

The Auditor-General
Audit Report No.63 2002–03
Performance Audit

Administration of the Automotive Competitiveness and Investment Scheme

**Department of Industry, Tourism and Resources
Australian Customs Service**

Australian National Audit Office

© Commonwealth
of Australia 2003

ISSN 1036-7632

ISBN 0 642 80724 8

COPYRIGHT INFORMATION

This work is copyright. Apart from any use as permitted under the *Copyright Act 1968*, no part may be reproduced by any process without prior written permission from the Commonwealth, available from AusInfo. Requests and inquiries concerning reproduction and rights should be addressed to:

The Manager,
Legislative Services,
AusInfo
GPO Box 1920
Canberra ACT 2601

or by email:
Cwealthcopyright@finance.gov.au

Canberra ACT
30 June 2003

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in the Department of Industry, Tourism and Resources and the Australian Customs Service in accordance with the authority contained in the *Auditor-General Act 1997*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit and the accompanying brochure. The report is titled *Administration of the Automotive Competitiveness and Investment Scheme*.

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

Yours sincerely



Oliver Winder
Acting 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.

For further information contact:

**The Publications Manager
Australian National Audit Office
GPO Box 707
Canberra ACT 2601**

Telephone: (02) 6203 7505

Fax: (02) 6203 7519

Email: webmaster@anao.gov.au

ANAO audit reports and information about the ANAO are available at our internet address:

<http://www.anao.gov.au>

Audit Team

Jacqueline Roessgen

Karla Rayner

Sandra Hutchinson

David Marcus

Alan Greenslade

Contents

Abbreviations	7
Glossary	8
Summary and Recommendations	9
Background	11
The Automotive Competitiveness and Investment Scheme	11
Audit objective and methodology	12
Key Findings	13
Program governance (Chapter 2)	13
Promotion and registration (Chapter 3)	14
Managing credit allocations (Chapter 4)	16
Management of compliance (Chapter 5)	18
Audit conclusion	20
Recommendations	21
Audit Findings and Conclusions	25
1. Introduction	27
The Australian automotive industry	27
Automotive industry assistance and reform	27
The Automotive Competitiveness and Investment Scheme	29
Legislative and administrative framework	30
Audit objective and methodology	31
Structure of the report	32
2. Program Governance	33
Introduction	33
Structures for managing ACIS	33
Performance management framework	38
Managing risks	40
Management information and transaction systems	42
3. Promotion and Registration	44
Introduction	44
Program promotion	44
Registration	45
Business plan lodgement	49
Assessment of on-going registration	50
4. Managing Credit Allocations	52
Processing quarterly returns	52
Managing modulation for the capped pool	57
Claims trends in the uncapped pool	64
5. Management of Compliance	65
Introduction	65
Participant information and education	66
Risk rating of participants	67
Regional Delivery visits	68
Audits	69

Appendices	77
Appendix 1: Tariff rates for the production of passenger motor vehicles and components, 1960 to 2000	79
Appendix 2: Summary of automotive assistance arrangements applying after 2005	80
Appendix 3: Types of credit and eligible activities	81
Appendix 4: ACIS Legislation, Regulations and Guidelines	83
Index	84
Series Titles	86
Better Practice Guides	91

Abbreviations

ACIS	Automotive Competitiveness and Investment Scheme
ACP	Automotive Component Producer
AMTP	Automotive Machine Tooler/Automotive Tooling Producer
ASP	Automotive Service Provider
BPA	Business Partnership Agreement
CSM	Customer Service Manager
Customs	Australian Customs Service
DITR	Department of Industry, Tourism and Resources
ICS	Integrated Cargo System
IPMS	Integrated Program Management System
MEC Division	Manufacturing, Engineering and Construction Division, a Division of DITR
MVP	Motor Vehicle Producer
P&E	Plant and Equipment
R&D	Research and Development
RED visit	Regional Delivery visit
TARCON	Tariffs and Concession System (an IT system used by Customs)
UCL	Unearned credit liability

Glossary

ACIS ledger	The ACIS ledger system records the entitlements of all participants, and is the official statement of entitlements.
ACIS quarter	A period of three months commencing on 1 January, 1 April, 1 July or 1 October of an ACIS year.
ACIS year	The year commencing on the scheme commencement date (1 January 2001) and each succeeding year, before the year commencing 1 January 2006.
Automotive component	Any component that is for use in any type of vehicle that, if imported, would be classified to Chapter 87 of Schedule 3 to the Tariff, other than a component of a kind that is declared by the <i>ACIS Administration Regulations 2000</i> not to be an automotive component.
Automotive machine tool	A machine tool designed and built to be used solely for the production of motor vehicles, engines, engine components or automotive components, or facilitating the provision of automotive services (includes machine tools that cast, forge, mould, robotic arms).
Duty credits	The credit that has been entered into the ACIS ledger.
Modulation	The process of limiting ACIS credits in the capped pool to \$2 billion over the five years of the scheme.
Participant	A person registered under ACIS as a motor vehicle producer, automotive component producer, automotive machine tooler, automotive tooling producer or an automotive service provider.
Quarterly returns	A return by an ACIS participant setting out the particulars of the participant's production or expenditure claims for the quarter in which a claim is made.
Tariff	The percentage of customs duty payable on imported goods.

Summary and Recommendations

Background

The Automotive Competitiveness and Investment Scheme

1. The Automotive Competitiveness and Investment Scheme (ACIS) is part of an assistance package for the automotive industry, announced by the Government in 1998. It is a transitional assistance scheme, providing around \$2.8 billion in import credits to eligible companies over the five years 2001 to 2005.¹ The credits can be used to offset customs liabilities on vehicles and certain components. Alternatively, the credits may be sold to other businesses, for their use.
2. Broadly, ACIS credits for motor vehicle producers are related to production and investment. Credits for automotive component producers, machine toolers/tooling producers and service providers are related to their investment in plant, equipment, and research and development.
3. There are two separate funding pools. The largest is a capped pool of \$2 billion over the five years of the scheme.² This is available to all participants in the scheme. If claims are likely to exceed the cap of \$2 billion, the credits are modulated (reduced) to keep the total credits within the cap.
4. The smaller pool is not capped, and is currently estimated to cost \$850 million over the five years. This is only available to motor vehicle producers.
5. In addition, no participant can receive credits exceeding five per cent of their automotive sales in the preceding year.
6. The Department of Industry, Tourism and Resources (DITR) is responsible for the administration of the scheme under the provisions of the *ACIS Administration Act 1999* (the Act). The Australian Customs Service (Customs) also has administrative responsibility for the scheme under the provisions of the *Customs Tariff Amendment (ACIS Implementation) Act 1999* and accompanying regulations.
7. The cost of administering ACIS by DITR was \$2.2 million in 2001–02.

¹ The Government recently announced a new ACIS package to cover the ten years after 2005.

² Capped payments for the post-2005 ACIS will be limited to \$2 billion over the period 2006–2010. Over 2011 to 2015, ACIS capped payments will be limited to \$1 billion, with assistance declining progressively over this period. Motor vehicle producer uncapped production credits will continue as at present, but will conclude in 2015.

Audit objective and methodology

8. The objective of this audit was to assess the Commonwealth's administration of ACIS. The audit reviewed:

- program governance;
- scheme promotion and registration;
- management of credit allocations; and
- compliance processes.

9. Audit fieldwork was undertaken in DITR and Customs. This included review of relevant documents and information systems, and interviews with relevant officers. Discussions about the scheme were also held with industry associations and individual participants.

Key Findings

Program governance (Chapter 2)

Structures for managing ACIS

10. The AusIndustry division of DITR delivers the scheme. AusIndustry's relationship with the relevant policy advisory division of DITR is clearly articulated through a Business Partnership Agreement.
11. The role of Customs is to manage the offsetting of ACIS duty credits against duty payable by participants. The ANAO found that DITR and Customs have developed good working relationships. However, DITR does not have an agreed Memorandum of Understanding (MOU) with Customs to record the terms of their partnership, nor on how they will interact for assurance and performance.
12. The agencies are currently negotiating a draft MOU, but this has been under discussion in various forms for over two years. Completion of the MOU would strengthen administrative arrangements for the program by providing an agreed basis for cooperation and greater transparency.
13. The DITR Business Partnership Agreement for ACIS identifies the need for an agreed policy and procedures manual. However, the manual remains in draft form and incomplete, two years after the commencement of the scheme. AusIndustry advised that it intends to finalise the manual during 2003.
14. Generally, ACIS delegations and authorisations have been appropriately managed. However, the ANAO found that a delegation to authorise officers to undertake audits had been passed on, to a more junior officer, in a manner inconsistent with the legislation. DITR has now issued new delegations correcting this situation.

Performance management framework

15. ACIS is one part of the Government's package of assistance to the automotive industry. While the overall package includes objectives, there are no specific objectives for ACIS. Nor has DITR identified intermediate outcomes for ACIS that would indicate how the program contributes to the Government's overall objectives over time. Consequently, there are no outcome, or intermediate outcome, or other performance measures for the program to assist in assessing its effectiveness, for the benefit of stakeholders and the use of management.
16. DITR has advised that the relatively short length of time the ACIS has been in operation makes it difficult to measure the effects of ACIS. However, it has not established management systems to inform stakeholders about

performance as data becomes available to provide a developing picture of the required outcomes. DITR advised that it has now established a working group to consider developing intermediate outcome information for AusIndustry programs, including ACIS, to help in this matter.

17. DITR does have some output/process measures for ACIS. They address, for example, the number, pattern and trends of scheme participation, cost, and the quality of service delivered. However, these are of limited value for performance assessment as they do not address the scheme's effectiveness.

Managing risks

18. DITR is focused on managing risks for ACIS, which it has identified as a high-risk program. Prior to implementation, DITR conducted a series of workshops to identify risks specific to ACIS. Treatments to address these risks were also identified. However, while some of the risk treatments have been implemented, others have not.

19. The identified risks were reviewed and further developed in 2002. The status of key ACIS risks is now reported monthly to the AusIndustry Executive. However, AusIndustry's approach to managing risks is not supported by a structured risk management plan. Such a plan was envisaged as an outcome of the 1999 workshops, but was not developed.

20. The self-assessment nature of the scheme reinforces the value of a more systematic approach to managing risk. A comprehensive risk management plan would assist in identifying and addressing some of the risks raised in this report. It would also be valuable in identifying the role of Customs in treating and managing risks, which could then be articulated in the MOU between DITR and Customs.

Promotion and registration (Chapter 3)

Program promotion

21. The ANAO found that DITR has taken a number of suitable measures to promote ACIS, including extensive consultation with potential applicants and relevant industry associations prior to implementation. On-going promotion is now undertaken through industry associations, or directly by AusIndustry officers, as part of regular liaison with industry.

22. A recent customer survey found that 74 per cent of respondents were satisfied with the promotion of ACIS; 15 per cent had no view on the effectiveness of promotion; and 11 per cent felt that there was scope for improvement. The survey also suggests that DITR's consultation with industry associations has

been effective. Nearly half of all respondents became aware of ACIS through an association's activities.

Registration

23. As at 3 February 2003, there were 208 businesses registered as eligible ACIS participants. Some three-quarters of these were component producers.

24. The ANAO found that AusIndustry meets its Customer Service Charter standard of making a decision on applications for registration within 60 days of lodgement.³ Furthermore, 76 per cent of respondents to the recent customer survey were satisfied with the registration process, with 14 per cent having no opinion and 10 per cent indicating dissatisfaction.

25. In considering an application for registration for ACIS, AusIndustry must be satisfied that certain conditions are met before registration is granted. These conditions include meeting criteria relating to levels of production within Australia.

26. AusIndustry relies mainly on declarations by applicants regarding their obligations and on the accuracy of information provided. There was no verification by AusIndustry of the levels of production stated by the applicant. In addition, there was variable understanding and implementation by AusIndustry officers of requirements for assessing applications, with some conducting Australian Securities Investment Commission checks, and others not doing so.

27. The ANAO considers that this approach to managing risks at the registration stage provides only limited assurance that required conditions are met before registration is granted. AusIndustry has acknowledged that it needs to implement a more systematic and appropriately documented checking and risk management process at registration.

Assessment of on-going registration

28. AusIndustry is required to review, at least annually, on-going eligibility for registration of participants to the scheme. The ANAO found that AusIndustry was meeting this requirement. Annual checks have been undertaken. Furthermore, 11 participants have been deregistered as a result of re-assessment arising from AusIndustry's compliance program.⁴

³ If AusIndustry requires the applicant to provide further information by a specified day, the 60-day period is extended by the time taken to provide the additional information.

⁴ Any credits earned during the period of ineligibility must be paid back to the Commonwealth through an unearned credit liability.

Managing credit allocations (Chapter 4)

Processing quarterly returns

29. In order for participants to receive credits under ACIS, they must lodge a return each quarter. Participants are able to lodge electronic returns on-line, which provides quick access to their benefits. The 2002 customer survey found that 93 per cent of respondents were satisfied or had no opinion; and three per cent indicated dissatisfaction with the timeliness of the processing of quarterly returns. In regard to the transparency of the processing of returns, 76 per cent of respondents rated the quarterly return process as 'good' in terms of transparency; 19 per cent rated it 'average' and five per cent rated the transparency as 'poor'.

30. The Act states that the Secretary (DITR) must calculate the unmodulated credit—'as soon as practicable after a participant provides a return in respect of a quarter'. However, before calculating the credits, DITR systems apply threshold tests to the data in the return by assessing the extent of any divergence between activity levels in the quarterly return and earlier forecasts provided in annual business plans. If activity levels in a return exceed pre-defined thresholds, electronic processing is halted. AusIndustry staff may then investigate the reason for the divergence.

31. AusIndustry advised that there was no intention to unduly delay processing of returns through these tests. This reflects legislative requirements that credits be calculated 'as soon as practicable'.⁵ However, the ANAO found that returns which breach thresholds do in fact take several days longer to process.

32. AusIndustry subsequently advised that it would change processing arrangements so that its systems merely indicate that a return has breached the threshold. This would preserve the value of threshold rules as a risk management tool, whilst reducing the risk that processing of returns is delayed.

33. The transfer of credit allocations from DITR to Customs is undertaken appropriately, but has a high level of manual handling. DITR and Customs intend to introduce automatic transfer of credit entitlements.

Managing modulation for the capped pool

34. The limiting of credits in the capped pool is achieved through a process called modulation. This involves assessing whether total 'unmodulated' claims are likely to exceed the cap of \$2 billion over the five year life of the scheme; and, calculating a factor by which future claims should be modulated (reduced)

⁵ Section 42–51 of the *ACIS Administration Act 1999*.

to keep total credits within the cap. The level of modulation is well in excess of levels anticipated in planning the scheme, as discussed below.

35. DITR modelled likely demand for credits in 1997 and early 1998, when it was developing the broad design parameters for ACIS. It estimated that the likely upper demand for credits would not exceed \$2.15 billion, with a mid-range estimate of some \$1.8 billion. The capacity to modulate was intended as a risk management measure, to limit the cost to revenue.

36. The scheme evolved considerably within the basic framework announced by the Government prior to its commencement in January 2001. However, DITR did not re-forecast overall demand or the likely distribution of credit entitlements between industry sectors, which it had previously foreshadowed to industry. Accordingly, DITR did not have updated estimates upon which to base policy advice to the Government prior to commencement of the scheme on the likelihood of modulation being required for the scheme, or on the potential level of modulation. While the cost to revenue was capped at \$2 billion, such advice would have been pertinent to the consideration of other scheme outcomes and related policy options.

37. In the first quarter of 2001, participants submitted their initial round of company business plans. The plans suggested that potential credits for the life of the scheme would be around \$2.5 billion, substantially above DITR's previous highest estimate, and 25 per cent above the cap.

38. The plans also indicated a higher share of credits for component producers than previously foreshadowed.

39. These first plans implied that a modulation rate of around 0.8 would be needed to keep the program within its cap. However, DITR delayed modulating the scheme until the fourth quarter of 2001 (when it set the rate at 0.75). This delay occurred despite the level of actual claims made by participants, and DITR's investigations, supporting the need for modulation from commencement. DITR advised that it delayed modulation because, inter alia, it considered it appropriate to be cautious in the early stages of the scheme, especially given industry's opposition to the early introduction of modulation.

40. Projected claims on the capped pool have continued to grow, requiring DITR to progressively reduce the modulation rate to its current level. The modulation rate for fourth quarter 2002 was 0.62; that is, participants receive 62 per cent of their 'unmodulated' claims.

Management of compliance (Chapter 5)

Participant information and education

41. AusIndustry manages compliance through four levels of assurance, ranging from education of participants through to compliance auditing. The ANAO found that AusIndustry has effective and comprehensive means of informing and educating participants about the scheme's eligibility requirements and processes. These include customer guidelines, newsletters and maintenance of its website.

