport (RPT) airlines.¹² The ACS' total revenue in 1999–2000 was approximately \$4.2 billion. PMC collected by the ACS in recent years is shown in the following table.

¹¹ These activities are administered by the ACS, the Department of Immigration and Multicultural Affairs (DIMA), and the Australian Quarantine Inspection Service (AQIS).

¹² Regular Public Transport (RPT) is defined as the operation of an aircraft for the purpose of providing a service for a fee, conducted in accordance with fixed schedules to or from fixed terminals over specific routes and available to the general public on a regular basis.

Table 1
ACS collection of PMC

(a) PMC Source	(b) 1996–97 \$ million	(c) 1997–98 \$ million	(d) 1998–99 \$ million	(e) 1999–2000 \$ million
PMC—Airports ¹³	173.6	187.7	198.6	224.2
PMC—Seaports	0.9	1.4	1.5	2.0
Total PMC	174.5	189.1	200.1	226.2

Source: Columns (b) and (c)—*Australian Customs Service Annual Report 1998–99*. Column (d)—ACS has advised that the *Australian Customs Service Annual Report 1998–99* incorrectly reported PMC for Airports as \$226.5 million. An amendment will be included in the *Australian Customs Service Annual Report 1999–2000*. Column (e) shows preliminary Australian Customs Service data.

1.5 The PMC is currently levied at \$30 per passenger departing Australia. Generally speaking, PMC is payable by all passengers (air and sea). However, there are 12 categories of exemption.¹⁴ Exemptions granted involving RPT airlines in 1999–2000 amounted to \$18.2 million.

1.6 The ACS administers the PMC legislation through arrangements with each carrier and the arrangements are standardised for each type of carrier. That is, RPT airlines have one form of arrangements to collect and remit the charge; charter airlines have a different form of arrangement; and shipping companies have yet another. Where a passenger purchases a travel ticket through a travel agent rather than from an airline or shipping company, the agent is required to collect and forward the PMC to the relevant carrier. The existing formal arrangements cover the period 1 July 1998 to 30 June 2001. The ACS is currently developing new formal arrangements to replace the existing ones.

1.7 The existing formal arrangements provide that each RPT airline will collect the PMC from liable passengers departing Australia under the airline's flight numbers and remit these amounts to the Commonwealth within agreed time-frames. Under these arrangements with airlines, the ACS has agreed to reconcile each airline's remittances against its own records and notify the airline of instances where, according to its figures, the airline has under or over paid. Where there is an under-payment, the airline is required to remit this amount to the ACS. The ACS is required to refund any over-payments to the airline. The ACS also reconciles charter airline remittances however, it does not reconcile shipping

¹³ RPT airlines accounted for approximately \$224.2 million (representing 99 per cent of total airport collections and 98 per cent of total PMC revenue collected in that period).

¹⁴ Most exemptions provided are for diplomats and children under 12 years of age. The categories of exemptions are listed at Appendix 1.

company remittances as it considers that this category of payer does not represent a significant risk.

1.8 The ACS is also required as part of the formal arrangements, to pay the administration costs incurred by the RPT airlines in collecting and remitting the PMC. In 1999–2000, the ACS paid approximately \$1.2 million in administration costs. The relevant arrangements do not require the ACS to pay administration costs incurred by charter airlines and shipping companies.

Overall findings and conclusions of the 1996 Audit Report

1.9 Audit Report No.1 of 1996–97, *Passenger Movement Charge* (referred to as the 1996 Audit Report) examined how efficiently and effectively the ACS administered the PMC, including the then interim ACS formal arrangements with airlines. PMC was of interest because it was a new cost recovery initiative and the PMC collection process differed substantially from that of Departure Tax. Departure Tax was collected via the sale of Departure Tax stamps at airport booths, whereas the PMC is collected by passenger carriers or travel agents at the time of ticket sale.

1.10 The 1996 Audit Report found that the ACS was generally administering the PMC collection regime in an efficient and effective manner. The ACS had done well to negotiate successfully and implement the new collection arrangements with airlines.

1.11 The 1996 Audit Report also found that some terms of the interim arrangements were generous to airlines, reflecting the Commonwealth's weak bargaining position in seeking to conclude voluntary arrangements with airlines in a very short period of time. The audit highlighted a number of aspects of the then interim arrangements deserving specific attention in the formulation of longer-term arrangements.

1.12 While recognising that PMC was legally a tax, the 1996 Audit Report examined the PMC on the basis of its introduction as a cost recovery measure relating to CIQ costs of inward and outward passenger processing and the costs associated with issuing short-term visitor visas. Given the PMC was introduced as a cost recovery measure, the ANAO considered it appropriate that the charge be reviewed from time to time to assist the ACS in determining whether the amount of the PMC met the PMC policy objective.¹⁵

¹⁵ The Treasurer's 1994 Budget Speech and the Second Reading Speech for the PMC legislation.

1.13 The 1996 Audit Report also suggested how ACS administrative processes could be improved by:

- tighter revenue control;
- developing checking processes for airlines and other categories of payers; and
- some administrative enhancements to staff training and program monitoring.

1.14 The ANAO made eight recommendations to improve the ACS' administration of the PMC. The ACS agreed with all recommendations.

Audit objective, scope, conduct and cost

Audit objective and scope

1.15 The objective of this follow-up audit was to report on the action taken by the ACS in addressing the recommendations of the 1996 Audit Report. The audit also reviewed key areas of the PMC administration identified in the 1996 audit including the appropriateness of formal arrangements between the ACS and RPT airlines and assessed the proposed arrangements being developed by the ACS.

1.16 The arrangements with RPT airlines were a particular focus in the follow-up report (as they were in the 1996 Audit Report), because of the significance of that category of carrier in revenue terms.

Follow-up audit methodology

1.17 Fieldwork was conducted at the ACS' National Office in Canberra and in its Melbourne CBD Office. The ACS administers PMC policy and compliance assurance within the Canberra office while the receipt and checking of PMC remittances is performed by its Melbourne office.

1.18 Discussions were held with the Australian Quarantine Inspection Service (AQIS), the Department of Immigration and Multicultural Affairs (DIMA), the Board of Airlines Representatives of Australia and two airlines to gain an appreciation of the relevant stakeholders' views of the administration of the PMC.

1.19 The ANAO received legal advice from the firm Blake Dawson Waldron in assessing the terms of the existing formal arrangements between the ACS and airlines to collect and remit the PMC. They also reviewed the legal aspects of the proposed arrangements being developed by the ACS.

Follow-up audit cost

1.20 The follow-up audit was conducted in conformance with the ANAO Auditing standards and cost approximately \$138 000.

Report structure

1.21 Part 1 of this report provides a summary of the follow-up audit including the ANAO's overall conclusion, key findings and recommendations.