42. Stakeholders advised the ANAO that these measures kept them appropriately informed. There is high use of ACIS information channels; for example, ACIS newsletters are used by over 90 per cent of ACIS participants.

Risk rating of participants

43. AusIndustry uses risk ratings of participants to help select participants for audit. In the early stages of the scheme, risk ratings, and thus the selection of participants for audit, were determined by the size of the participants' expected credit claims. However, AusIndustry now has a compliance approach that incorporates a more comprehensive approach to risk rating.⁶

Regional Delivery (RED) visits

44. Regional Delivery (RED) visits focus on facilitating participant access to ACIS and gathering information to inform compliance activities. By April 2003, some three-quarters of participants had been the subject of, or were about to be subject to, a visit. The visits were undertaken effectively, and were well regarded by participants.

45. AusIndustry guidance does not advise that participant risk ratings should be considered in determining selection of scheme participants for a RED visit. The ANAO found this was not an explicit factor in practice. The reasons for selecting participants for a RED visit were also not documented. The important role of RED visits in AusIndustry's compliance framework warrants a more systematic approach to selection for greater assurance, transparency and accountability about the effectiveness of compliance targeting.

⁶ Including consideration of issues identified during Regional Delivery (RED) visits.

Audits

46. The self-assessment nature of ACIS means that compliance audits have a key role in protecting the integrity of the scheme. As at April 2003, 114 out of 208 participants had been audited. These audits, undertaken by AusIndustry, have resulted in the identification of some \$100 million in inappropriate claims. Audits have also identified a number of issues for broader program administration. These have been appropriately addressed by AusIndustry.

47. However, the ANAO found that auditing was not undertaken in accordance with legislative requirements. Officers undertaking audits were not formally authorised to audit under the Act, nor issued with identity cards, as required.

48. AusIndustry advised that it had regarded the relevant audit powers as reserve powers. However, officers undertaking audits have now been appropriately authorised and issued with identity cards. ACIS audits are conducted by AusIndustry Customer Service Managers (CSMs).

49. AusIndustry has provided in-house audit training for its CSMs, audit guidance, and knowledge transfer arrangements between experienced and less experienced officers. Notwithstanding these arrangements, the ANAO found varying levels of audit experience and expertise employed in undertaking audits, which had a variable impact on audit quality.

50. The ANAO found inadequate guidance on some important aspects of audit management and conduct. This included the planning of audits; application of concepts such as 'reasonableness'; and the nature and size of samples required to provide an appropriate level of assurance.

51. The ANAO found there was variable quality in the management and conduct of audits. The quality of documentation of audit planning and outcomes varied markedly. Some audits had no plan, while others had quite detailed plans. There were varying degrees of documentation and evidence on participants' internal systems (for example, accounting systems), and only limited evidence to demonstrate that substantive audit testing had been undertaken.

52. The ANAO considers that the approach to auditing compliance has not been consistent with the rigour required by legislation and foreshadowed by the Government and needs to be amended to do so. AusIndustry has acknowledged that management of the audit function could be strengthened in some areas, and is making some improvements accordingly.

Audit conclusion

53. Overall, DITR's administration of ACIS is timely in delivering credits to participants. It provides good client service, and processing is secure and accurate. Nevertheless, a more risk-managed and better documented approach to registration is necessary to provide adequate assurance that required conditions are met before registration is granted. AusIndustry has recently made some changes to the application of threshold tests to claims to ensure they are fully consistent with legal requirements.

54. DITR has established the basis of an appropriate governance framework for the delivery of ACIS. However, a number of important elements are underdeveloped some two years after the scheme's commencement. In particular, DITR has yet to finalise a Memorandum of Understanding with Customs and a policy and procedures manual to support sound administration and decision-making.

55. The lack of outcome, or intermediate outcome, performance measures limits DITR's ability to assess the effectiveness of ACIS, for the benefit of stakeholders and management.

56. AusIndustry has initiated a focus on managing risk, but this would be strengthened by implementing a comprehensive risk management plan. Program management would also benefit from sounder compliance audit practice in a number of areas, to be more consistent with recognised standards.

57. The use of a fiscal cap for the major part of the scheme has limited the cost to revenue of ACIS. However, DITR substantially underestimated the demand for credits and their distribution. It did not update forecasts for almost three years, which would have provided better informed advice to the Government prior to, and after, commencement of the scheme.

DITR response

58. DITR agreed with the six recommendations in the report and advised of action taken or underway to implement the report recommendations.

Customs response

59. Customs agreed with the two recommendations in the report that related to them and advised of action taken or underway to implement the report recommendations.

Recommendations

Set out below are the ANAO's recommendations with report paragraph references.

**Recommendation
No.1
Para. 2.18**

**Governance
framework**

The ANAO recommends that, in order to ensure a clear understanding of roles, responsibilities and procedural requirements and standards, DITR promptly finalise:

- the MOU with Customs; and
- a procedures manual for the scheme.

DITR Response: Agreed. As the ANAO acknowledges, working relations between DITR and Customs are good and there is regular and frequent communication between the organisations at all levels. There is a sound understanding in practice of the respective roles and responsibilities of the two organisations. As the ANAO further states, DITR's administration of ACIS is timely in delivering credits to participants and it provides good client service, and processing that is secure and accurate. Advanced drafts of the MOU with Customs and the procedures manual for the scheme do in fact exist and are being used within DITR and Customs to guide the administration of the scheme. DITR acknowledges, however, the need to finalise these documents formally and arrangements are being made to do this.

Customs Response: Agreed.

**Recommendation
No.2
Para. 2.29**

**Performance
management**

The ANAO recommends that DITR develop appropriate objectives, related intermediate outcomes and associated performance measures for ACIS, to assist in the administration and evaluation of the program, to better inform decision making, and to enhance accountability.

DITR Response: Agreed. DITR agrees that the development of intermediate outcomes would be a useful step in improving performance reporting for ACIS. As the ANAO report acknowledges, DITR had already established a working group to review performance information for all its programs, with a particular focus on the identification and use of intermediate outcome information.

**Recommendation
No.3
Para. 2.42**

Risk management

The ANAO recommends that DITR develop a structured risk management plan for ACIS, including provisions for regular monitoring and review. Risk management arrangements should include provision in the MOU with Customs for sharing information on risk management.

DITR Response: Agreed. As the ANAO states, AusIndustry is focussing on managing risks for ACIS. DITR recognises the value of a structured risk management approach and has developed a risk management framework including approval and monitoring mechanisms for risk management plans. Arrangements for joint risk management between DITR and Customs will be included in the MOU between the two organisations.

Customs Response: Agreed.

**Recommendation
No. 4
Para. 3.12**

The ANAO recommends that DITR review its registration processes and ensure that they provide adequate assurance that required conditions under the *ACIS Administration Act 1999* are met before registration is granted.

**Registration
processes**

DITR Response: Agreed. However DITR does not accept that the current registration process provides limited assurance that required conditions are met before registration is granted. The customer base for the program is relatively small and almost all companies participating in the scheme were known to DITR at the time of their registration because of participation in predecessor programs. It should be noted that almost all registrations were processed at the beginning of the scheme and very few applications for registration are now being made. Nevertheless DITR acknowledges that a more systematic and better documented checking and risk management process would be appropriate and is now in place.

**Recommendation
No.5
Para. 4.56**

The ANAO recommends that DITR ensure that forecasts and estimates supporting advice in designing industry support schemes are updated as design parameters and the program environment change, and as more data becomes available.

**Expenditure
estimates**

DITR Response: Agreed. It should be noted that since the April 1998 announcement of ACIS, the GST has been introduced, there was a period of uncertainty following the events of 11 September 2001, domestic vehicle sales have since soared, and Australian automotive exports have grown substantially. Attempting to accurately forecast changes in demand for ACIS incentives as a result of such events is fraught with difficulty. The design of ACIS, including the utilisation of a fiscal cap of \$2 billion and implementation of modulation, recognises this difficulty. The ability of ACIS modulation to effectively deal with such events is a measure of the effectiveness of the design of ACIS.

**Recommendation
No.6
Para. 5.45**

**Compliance
auditing**

The ANAO recommends that AusIndustry implement procedures and guidelines to ensure a standard approach to auditing compliance consistent with its legislative obligations and program risks. Such an approach would include:

- clearly articulated standards, procedures and supporting methodologies (such as audit sampling tools);
- appropriate audit documentation and planning;
- identifying required skills/competencies and the means of achieving them; and
- ensuring compliance with legislative requirements.

DITR Response: Agreed. As the ANAO acknowledges, AusIndustry has in use an ACIS Compliance Kit, which includes an audit guide and advice on a range of issues including audit preparation, audit objectives and procedures and audit analysis. DITR agrees that the documentation can be enhanced along the lines suggested and action will be taken to provide more comprehensive documentary guidance on audit matters. In practice, as the ANAO acknowledges, audits undertaken by AusIndustry have in fact resulted in the identification of some \$126 million in inappropriate claims and of a number of issues for broader program administration, and these have been appropriately addressed by AusIndustry. In relation to skills development, AusIndustry does in fact have a number of staff with auditing backgrounds involved in the ACIS program and action is in hand to recruit additional with auditing expertise. It should be noted that the management of compliance has four levels as stated by the ANAO, the last of which are the compliance audits. The ANAO has acknowledged that the first three levels of compliance management activity are effective, comprehensive and informative. Combined, these activities greatly contribute to the assurance of compliance by ACIS participants.

Audit Findings and Conclusions

1. Introduction

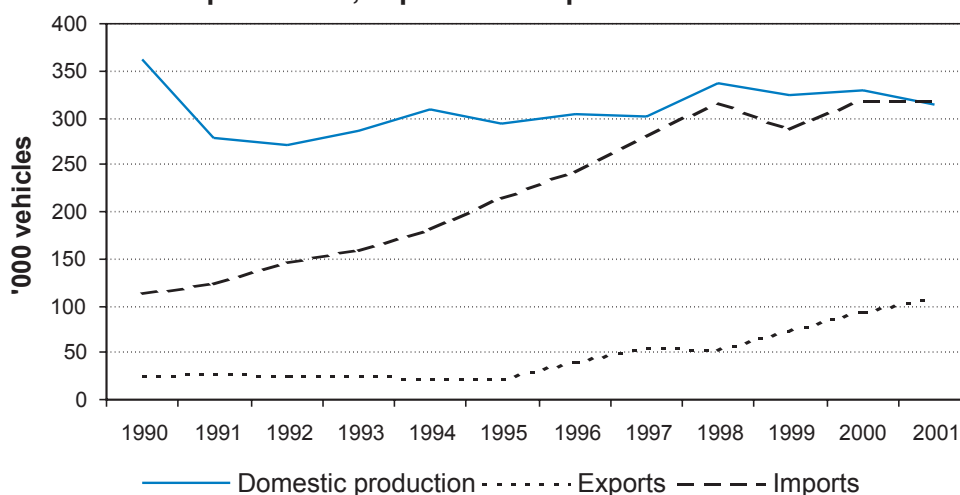
The Australian automotive industry

1.1 The automotive industry is one of Australia's largest manufacturing industries, employing some 54 000 people. In 2002, turnover for automotive manufacturing activities exceeded \$17 billion.⁷

1.2 The industry has become increasingly export oriented over the last decade (see Figure 1.1). Exports have risen from less than 10 per cent of production in 1990, to over 30 per cent in 2001.

Figure 1.1

Trends in PMV production, imports and exports: 1990–2001



Source: Productivity Commission.

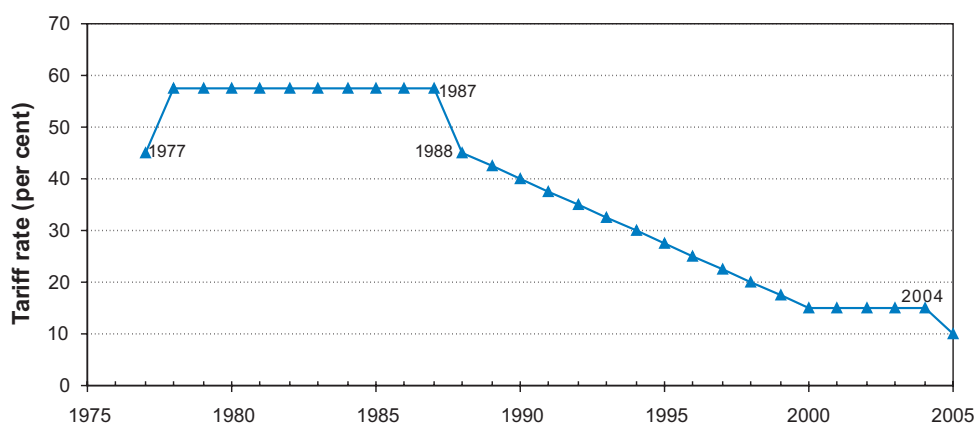
Automotive industry assistance and reform

1.3 Tariff reform has resulted in a substantial reduction in tariff protection since 1987. The tariff rate on imports will be reduced to 10 per cent on 1 January 2005 (see Figure 1.2).

⁷ Productivity Commission 2002, *Review of Automotive Assistance*, Report No.25, Canberra, p. 20.

Figure 1.2

Level of tariff protection for passenger motor vehicles: 1977–2005⁸



Source: DITR.

1.4 In 1998, following a review of previous government assistance arrangements, the Government announced that it would introduce a new assistance package for the industry.⁹ The objectives of the package were to:

- encourage the development of a sustainable, prosperous and internationally competitive automotive manufacturing industry in Australia;
- improve the overall economic performance of the Australian automotive industry;
- provide quality, competitively priced vehicles to the Australian consumer; and
- meet Australia's international obligations and commitments.¹⁰

1.5 The package had three main components:¹¹

- the Automotive Market Access and Development Strategy, which operated from 1998–99 to 2001–02, and was intended to open and develop key export and investment markets for the industry;
- continued tariff reform. After reaching 15 per cent in the year 2000, automotive tariffs would remain at that level to 2004, then drop to 10 per cent in 2005; and

⁸ Data supporting the graph is at Appendix 1.

⁹ *Driving the Future: Australia's Automotive Action Agenda*, The Hon. John Moore MP, former Minister, Industry, Science and Resources, 22 April 1998.

¹⁰ Explanatory Memorandum, *Customs Tariff Amendment (ACIS Implementation) Bill 1999*.

¹¹ Other components of the package were a review in 2005, to take into account the government's Asia Pacific Economic Cooperation Forum deadline of 2010 for free trade; and an environmental strategy.

- the Automotive Competitiveness and Investment Scheme (ACIS), a transitional assistance scheme providing around \$2.8 billion in import credit benefits to eligible companies over the five years 2001–2005.

1.6 ACIS is the subject of this audit report.

The Automotive Competitiveness and Investment Scheme

1.7 ACIS commenced on 1 January 2001 and was to expire on 31 December 2005. In December 2002, the Government announced a new ACIS package to cover the 10 years after 2005.¹²

1.8 ACIS is open to:

- motor vehicle producers (MVPs);
- automotive component producers (ACPs). These produce original equipment¹³ for new vehicles, and replacement and aftermarket accessories;
- automotive machine toolers/automotive tooling producers (AMTPs). These businesses provide specialised tooling to vehicle and component producers; and
- automotive service providers (ASPs). These businesses generally provide specialised design services.

1.9 To qualify for ACIS benefits, businesses have to meet certain eligibility criteria in relation to volume and/or value of production in Australia. These eligibility requirements are addressed further at paragraph 3.8.

1.10 ACIS provides participants of the scheme with benefits in the form of credits against import duty. The credits can be used to offset customs liabilities on vehicles and certain components. Alternatively, the credits may be sold to other businesses, for their use.

1.11 Broadly, ACIS credit benefits are related to production and investment for motor vehicle producers, and to investment in plant, equipment, and research and development for other parts of the industry. There are two separate funding ‘pools’, as follows:

¹² The post-2005 ACIS will be broadly similar to current arrangements, with the addition of a research and development fund for motor vehicle producers. The total package will cost \$4.2 billion over 10 years. Further details are at Appendix 2.

¹³ Original equipment means an automotive component for use in the production of a motor vehicle or an engine by a motor vehicle producer, or designed to the specifications of a motor vehicle producer for post assembly fitment.

- a pool, capped at \$2 billion over five years, available to all participants; and
- a smaller pool, which is not capped, and is currently estimated to cost \$850 million over five years. This benefit is only available to the four motor vehicle producers.

1.12 These arrangements are summarised in Figure 1.3. If claims in the capped pool are likely to exceed the cap of \$2 billion, claimed benefits are modulated (reduced) to keep the total credits within the cap. In addition, no participant can receive ACIS benefits exceeding five per cent of their automotive sales in the preceding year.