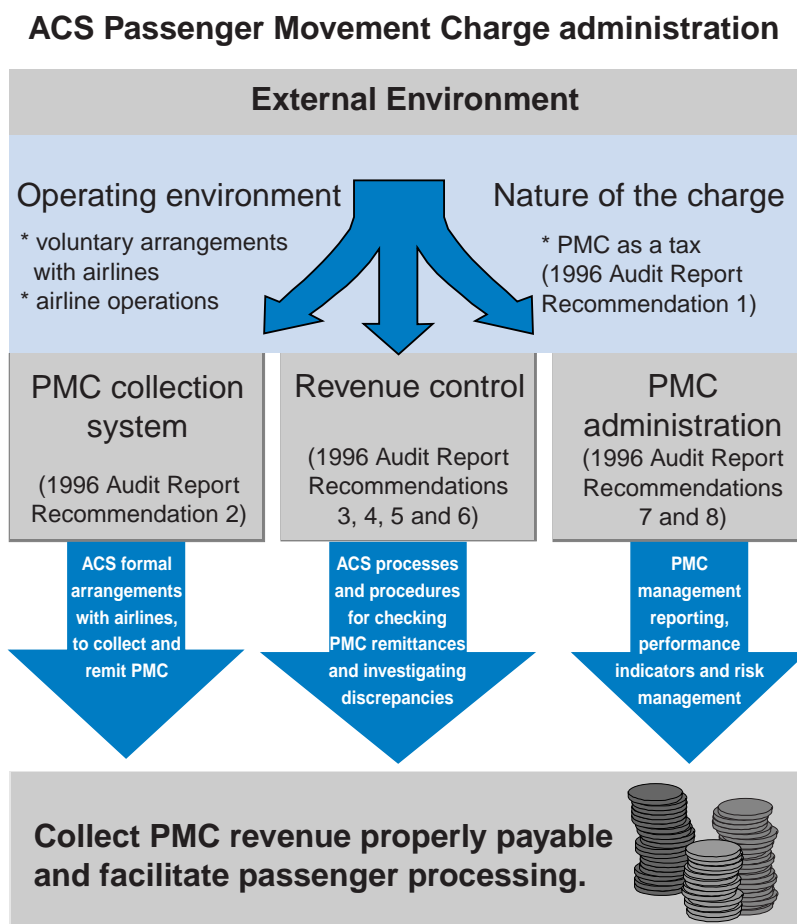
1.22 Part 2 consists of two chapters:

- Chapter 1 provides an overview of the PMC, overall findings and conclusions of the 1996 Audit Report, and the follow-up audit's objective, scope, methodology and the report structure; and
- Chapter 2 considers external factors influencing the ACS' administration of the PMC, and the ACS' implementation of the recommendations in the 1996 Audit Report and associated issues.

1.23 Figure 1 illustrates the framework of analysis used in Chapter 2, and refers to the key areas reviewed by the ANAO as part of both the original and follow-up audits.

Figure 1

Framework of analysis for the follow-up audit of the PMC



2. Implementation of Recommendations and Associated Issues

This chapter considers external factors influencing the ACS' administration of the PMC and the ACS' implementation of the recommendations in the 1996 Audit Report. The ACS' use of a tolerance range in reconciling PMC remittances and the need for more detailed reporting by airlines is also discussed.

Introduction

2.1 The follow-up audit primarily examined the ACS' administration of the PMC legislation through its formal arrangements with RPT airlines to collect and remit the PMC. Airlines enter into formal arrangements with the ACS on a voluntary basis and there are aspects of the airlines' operations that impact on the ACS' verification and reconciliation of the airlines' PMC remittances.

Operating environment

Administrative arrangements

2.2 As previously noted, the ACS administers the PMC legislation through standardised formal arrangements specific to each type of carrier. The ACS has separate arrangements for RPT airlines, charter airlines and shipping companies to collect and remit the charge. The current arrangements for RPT airlines cover the period 1 July 1998 to 30 June 2001. ACS formal arrangements with charter airlines and shipping companies are on-going. The ACS has entered into these arrangements in accordance with section 10(1) of the Collection Act which provides that:

The Minister may make an arrangement with a person under which the person agrees to pay to the Commonwealth, in the manner provided in the arrangement, an amount equal to any charge that may become payable by an person to whom the arrangement applies.

2.3 In the absence of an arrangement under section 10(1) of the Collection Act, the obligation is with each departing passenger to pay the PMC to the Commonwealth, and the Commonwealth is obliged to facilitate the collection and payment of the PMC by those persons. This might require, for example, the ACS establishing PMC collection booths

at airports as was previously the case with the collection of Departure Tax. Clearly, reinstating booths to collect the PMC from departing passengers would not assist the smooth flow of departing passengers or efficient revenue collection. Having formal arrangements whereby the PMC is collected at the time of ticket purchase is a far more efficient process.

2.4 The existing formal arrangements provide that each RPT airline will collect the PMC from liable passengers and remit these amounts to the Commonwealth. The ACS has agreed to reconcile each airline's remittances. The ACS also reconciles charter airline remittances however, it does not reconcile shipping company remittances as it considers that this category of payer does not represent a significant risk.

2.5 The ACS is also required, as part of the formal arrangements, to pay the administration costs incurred by the RPT airlines in collecting and remitting the PMC. However, the ACS does not pay administration costs incurred by charter airlines and shipping companies.

2.6 The ACS has formal arrangements with 56 RPT airlines to collect and remit the PMC for the period 1 July 1998 to 30 June 2001. These airlines entered into formal arrangements voluntarily. However, the ACS has been unable to agree to terms for formal arrangements with two airlines.¹⁶ One of these airlines remitted PMC revenue of about \$70.6 million in 1998–99 (that is 31 per cent of all PMC revenue collected by the ACS in that period). Notwithstanding that the two airlines have not signed the ACS' current formal arrangement, both airlines continue to collect and remit the PMC to the ACS. The risks to the Commonwealth of not having a formal arrangement with an airline to collect and remit the PMC are discussed in the section 'Passenger Movement Charge collection system' (paragraphs 2.34 to 2.37).

Airline code-share operations

2.7 As noted previously, RPT airlines collect and remit approximately 98 per cent of all PMC revenue collected by the ACS. The practice of airlines code-sharing has a significant impact on the administration of the PMC. A code-share arrangement between airlines occurs where a passenger is sold a travel ticket by one airline but, by arrangement, departs Australia under another airline's flight (code). Where an airline code-shares with another airline, the boarding pass of the airline selling

¹⁶ Both airlines had formal arrangements with the ACS to collect and remit PMC for the period 1 July 1996 to 30 June 1998.

the travel ticket may not reflect that the passenger is actually departing under another airline's flight code. Without this information, the ACS incorrectly assesses that the airline selling the ticket is liable to remit the PMC to the ACS rather than the airline owning the departure flight code, as the terms of the ACS' formal arrangements specify.

2.8 Code-share is a common arrangement between airlines and is likely to increase with the airline industry moving towards a more global market. Approximately 30 RPT airlines that are engaged in formal arrangements with the ACS to collect and remit the PMC are involved in code-share arrangements with other airlines, (including two RPT airlines that have declined to sign the ACS' current formal arrangements). The ACS is currently refining its information systems to be able to identify the number of passengers affected by code-share arrangements.

2.9 The need for the ACS to identify airlines' code-share arrangements to properly determine their PMC liability is discussed in the section 'Revenue control' (paragraphs 2.66 to 2.80).

Nature of the charge

2.10 The follow-up audit considered the nature of the PMC and how the policy objective of this tax has changed since the 1996 Audit Report.

PMC as a cost recovery measure and as a tax

Findings of the 1996 audit

2.11 According to the Treasurer's 1994 Budget Speech announcing the PMC and the Second Reading Speech for the PMC legislation, the PMC was introduced to recover or 'fully offset' the cost of Customs, Immigration and Quarantine (CIQ) processing of incoming and outgoing passengers and to recover the costs of issuing short-term visitor visas. The PMC replaced Departure Tax, a general revenue item not linked to costs associated with the provision of CIQ services and costs associated with the issue of short-term visa processing.

2.12 PMC bears all the characteristics of a tax and legal advice from the Attorney-General's Department and the firm, Blake Dawson Waldron, indicated that PMC is a tax. It is a compulsory exaction of money for public purposes, not being a fee for service. PMC is levied on outgoing passengers even though the charge is also designed to cover incoming passenger processing costs. As well, the whole charge is levied on all liable departing passengers, including departing Australian citizens and residents who do not require visas to re-enter Australia. Despite its character legally as a tax, some descriptions of PMC to the public

suggested the impost was a charge intended (simply) to recover CIQ and short-term visa issuing costs.

2.13 The ANAO acknowledged there was not necessarily a one to one relationship between the revenue from the charge and agencies' costs. However, given the public rationale for the PMC as a cost recovery measure, the ANAO considered it appropriate that the charge be reviewed from time to time.

1996 Audit Report Recommendation 1

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

Entity responses

2.15 ACS, AQIS and the Department of Finance (DoF)¹⁷ agreed with the recommendation. DIMA noted the recommendation. ACS noted that an Inter-Departmental Committee was scheduled to convene in the last quarter of 1996 to review all aspects of the PMC, including the basis for the quantum of the charge.

2.16 DoF, AQIS and DIMA noted that there need not necessarily be a one to one relationship between the charge and costs. The ANAO noted however, that the public rationale and policy objective of PMC was clearly that of cost recovery.

ACS review of the PMC

2.17 In 1996, the ACS engaged a consultant to identify the elements of the charge and the basis for the amount of the PMC. This was to provide assurance that CIQ costs were being fully offset, consistent with the then PMC policy objective of cost recovery. The follow-up audit found that the recommendation as such has been implemented.

2.18 The follow-up audit found that with the 1998–99 Budget decision to increase the PMC from \$27 to \$30 per passenger, a policy shift has taken place. The PMC is levied under Commonwealth taxing powers and is now applied partly as a general revenue raising source. As a consequence, the PMC is no longer solely linked to cost recovery of Customs, Immigration and Quarantine services.

¹⁷ The then Department of Finance was consulted on this recommendation and responded because it was originally involved in establishing the amount of the PMC and was further likely to be involved in any considerations about the level of the PMC in the future.

2.19 The ANAO considered that it was unnecessary to further review the implementation of the recommendation to monitor the costs of agencies' activities in this context on the basis that the PMC's policy objective had changed.

PMC collection system

2.20 A sound revenue collection system ensures the correct amount of revenue is collected in a timely manner from those liable to pay. The framework of the ACS' PMC collection system is the standardised, formal arrangements with RPT airlines to collect and remit the PMC.

2.21 The follow-up audit examined action taken by the ACS to improve its interim formal arrangements with RPT airlines, and the robustness of its current formal arrangements. Proposed arrangements currently being developed were also reviewed.

Current formal arrangements

2.22 The ACS' formal arrangements with airlines essentially provide that:

- airlines will collect the PMC from liable passengers departing Australia under the airline's flight numbers and remit these amounts to the Commonwealth via the ACS;
- PMC payments are to be remitted according to agreed time-frames;
- airlines will provide reports to the Commonwealth detailing flight information relating to the PMC collected;
- the Commonwealth will provide information concerning PMC exemptions claimed by diplomats and children under 12 years, to assist airlines to calculate their PMC liability;
- the Commonwealth will, after the end of each remittance period, determine the correct amount to be remitted by the airline, and notify airlines of any underpayment or overpayment. Airlines are required to pay underpayments while the Commonwealth is required to refund overpayments;
- both the airlines and the Commonwealth are liable to pay interest where late payment occurs;
- the Commonwealth will pay RPT airline administration costs incurred in remitting the PMC; and
- the Commonwealth has access to airlines' premises and records (at all reasonable times) for the purpose of verifying the PMC amount paid to the Commonwealth.

Scheme design

Findings of the 1996 audit

2.23 The audit found that the ACS had effectively negotiated PMC collection arrangements with airlines given pressing timing constraints and that the interim arrangements operated satisfactorily in practice. A number of issues evident in the interim arrangements required resolution to better protect the Commonwealth's interests.

1996 Audit Report Recommendation 2

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

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

ACS response

2.25 ACS agreed with the recommendation. The ACS advised the longer-term arrangement (for the period 1 July 1996 to 30 June 1998), addressed the issues of concessions to airlines and third party collections by making airlines fully responsible for payment. The Commonwealth's exposure to risk in collecting debt had been assessed, leading to the conclusion that the industry was stable and the risk of liquidation minimal.

Improving scheme design

2.26 In addition to considering issues raised in Recommendation 2 of the 1996 Audit Report, the follow-up audit also considered ways in which the ACS could improve its current formal arrangements with RPT airlines to assist the ACS administer individual airlines' PMC remittances. These improvements to the system concern the concessions given to airlines and relate to:

- the ACS' use of a 'tolerance range' in reconciling airlines PMC remittances;
- the consistency of ACS formal arrangements with the PMC legislation;
- risks associated with the ACS not having formal arrangements with some airlines; and

- concessions relating to interest payments in formal arrangements between the ACS and airlines.

Concessions to airlines regarding obligation for payment

2.27 The 1996 Audit Report found that the ACS' interim arrangements only obliged airlines to remit the PMC they had *collected* rather than PMC that they *ought to have collected*. The ANAO considered that in the absence of detailed collection, remittance and supervisory provisions, obligations on airlines to remit only what they had collected was inadequate for the longer-term. The ANAO was aware that the ACS was seeking to address this matter as part of its negotiations for longer-term arrangements with airlines.

2.28 The 1996 Audit Report also found:

- the rights of the Commonwealth were limited to the airline with which it had a relationship and would not provide the Commonwealth with any rights of access to moneys collected by others such as travel agents, unless they were in an agency or trust relationship with the contracted airline. The audit noted that travel agents, at the time were estimated to sell eighty per cent of airline tickets; and
- terms of the interim arrangements did not address some important practical situations. The arrangements did not clearly cover the range of legal relationships that existed in the airline industry between the airline and the parties selling tickets (possibly involving agents, wholesalers and consolidators). The ANAO considered that in view of the significance of collections of third parties, more explicit and detailed provisions concerning such collections and the obligations of airlines to the Commonwealth despite non-remittance by the third party should be considered.

2.29 Regarding the protection of the Commonwealth's interests, the follow-up audit found that the ACS' formal arrangements and proposed arrangements being developed represent a significant improvement over the provisions contained in the interim arrangements examined in the 1996 Audit Report. We found that both the current formal arrangements and proposed arrangements impose on the airlines an unequivocal obligation to pay the amount of the PMC due to the Commonwealth, irrespective of whether the airline has actually collected that amount from its agents or its passengers.

Tolerance range under the existing formal arrangements

2.30 Under the formal arrangements, the ACS is required to reconcile PMC remittances received from each airline. This reconciliation is based on a comparison of information provided by the airline with its PMC remittance and information held by the ACS. To determine the number of passengers liable to pay the charge, the ACS deducts the number of PMC exemptions it can verify from the total number of departing passengers recorded under the airline's flight numbers, in the remittance period as having passed the Customs barrier. The ACS allows a margin or 'tolerance range'¹⁸ when assessing the airline's remittance against the estimated remittance it expects to receive. Where there is a difference between an airline's PMC remittance and the ACS' calculation of PMC payable, the ACS decides, depending on whether the remittance amount falls outside this tolerance range, if follow-up action is warranted.

2.31 The ACS' interim formal arrangements with airlines did not include a tolerance range relating to airline PMC remittances, however it was mentioned as a measure being considered by the ACS to streamline the reconciliation process in the longer term (1996 Audit Report, paragraphs 4.30—4.37). The ANAO did not consider this issue at length in the 1996 Audit Report. The ACS subsequently included a tolerance range in its formal arrangements with airlines.

¹⁸ The current formal arrangements with Regular Public Transport airlines provides that if the PMC amount remitted to the Commonwealth by the airline is less than the lower limit of the tolerance range, the Commonwealth will demand payment of the difference between the amount remitted by the airline and the lower limit of the tolerance range. Conversely, if the amount remitted by the airline is greater than the upper limit of the tolerance range, the Commonwealth will refund the difference between the amount remitted by the airline and the upper limit of the tolerance range. The nominated tolerance range in the current formal arrangements is three per cent. The previous arrangements provided for a tolerance range of five per cent. (Arrangements with charter airlines and shipping companies do not include a tolerance range.)