Figure 1.3
Eligible activity that may attract ACIS credit benefits¹⁴

Industry type	Eligible activity	Capped pool entitlements (\$2000 million over 5 years)	Uncapped pool entitlements (Approx \$850 million over 5 years)
		10% of production value, multiplied by the automotive tariff rate	15% of production value, multiplied by the automotive tariff rate
MVP	Production sold in Australia and New Zealand	10% of production value, multiplied by the automotive tariff rate	15% of production value, multiplied by the automotive tariff rate
	Production exported	25% of production value, multiplied by the automotive tariff rate	
	Investment in plant and equipment to produce motor vehicles, engines or engine components	10% of the value of investment	
ACP, AMTP, ASP*	Investment in research and development	45% of the value of investment	
	Investment in plant and equipment to produce components and tools	25% of investment in plant and equipment	

Source: ANAO based on the *ACIS Administration Act 1999*.

*Note: In addition, MVPs can also receive credits for investment in plant and equipment and research and development for production of automotive components (other than engines and engine components), automotive machine tooling or automotive services that are undertaken for third parties.

Legislative and administrative framework

1.13 The Department of Industry, Tourism and Resources (DITR) is responsible for the administration of the scheme under the provisions of the Act. The Act is

¹⁴ Eligible activities are further defined at Appendix 3.

the primary legislation for the scheme, and is supported by subsidiary legislation in the form of Regulations and Ministerial Guidelines, which further define the administrative details of the scheme.

1.14 The main features of the primary legislation address:

- eligibility requirements;
- how credits can be earned, used and recorded;
- financial caps on total scheme funding and individual caps; and
- audit provisions, penalties and documentary substantiation requirements.

1.15 The Australian Customs Service (Customs) also has administrative responsibility for the scheme under the provisions of the *Customs Tariff Amendment (ACIS Implementation) Act 1999* (the Customs Act) and accompanying regulations. This Act provides for the offset of ACIS duty credits against a range of eligible automotive products.

1.16 Relevant ACIS legislation, regulations and guidelines are outlined further at Appendix 4.

1.17 The cost of administering ACIS by DITR was \$2.2 million in 2001–02.

Audit objective and methodology

1.18 The objective of this audit was to assess the Commonwealth's administration of ACIS. The audit reviewed:

- program governance;
- scheme promotion and registration;
- management of credit allocations; and
- compliance processes.

1.19 The ANAO undertook fieldwork in DITR and Customs. This included review of relevant documents and information systems, and interviews with staff working in these agencies. Discussions were also held with industry associations and individual participants.

1.20 Audit criteria were drawn from legislative requirements, DITR standards and guidance, and better practice in governance and service delivery (drawn from previous ANAO audits, better practice guides and other sources).

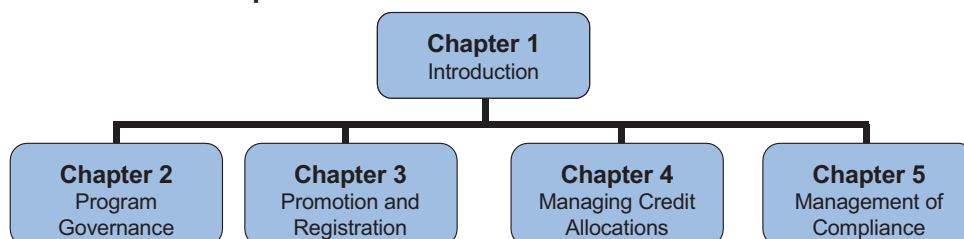
1.21 The audit was completed in accordance with the ANAO's Auditing Standards at a cost of \$420 000.

Structure of the report

1.22 The structure of this report is outlined in Figure 1.4.

Figure 1.4

Structure of the report



2. Program Governance

Introduction

2.1 ACIS is administratively complex, involving intra- and cross-agency relationships. It is a self-assessment, formula driven benefits entitlement scheme. As such, it requires sound corporate governance frameworks and robust control structures.

2.2 This Chapter addresses, in particular:

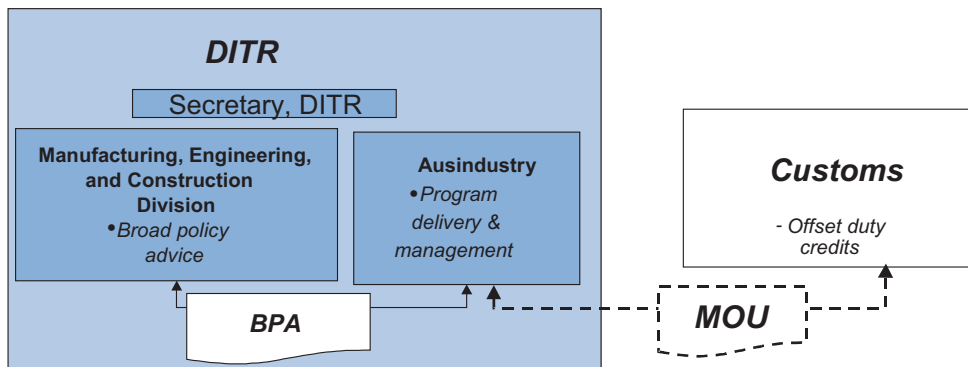
- structures for management of the program, including roles and responsibilities for program delivery, program guidelines and delegations;
- the performance management framework;
- risk management; and
- supporting management information and transaction systems.

Structures for managing ACIS

2.3 The Department of Industry, Tourism and Resources (DITR) and the Australian Customs Service (Customs) have program delivery responsibilities for ACIS, as summarised in Figure 2.1.

Figure 2.1

Administrative responsibilities for ACIS



Source: ANAO.

Arrangements within DITR

2.4 DITR has overall responsibility for the scheme. Its Manufacturing, Engineering and Construction (MEC) Division is responsible for policy advice, and for making recommendations to the Secretary on the modulation rate (and performance reporting and management).

2.5 AusIndustry, another division of DITR, delivers ACIS. It provides services to participants, and liaises with Customs in regard to the application of ACIS credits to offset duty liability. Relationships between AusIndustry and MEC are managed through a Business Partnership Agreement (BPA). The BPA consists of a general framework document and schedules relevant to each program. The general responsibilities of the two divisions are shown in Figure 2.2.

Figure 2.2

General responsibilities specified in the BPA

MEC	AusIndustry
▶ Policy advice and briefings to the Minister	▶ Interpret, for administrative purposes, current policy in consultation with MEC
▶ Develop and review policy options	▶ Develop and implement necessary materials, systems and standards to deliver the program
▶ Undertake evaluations of appropriateness and effectiveness	▶ Promote awareness and usage of programs, efficiently deliver programs to customers within agreed standards, be first point of contact with customers
▶ Provide AusIndustry with information about, and consult on, changes or likely changes to the program	▶ Support policy development by the provision of information and recommendations about program design and effectiveness
	▶ Negotiate resources necessary to deliver the program

Source: DITR.

2.6 A schedule to the BPA sets out specific requirements of AusIndustry. These include:

- registering participants;
- undertaking audits;
- ensuring that the principles of control and risk assessment are adhered to;
- having an agreed policy and procedures manual in place to ensure the timely exchange of information; and
- being responsible for legal and/or expert advice relating to the delivery of the scheme.

2.7 The ANAO found that the BPA clearly defines the roles and responsibilities of MEC and AusIndustry. The BPA also sets out how information will be exchanged between the two divisions, and what performance information is required from AusIndustry (discussed further at paragraph 2.34). The ANAO also found that the BPA is supported by a sound working relationship between the two Divisions.

Liaison between DITR and Customs

2.8 Customs' role in delivering ACIS is to manage the offsetting of duty credits against duty payable by participants.¹⁵ The Cargo and Trade Division of Customs manages this function. The Division also deals with reduction in duty credits for a range of other industries, such as steel and textiles.

2.9 The ANAO found that DITR and Customs have developed good working relationships. There are regular high-level meetings for information sharing and to discuss issues, and there is frequent communication at the working level. However, DITR does not have an agreed Memorandum of Understanding (MOU) with Customs to record the terms of their partnership, and how they will interact for assurance and performance.

2.10 AusIndustry and Customs began developing such an MOU at the inception of the scheme in 2001. In December 2001 it was agreed that the MOU should instead be between DITR and Customs. Since this time the agencies have been discussing aspects of the MOU, but it is yet to be finalised.

2.11 MOUs provide a framework for specifying roles and responsibilities, accountabilities, reporting arrangements and performance management between agencies. They are therefore an important aspect of governance for programs delivered by multiple agencies. Completion of the MOU between DITR and Customs would strengthen administrative arrangements for the program by providing an agreed basis for cooperation and greater transparency.

2.12 The ANAO found that the draft of the MOU potentially provides a sound framework for collaboration. It addresses broad DITR-Customs relationships, including:

- responsibilities of DITR and Customs, including inter-agency communication, provision of information and compliance and audit;
- review mechanisms; and
- contact points in each agency.

¹⁵ This involves receiving ledger statements from DITR on the level of duty credits issued to participants, and ensuring they are appropriately entered and applied to duty incurred by eligible importers.

2.13 In addition, a schedule to the MOU addresses AusIndustry programs. This focuses on the management of information technology issues and compliance and audit activities.

2.14 However, the draft MOU does not address risk management arrangements between the two agencies. As discussed at paragraph 2.41, addressing this as part of the final MOU would strengthen the governance framework.

Program guidelines

2.15 The BPA between AusIndustry and MEC identifies the need for an agreed policy and procedures manual. At the time of audit, AusIndustry had developed a partial draft of the manual, addressing:

- marketing of ACIS and communication with participants;
- handling registrations;
- access to AusIndustry IT systems;
- online processing of credit claims, business plans and registrations; and
- customer management.

2.16 However, the manual remains incomplete, two years after the commencement of the scheme. The draft manual has yet to address the management of unearned credit liabilities¹⁶ and handling of confidentiality activities. Comprehensive, up-to-date and accessible program guidelines and procedures are an essential part of governance, facilitating consistent, and appropriate decision-making and planning. The absence of a complete and final ACIS manual weakens the administrative framework for the scheme.

2.17 AusIndustry advised the ANAO that it intends to finalise the manual during 2003.

Recommendation No.1

2.18 The ANAO recommends that, in order to ensure a clear understanding of roles, responsibilities and procedural requirements and standards, DITR promptly finalise:

- the MOU with Customs; and
- a procedures manual for the scheme.

¹⁶ Unearned credit liabilities occur when a participant who has or has had duty credits issued to them, that they are not entitled to becomes liable to pay back these unearned credits to the Commonwealth.

DITR Response

2.19 Agreed. As the ANAO acknowledges, working relations between DITR and Customs are good and there is regular and frequent communication between the organisations at all levels. There is a sound understanding in practice of the respective roles and responsibilities of the two organisations. As the ANAO further states, DITR's administration of ACIS is timely in delivering credits to participants and it provides good client service, and processing that is secure and accurate. Advanced drafts of the MOU with Customs and the procedures manual for the scheme do in fact exist and are being used within DITR and Customs to guide the administration of the scheme. DITR acknowledges, however, the need to finalise these documents formally and arrangements are being made to do this.

Customs Response

2.20 Agreed.

Delegations

2.21 The Secretary of DITR has, under section 115 of the Act, delegated six administrative powers to an AusIndustry SES officer, and one to Customs (see Figure 2.3).

Figure 2.3

Delegations under ACIS Act

Holder of delegations	Delegation
Secretary	determine the modulation rate;
AusIndustry SES officer	determine who may register for the scheme;
"	calculate the unmodulated and modulated credit benefits for each participant at the end of every quarter;
"	appoint authorised officers for audit purposes, and issue identity cards;
"	maintain the ACIS ledger containing the credits for each customer;
"	determine whether a participant is not entitled to a duty credit; and
"	issue a notice on unearned credit liabilities in respect of the participant liable.
Customs	amend the ledger when duty credit is applied for the importation of eligible imports

Source: DITR.

2.22 Generally delegations and authorisations have been appropriately managed. However, the ANAO found that the delegation to authorise officers to undertake audits had been passed on to a more junior officer, which was

inconsistent with the legislation. DITR has now issued new delegations correcting this situation.

2.23 Further, the ANAO found that audits had been conducted without relevant staff being authorised to do so, as specified in the legislation. This matter is discussed further at paragraph 5.22.

Performance management framework

Objectives and outcomes

2.24 ACIS is one part of the Government's package of assistance to the automotive industry. While the overall package includes objectives (see paragraph 1.4) there are no specific objectives for ACIS. Nor are there intermediate outcomes that would indicate how the program contributes to the Government's overall objectives.

2.25 Reflecting the lack of objectives or outcomes for ACIS, there are no outcome, or intermediate outcome, or other performance measures for the scheme. DITR did draft objectives and associated performance indicators for ACIS in 1999, to be incorporated into a proposed Service Level Agreement between AusIndustry and MEC.¹⁷ However, the indicators were not developed further and were not used to monitor ACIS performance.

2.26 DITR has advised that the major performance indicator for ACIS is the level of commitment to the future production of cars in Australia. Moreover, DITR considers it questionable whether meaningful performance indicators for ACIS can be established outside the wider framework in which the scheme operates. DITR has also advised that the relatively short length of time ACIS has been in operation, compared to the long lead times of the automotive industry, makes it difficult to measure the effects of ACIS.

2.27 However, DITR has not developed measurement systems, which may be populated as data becomes available to provide a developing picture of the required outcomes, notwithstanding the initial work on performance indicators. The challenges in assessing performance for programs, such as ACIS, are not unique; intermediate outcomes offer one means of facilitating performance assessment. The absence of measures limits DITR's ability to assess the effectiveness of ACIS in meeting desired outcomes, and its contribution to the Government's broader objectives for the automotive industry. One stakeholder group commented that:

¹⁷ The indicators addressed a range of possible impacts of ACIS, including on the level of investment in the automotive industry, automotive exports and productivity.

Currently there is no information available on the efficacy of ACIS other than information relating to claims made. ACIS is effectively an untied cash subsidy that can be used in a myriad of ways to improve a company's competitive position. Performance monitoring would seem to be a basic pre-requisite to improved policy administration. Any ACIS monitoring should be designed in close consultation with the industry.¹⁸

2.28 DITR has recently established a working group to review outcome performance indicators for all of its programs, define outcome related performance information, and consider developing intermediate outcome information for AusIndustry programs, including ACIS.

Recommendation No.2

2.29 The ANAO recommends that DITR develop appropriate objectives, related intermediate outcomes and associated performance measures for ACIS, to assist in the administration and evaluation of the program, to better inform decision-making, and to enhance accountability.

DITR Response

2.30 Agreed. DITR agrees that the development of intermediate outcomes would be a useful step in improving performance reporting for ACIS. As the ANAO report acknowledges, DITR had already established a working group to review performance information for all its programs, with a particular focus on the identification and use of intermediate outcome information.

Evaluation

2.31 DITR has not undertaken an evaluation of ACIS. However, the Productivity Commission recently examined assistance arrangements for the automotive industry. This included '...evaluating key outcomes of the Automotive Competitiveness and Investment Scheme and reform of automotive tariffs, including an assessment of the impacts on each of the four categories of participants in the scheme.'¹⁹ The Productivity Commission concluded that '...to date, it appears that ACIS ...has generated additional investment in plant and equipment and R&D [Research and Development]...'.²⁰

2.32 DITR does not have an evaluation plan for future examination of the impact of ACIS. It advised that the relatively short time that ACIS has been in

¹⁸ The Federation of Automotive Products Manufacturers submission to the Productivity Commission Inquiry into Post-2005 Arrangements for the Automotive Industry, May 2002, p. 78.

¹⁹ Productivity Commission 2002, *Review of Automotive Assistance*, Report No.25, Canberra, p. v (Terms of Reference).

²⁰ op cit., p. 137.

operation, combined with the impact of other changes affecting the industry make it extremely difficult to measure the effects of ACIS.

2.33 The ANAO recognises that evaluating government programs, such as ACIS, is difficult. However, many agencies use an evaluation plan, linked to a broader performance information framework, to support more detailed examination of a program's impact in the future, for the benefit of departmental management, Parliament, and external stakeholders.

Output measures

2.34 There are a range of output/process measures set out in the Business Partnership Agreement between AusIndustry and MEC in regard to ACIS. The measures specified for AusIndustry address things such as:

- quantity: monthly information on the quantity of program delivered including number, and trends over time;
- cost: information on the administration cost to customers and funds administered on a monthly basis; and
- quality: information on the quality of service delivered on a periodic basis (through customer satisfaction surveys and achievement of timeliness standards).

2.35 Measures specified for MEC include the extent to which MEC meets deadlines for ministerial correspondence and briefings and timely response to issues raised by AusIndustry.

2.36 Performance against these output measures is reported to senior management each quarter, and to Parliament through the DITR Annual Report. Results against these measures are discussed at paragraph 3.16.

Managing risks

Risk management in DITR

2.37 DITR has identified ACIS as a high-risk program. Prior to its implementation of ACIS, DITR conducted a series of workshops to identify risks specific to ACIS. The risks identified were:

- failure to meet program/policy objectives/intent;
- inefficient delivery;
- failure to measure performance;
- \$2 billion cap exceeded;

- ineligible companies/activities receive credits;
- dissatisfied customers/stakeholders;
- full delivery of eligible credits not achieved;
- disruption to industry operations; and
- probity in delivery not achieved.

2.38 DITR also identified treatments to address these risks. However, while some of the risk treatments have been implemented, others have not. For example, a procedural manual, which was one of the identified treatments, has not yet been completed (see paragraph 2.16). The above workshops were also intended as the basis of a strategic risk management plan, although such a plan was not developed.

2.39 During 2002, the risks identified in 1999 were reviewed and further developed in another series of workshops and AusIndustry enhanced its approach to risk management. The status of critical and high ACIS risks is now reported monthly to the AusIndustry Executive.

2.40 The ANAO concludes that AusIndustry is focused on managing risks for ACIS. However, this is not supported by a structured risk management plan that facilitates, for example, the approval and monitoring of treatments and broader areas for improvement in program administration.

2.41 The self-assessment nature of the scheme reinforces the value of a more systematic approach. For example, a more comprehensive risk management plan may have assisted in identifying and addressing some of the matters raised elsewhere in this report. Such a plan would also be valuable in identifying the role of Customs in managing risk to the program, which could then be articulated in the MOU between DITR and Customs.

Recommendation No.3

2.42 The ANAO recommends that DITR develop a structured risk management plan for ACIS, including provisions for regular monitoring and review. Risk management arrangements should include provision in the MOU with Customs for sharing information on risk management.

DITR Response

2.43 Agreed. As the ANAO states, AusIndustry is focussing on managing risks for ACIS. DITR recognises the value of a structured risk management approach and has developed a risk management framework including approval and monitoring mechanisms for risk management plans. Arrangements for joint risk

management between DITR and Customs will be included in the MOU between the two organisations.

Customs Response

2.44 Agreed.

Risk management in Customs

2.45 Customs has a comprehensive risk management plan addressing its role (which is primarily to monitor the use of import credits generated through the program). The plan was developed in accordance with Customs' broader risk management policy.

2.46 The plan identifies risks and sets out treatment plans for risks identified as moderate or above. There are three risks classified as 'unacceptable' (see Figure 2.4).

Figure 2.4

Customs' unacceptable risks for ACIS

Risks	Risk level without controls	Treatment
Credit Processing error	Moderate: unacceptable	<ul style="list-style-type: none"> • Succession planning under development. • Staff training commenced. • SOPs (standard operating procedures) under development.
Corrupt allocation or use of ACIS credits	Moderate: unacceptable	<ul style="list-style-type: none"> • Segregation of responsibilities implemented, including internal check of credit allocation. • SOPs under development. • Monitoring mechanisms including the Trade Branch Audit regime, being implemented.
Security	Moderate: unacceptable	<ul style="list-style-type: none"> • Data transfer processes under examination. • System security needs are being addressed under the re-hosting exercise.

Source: Customs.

2.47 The identification of risks is soundly based. However, the ANAO considers that management of treatments would be strengthened by specifying, more precisely, what actions are to occur, and allocating clear responsibility for their achievement.

Management information and transaction systems

2.48 The main information system used by AusIndustry to manage ACIS is the Integrated Program Management System (IPMS). IPMS provides a secure environment for transactions, and allows on-line lodgement of claims and business plans.²¹ IPMS is used to:

- hold information on registrants, including from business plans and quarterly claims;
- undertake the modulation rate calculations;
- calculate credits to be paid to participants; and
- transfer credits to an ACIS ledger.

2.49 A reporting module is also being developed for IPMS. Currently, output performance measures are being determined from data generated from spreadsheets.

2.50 The role of IPMS in supporting return processing and credit calculations is discussed further in Chapter 4.

²¹ The IPMS is used by AusIndustry to manage several other programs besides ACIS.

3. Promotion and Registration

Introduction

3.1 The registration of participants, and facilitating access to the scheme, are key roles for AusIndustry. The ANAO examined DITR's management of ACIS promotion, registration and whether registration processes complied with legislative requirements, and were within service delivery targets.

Program promotion

3.2 DITR has taken a number of measures to promote ACIS. Prior to implementing the scheme, DITR undertook extensive consultation with potential applicants and relevant industry associations. This consultation, which included workshops with potential users, covered the proposed design of ACIS and its delivery mechanisms. It also included 'piloting' administrative arrangements such as procedures for registration.

3.3 AusIndustry also undertook an exercise during the first quarter of the operation of the scheme to identify companies in the automotive supply chain that had not submitted an application for ACIS registration. The exercise indicated that all those contacted were aware of ACIS. However, a number did subsequently register for ACIS.

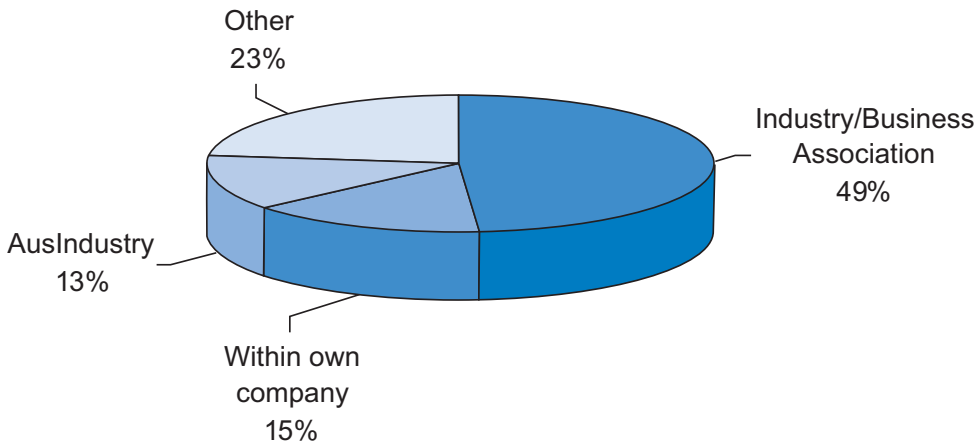
3.4 On-going promotion of ACIS is now undertaken through industry associations, or directly by an AusIndustry officer as part of their regular liaison with industry about AusIndustry products.

3.5 In 2002, an ACIS customer survey found that 74 per cent of respondents were satisfied with the promotion of ACIS, with 15 per cent having no opinion. A further 11 per cent felt that there was scope for improvement.²²

3.6 The survey also suggests that DITR's consultation with industry associations has been effective. Nearly half of all respondents became aware of ACIS through an industry or business association's activities (see Figure 3.1).

²² In 2002 AusIndustry commissioned customer satisfaction surveys for a number of their programs, including ACIS.

Figure 3.1
Sources of initial awareness of ACIS



Source: AusIndustry Customer Satisfaction Survey.

Registration

3.7 Businesses can only receive ACIS credits after being registered for the scheme. In considering an application for registration for ACIS, AusIndustry²³ must be satisfied that certain conditions are met before registration is granted (see Figure 3.2). If these conditions are met, the application must be granted and the applicant informed accordingly.

Figure 3.2
Conditions to be met for registration

- (a) the applicant is eligible to apply for registration;
- (b) the applicant has provided the information and documents (if any) required by the approved form;
- (c) the applicant can comply with the relevant document retention obligations set out in section 108 of the Act;
- (d) where the applicant is a natural person—that the applicant is a fit and proper person;
- (e) where the applicant is a company—that the company is a fit and proper person;
- (f) where the applicant is a company—that each of the directors, and each officer or shareholder who is in a position to influence the management of the company, is a fit and proper person; and
- (g) that registering that applicant would, as required by section 14A of the Act, further the purpose of the Act set out in section 3.

Source: ANAO based on *ACIS Administration Act 1999*.

²³ AusIndustry officers have been delegated under Part 13 of the *ACIS Administration Act 1999* by the DITR Secretary to assess applications.

3.8 To be eligible under condition (a), the applicant must meet criteria relating to production within Australia over the previous 12 months (see Figure 3.3). If an applicant is able to demonstrate that they will meet the criteria in the 12 months following their application, they may also apply for registration.

Figure 3.3

Production eligibility criteria

Customer	Eligibility requirements
Motor Vehicle Producers	Australian producers of at least 30 000 motor vehicles or 30 000 engines annually.
Automotive Component Producers	Australian producers of at least \$500 000 of one kind of automotive component annually for use as original equipment in at least 30 000 motor vehicles or 30 000 engines; or Australian producers of at least \$500 000 of original equipment components annually, where that production represents at least 50 per cent of the total value of a producer's automotive component production.
Automotive Machine Tool or Automotive Tooling Producers	Australian producers of at least \$500 000 of automotive machine tools or automotive tooling annually, where at least 50 per cent of that production is used to produce original equipment.
Automotive Service Providers	Australian providers of at least \$500 000 of automotive services annually, where at least 50 per cent of those services relate to the production of motor vehicles or original equipment.

Source: ANAO based on *ACIS Administration Act 1999*.

3.9 Applicants are also required to declare that:

- they have read the Act, the regulations made under it and the ACIS Customer Guidelines, and that they understand their obligations under each of them;
- they will comply with the requirements for the retention of documents;
- they are a fit a proper person within the meaning of the Act; and
- to the best of the applicant's knowledge, the information provided is true, correct and accurate in all material particulars.

3.10 The ANAO found that, on the whole, AusIndustry manages registration as a self-assessment process. It therefore relies mainly on participant assertions that they meet important eligibility criteria (see Figure 3.3). For example, there was no verification of the levels of production stated by the applicant. In addition, there was variable understanding of requirements, with some Customer Service Managers conducting Australian Securities Investment Commission checks, and others not doing so.

3.11 The ANAO considers that this approach to managing risks at the registration stage provides only limited assurance that required conditions are met before registration is granted. As result of this audit, AusIndustry has acknowledged that it needs to implement ‘a more systematic and appropriately documented checking and risk management process’.

Recommendation No.4

3.12 The ANAO recommends that DITR review its registration processes to ensure that they provide adequate assurance that required conditions under the *ACIS Administration Act 1999* are met before registration is granted.

DITR Response

3.13 Agreed. However DITR does not accept that the current registration process provides limited assurance that required conditions are met before registration is granted. The customer base for the program is relatively small and almost all companies participating in the scheme were known to DITR at the time of their registration because of participation in predecessor programs. It should be noted that almost all registrations were processed at the beginning of the scheme and very few applications for registration are now being made. Nevertheless DITR acknowledges that a more systematic and better documented checking and risk management process would be appropriate and is now in place.

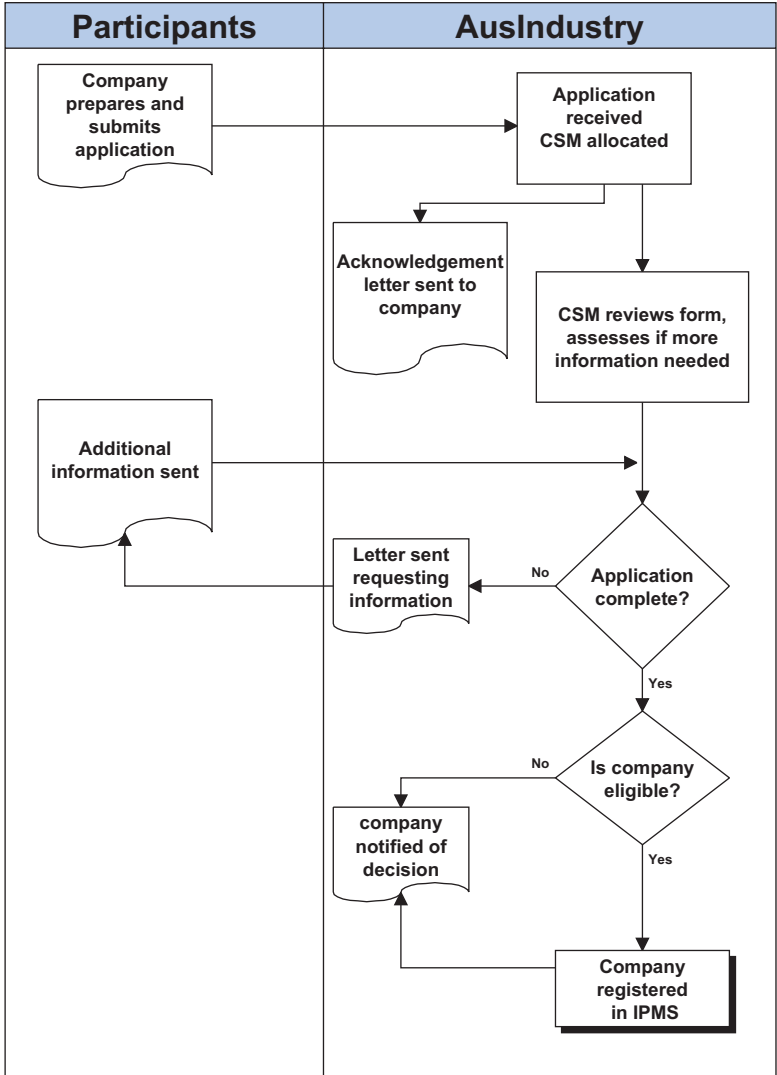
National interest applications

3.14 If an applicant is unable to meet eligibility requirements, the Act provides that they can seek the Minister’s permission to register ‘in the national interest’. Broadly, matters which the Minister may take into account include: whether a participant would normally comply but has been disadvantaged by events out of their control; and whether a participant would provide significant benefits to the Australian automotive industry. Since commencement of ACIS, a total of seven entities have sought national interest registration. None has been successful.

Management of registrations

3.15 AusIndustry manages ACIS registrations through its Victorian Office, where each application is assigned to a Customer Service Manager (CSM) for assessment. The process is illustrated in Figure 3.4.

Figure 3.4
Registration process



Source: ANAO based on AusIndustry data.

3.16 The Act and AusIndustry’s Customer Service Charter require that a decision on a customer’s application for registration be made within 60 days after lodgement. If AusIndustry requires the applicant to provide further information by a specified day, the 60 day period is extended by the time taken to provide the additional information. Once an applicant has been granted registration status they will be sent notification of their acceptance into the scheme.

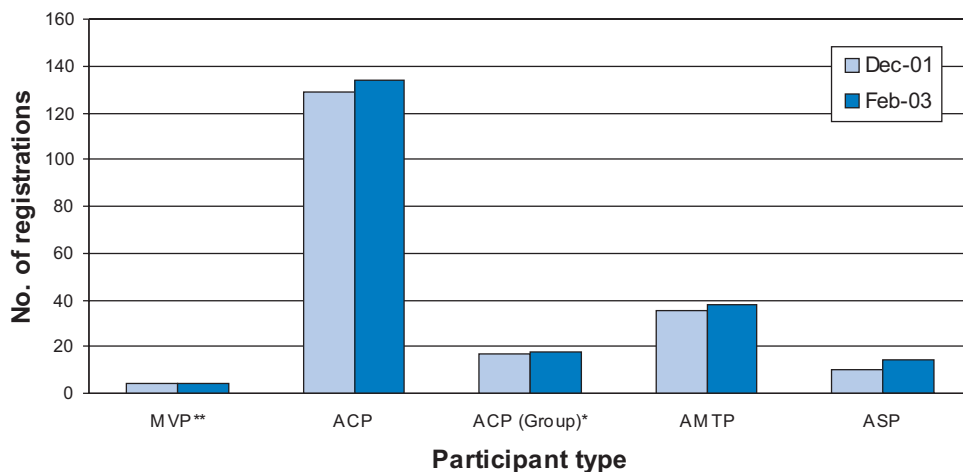
3.17 DITR management information and ANAO sample analysis indicate that customer service standards are being met. A small number of cases sampled by the ANAO exceeded 60 days in elapsed time. However, this was due to the applicants being requested to provide further information. The ANAO also found that 72 per cent of sampled participants were sent a letter of acknowledgement within eight days of receipt of application.

3.18 A recent customer satisfaction survey found that 76 per cent of respondents were satisfied with the registration process, with 14 per cent having no opinion and 10 per cent indicating dissatisfaction. The survey also identified areas suggested for improvement. Suggestions focused on reducing the length of the guidelines and the amount of time it took to gather the information required by AusIndustry.