2.32 The ACS advised it included a tolerance range in its formal arrangements because it is unable to verify independently the numbers of all categories of passengers provided with PMC exemption.¹⁹ Consequently, remittances from airlines may not reconcile with the remittances expected by the ACS based on its available information. The ACS reduced the tolerance level from five per cent to three per cent under the current formal arrangements. The ACS did this because it thought that airlines should be able to calculate the PMC liability more precisely than they were previously able to do²⁰ and that ACS systems and processes (in consultation with industry) had been refined to provide a more accurate record.

Consistency of the arrangements with the PMC legislation

2.33 The follow-up audit found that the ACS' inclusion of a tolerance range in its formal arrangements is not consistent with the requirements of section 10(1) of the *Passenger Movement Charge Collection Act 1978*. Section 10(1) provides that where the Minister makes an arrangement with a person to collect and remit the PMC, the arrangement must provide for the person to *pay* to the Commonwealth an *amount equal to any charge*. The inclusion of a tolerance level, in relation to a particular airline's PMC remittance, may result in the ACS accepting a remittance that is not equal to the charge payable by liable passengers. This is because the remittance may fall within the tolerance range acceptable to the ACS but may not be the amount that the airline should be remitting for all its liable passengers. The ACS has advised it intends to remove the tolerance range from future PMC arrangements. We support the removal of the tolerance range from the formal arrangements as this will provide the required focus on the liability to pay an amount equal to any charge. We also recognise that, in practice, the ACS would determine airlines' PMC liability based on sound risk management principles which would be consistent with the ACS' administration of other administered revenue items.

¹⁹ The ACS estimates that approximately 7.5 per cent of passengers departing Australia are exempt from paying the PMC. Table 2 provides detailed information on PMC exemption numbers. The ACS is able to verify exemptions granted relating to children under 12 years and diplomats only. It is not able to determine independently of airline claims the numbers of exemptions granted relating to the remaining 10 categories of exemption. Appendix 1 outlines all the categories of exemptions.

²⁰ This was in part, because the ACS had, as per the arrangements, paid for airlines to improve their relevant PMC administrative systems.

Risks associated with the ACS not having formal arrangements with airlines

2.34 As noted previously, the ACS has been unable to agree to terms for formal arrangements with two airlines. This is because the two airlines would not agree to the proposed reduction in the tolerance range from the five per cent to the three per cent negotiated with all other RPT airlines. The ACS' reduction in the tolerance level required increased precision from RPT airlines in their remittances compared to the ACS' estimates. The two airlines' principal reasons for rejecting the reduced tolerance range were that:

- ACS arrangements to collect and remit the PMC are with airlines. However, airlines rely on travel agents (not under their control) to collect and remit the PMC (on their behalf) when selling airline tickets. Where such persons do not collect the PMC, the airline is liable for payment; and
- given the complexity of code-share and hubbing²¹ arrangements between airlines, the airlines have substantial doubts concerning the accuracy of the ACS figures used for reconciliation purposes. (Code-share and hubbing are discussed in paragraphs 2.66 to 2.80.)

2.35 It is clearly in the Commonwealth's interests to ensure that all airlines and shipping companies have signed formal arrangements. Although the existing informal arrangements with the two airlines may be legally enforceable, defining the terms of these informal arrangements and enforcing any conditions in legal proceedings would prove costly and difficult for the Commonwealth. The Commonwealth's level of financial and legal exposure would be significantly reduced by the execution of formal arrangements with all airlines. However, the ANAO recognises that airlines enter into formal arrangements with the ACS on a voluntary basis.

²¹ Hubbing occurs where a passenger travels within Australia from one airport to another with one airline and then departs Australia on the same or another airline. Difficulties for the ACS can arise where two airlines are involved. Without information from airlines that hubbing has occurred, ACS records show, incorrectly, the airline providing the service within Australia as being liable to pay PMC rather than the airline providing the service departing Australia.

2.36 If the airlines do not agree to collect and remit the PMC, the ACS would be required to set up alternative collection mechanisms. Some of these alternatives may not sit easily with objectives to facilitate international air travel in a commercial environment. To reduce the likelihood of having to implement such alternatives, the ACS may need to develop legislative options for Government consideration regarding the collection and remittance of the charge by airlines if a negotiated outcome that protects the Commonwealth's position is not able to be achieved.

2.37 During the follow-up audit, the ACS advised that it is reconsidering the appropriateness of its current practice of having a similar arrangement with each RPT airline. The ACS advised it is considering whether, in some cases, it may be more appropriate to tailor its arrangements to the circumstances of an airline in particular taking into account code-share relationships. The ANAO considers there may be merit in this approach where the ACS recognises there are particular features of an airline's operations that deserve special consideration. Nevertheless, the approach would need to be equitable so that airlines in similar circumstances are treated in a similar way.

Recommendation No.1

2.38 The ANAO recommends that, where the ACS makes arrangements with a carrier to collect and remit the Passenger Movement Charge, the ACS continue to seek to make the arrangements formal and consistent with the relevant legislation to reduce the potential for misunderstanding between the parties.

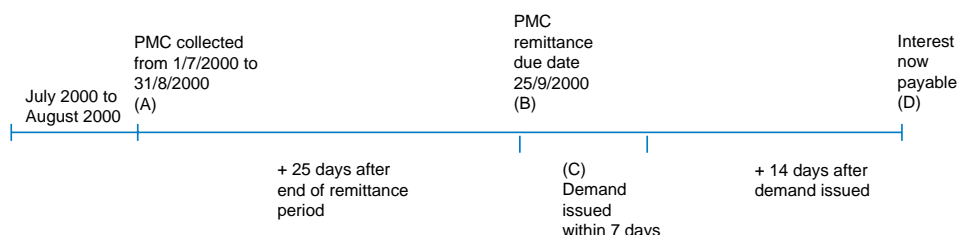
ACS response

2.39 The ACS agrees with this recommendation. The revised arrangements will be developed in close consultation with industry and the tolerance range removed.

Concessions relating to interest payments under existing formal arrangements

2.40 It is important that airlines remit PMC collected in a timely manner so that the Commonwealth is able to gain access to these moneys promptly in the interests of sound cash management practice.

2.41 The application of the interest formula applying to late payments by airlines in the ACS' formal arrangements and proposed arrangements is shown in an illustrative example in Figure 2.

Figure 2**Interest payable on late PMC remittances**

2.42 Figure 2 depicts an airline PMC remittance for the period 1 July 2000 to 31 August 2000, that is the period ending at Point (A). According to the existing formal arrangements with airlines, this remittance would be due to the ACS no later than 25 September 2000, that is Point (B). If the remittance is not received by this date, the ACS is entitled to issue a demand for payment within 7 days, that is during the period illustrated by Point (C). If the airline subsequently fails to remit the PMC owing within 14 days of the demand for payment, the ACS is entitled to charge interest from the 15th day after issuing the demand for payment, that is Point (D).

2.43 The ANAO recognises that revenue from interest on late PMC payments represents a relatively small amount in the context of overall PMC revenue.²² We also note that the framework appears to be cumbersome and somewhat protracted. Given the ACS has a provision to apply interest to late PMC payments, the ANAO considers that it would be better to modify the terms of the arrangements to be able to apply interest sooner than is currently the case. A more commercially-oriented framework would allow late payment interest be applied from the remittance due date, that is Point (B) in Figure 2.

The Commonwealth's exposure to risk in collecting debt

2.44 The 1996 Audit Report found that the Commonwealth might have difficulties collecting PMC debt from airlines. In the event of an airline's liquidation, the Commonwealth would only rank with any other creditor, and in an insolvency it would be unlikely there would be any significant recovery of moneys owed under an arrangement. Also, it may be difficult for the Commonwealth to collect the PMC owed by international airlines ceasing operations in Australia where the airline had no physical presence in Australia.