3.19 As at 3 February 2003, there were 208 businesses registered as eligible ACIS participants. This is illustrated in Figure 3.5.

Figure 3.5

Participant registrations as at February 2003 and December 2001



Source: DITR.

*Certain groups of participants (where they are related entities) may seek permission to apply for registration as a single entity in order to meet eligibility requirements.

**Only MVPs qualify for the uncapped component.

Business plan lodgement

3.20 Under the Act, an application for registration must include a business plan, which contains the applicant's forecast expenditure particulars. Business plans include forecasts to the end of 2005 of all information required to determine the value of claims over the scheme's five-year period. This includes, for example: actual and estimated sales value of ACIS goods and services; other

Commonwealth assistance received; actual and expected production expenditure; investment expenditure on ACIS eligible plant and equipment; and research and development.

3.21 To maintain registration, participants must also provide an update of this plan in the third quarter of each year. The plans can be lodged in hard copy or electronically, and data from these plans is directly entered into the IPMS.

Assessment of on-going registration

3.22 AusIndustry is required by the Act to review each participants' on-going eligibility for registration after each complete ACIS year.²⁴ The Act also provides for a participant to be re-assessed at any time.

3.23 If a participant is found by AusIndustry not to meet ongoing registration requirements, that participant may be deregistered (Figure 3.6). Any credits earned during the period of ineligibility must be paid back to the Commonwealth through an unearned credit liability.

Figure 3.6

Grounds for participant deregistration

At any time, the Secretary may deregister a participant if:

- the Secretary is satisfied that the participant is not likely, or has failed, to comply with the ongoing registration requirements;
- the Secretary is satisfied that, were the participant to be applying for registration at that time, the participant would not be a fit and proper person;
- the participant asks the Secretary to be deregistered as such a participant;
- the participant fails to comply with the document retention obligations; or
- the Secretary may also deregister an MVP, ACP, AMTP or ASP who fails to comply with the requirement to provide an update of the business plans provided in relation to their application for registration.

Source: ANAO based on *ACIS Administration Act 1999*.

3.24 Assessment is either undertaken through compliance activities or through a desk review of data supplied with quarterly returns.²⁵ (Compliance activities are discussed further in Chapter 5, and quarterly returns in Chapter 4.)

²⁴ On-going registration is assessed after a participant has been registered for a 'full ACIS year', which is defined as a calendar year containing four quarters. For example, if a participant registered in December 2000, assessment of on-going registration would occur at the end of the fourth quarter in 2001. However if a participant registered in January 2001, on-going registration would be assessed in the fourth quarter of 2002.

²⁵ Only eight participants, who had registered in December 2000, were due to be assessed for on-going registration. The majority of ACIS participants registered during 2001, and were not due to be re-assessed during the period of audit fieldwork.

3.25 Overall, the ANAO found that AusIndustry was meeting the legislative requirement to assess on-going participant registration. Annual checks due by end of 2001 had been undertaken. AusIndustry advised the ANAO that eleven participants had been deregistered as a result of compliance activity.

4. Managing Credit Allocations

4.1 Once registered for ACIS, a participant obtains credits to offset against customs duty by submitting quarterly returns to AusIndustry. This Chapter examines:

- the processing of quarterly returns for entitlements; and
- management of overall expenditure for the capped pool, through modulation.

Processing quarterly returns

Lodgement of returns

4.2 In order for participants to receive credits under ACIS, they must lodge a return within 45 days of the end of each quarter.²⁶ The quarterly return sets out the details of each participant's eligible activities undertaken within that quarter.

4.3 Quarterly returns are submitted to AusIndustry either in hard copy or through the AusIndustry electronic lodgement facility. In 2002, 54 per cent of quarterly returns were lodged electronically.²⁷ (Participants may also use the on-line facility to lodge business plan updates and transfer credits to Customs and other participants.)²⁸

4.4 The on-line service provides ACIS participants with quick access to their benefits following lodgement. The 2002 customer survey found that 93 per cent of respondents were satisfied or had no opinion; and three per cent indicated dissatisfaction with the timeliness of the processing of quarterly returns. In regard to the transparency of the processing of returns, 76 per cent of respondents rated the quarterly return process as 'good' in terms of transparency; 19 per cent rated it 'average' and five per cent rated the transparency as 'poor'.

Processing of returns

4.5 The key steps taken by AusIndustry in processing quarterly returns are:

- checking returns for completeness;
- applying threshold rules to identify if the claim requires investigation;

²⁶ Quarters are a period of three months commencing on 1 January, 1 April, 1 July or 1 October.

²⁷ AusIndustry advised that it is actively trying to increase the number of returns lodged electronically through participant education during RED visits.

²⁸ The on-line environment has been security accredited by the Australian Defence Signals Directorate (DSD), the Australian Security and Intelligence Organisation (ASIO), and the National Office for Information Technology.

- calculating credit entitlements due;
- transferring credits to the ACIS ledger;
- facilitating trading of credits at the direction of participants; and
- transferring credits data to Customs where they will be immediately available to offset duty liabilities.

4.6 These steps are discussed below.

Checking returns for completeness

4.7 After data on returns are entered into IPMS, the system performs basic checks for completeness. These checks address whether:

- all applicant details have been provided;
- the quarterly return is being submitted by an ACIS registrant;
- all data to calculate credits have been provided; and
- the date of application is within the time constraint for that particular quarter.

4.8 If one or more of these checks fails, the system will indicate that fields need to be amended or completed. If the application is complete, the system will store the accepted application, ready for further processing by AusIndustry.

Application of initial thresholds

4.9 The next stage of processing is to assess the extent of any divergence between activity levels in the quarterly return and earlier forecasts provided in annual business plans. The thresholds are used by AusIndustry to generate intelligence on industry claiming patterns, and inform the planning of compliance activity.

4.10 If activity levels in a return exceed pre-defined thresholds, electronic processing is halted. AusIndustry staff may then investigate the reason for the divergence, as well as any other issues relating to the return.

4.11 IPMS then requires AusIndustry staff to accept or reject the return before processing continues. Once the return is accepted, processing continues within IPMS.

4.12 In response to ANAO queries, AusIndustry advised that there was no intention to unduly delay processing of returns. This reflects the legislation,

which requires the Secretary to calculate unmodulated credits ‘as soon as practicable’.²⁹

4.13 However, the ANAO found that those returns which breach thresholds do in fact take several days longer to process.

4.14 AusIndustry subsequently advised that it would change IPMS so that it no longer halted processing pending acceptance of the return. Instead, IPMS will merely indicate through a ‘flag’ that the return breached the threshold. This would preserve the value of threshold rules as a risk management tool, whilst reducing the risk that processing of returns is delayed.

Calculation of credits

4.15 Following application of the threshold rules, credits are calculated according to the required formulae (see Figure 1.3 and Appendix 3). This involves the following steps within IPMS:

- calculating the entitlement to credit as if there was no modulation (referred to as the ‘unmodulated’ credit entitlement);
- ‘averaging’ the unmodulated entitlements across previous quarters’ claims (averaging is a requirement of the Act, and is intended to smooth cash flow to companies);³⁰
- applying the modulation rate to the averaged entitlements; and
- reducing the modulated credits, if necessary, to ensure that credits paid do not exceed five per cent of the previous year’s sales.

4.16 Calculations also provide for subtracting other Commonwealth assistance for the same activity.³¹

4.17 The final credit entitlement is then transferred to the ACIS ledger and participants are notified of their payment. The ledger system records the entitlements of all participants, and is the official statement of entitlements.

4.18 Participants can then authorise the credits to be transferred to Customs, to offset duty. Alternatively they may be traded with other companies.

²⁹ Section 42–51 of the *ACIS Administration Act 1999*.

³⁰ Averaging is intended to smooth out the year-to-year fluctuations in investments, and provide equitable treatment for firms, which may be in different phases of their business planning. The averaging period ranges from the eight quarters preceding a registration quarter, increasing to a maximum of eleven quarters preceding the quarter in which a return is made.

³¹ Commonwealth assistance is restricted to grants under both the Research and Development Start Program and the Textile, Clothing and Footwear Strategic Investment Program Scheme, and both the expired Passenger Motor Vehicle Producers’ Entitlement, and the Export Facilitation Scheme.

Reliability of credit calculations

4.19 AusIndustry commissioned an external audit of IPMS in 2001. The audit focused on the calculation of credits and reconciliation with the Customs IT system. It found that legislative requirements had been accurately incorporated into ACIS and that a sample of credit calculations was accurate.³²

4.20 The ANAO also reviewed the compliance of IPMS design with the legislation having regard to:

- registration of participants;
- quarterly returns and business plans;
- modulation of credits; and
- recording of transactions in the ACIS ledger.

4.21 The ANAO found that the main legislative requirements had been appropriately incorporated in the IPMS User Specifications documentation and design specifications and, in turn, into the IPMS business rules used to calculate benefits.

Trading in credits

4.22 As with the earlier Export Facilitation Scheme, participants are able to trade credits (whether from the capped or uncapped pool) among themselves. They may also sell them to companies outside the scheme, such as vehicle importers.³³ This trading increases flexibility in the use of credits and allows participants to realise the benefit of credits even if they import relatively little. For example, an automotive service provider may not import automotive goods against which to offset ACIS duty credits. Industry stakeholders advised the ANAO that trading was an important part of ACIS.

4.23 Currently, ACIS credits are selling on the secondary market for around 95 to 98 cents in the dollar.³⁴

4.24 DITR facilitates trading among participants by allowing companies to transfer their credits. Some industry associations also act as brokers, facilitating exchanges of credits between participants. Once agreement has been reached between participants, they notify DITR and request a change in allocation of credits.

³² Subsequently, however, a minor error in calculation of credits was identified by industry, and was rectified by DITR.

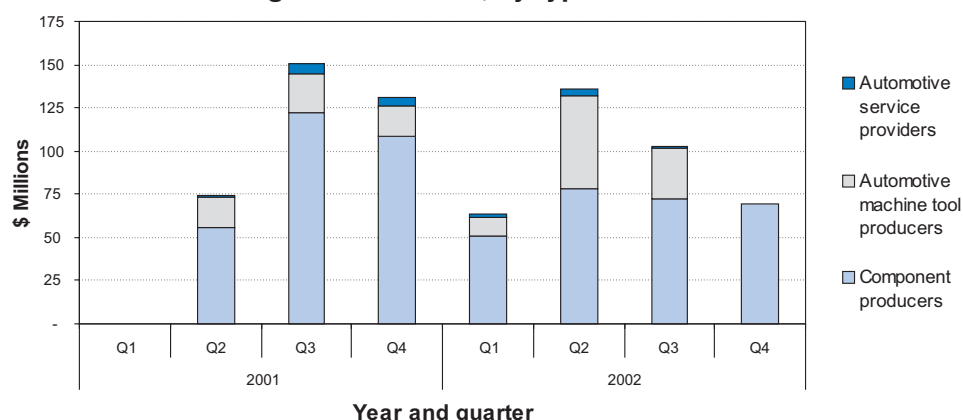
³³ In order to purchase credits, such importers must register for ACIS as 'ledger participants'.

³⁴ Trades are not subject to duties, such as stamp duty.

4.25 Figure 4.1 shows the value of credits traded each quarter. Over the first two years of ACIS's operation, the volume of credits traded amounted to \$731 million. In general, motor vehicle producers tend to use their credits to offset duties, whereas component producers are particularly active in trading their credits. While \$398 million of credits were issued over 2001–2002 to component producers, the value of such credits traded was \$558 million. This is due to companies repeatedly trading credits to manage cash flow.

Figure 4.1

Credits sold³⁵ during 2001 and 2002, by type of seller



Note: Motor vehicle producers sell only negligible amounts of credits, and are not shown.
Source: DITR.

4.26 The ANAO found that the trading was appropriately and efficiently managed by DITR.

Transfer of entitlements data to Customs

4.27 The final stage in the credit allocation process is the transfer of credit allocations from DITR to Customs, where they are then used to offset duty on eligible imports. The key steps in the data exchange process are:

- three times a week a batch file is created in IPMS, containing details of any new transactions that have occurred in the ACIS credit ledger;
- the file is put onto disk and taken to Customs. Because of differences between the two systems, data is re-keyed into the Customs Tariff and Concession System;
- Customs then generate a confirmation file, which is taken by hand to AusIndustry; and

³⁵ Trades may be a direct sale, but may also result from other arrangements between the two parties.

- AusIndustry validates the confirmation file against the batch file sent to Customs. If no errors are detected, the data is confirmed in the ACIS IPMS system. If errors are detected Customs will correct the error and regenerate a confirmation batch file.

4.28 The high level of manual handling in data transfer is not better practice, increasing the risk of credit misappropriation or data corruption. Both agencies have recognised the benefits of automatic transfer of credit and are currently investigating a better method of data transfer without the necessity of transferring the data by disk between DITR and Customs.

4.29 The ANAO also found segregation of duties in Customs in the data exchange process was insufficient to provide adequate control. This created the potential for fictitious transactions to be entered without detection, which was also identified in an internal Audit Report. Customs advised that this has now been addressed, satisfying internal audit requirements. The person who inputs the data has no connection to the systems administrator and a third person checks the data entry. The monthly report that includes all transactions is sent to AusIndustry by a separate branch.

4.30 A recent internal audit of Customs' systems relating to ACIS found that Customs was appropriately fulfilling its responsibilities. Controls surrounding the utilisation of ACIS credits were assessed as adequate. The review also noted that the above weaknesses in the entry of data into the system warranted attention.

Managing modulation for the capped pool

Implementation of the \$2 billion cap

4.31 The limiting of credits in the capped pool to \$2 billion over the five-year life of ACIS is achieved through a process called modulation. DITR implements modulation by:

- tracking the projected and actual claims under the scheme (through consideration of annual company business plans/forecasts of eligible activity and monitoring actual benefits paid);
- assessing if total 'unmodulated' claims are likely to exceed the cap of \$2 billion over the five year life of the scheme;
- if claims do appear to exceed the cap, calculating a factor by which future claims should be modulated (reduced) to keep the total credits within the cap; and
- applying this modulation rate to future claims.

4.32 Forecasting of modulation is discussed below.

Forecast ACIS credit entitlements

4.33 The parameters for ACIS were developed in 1997 and early 1998, for advice to the Government. During this period DITR modelled likely demand for credits under various scenarios using a number of spreadsheet models. The models were based on the broad design parameters intended for the scheme, and projections of relevant industry activity.

4.34 Using these models, DITR estimated at the time that the likely upper demand for credits would not exceed \$2.15 billion. However, in reviewing these estimates for this audit, the assumptions, model and reports underlying this estimate could not be supplied by DITR. This reflects limitations that the ANAO found in documentation of policy advice analysis at the time.

4.35 Under most scenarios, it was estimated that demand for credits would be less than \$2 billion, with a mid-range estimate of some \$1.8 billion. The capacity to modulate was intended as a risk management measure to limit the cost to revenue of the measure. The capping of the scheme was announced by the Government in April 1998.

4.36 In 1998, DITR advised industry that benefits were likely to average \$300 million per year. DITR also advised at this time that the capped pool would be notionally split into two sub-pools, with \$1.3 billion allocated to motor vehicle producers and \$700 million allocated to other participants.

4.37 DITR commenced detailed design of the scheme, through an iterative process involving industry, during the rest of 1998, 1999 and 2000. The scheme evolved within the basic framework announced by the Government. Some of the changes that occurred during scheme design were:

- removing the notional split of the capped pool;
- changes to the definition of motor vehicles (for example, to include people movers, light commercials and four wheel drives); and
- widening the definition of eligible automotive components.³⁶

4.38 These changes, and other changes to what was an eligible activity under the Act, potentially affected entitlement to credits. However, DITR did not re-forecast overall demand or the likely distribution of credit entitlements between industry sectors. Nor did it update the spreadsheet model as more up-to-date data came to hand, and as changes were made to the design of ACIS. DITR was not able to advise the ANAO on the impact of these factors on the demand for credits. It advised that the extent to which the definitions may have affected the level of claims is open to conjecture.

³⁶ The last two changes were reflected in changes from the first ACIS Bill, introduced to the Parliament in July 1998, to the final legislation.

First round of business plans

4.39 The initial round of company business plans was submitted at the commencement of the scheme, during the first quarter of 2001. The projections of eligible activity contained in these plans suggested that potential claims for the life of the scheme would be around \$2.65 billion, which would translate into some \$2.5 billion in credits.³⁷ This was substantially above DITR's previous highest estimate, and 25 per cent above the cap. The level of potential claims suggested that a modulation rate of about 0.8 from first quarter 2001 would be required to keep the scheme within its \$2 billion cap.

4.40 The higher than expected level of claims in the first quarter was due to a greater than expected level of claims by component producers, particularly for research and development activities. As Figure 4.2 shows, claims lodged by component producers were nearly double those expected. Their likely share of the pool was also substantially greater than expected by DITR.

Figure 4.2

Comparison of DITR 'high' forecast compared with 2001 business plans³⁸

	1997 forecast		Business Plan forecasts at the commencement of the scheme, 2001	
Activity area	Claims (\$ billion)	Share of the pool	Claims (\$ billion)	Share of the pool
Motor vehicle producers:				
Production *			0.924	
Plant and equipment *			0.262	
Total	1.372	66%	1.186	45%
Component producers:				
Plant and equipment	0.381		0.563	
Research and development	0.302		0.899	
Total	0.683	34%	1.462	55%
Grand Total	2.055		2.648	

Source: DITR.

* Note: not separately identified.

³⁷ This reduction in claims is due to applying the five per cent cap on automotive sales—see paragraph 1.12.

³⁸ This was the highest forecast for which the ANAO was able to identify supporting documentation providing a split between sectors. As noted at 4.34, there was a higher forecast of \$2.15 billion, but supporting documentation was not available for this.

DITR response to business plan forecasts

4.41 Although the higher than anticipated forecast activity levels were consistent with a modulation rate of around 0.8, DITR held the modulation rate at 1.0 for the first three quarters of 2001. This was done for several reasons:

- the unexpectedly high levels of predicted activity led DITR to doubt the validity of estimates in the business plans;
- industry stakeholders consulted by DITR opposed any early modulation of the scheme;
- DITR considered it appropriate to be cautious. This was because, if modulation was applied early, and subsequently claims declined, there was a risk that not all of the \$2 billion available would be paid to companies; and
- in addition, in reaching the modulation decision for the third quarter 2001, DITR was uncertain about the effects of the attacks on September 11 2001. Specifically, it was concerned that there might be an economic slowdown that would reduce eligible activity in later years of the scheme.

4.42 In response to its concerns about the validity of claims, DITR undertook a review of business plans and quarterly returns mid-2001 for some larger participants. This included visits to the participants and discussions with them. There were also discussions with industry associations. Following these, DITR remained of the view that ‘although there was a considerable weight of evidence in favour of modulation, there existed sufficient doubt about the reliability of participants’ forecasts to justify a modulation rate of 1.0 for the second quarter of 2001’.

4.43 By September 2001, AusIndustry had undertaken some compliance audits of the first two quarters’ returns. These indicated that compliance with legislation and regulations appeared to be robust. DITR also noted that ‘nothing short of a serious collapse in vehicle production levels over the next four years would cause ACIS claims to fall to levels that would not require any modulation’. Notwithstanding these conclusions, the modulation rate was set at 1.0 for the third quarter 2001.

4.44 By December 2001 DITR had a second round of business plans, and had formed the view that quarterly returns for the first three quarters of 2001 were consistent with estimates in the business plans. Further, audits continued to confirm that ‘...the great majority of customers understand and comply with their ACIS requirements’. Accordingly, DITR commenced modulating credits in the fourth quarter 2001.

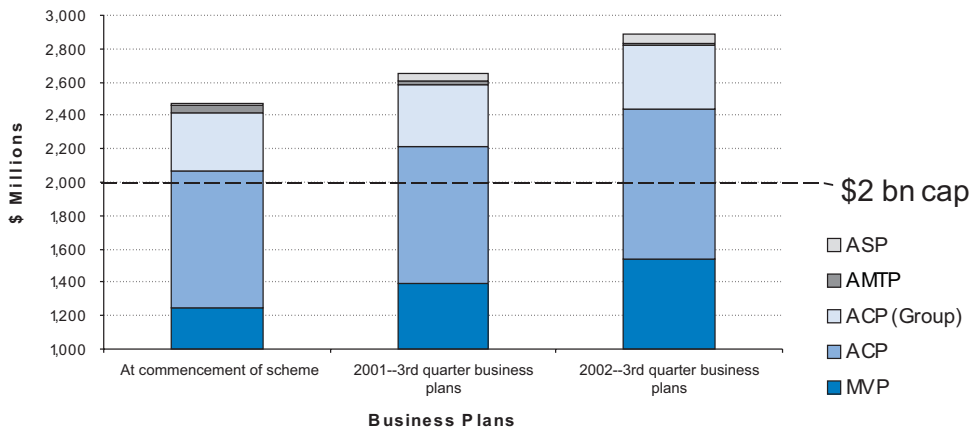
Modulation rate

4.45 The modulation rate was set at 0.75 for the fourth quarter 2001. The impact of not modulating for the first three quarters is that modulation rates for later quarters of the scheme will be lower than they otherwise would be.

4.46 Companies' forecast expenditure on ACIS eligible activity relevant to the capped pool has continued to grow in subsequent rounds of business plans. As Figure 4.3 shows, the most recent round of business plans implied unmodulated claims of nearly \$3 billion or around 40 per cent above DITR's highest estimate and 50 per cent above the cap. The largest contributor to the growth has been projected claims by motor vehicle producers. Their claims have increased by nearly \$300 million over the level indicated by their first round of business plans.

Figure 4.3

Estimated level of credits from company business plans

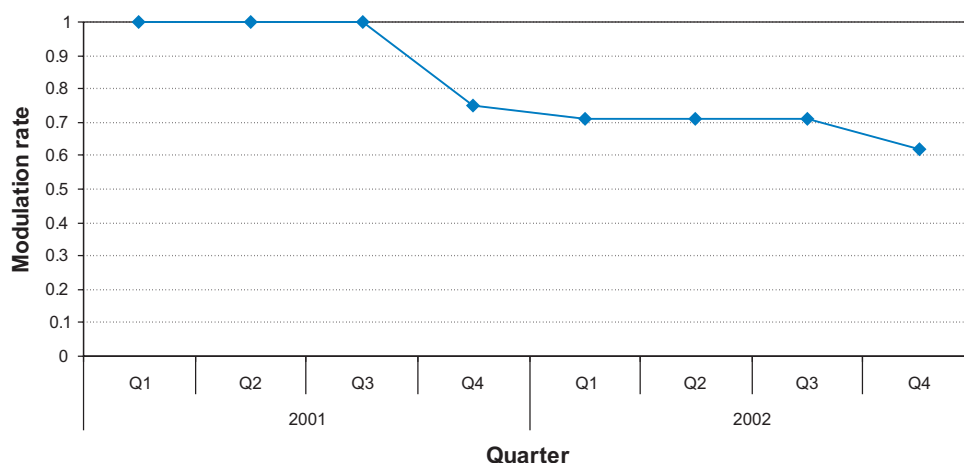


Source: DITR.

4.47 This growth in expected claims has, in turn, required DITR to progressively reduce the modulation rate to ensure the \$2 billion cap is not exceeded. Figure 4.4 shows the decline in the rate since the third quarter 2001, when modulation commenced. The rate for the fourth quarter 2002 was 0.62. That is, participants received 62 per cent of their 'unmodulated' claims.

Figure 4.4

ACIS modulation rate

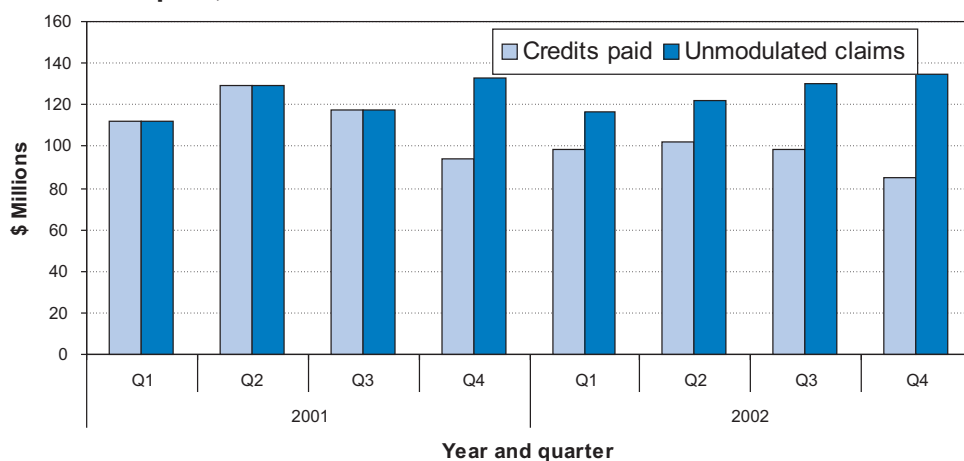


Source: DITR.

4.48 As Figure 4.5 shows, the value of credits paid has declined since the first three quarters of 2001.

Figure 4.5

Modulated credits paid, and unmodulated credits claimed from the modulated pool, 2001–2002



Source: DITR.

Reasons for scheme eligible activity exceeding expectations

4.49 As discussed at paragraph 4.40, claims from component producers were a key factor in the higher than expected claims in 2001. DITR advised that the

increase in claimable activity by component producers was probably due to several factors, including:

- a shift in the level and pattern of investment in automotive R&D (as defined under ACIS), with component producers undertaking a greater share of such activity than in 1997;
- the incentive effect of ACIS leading to companies taking greater care to fully identify and record any activities relevant to the scheme; and
- evolution in the design of the scheme prior to its implementation (discussed above).

4.50 These and other factors would have made forecasting demand for ACIS difficult. There was limited reliable data on the drivers behind likely demand for credits, and the design of the scheme changed as it was developed.

4.51 DITR advised that, while the level of modulation required was not anticipated, it believes that the original estimates were sufficient. It considers that significant increases in activity within the automotive industry over the period 1998 to 2002 led to an increased need to modulate.

4.52 However, notwithstanding the difficulties of forecasting, the department's estimates were not modified as new data became available, nor as the design of the scheme changed. The reliability of forecasts was also reduced by not considering the impact of the establishment of ACIS on claiming behaviour.

4.53 Accordingly, DITR did not have updated estimates upon which to base policy advice to the Government prior to commencement of the scheme on the likelihood of modulation being required for the scheme or on the potential level of modulation. While the cost to revenue was capped at \$2 billion, such advice would have been pertinent to the consideration of other scheme outcomes and related policy options. For example, as modulation reduces the benefits to participants, this could have altered the assumptions upon which industry's business plans were based.

4.54 Updated and more robust forecasts prior to implementation of the scheme would also have contributed to more informed decision-making during the first three quarters of the scheme. At that time, the disparity between claims in ACIS returns and business plans, and DITR's forecasts, is likely to have contributed to delays in implementing modulation.

4.55 The ANAO considers that this experience reinforces the value for agencies in ensuring that forecasts supporting policy advice to the government are updated as design parameters and the program environment change, and as more data becomes available.

Recommendation No.5

4.56 The ANAO recommends that DITR ensure that forecasts and estimates supporting advice in designing industry support schemes are updated as design parameters and the program environment change, and as more data becomes available.

DITR Response

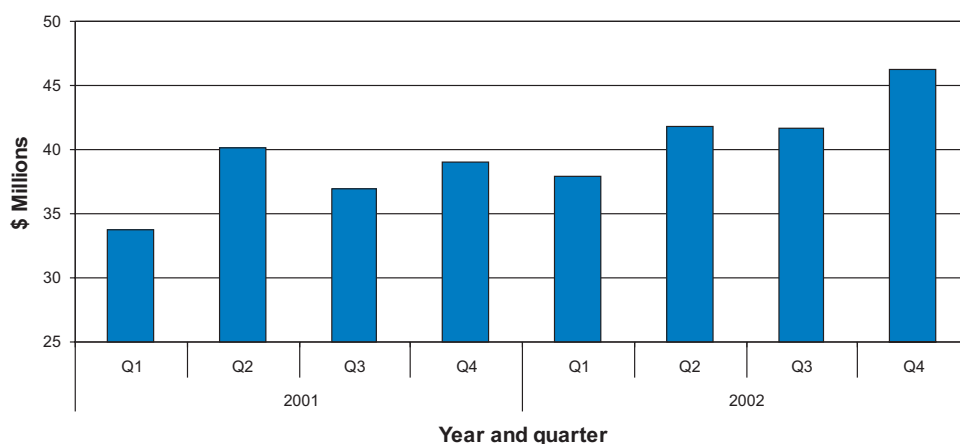
4.57 Agreed. It should be noted that since the April 1998 announcement of ACIS, the GST has been introduced, there was a period of uncertainty following the events of 11 September 2001, domestic vehicle sales have since soared, and Australian automotive exports have grown substantially. Attempting to accurately forecast changes in demand for ACIS incentives as a result of such events is fraught with difficulty. The design of ACIS, including the utilisation of a fiscal cap of \$2 billion and implementation of modulation, recognises this difficulty. The ability of ACIS modulation to effectively deal with such events is a measure of the effectiveness of the design of ACIS.

Claims trends in the uncapped pool

4.58 The uncapped pool provides benefits to motor vehicle producers only, and payments are based on the production of vehicles and engines achieved by producers. Originally forecast to forego revenue of \$827 million, this pool is currently estimated to forego \$850 million in revenue. The method for processing claims is broadly similar to that for the uncapped pool. The trend in payments of credits to date is shown in Figure 4.6, and is broadly as forecast by DITR.

Figure 4.6

Distribution of credits from the uncapped pool



Source: DITR.

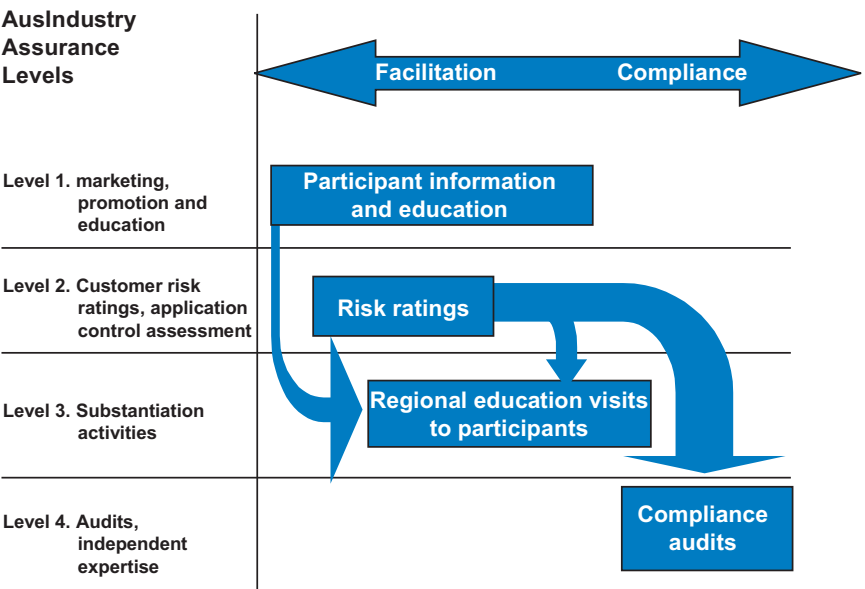
5. Management of Compliance

Introduction

5.1 Self-assessment schemes, such as ACIS, require risk-managed approaches to providing assurance about integrity of claims made. Integrity of claims includes fairness and equity issues, even though material risk is limited by the use of caps.³⁹ Self-assessment schemes require effective means to facilitate participant understanding, as well as a robust approach to verify that claims are appropriate.

5.2 AusIndustry’s approach to managing compliance for its programs is based on a Product Integrity Assurance Model.⁴⁰ This has four levels of assurance, ranging from education of participants through to audit. This approach, as applied to ACIS, is represented in Figure 5.1.

Figure 5.1
Managing ACIS product integrity



Source: ANAO

³⁹ No participant can receive ACIS benefits exceeding five per cent of their automotive sales in the preceding year; and the ‘pool’ is capped at \$2 billion over the life of the scheme.

⁴⁰ The model is used as the basis for all AusIndustry products and was developed in response to an ANAO recommendation contained within ANAO Report No.18 2000–2001—*Reform of Service Delivery of Business Assistance Programs*—Department of Industry, Science and Resources, Canberra, November.

5.3 This Chapter examines DITR's management of each of these levels of assurance in ACIS.

Participant information and education

5.4 To assist access to ACIS and self-assessment, AusIndustry seeks to ensure that:

- participants are knowledgeable about ACIS;
- customer service managers provide correct advice/guidance to participants; and
- participants retain documents in order to substantiate any claims under ACIS.

5.5 AusIndustry has a range of means of informing ACIS participants about the scheme's eligibility requirements and processes. These include customer guidelines addressing a wide range of topics relevant to ACIS processes (see Figure 5.2). In addition, AusIndustry provides information to participants through ACIS Newsletters, e-mail notifications, its website, direct mail, and through fact sheets.