²² Interest payable on late payments is based on the Commonwealth bond 3 year indicator rate published in the most recent edition of *The Australian Financial Review* prior to the due date, plus 2 per cent. The ACS advised that in 1999–2000, it applied late payment interest of \$232.34. The ANAO considers that because of the ACS' inability to accurately determine individual RPT airline's PMC liabilities (discussed in the section 'Revenue control'—paragraphs 2.66 to 2.80) there is a risk that the ACS is not properly applying interest where these airlines remit PMC late.

2.45 In its response at the time, the ACS advised that it had assessed the Commonwealth's exposure to risk in collecting debt and concluded that the industry is stable and the risk of liquidation minimal. The ANAO notes this view as to the risk of liquidation in the industry. The ACS has instructed its PMC Unit to check all new entrants as to their financial viability as far as practicable. The ACS also monitors industry information regarding the cessation of services and appropriate action is taken to ensure that any liability is addressed.

2.46 Given the continuing evolution of the industry in Australia and world-wide, the ANAO suggests the ACS continue to monitor the industry's stability and the risk of airline liquidation to assist in managing financial risks associated with debt collection.

Collections by third parties

2.47 Legal advice received by the ANAO at the time of the 1996 Audit Report was that the obligations imposed on airlines did not bind the airlines' agents. The 1996 Audit Report recommended, amongst other things, that in its arrangements with airlines, the ACS address PMC collections by third parties, as a revenue control measure.

2.48 As noted earlier, under the terms of the current formal arrangements, airlines are now obliged to remit to the Commonwealth the amount of PMC duly payable whether or not that amount has actually been collected from the third party (or the passenger). The ANAO supports this measure to strengthen revenue control.

Controls over exemptions

2.49 Section 5 of the Collection Act provides that 12 categories of passengers departing Australia are exempt from paying the PMC.²³ ACS' estimates of PMC exemptions granted to passengers for 1999–2000 are provided in the following table.

²³ As noted earlier, categories of exemptions are listed at Appendix 1.

Table 2**ACS estimates of PMC exemptions granted by airlines and shipping companies**

Exemption categories	Approximate No. of departing passengers (millions)	Approximate % of total PMC exemptions	Approximate % of total departing passengers	Approximate Value (\$ million)
<i>Children under 12 years of age and diplomats</i>	0.49	81.24	6.10	14.80
<i>Other categories of exemption</i>	0.11	18.76	1.40	3.40
Total	0.60	100.00	7.50	18.20

Source: ACS estimate

2.50 To properly assess whether a passenger is eligible for an exemption, PMC collectors need to understand the meaning of each exempt category. Our examination of exemption categories revealed that, while some categories would be relatively easy for PMC collectors to understand, other categories would be more difficult. An example would be the PMC exemption provided under section 5(b) of the Collection Act to traditional inhabitants whose departure is undertaken in connection with the performance of traditional activities.

2.51 The follow-up audit found that the ACS has not provided detailed information to PMC collectors to assist them to fully understand the meaning of all exemption categories. The ANAO recognises that the ten exemption categories, other than for children under 12 years of age and diplomats, represent a small part of the PMC revenue forgone. However, the PMC legislation provides for these various categories of exemptions and passengers claiming exemption should be properly assessed.

2.52 The ANAO considers that the ACS could improve the administration of exemptions by disseminating information to airlines and shipping companies explaining the basis for the correct application of PMC exemption categories.

2.53 The ACS has advised it will take steps to ensure that all clients with whom formal arrangements exist, have a clear understanding of the exemption categories and their responsibility to clearly identify all such passengers in their remittances. Suitable provisions in airlines' and shipping companies' arrangements would also reinforce the need to apply PMC exemptions, consistent with the requirements of the PMC legislation.

Revenue control

2.54 As part of the follow-up audit, the ANAO examined the:

- timeliness of airline PMC remittances;
- airlines' reporting of PMC collections;
- ACS' analysis and investigation of airlines' PMC remittances;
- ACS' review of PMC exemptions; and
- ACS' information gathering and access powers.

Regular Public Transport (RPT) and charter airlines

Findings of the 1996 audit

2.55 The ACS revenue control system refers to the process of collecting and checking PMC remittances. The ANAO considered that the ACS had developed a satisfactory revenue control system and collections were in line with passenger numbers overall. The ACS could improve its performance however, by enhancing the legal and administrative framework for revenue control including more systematic analysis of data. There was also scope for the ACS to improve revenue collection and reconciliation procedures for some categories of payers.

2.56 ANAO analysis of the ACS' reconciliation process found three main factors caused difficulties for the ACS in completing the reconciliation in a timely manner. These were:

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

1996 Audit Report Recommendation 3

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

ACS Response

2.58 The ACS agreed with the recommendation. The ACS advised that the longer-term arrangements imposed obligations on airlines to provide reports and remit within time-frames or be penalised. Further, the ACS advised the arrangements obliged the ACS to conduct reconciliations and to investigate discrepancies promptly.

Late airline remittances

2.59 As noted earlier in relation to the provisions in the ACS' formal arrangements concerning interest on late payments, it is important that

PMC remittances from airlines are received in a timely manner. Timely remittances mean that the ACS avoids extra costs associated with following up non-payment and ensures the Commonwealth does not forgo the benefits of funds it should have received.

2.60 The follow-up audit found that the provisions in the formal arrangements with airlines involving payment schedules requiring airlines to remit within specific time-frames supports sound revenue control. ACS staff advised that most airlines remit PMC payments on time.

Improving airline reports

2.61 The provision of accurate and timely PMC remittance information explaining the basis of the remittance being paid by the airlines is crucial to the protection of Commonwealth revenue. This supporting information is needed to assist the ACS in accurately determining in a timely manner, whether airlines have remitted the correct amount.

2.62 As noted earlier in Table 2, the number of passengers exempt from paying the PMC is small relative to the overall number of passengers departing Australia and most exemptions relate to children under 12 years old and diplomats. Although the ACS is able to verify the number of passengers in these categories, it is unable to verify exemptions relating to the remaining 10 categories of exemptions. In 1999–2000, the categories for which ACS was not able to independently verify claims for exemption was approximately 114 000 passengers, accounting for approximately \$3.4 million.

2.63 At present, when RPT airlines submit their remittances and supporting information, they only report to the ACS the total number of exemptions they have provided to passengers. They do not report the numbers of exemptions granted in each category of exemption.

2.64 The ANAO considers that RPT airline reporting requirements under the current arrangements and the arrangements being developed can be improved. This improvement would be to have RPT airlines agree under the arrangement to identify separately the numbers of their exempt passengers in every category specified in section 4 of the Charge Act and section 5 of the Collection Act (as the ACS currently requires for charter airlines). This information would assist the ACS to:

- examine the number of passengers in each exemption category in order to monitor emerging trends and identify any risks to the revenue; and
- verify information provided by airlines when auditing airline PMC records.

2.65 The ANAO also considers that the provisions in the formal arrangements relating to revenue control could be improved if airline reports were to provide better information about their code-share flights. That information would provide the ACS with a better basis than currently exists for checking an individual airline's remittance.

ACS remittance investigation and analysis of data

2.66 To assist the ACS to follow-up discrepancies relating to the completeness of airline PMC remittances in a timely manner, it is important that the ACS is able to identify accurately instances where an airline's PMC remittance is not consistent with its assessment of the airline's PMC liability.