Figure 5.2

Some of the ACIS Customer Guidelines

Registration

A Guide to Completing Section 20 Application for Registration Forms

ACIS Administration Guidelines 2000

Business Plan—requirements and completionBusiness Plan Updates

Completion of Quarterly Return Forms

Duty credits transfer

Refund of Customs import duty

Procedures for online credit transfers

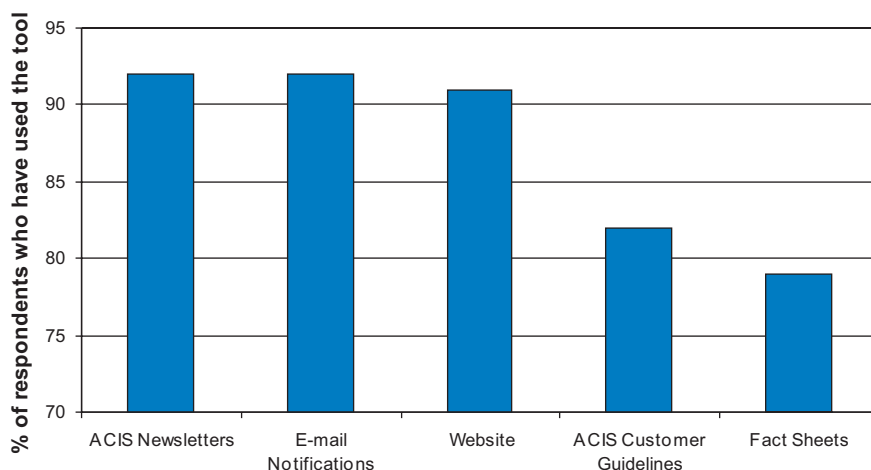
Source: DITR.

5.6 The ANAO found that these arrangements are an effective and comprehensive means of educating participants about ACIS. Stakeholders advised the ANAO that these measures kept them appropriately informed. An AusIndustry customer survey indicates that there is high usage of these information channels (see Figure 5.3). Ninety four per cent of respondents to the survey were either satisfied or having no opinion with the information provided, and six per cent of respondents were dissatisfied.

5.7 The customer survey did indicate some dissatisfaction with the ease with which customers found information addressing their queries on AusIndustry's website. In response, AusIndustry has upgraded access to information on its website, to facilitate better access to product information, including information on ACIS.

Figure 5.3

Use of AusIndustry's communication tools



Source: DITR Customer Satisfaction Survey 2002.

Risk rating of participants

5.8 AusIndustry uses risk ratings of ACIS participants to help prioritise selection of participants for a compliance audit. In the early stages of the scheme, risk ratings were determined by the size of a participant's expected credit claims over the life of the scheme. Thus the selection of participants for audit was determined by the size of the participant's claims.

5.9 However, AusIndustry now has a compliance approach, which incorporates a more comprehensive approach to risk rating, including consideration of issues identified during Regional Delivery (RED) visits. Accordingly, there is now a more robust risk-managed approach to audit selection. (Management and conduct of audits are discussed further at paragraph 5.17.)

Regional Delivery visits

5.10 RED visits focus on facilitating participant access to ACIS and gathering information to inform compliance activities. They are undertaken by CSMs⁴¹ who, inter alia, seek to:

- gain an understanding about the participant and their business needs;
- determine what the customer's business concerns or issues are, and address these where possible;
- review ongoing eligibility; and
- gain an insight into the customer's relevant data systems and the validity of estimates in their business plans.

5.11 Of the 208 registered participants, AusIndustry had completed, or was undertaking, 156 RED visits as at April 2003.

5.12 The AusIndustry guide for undertaking RED visits suggests a number of reasons for undertaking a visit, including that:

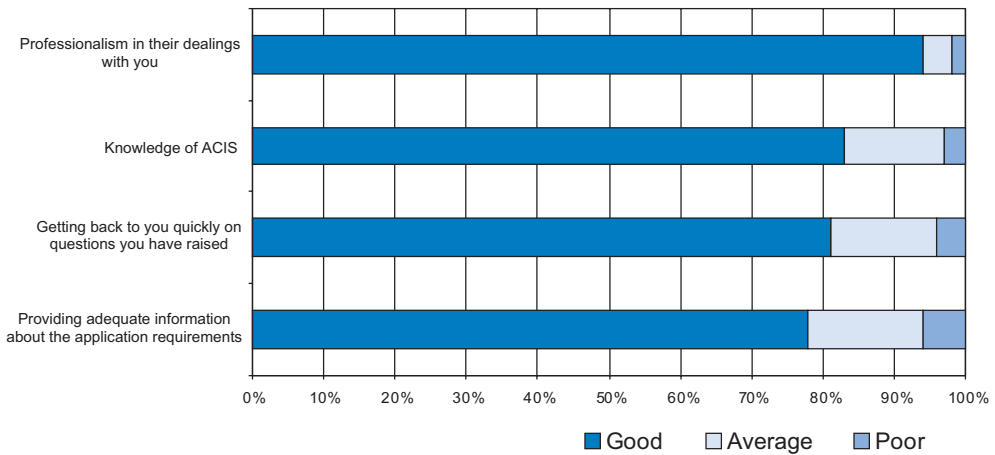
- the company has recently applied for registration or requested a meeting;
- the CSM seeks a better understanding of the participant's business; or
- a visit is otherwise convenient.

5.13 However, risk ratings were not considered in determining whether to undertake a RED visit. This is because risk rankings are not determined until after such a visit. The ANAO also found that reasons for selecting participants for a RED visit were not clearly documented.

5.14 The important role of RED visits in AusIndustry's compliance framework warrants a more systematic approach to selection, for greater assurance, transparency and accountability about the effectiveness of compliance targeting. AusIndustry has acknowledged that documentation could be improved through, for example, the use of structured file notes explaining why particular companies have been selected.

5.15 The ANAO found that the RED visits were undertaken effectively, and that CSM's were well informed for their role. This is reflected in high ratings from AusIndustry's customer satisfaction survey, with, for example, 97 per cent of respondents rating CSM's knowledge of ACIS and professionalism as 'good' or 'average' (see Figure 5.4).

⁴¹ In addition to undertaking RED visits, CSMs provide advice and guidance on the ACIS guidelines and legislative framework, including procedural advice on quarterly returns and business plan updates. They also provide advice on other relevant Government assistance. Each CSM is responsible for managing about 30 participants.

Figure 5.4**Quality of staff service - staff service aspects**

Source: DITR.

5.16 At the conclusion of a visit, outcomes are recorded in a Site Visit Report. These include a CSM's preliminary risk rating, based on information gained during the site visit. This is reviewed and is now incorporated into AusIndustry's risk rating database (see paragraph 5.8).

Audits

5.17 Compliance audits are the final level of the ACIS compliance model. In introducing the ACIS legislation, the Government noted that it included audit provisions to '...tighten the scheme to minimise the scope for abuse...[and provide]...officers of the Department with powers to properly administer ACIS, such as audit powers'.⁴²

5.18 Consequently, the Act provides a regime for auditing compliance, including:

- the appointment of authorised officers to undertake audit functions and for the issue of identification for such persons;
- the powers of authorised officers and the obligations imposed on authorised officers in the exercise of those powers; and
- participants' rights and responsibilities when subject to audit.

5.19 AusIndustry guidance advises its staff that the objective of an ACIS audit is to:

⁴² Second Reading Speech, *ACIS Administration Bill 1999*.

.. assess the eligibility of the ACIS customers' quarterly return claims, based on their disclosed self-assessed investments in Plant and Equipment... Research and Development [and the] production value of manufactured motor vehicles. These self-assessed claims must be reviewed for reasonableness.⁴³

5.20 This objective requires auditors to assess the appropriateness of activities claimed under ACIS and the amounts claimed for those activities.

5.21 Key aspects of AusIndustry's management of its auditing responsibilities are discussed below.

Authorisation of auditors

5.22 The Act specifies that the Secretary of DITR may appoint authorised officers to undertake audit functions. The Secretary is required to issue an identity card to the authorised officer in the form prescribed by the regulations.

5.23 The ANAO found that AusIndustry's compliance auditing was not consistent with these legislative requirements. Officers undertaking audits were not formally authorised by the Secretary, or his delegate, to audit under the Act. Furthermore, auditors were not issued with an identity card. Accordingly, they could not meet the requirement in the Act to produce identity cards on request.

5.24 AusIndustry advised that it had acted in this way because it regarded the relevant audit powers as reserve powers. However, in response to this audit finding, AusIndustry advised that officers undertaking audits have now been appropriately authorised in accordance with the Act, and they have been issued with identity cards.

Audit skills and experience

5.25 During planning for implementation of ACIS, AusIndustry commissioned an internal review of ACIS's proposed compliance arrangements. The review considered that it would not be appropriate for CSMs to undertake audits, and made a recommendation accordingly. The reasons for this view included that:

- a CSM's relationship with participants is not sufficiently at 'arms length'; and
- CSMs provide a wide range of services for an extensive set of different products, of which audit is only a part.

5.26 AusIndustry did not accept the recommendation. It seeks to avoid conflicts of interest by ensuring that ACIS CSMs do not audit participants where they

⁴³ AusIndustry *ACIS Compliance Strategy Audit Guide*, March 2002.

have previously developed a customer relationship (for example through the registration process or by undertaking a RED visit).

5.27 However, the decision to use CSMs to undertake audits has created management challenges for DITR. It needs to ensure that its audit function is sufficiently skilled, and managed in accordance with auditing standards, to provide an appropriate level of assurance.

5.28 AusIndustry has therefore undertaken in-house training of its CSMs in auditing, and supported this with an Audit Guide (discussed further at paragraph 5.30). A few officers have audit experience from other agencies, and AusIndustry has established a 'buddy system' for less experienced staff. DITR has contracted specialist audit staff to undertake a number of audits, which it has advised involved knowledge transfer to staff.

5.29 Notwithstanding these arrangements, the ANAO found varying levels of audit experience and expertise employed in undertaking audits. This impacted on the quality of audit management and conduct, as discussed below.

Audit guidance

5.30 AusIndustry has an ACIS Compliance Kit, which includes an Audit Guide, a printout of audit training slides, example tables listing participant automotive sales, and guidance on audit areas to be covered for each participant type. The Audit Guide also includes advice on:

- communication with participants;
- audit objectives and procedures;
- audit preparation;
- the role of audit standards;
- audit analysis; and
- actioning of adjustments required.

5.31 However, there were limitations in guidance on some important aspects of audit management and conduct. These included:

- limited guidance on the actual steps to be followed in planning and conducting the audits, such as a flow chart for the audit process;
- while auditing standards are outlined, there is little guidance on how to implement them in practice;
- there is no definition or guidance on what constitutes 'reasonableness' in a claim (see paragraph 5.19);

- it is not clear what evidentiary standards should be applied in substantiating claims;
- while AusIndustry has guidance for its officers on their obligations to manage risks of conflict of interest⁴⁴, there is no further guidance focussing specifically on managing conflict of interest risks for auditors, which would assist in supporting audit independence and credibility; and
- guidance on sampling is broad, for example referring to exercising 'professional judgement' in determining the nature and size of samples. In contrast, good audit practice guidance clearly articulates how to establish an appropriate level of sampling to achieve the required level of assurance.

5.32 Sound audit guidance seeks to address such issues. The approaches to audit guidance in other agencies with a compliance audit function would provide a useful model for AusIndustry.

Conduct of audits

5.33 The ANAO examined all available audit reports and observed the conduct of two ACIS audits. Generally, auditors undertook one to two days' fieldwork in the participant's premises, and completed the audit within two to three weeks.

5.34 The ANAO found that there was variable quality in the management and conduct of audits. For example, the quality of documentation of audit planning and outcomes varied markedly. Some audits had no plan, while others included quite detailed plans. This practice limits the assurance for management that all audit issues have been identified and the audit conducted properly.

5.35 There were also widely varying degrees of documentation and evidence on participant internal systems (for example, accounting systems). This is a standard part of audit practice; its absence reduces assurance about the audit outcome. AusIndustry has since advised that such documentation is now standard practice.

5.36 Substantive audit testing is a means of verifying the accuracy, completeness and authenticity of records.⁴⁵ The ANAO found only limited evidence to demonstrate that substantive testing was being undertaken on a participant's relevant records and physical stock. For example, ACIS audit guidance requires that a sample number of automotive sales invoices be reviewed to verify the sales cap. However, there was variable practice in the tracking of invoices against

⁴⁴ AusIndustry has a set of '*Conflict of Interest Guidelines*', which focus on advising officers of their obligations when personal or financial interests may affect their decisions or actions at work.

⁴⁵ Substantive testing includes the inquiry, observation, inspection, confirmation, recalculation and analytical review of processes.

relevant commercial documentation for verification. It was not practice to independently verify that the item sold was in fact an automotive good or service, unless there was evidence of potential fraud.

5.37 AusIndustry advised it considered it questionable that the level of risk warranted the effort of contacting the buying company to verify the purpose of the good. However, the ANAO notes that many toolmakers or service providers sell goods to industries other than automotive producers. Further, invoices often do not identify whether an item is an automotive item. This practice represents a risk that a sound approach to risk management and compliance auditing would explicitly address. (Means of addressing this risk include selective contact of buying companies, or requiring participants to identify the purpose of goods on invoicing systems.)

5.38 The ANAO also found that testing undertaken during audits was not based on properly constructed statistical samples. This reflects the limitations in guidance on sampling. AusIndustry has since advised that it has strengthened their approach to statistical sampling.

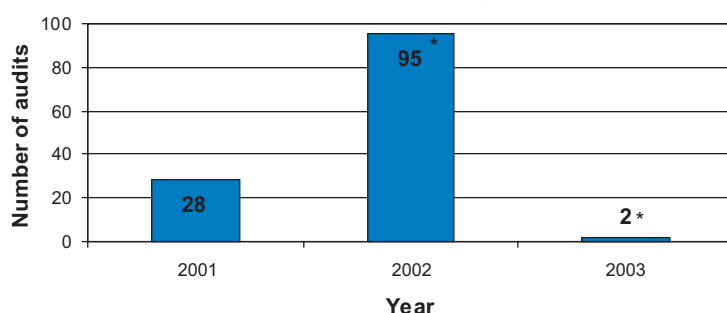
Audit outcomes

5.39 As at April 2003, 114 out of 208 participants had been audited since the commencement of the scheme (see Figure 5.5).⁴⁶ These audits had resulted in the identification of approximately \$51 million in inappropriate claims, which resulted in unearned credit liabilities of \$33 million being raised. However, only around two per cent of this latter amount was returned to the capped pool because of the effect of the five per cent sales cap; whereas unearned credit liabilities had been issued to some participants who had incurred eligible expenditure beyond their cap. A further \$75 million was identified as being inappropriately claimed under the legislation. However, DITR advised that this was because the legislation did not reflect the original intent. The legislation was amended accordingly.

⁴⁶ AusIndustry expects that every participant will be audited at least once during the life of ACIS.

Figure 5.5

Number of audits undertaken during 2001, 2002 and 2003



Source: DITR.

* Note: The 95 audits conducted in 2002 included 10 repeat audits. The two audits conducted up to April 2003 included one repeat audit.

5.40 Audits have also indicated a number of issues for broader program administration and policy. These include eligibility and treatment of aspects of:

- vendor tooling;
- outsourced R&D; and
- spare parts greater than \$300.

5.41 The ANAO found that these issues are being appropriately considered. There is regular reporting to AusIndustry management and the policy area (MEC Division) on progress in addressing each issue.

5.42 The ANAO also found that, following enhancements to AusIndustry's risk rating practices (see paragraph 5.8), intelligence from audits is included in participant risk ratings, to better inform audit selection and risk management.

Conclusion

5.43 The self-assessment basis of ACIS means that compliance audits are a particularly important aspect of program management, contributing to assurance that participant claims are appropriate. AusIndustry has implemented an audit function and supporting framework for the conduct of audits. Audits to date have identified some \$51 million in inappropriate claims.

5.44 However, the approach to auditing compliance has not been consistent with the rigour required by legislation and foreshadowed by the Government. Program management would benefit from sounder audit practice in a number of areas, to be more consistent with recognised standards. AusIndustry has acknowledged that management of the audit function could be strengthened in some areas, and is making some improvements.

Recommendation No.6

5.45 The ANAO recommends that AusIndustry implement procedures and guidelines to ensure a standard approach to auditing compliance consistent with its legislative obligations and program risks. Such an approach would include:

- clearly articulated standards, procedures and supporting methodologies (such as audit sampling tools);
- appropriate audit documentation and planning;
- identifying required skills/competencies and the means of achieving them; and
- ensuring compliance with legislative requirements.