2.67 The ACS is unable routinely, to accurately verify and reconcile all airlines' PMC remittances. This is because it:

- is unable to verify all categories of exemptions granted by airlines;
- lacks airline flight code information concerning all code-share arrangements; and
- lacks airline flight code information relating to 'hubbing'.²⁴

2.68 Code-share was not an issue at the time of the 1996 audit because it was limited to a smaller number of carriers and reconciliations were more easily undertaken. The ACS advised during the follow-up audit that the airlines' use of code-share has increased considerably in recent years and now presents a more significant problem, in terms of reconciling airline PMC remittances, than was previously the case. The ACS' records indicate that approximately half of the RPT airlines currently operating in Australia, including major airlines, code-share. The ACS is currently refining its information systems to be able to identify the number of passengers affected by code-share arrangements.

2.69 As noted earlier, under the current formal arrangements with RPT airlines the ACS is required to reconcile each airline's remittance at the end of each remittance period. Where a discrepancy exists such that the remittance falls outside the tolerance range (currently 3 per cent) the ACS is required to, depending on whether it is an over-payment or an under-payment by the airline, either provide a refund to the airline or seek additional payment.

²⁴ The ACS advises that hubbing is generally related to airlines' code-share arrangements and the former's adverse effects on the ACS' ability to reconcile PMC remittances accurately are much smaller than that of code-share.

2.70 The follow-up audit found that the ACS regularly checks airline PMC remittances and reports against its own information on the numbers of departing passengers and the numbers of passengers granted exemptions to identify any discrepancies.²⁵

2.71 However, the audit found that, although the ACS investigates apparent discrepancies outside the tolerance range with airlines that do *not* engage in code-share arrangements, it does not investigate the majority of apparent discrepancies for code-share airlines. This is because the ACS lacks information concerning the number of passengers travelling with each airline under most code-share arrangements. The ACS cannot routinely verify the PMC liability for most code-share airlines and it is unable to determine most code-share airlines' PMC liability, unless it undertakes an audit of each airline's records.

2.72 The ACS does not have the same difficulties in relation to remittance investigation and analysis of data for other PMC remitters, in part because the code-share issue does not apply for charter airlines or shipping.

2.73 The ACS advised that, although PMC remittances by individual code-share airlines might fall outside the ACS' tolerance range, it considered that, as a group, code-share airlines were remitting the PMC within the tolerance level. The ACS' National Manager Passenger Processing, indicated that:

...because of uncertainty of Customs and airline figures, a complex reconciliation process does not address the discrepancy. As a result, Customs is therefore not complying with its obligations imposed by the Arrangement by undertaking adequate reconciliations. Despite this, I am satisfied that the revenue risk to the Commonwealth is minimal as overall Customs is in receipt of the required PMC amount.

2.74 The ACS' assessment of its PMC revenue collections for airlines indicates that, overall, it receives 98 per cent of the PMC revenue it expects, given passenger numbers and known exemption numbers. The ANAO considers the ACS' methodology in this regard to be reasonable given the constraints on code-share and exemptions data.

2.75 While the ACS' approach may be reassuring in terms of overall revenue for all airlines, including code-share airlines, the ANAO considers that the 'aggregate' approach may result in some airlines paying amounts greater than their PMC liability while other airlines may pay

²⁵ Applies to the children under 12 and diplomat categories only.

amounts less than their PMC liability. Moreover, as the ACS itself admits, this practice does not comply with the arrangements it has with individual airlines. The ACS is required to reconcile PMC remittances for each airline under these arrangements.

2.76 Although an audit of an airline's records can be a worthwhile method of ensuring the correctness of airline PMC remittances, a more timely and efficient approach would be to determine the correctness of remittances as part of the ACS' routine processing of airline PMC remittances. The ACS would be able to improve its revenue control for each RPT airline if it were able to obtain additional information concerning exemptions granted and code-share arrangements in reports required under the formal arrangements with airlines. This would allow the ACS to monitor PMC remittances routinely for each airline in accordance with its formal arrangements. Analysis of this data could then indicate instances where individual airline remittances do not equal the ACS' expected remittances and, based on an assessment of risk, whether further investigation might be required. This investigation may include an audit but auditing would not be the only trigger or means by which an investigation could be undertaken.

2.77 From discussions with two major code-share airlines about the method they used to calculate their PMC liability and discussions with ACS, the follow-up audit found that:

- the airlines were interpreting their arrangements with the ACS differently. Consequently, these airlines calculate their PMC liabilities differently and the ACS does not receive the correct amount of PMC from every code-share airline. As a result there may be an inequity in the amount of PMC paid by individual airlines relative to their obligations to collect and remit the PMC to the ACS; and
- the ACS is unaware of the methods used by code-share airlines to calculate their PMC liability.

2.78 The ANAO suggests the ACS verify the method used by code-share airlines to calculate their PMC liabilities. Where these airlines are found to be incorrectly calculating their PMC liability, the ACS can assist by providing information on the correct method to be used.²⁶

2.79 The ANAO concludes that the information the ACS receives from most airlines is not adequate for it to verify their PMC remittances, particularly in relation to code-share.

²⁶ The ACS advised the correct method for calculating PMC liability under code-share arrangements is that airlines report for, and remit, PMC for travel tickets sold under their flight numbers only.

2.80 The ACS has discussed its reporting and information needs with some code-share airlines and, coupled with the knowledge gained through audits of a number of airlines, considers it has improved its understanding of the challenges it faces in reconciling the PMC remittances associated with airline code-share practices. The ANAO recognises that the ACS' resolution of the code-share issue will require negotiation with airlines regarding the level of detailed information provided to it.

Airline self-assessment

2.81 The ACS informed the ANAO that it was considering verifying airline PMC liability through an arrangement with RPT airlines requiring them to adopt a 'self-assessment' approach. The ACS described this approach as involving the removal of the tolerance range from the existing formal arrangements with airlines and the discontinuation of routine reconciliation of individual airline PMC remittances. Reconciliation would only be undertaken at the request of the airline or the ACS. The self-assessment approach is reflected in the formal arrangements currently under development.

2.82 The ANAO considers that self-assessment can be appropriate in some circumstances. This would be the case for example, where the characteristics of the remitters and their activities, and the supporting controls that can be applied to investigate and follow-up a report or remittance, mean that the risk of non-compliance can be managed effectively. In the event that the ACS adopts a self-assessment approach it is important that:

- airlines engaging in formal arrangements with the ACS fully understand their obligations to ensure the correct amount of PMC is collected and remitted in a timely manner;
- the ACS has appropriate information systems to receive relevant information in a timely way to identify the need for further investigation of airline PMC remittances; and
- the ACS institutes appropriate enforcement strategies where airlines fail to comply with agreed obligations.

2.83 The ANAO suggests that the ACS not enter into arrangements with code-share airlines that involves self-assessment until it has sufficient information to identify routinely and reliably instances in which it would be appropriate and necessary to investigate airlines' PMC remittances. The proposed self-assessment framework does not seem to provide this information adequately and the ACS would have to rely entirely on undertaking specific audits to identify discrepancies in airline PMC remittances.

Recommendation No.2

2.84 To improve its verification and reconciliation of PMC remittances, the ANAO recommends that for greater effectiveness, the ACS seek to negotiate formal arrangements with airlines to ensure that their reports accompanying PMC remittances include relevant information on code-share passengers and on each category of exemption granted.

ACS response

2.85 The ACS agrees with this recommendation. The ACS acknowledges that code-share is the primary issue affecting the administration of the current arrangements and will be the basis for the revised arrangements. Advice on all exempt categories claimed will also be useful in reconciliation.

ACS streamlining proposals

Findings of the 1996 audit

2.86 The ACS had developed two proposals to reduce the difficulty and time required to complete the reconciliation process while maintaining revenue control. These proposals were the Notional Exemption Rate (NER) and the tolerance range.

2.87 The NER proposal was to replace the actual number of exemptions with an estimate of the number of exempt passengers carried by an airline. An estimate was considered necessary because the ACS could not identify a cost-effective way to collect data on the actual numbers of exemptions granted following the closure of airport PMC booths in July 1996. The ANAO had reservations about the NER concept, as the ACS method of determining the NER relied on data which may have been out of date and the method disadvantaged airlines which carried proportionately more exempt passengers. The ANAO was also concerned how the ACS would re-determine exemption levels underlying the NER in the future when actual numbers were not available.

1996 Audit Report Recommendation 4

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

ACS response

2.89 The ACS agreed with the recommendation. The ACS advised the issue would be examined by the inter-departmental review.

Review of the categories of exemptions

2.90 In relation to the recommended review of exemption categories, the follow-up audit found that the ACS had written to nine Commonwealth departments advising that, in response to the ANAO recommendation, the ACS planned to repeal sub-section 5j of the Collection Act.²⁷ The ACS also advised departments that it did not wish to amend any other PMC exemptions at the time but sought comments as to whether departments thought further changes should be made.

2.91 Although amendments to the legislation have been proposed, the ACS advised that s5j of the Collection Act has not been repealed because the Government had higher legislative reform priorities and the ACS has no plans to repeal other categories of exemption.

Remittance reviews

Findings of the 1996 audit

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

2.93 The ANAO considered that to achieve a well-designed, planned and resourced program of review to ensure revenue control, issues of legal ability, resourcing and approach needed to be resolved.

1996 Audit Report Recommendation 5

2.94 The ANAO recommended that, in order to strengthen its revenue control processes, the ACS:

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

ACS response

2.95 The ACS agreed with the recommendation.

²⁷ s5j of the Act provides that a person departing from Australia does not have to pay the charge in relation to his or her departure if, at the time of his or her departure, the person is in the course of a journey that has involved a previous departure by the person from Australia in respect of which the person paid the charge.

Adequacy of legal and administrative provisions for access

2.96 The ANAO's legal advice is that neither the Charge Act nor the Collection Act include provisions entitling the ACS to access records or documents held by carriers relating to any aspect of the PMC or the airline's collection process. Access to this information would be particularly relevant in the case of RPT airlines which account for the bulk of PMC revenue collected by the Commonwealth, however the principle applies to all types of PMC remitters.

2.97 Both the current formal arrangements and the arrangements under development allow the Commonwealth to enter an airline's premises to examine the records of the airline for the purpose of verifying the:

- amount paid to the Commonwealth and;
- airline's claim for payment of administration costs.

2.98 As noted earlier in relation to self-assessment, with the removal of provisions for on-going reconciliation of airline PMC remittances inherent in the proposed self-assessment approach, it will be of increased importance that the Commonwealth use audits or other checks to verify information in airline reports. Therefore, it will become increasingly important to ensure that there is a mechanism in the formal arrangements to enable the ACS to verify the accuracy of information submitted by airlines.

2.99 The ANAO considers that the ACS would benefit from improving its formal arrangements with airlines, by including additional powers of inspection in relation to airlines' general administrative procedures and processes to ensure airlines properly identify PMC moneys owing.

2.100 If the terms of the formal arrangements negotiated between the ACS and RPT airlines were to have an access provision to allow the ACS to examine airlines' PMC administrative processes, this would strengthen the ACS' revenue control and administration. Such access could be conducted using protocols to ensure that only information relevant to the reasonable assessment of the administration of the PMC collection and remittance process was accessed and material of a commercially sensitive nature was protected. Use of such an access provision, with the appropriate boundaries as specified, would allow the ACS to assess whether airlines' PMC administrative arrangements were sufficient to enable the identification and collection of the correct amount of the PMC (including where code-share is involved). Such a provision would also mean that the ACS would be better able to assess the cost-effectiveness of the PMC administrative processes that airlines had put in place, with the Commonwealth's financial assistance since the introduction of the PMC.

2.101 The lack of formal arrangements with two airlines may inhibit the ACS' access and information gathering ability for these airlines. This is because the ACS cannot insist on exercising its audit powers in relation to the collection of the PMC unless there is an arrangement, since that is the source of authority for access to information. In the absence of any formal arrangements, the ACS is unable to audit these airlines' PMC records and processes, unless they agree. We are aware, however, that the ACS has conducted an audit of one of the airlines with its agreement.²⁸ While this demonstrates good will on the part of the airline, it would be advisable for the ACS to continue to seek formal arrangements with all airlines in order to secure its ability to audit PMC records and processes.

Staffing of PMC administration

2.102 The ACS conducted a review of the staffing needs and classification levels of the PMC Unit during 1997. The efficient and effective functioning of the PMC Unit is now a shared responsibility between three branches. Amongst other things, these branches administer PMC as follows:

- Passenger Processing Branch—PMC policy;
- Commercial Compliance Branch—airline PMC audits; and
- Staffing Branch—receipt, reconciliation and review of PMC remittances.²⁹

Remittance reviews

2.103 The ANAO examined the ACS' remittance reviews of the PMC (ie PMC audits) and found that the ACS has implemented a program of risk-based PMC audits. The ACS has conducted six audits of RPT airline PMC remittances to date.

2.104 The ACS' PMC audits had identified the problem of the provision of information by airlines (including the lack of code-share information from airlines), as an issue inhibiting the ACS in verifying and reconciling their PMC liabilities. The ACS advised that it has informally and cooperatively tried to progress this matter with the Board of Airlines Representatives Association and some airlines. However, we found that there has been no formal, systematic approach by the ACS to airlines to address issues raised in ACS audits that are common across more than

²⁸ The other airline with which the ACS does not have an arrangement advised the ANAO that it would be prepared to accommodate an ACS request to conduct an audit of its PMC remittances.

²⁹ On 1 July 1999, the ACS transferred the functions and responsibilities of the PMC Unit to the National Pay and Accounting section within Staffing Branch.

one airline. The ANAO considers that where audit issues relate to more than one airline, a formal, systematic approach to resolving these issues would be a more efficient way of improving airline practices rather than the current case by case approach.

Recommendation No.3

2.105 The ANAO recommends that to improve accountability and the ACS' ability to assess the completeness of airline PMC remittances, the ACS seek to negotiate formal arrangements with airlines that will provide it with increased access to information on airline procedures and processes for calculating PMC moneys owing.

ACS response

2.106 The ACS agrees with this recommendation.

Other payers

Findings of the 1996 audit

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

2.108 Remittances from shipping companies accounted for only a very small portion of PMC collections, generating \$1.4 million in 1995–96. The audit found the ACS did not have standard procedures for collecting PMC payments from shipping passengers and making PMC payments to the PMC Unit. It also found that ACS undertook an unnecessary level of checking of cruise shipping remittances.

2.109 Remittances from air charter operators generated less than \$0.6 million in 1995–96. The ANAO found that although air charter operators sought clearance by ACS Regional Border Control officers before departing, information provided on passengers and the charter operator was often incomplete or outdated.

1996 Audit Report Recommendation 6

2.110 The ANAO recommended that the ACS:

- institute standard PMC remittance procedures for cruise ship passengers; and

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

ACS response

2.111 The ACS agreed with this recommendation. The ACS advised it had already negotiated a revised remittance procedure for the cruise shipping industry which has removed regional variations by centralising payments to the PMC Unit. Further, a research project on charter operations had also been completed from which specific procedures for charter operations had been devised.

Identifying shipping companies and charter airlines

2.112 The ACS has established formal arrangements with 15 shipping companies and 45 charter airlines to collect and remit the PMC. The ACS uses a number of methods to identify charter airlines that may have a PMC liability including:

- communicating with industry peak bodies; and
- examining industry magazines and newsletters providing information on industry developments.

2.113 The ACS PMC system is also able to identify flights that are not automatically allocated a specific airline/charter operator for further investigation.

2.114 The ANAO considers the approach taken by the ACS to identifying charter airlines that may be liable to collect and remit the PMC is adequate.

Monitoring shipping and charter airline PMC remittances

2.115 The ACS advised during the follow-up audit that based on an assessment of risks involved, it no longer reconciles or audits PMC remittances from cruise shipping companies.

2.116 We acknowledge that this category of payer does not account for significant revenue overall and may not represent a significant risk. However, we consider that the ACS should have some mechanism to give it assurance in that regard and to confirm that the risk of non-compliance is being appropriately managed. A sampling approach to check a selection of PMC remittances from cruise shipping companies could be a cost effective way for the ACS to assure itself that PMC collection requirements were being met without having to allocate significant resources to checking these remittances.

Recommendation No.4

2.117 The ANAO recommends that to enhance revenue control, the ACS implement a cost-effective method for checking PMC remittances from cruise ships.

ACS response

2.118 The ACS agrees with this recommendation.

PMC administration

2.119 The follow-up audit reviewed various aspects of the ACS' PMC administration including staff training, PMC performance indicators and management reporting, PMC administrative collection costs, and risk management strategy.

PMC Unit management

Findings of the 1996 audit

2.120 The audit found the PMC Unit had been administered well. The ANAO considered the PMC Unit administration could be enhanced through the provision of procedural guidelines to staff setting out the detailed processes associated with staff members' functions. These guidelines would clarify the processes for staff on an on-going basis and assist the training of new staff.

2.121 At the time of the audit there were no training programs specifically for the PMC Unit. Although general training is important, PMC Unit administration could be improved with some specific training.

2.122 Including additional performance indicators could enhance the ACS' monthly PMC management report. This would give management an insight into the administrative effort required, and results achieved, by the PMC Unit and the administrative effectiveness of the current system.

1996 Audit Report Recommendation 7

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

ACS response

2.124 The ACS agreed with this recommendation. The Unit's Action Plan and performance indicators had been updated to accommodate

recommendations made by the ANAO. A comprehensive management report linked to the Action Plan was under development. The training suggestions made by the ANAO would be dependent on co-operation from airlines and industry training bodies.

Staff training

2.125 The follow-up audit found that ACS staff turnover since the original audit has been high and several staff interviewed during the follow-up audit were relatively new to their positions. In these circumstances, it is important to provide access to appropriate procedural information and training.

2.126 The audit found that the ACS has developed comprehensive PMC procedural instructions that assist staff administering the PMC. We also found that training is provided to ACS staff administering the PMC through on-the-job training including liaison with PMC remitters and generic courses designed to enhance skills such as those of client service and conflict management.

Performance indicators and management reporting

2.127 It is important that ACS management reports identify instances where individual collectors are not remitting the correct amount of PMC in a timely manner to indicate the need for follow-up action. The 1996 Audit Report found that the ACS monitored key administrative and financial aspects of the program on an on-going basis. However, the ACS' management reports could be enhanced by including additional performance indicators for, amongst other things, the timeliness and completeness of airline payments and reports.

2.128 The follow-up audit examined the ACS' management reports relating to PMC remittances, finding that the ACS prepares monthly reports on a number of performance parameters including:

- the status of PMC arrangements identifying the number of air and shipping entities yet to sign an arrangement;
- PMC collections, including outstanding amounts and overpayments by airlines, and the timeliness of PMC remittances; and
- amounts and timeliness of administrative payments made to RPT airlines for costs incurred by them in collecting and remitting the PMC.

2.129 The ANAO found that because the ACS lacks information concerning airlines' code-share arrangements and, to a lesser extent, PMC exemptions granted, the ACS' monthly report deems code-share airline remittances to be 'correct' even when they are outside the ACS' tolerance range specified in its formal arrangements for each code-share airline. On this basis, the ANAO considers most of the RPT under and overpayments information provided in the ACS monthly performance report to be of very limited value for the purposes of monitoring PMC collections and the adequacy of airline PMC administrative processes.

2.130 The ANAO considers that ACS management reports relating to the completeness of PMC remittances could be improved to provide more reliable information, although this is dependent to a large extent on the ACS' resolution of the underlying difficulties concerning the verification and reconciliation of airline PMC remittances, discussed earlier in this Chapter.

PMC administrative collection costs

2.131 The 1996 Audit Report noted a reason for introducing airline collection of PMC was to reduce the administrative collection costs of Departure Tax. The administrative costs of the ACS collecting Departure Tax was then 4 to 5 per cent of collections, which were high by world standards. Also, the previous government indicated its expectation that the administrative costs of PMC would be about 2 per cent of revenue collected. The follow-up audit found that an ACS internal review of the PMC Unit's operations in June 1998, determined the PMC was far more cost-effective than the previous Departure Tax scheme. The internal review estimated costs of the PMC scheme (as a percentage of revenue) at that time to be just over half of one per cent.

Risk management strategy

Findings of the 1996 audit

2.132 The audit found the ACS had an implicit risk management strategy. However, management of the PMC Unit would benefit from the preparation of an explicit risk management plan to identify the relative risks associated with elements of the overall system and also help to clarify whether the ACS' management processes were appropriate, given the revenue involved and assessed risks. An explicit risk management plan would be a good basis on which to develop the PMC Unit's Action Plan.

1996 Audit Report Recommendation 8

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

ACS response

2.134 The ACS agreed with the recommendation.

Risk management strategy implementation

2.135 In early 1998, the ACS developed a comprehensive risk management strategy for the then PMC Unit. However, the ACS has not taken action to treat some risks identified as being unacceptable in its 1998 risk management strategy, for example, loss of revenue due to code-share. This indicates that the ACS is only partially implementing the principles of good risk management in its administration of the PMC. The follow-up audit also found that, although steps have been taken to re-assess the risk management strategy, this has not resulted in the ACS updating its strategy document.

2.136 The ANAO also considers that to assist in effectively treating unacceptable risks in a timely manner, ACS management reports could, where relevant, include information relating to the progress made in treating and managing identified risks.



Canberra, ACT
3 October 2000

P. J. Barrett
Auditor-General

Appendix

Appendix 1

Passenger Movement Charge Collection Act 1978

Section 5

Persons exempt from passenger movement charge

5. A person departing from Australia does not have to pay the charge in relation to his or her departure if, at the time of his or her departure, the person:
 - (a) is under 12 years old; or
 - (b) is a traditional inhabitant whose departure is undertaken in connection with the performance of traditional activities; or
 - (c) is a member of the defence force of a country other than Australia whose departure is undertaken:
 - (i) in the course of his or her duty as such a member; and
 - (ii) on an aircraft or a ship of a defence force; or
 - (d) is a spouse or a child:
 - (i) of a member of the defence force of a country other than Australia to whom paragraph (c) applies; and
 - (ii) whose departure from Australia is undertaken in the company of the member; or
 - (e) is a crew member of an aircraft or a ship whose departure from Australia is on the aircraft or ship; or
 - (f) is a spouse or a child:
 - (i) of a crew member of a ship to whom paragraph (e) applies; and
 - (ii) whose departure from Australia is undertaken in the company of the member; or
 - (g) is a positioning crew member; or
 - (h) is a transit passenger; or
 - (i) is an emergency passenger; or
 - (j) is in the course of a journey that has involved a previous departure by the person from Australia in respect of which the person paid the charge; or
 - (k) does not have to pay the charge because of the operation of:
 - (i) the *Consular Privileges and Immunities Act 1972*; or
 - (ii) the *Diplomatic Privileges and Immunities Act 1967*; or

(iii) the *International Organisations (Privileges and Immunities) Act 1963*; or

- (l) is a passenger whose departure from Australia is undertaken for the purpose of travelling to Area A of the Zone of Cooperation in connection with the prospecting for petroleum or the undertaking of petroleum operations.

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