DITR Response

5.46 Agreed. As the ANAO acknowledges, AusIndustry has in use an ACIS Compliance Kit, which includes an audit guide and advice on a range of issues including audit preparation, audit objectives and procedures and audit analysis. DITR agrees that the documentation can be enhanced along the lines suggested and action will be taken to provide more comprehensive documentary guidance on audit matters. In practice, as the ANAO acknowledges, audits undertaken by AusIndustry have in fact resulted in the identification of some \$126 million in inappropriate claims and of a number of issues for broader program administration, and these have been appropriately addressed by AusIndustry. In relation to skills development, AusIndustry does in fact have a number of staff with auditing backgrounds involved in the ACIS program and action is in hand to recruit additional with auditing expertise. It should be noted that the management of compliance has four levels as stated by the ANAO, the last of which are the compliance audits. The ANAO has acknowledged that the first three levels of compliance management activity are effective, comprehensive and informative. Combined, these activities greatly contribute to the assurance of compliance by ACIS participants.

Canberra ACT
30 June 2003



Oliver Winder
Acting Auditor-General

Appendices

Appendix 1

Tariff rates for the production of passenger motor vehicles and components, 1960 to 2000 (per cent)

	Tariff rate for passenger motor vehicles	Tariff rate for original equipment components
1960–65	35	na
1966–72	45	na
1973	33.75	na
1974	45	na
1975	45	25 ^a
1976	45	na
1977	45	na
1978	57.5	na
1979	57.5	na
1980	57.5	35 ^b
1981	57.5	na
1982	57.5	na
1983	57.5	na
1984	57.5	na
1985	57.5	100 ^b
1986	57.5	95 ^b
1987	57.5	90 ^b
1988	45	45 ^c
1989	42.5	42.5
1990	40	40
1991	37.5	37.5
1992	35	35
1993	32.5	32.5
1994	30	30
1995	27.5	27.5
1996	25	25
1997	22.5	22.5
1998	20	20
1999	17.5	17.5
2000	15	15

na: not available.

Source: Industry Commission: *The Automotive Industry*, Report No.58, 26 May 1997, Volume II: Appendices, pp. K 14 and K15.

^a In January 1975 the tariff rates on many components were standardised at 25 per cent, although there was still variability in tariff rates for some components.

^b The tariff rate on clutches and gearboxes has been used as an example although there was still variability in tariff rates for some components.

^c In April 1988, the tariff rates on all original equipment OE components were reduced to 45 per cent in line with the tariff rate on passenger motor vehicles.

Appendix 2

Summary of automotive assistance arrangements applying after 2005⁴⁷

Similar to its predecessor, the post-2005 Automotive Competitiveness and Investment Scheme will be a transitional assistance scheme that will encourage competitive investments by firms in the automotive industry in order to achieve sustainable growth. The scheme has been announced well before its implementation date of 1 January 2006 to provide certainty for the industry in its planning for the next decade. It will run for 10 years with all industry specific support ceasing on 31 December 2015.

ACIS capped incentives

During the 2006–2010 period, ACIS capped incentives will be limited to \$2 billion. Over 2011–2015, ACIS capped payments will be limited to \$1 billion, with assistance declining progressively over this period.

ACIS uncapped production credits

MVP uncapped production credits will continue as at present, but will conclude in 2015. They will continue to be tied to the tariff applying to PMVs and related components.

R&D fund for car producers

A \$150 million R&D fund will be created to encourage vehicle producers to invest in high-end R&D activities. The fund will be conducted on a competitive grants basis with three annual rounds of applications to be held over 2006, 2007 and 2008. Up to \$50 million will be allocated for each round, with unallocated funds returned to the MVP funding pool.

⁴⁷ Source: Media Release, The Hon. Ian MacFarlane MP, Minister for Industry, Tourism and Resources, *A Decade of Certainty for the Automotive Industry*, 13 December 2002.

Appendix 3

Types of credit and eligible activities

CREDIT TYPES AVAILABLE	ELIGIBLE ACTIVITIES
Motor Vehicle Producers	10 per cent of the production value of PMVs sold in the Australian or New Zealand market, and 25 per cent of the value of the production value of all vehicles (other than those sold in the Australian or New Zealand market).
MVP–Type A investment	Investment in the MVP’s approved plant and equipment used to produce motor vehicles, engines or engine components. The MVP receives 10 per cent of the value of this investment—taking into account any other Commonwealth assistance claimed and the number and type of quarterly returns lodged.
MVP–Type B investment	Investment undertaken by the MVP in that part of the MVP’s approved plant and equipment used: <ul style="list-style-type: none"> to produce automotive components (other than engine or engine components); or to produce automotive machine tools or automotive tooling; or to facilitate the provision of automotive services; other than for the MVP’s own use. The MVP receives 25 per cent of the value of this investment—taking into account any other Commonwealth assistance claimed and the number and type of quarterly returns lodged.
MVP–Type C investment	Investment undertaken by the MVP in that part of the MVP’s research and development used: <ul style="list-style-type: none"> to produce automotive components (other than engine or engine components); or to produce automotive machine tools or automotive tooling; or to facilitate the provision of automotive services; other than for the MVP’s own use. The MVP receives 45 per cent of the value of this investment—taking into account any other Commonwealth assistance claimed and the number and type of quarterly returns lodged.
ACP–Type D investment	Investment undertaken by the ACP in that part of the ACP’s approved plant and equipment that: <ul style="list-style-type: none"> is used to produce automotive components, automotive machine tools or automotive tooling; or is used to facilitate the provision of automotive services. The ACP receives 25 per cent of the value of this investment—taking into account any other Commonwealth assistance claimed and the number and type of quarterly returns lodged.
ACP–Type E investment	Investment undertaken by the ACP in that part of the ACP’s approved research and development that is directed: <ul style="list-style-type: none"> at the production of automotive components, automotive machine tools or automotive tooling; or at facilitating the provision of automotive services. The ACP receives 45 per cent of the value of this investment—taking into account any other Commonwealth assistance claimed and the number and type of quarterly returns lodged.

AMTP–Type F investment	Investment undertaken by the AMTP in that part of the AMTP’s approved plant and equipment that: <ul style="list-style-type: none"> ▪ is used to produce automotive machine tools or automotive tooling; or ▪ is used to facilitate the provision of automotive services.
	The AMTP receives 25 per cent of the value of this investment—taking into account any other Commonwealth assistance claimed and the number and type of quarterly returns lodged.
AMTP–Type G investment	Investment undertaken by the AMTP in that part of the AMTP’s approved research and development that is directed: <ul style="list-style-type: none"> ▪ at the production of automotive machine tools or automotive tooling; or ▪ at facilitating the provision of automotive services.
	The AMTP receives 45 per cent of the value of this investment—taking into account any other Commonwealth assistance claimed and the number and type of quarterly returns lodged.
ASP–Type H investment	Investment undertaken by the ASP in that part of the ASP’s approved plant and equipment that is directed at facilitating the provision of automotive services.
	The ASP receives 25 per cent of the value of this investment—taking into account any other Commonwealth assistance claimed and the number and type of quarterly returns lodged.
ASP–Type H investment	Investment undertaken by the ASP in that part of the ASP’s approved research and development that is directed at facilitating the provision of automotive services.
	The ASP receives 45 per cent of the value of this investment—taking into account any other Commonwealth assistance claimed and the number and type of quarterly returns lodged.

Source: ANAO from *ACIS Administration Act 1999*, Part 2: Establishment of, and participation in, ACIS, Subdivision B.

Appendix 4

ACIS Legislation, Regulations and Guidelines

Legislation	<i>ACIS Administration Act 1999 (including amendments to date)</i>
	<i>ACIS Administration Amendment Act 2000 (including amendments to date)</i>
	<i>ACIS (Unearned Credit Liability) Act 1999</i>
	<i>Customs Tariff Amendment (ACIS Implementation) Act 1999</i>
Regulations and Guidelines (disallowable instruments)	<i>ACIS Administration Amendment Regulations 2001 (No. 1) 2001 (No. 82)</i>
	<i>Customs Amendment Regulations 2001 (No 5) SR 211 of 2001</i>
	<i>ACIS Administration (Determination of Eligible Investment) Guidelines 2001</i>
	<i>ACIS Administration Regulations 2000 (including amendments to date)</i>
	<i>ACIS Administration (Registration for the Purpose of the Act) Guidelines 2001</i>
	<i>ACIS Administration (Modulation) Guidelines 2000</i>
	<i>ACIS Administration (Arm's Length Transactions) Guidelines 2000</i>
	<i>ACIS Administration (Commonwealth Financial Assistance) Determination 2000</i>

Index

A

ACIS package 11, 29
Administrative responsibilities 33
Audits 13, 19, 24, 31, 34, 37, 38, 60, 65, 67, 69-75,
AusIndustry 13-16, 18, 19, 20, 22, 24, 33-41, 43-57, 60, 65-75

B

Business plans 16, 17, 36, 43, 49, 50, 53, 55, 57, 59-61, 63, 68

C

Capped pool 11, 16, 17, 30, 52, 57, 58, 61, 73
Commonwealth assistance 50, 54
Customer guidelines 18, 46, 66
Customer Service Charter 15, 48
Customer Service Managers 19, 46, 66

D

Delegations 13, 33, 37, 38
Department of Industry, Tourism and Resources 11, 30, 33
Deregistration 50

E

eligibility criteria 29, 46

I

Identity cards 19, 70

Integrated Program Management System 43

M

Memorandum of Understanding 13, 20, 35
Modulation of credits 55
Modulation rate 17, 34, 43, 54, 57, 59-62

N

National Interest 47

O

Objectives and Outcomes 38
Output measures 40

P

Participant risk ratings 18, 74
Product Integrity Assurance Model 65

Q

Quarterly returns 16, 50, 52, 55, 60, 68

R

Regional Delivery (RED) visits 18, 67
Registration 12, 14, 15, 20, 23, 31, 32, 44-51, 54, 55, 66, 68, 71
Risk management 14-17, 20, 22, 23, 33, 36, 40-42, 47, 54, 58, 73, 74

S

Sales cap 72, 73

Self-assessment 14, 19, 33, 41, 46, 65,
66, 74

T

Tariff 11, 27, 28, 30, 31, 56, 79, 80

Threshold rules 16, 52, 54

Trading in credits 55

U

Uncapped pool 30, 55, 64

Series Titles

Audit Report No.1 Performance Audit
Information Technology at the Department of Health and Ageing
Department of Health and Ageing

Audit Report No.2 Performance Audit
Grants Management
Aboriginal and Torres Strait Islander Commission

Audit Report No.3 Performance Audit
Facilities Management at HMAS Cerberus
Department of Defence

Audit Report No.4 Audit Activity Report
Audit Activity Report: January to June 2002
Summary of Outcomes

Audit Report No.5 Performance Audit
The Strategic Partnership Agreement between the Department of Health and Ageing and the Health Insurance Commission
Department of Health and Ageing and the Health Insurance Commission

Audit Report No.6 Performance Audit
Fraud Control Arrangements in the Department of Veterans' Affairs

Audit Report No.7 Performance Audit
Client Service in the Child Support Agency Follow-up Audit
Department of Family and Community Services

Audit Report No.8 Business Support Process Audit
The Senate Order for Department and Agency Contracts (September 2002)

Audit Report No.9 Performance Audit
Centrelink's Balanced Scorecard

Audit Report No.10 Performance Audit
Management of International Financial Commitments
Department of the Treasury

Audit Report No.11 Performance Audit
Medicare Customer Service Delivery
Health Insurance Commission

Audit Report No.12 Performance Audit
Management of the Innovation Investment Fund Program
Department of Industry, Tourism and Resources
Industry Research and Development Board

Audit Report No.13 Information Support Services
Benchmarking the Internal Audit Function Follow-on Report

Audit Report No.14 Performance Audit
Health Group IT Outsourcing Tender Process
 Department of Finance and Administration

Audit Report No.15 Performance Audit
The Aboriginal and Torres Strait Islander Health Program Follow-up Audit
 Department of Health and Ageing

Audit Report No.16 Business Support Process Audit
The Administration of Grants (Post-Approval) in Small to Medium Organisations

Audit Report No.17 Performance Audit
Age Pension Entitlements
 Department of Family and Community Services
 Centrelink

Audit Report No.18 Business Support Process Audit
Management of Trust Monies

Audit Report No.19 Performance Audit
The Australian Taxation Office's Management of its Relationship with Tax Practitioners
 Australian Taxation Office

Audit Report No.20 Performance Audit
Employee Entitlements Support Schemes
 Department of Employment and Workplace Relations

Audit Report No.21 Performance Audit
Performance Information in the Australian Health Care Agreements
 Department of Health and Ageing

Audit Report No.22 Business Support Process Audit
*Payment of Accounts and Goods and Services Tax Administration
 in Small Commonwealth Agencies*

Audit Report No.23 Protective Security Audit
Physical Security Arrangements in Commonwealth Agencies

Audit Report No.24 Performance Audit
Energy Efficiency in Commonwealth Operations—Follow-up Audit

Audit Report No.25 Financial Statement Audit
*Audits of the Financial Statements of Commonwealth Entities
 for the Period Ended 30 June 2002*
 Summary of Results

Audit Report No.26 Performance Audit
Aviation Security in Australia
 Department of Transport and Regional Services

Audit Report No.27 Performance Audit
Management of Commonwealth Guarantees, Warranties, Indemnities and Letters of Comfort

Audit Report No.28 Performance Audit
Northern Territory Land Councils and the Aboriginals Benefit Account

Audit Report No.29 Audit Activity Report
Audit Activity Report: July to December 2002
Summary of Outcomes

Audit Report No.30 Performance Audit
Defence Ordnance Safety and Suitability for Service
Department of Defence

Audit Report No.31 Performance Audit
Retention of Military Personnel Follow-up Audit
Department of Defence

Audit Report No.32 Business Support Process Audit
The Senate Order for Departmental and Agency Contracts (Spring 2002 Compliance)

Audit Report No.33 Performance Audit
Management of e-Business in the Department of Education, Science and Training

Audit Report No.34 Performance Audit
Pest and Disease Emergency Management Follow-up Audit
Department of Agriculture, Fisheries and Forestry—Australia

Audit Report No.35 Performance Audit
Fraud Control Arrangements in the Australian Customs Service

Audit Report No.36 Performance Audit
Monitoring of Industry Development Commitments under the IT Outsourcing Initiative
Department of Communications, Information Technology and the Arts

Audit Report No.37 Performance Audit
Passport Services
Department of Foreign Affairs and Trade

Audit Report No.38 Performance Audit
Referrals, Assessments and Approvals under the Environment Protection and Biodiversity Conservation Act 1999

Audit Report No.39 Performance Audit
Navy Operational Readiness
Department of Defence

Audit Report No.40 Performance Audit
R & D Tax Concession
Department of Industry, Tourism and Resources, the Industry Research and Development Board and the Australian Taxation Office

Audit Report No.41 Performance Audit
Annual Reporting on Ecologically Sustainable Development

Audit Report No.42 Performance Audit
Managing Residential Aged Care Accreditation
 The Aged Care Standards and Accreditation Agency Ltd

Audit Report No.43 Performance Audit
The Sale of Sydney (Kingsford Smith) Airport

Audit Report No.44 Performance Audit
Review of the Parenting Payment Single Program
 Department of Family and Community Services
 Centrelink

Audit Report No.45 Business Support Process Audit
Reporting of Financial Statements and Audit Reports in Annual Reports

Audit Report No.46 Performance Audit
Australian Industry Involvement Program
 Department of Defence

Audit Report No.47 Performance Audit
Implementation and Management of the Indigenous Employment Policy
 Department of Employment and Workplace Relations

Audit Report No.48 Performance Audit
Indigenous Land Corporation—Operations and Performance Follow-up Audit
 Department of Immigration and Multicultural and Indigenous Affairs

Audit Report No.49 Performance Audit
Management of the Navigation Aids Network
 Australian Maritime Safety Authority

Audit Report No.50 Information Support Services
Managing People for Business Outcomes, Year Two
 Benchmarking Study

Audit Report No.51 Performance Audit
Defence Housing and Relocation Services
 Department of Defence

Audit Report No.52 Performance Audit
Absence Management in the Australian Public Service

Audit Report No.53 Performance Audit
Business Continuity Management Follow-on Audit

Audit Report No.54 Business Support Process Audit
Capitalisation of Software

Audit Report No.55 Performance Audit
Goods and Services Tax Fraud Prevention and Control
 Australian Taxation Office

Audit Report No.56 Performance Audit
Management of Specialist Information Systems Skills
Department of Defence

Audit Report No.57 Performance Audit
Administration of the Payment of Tax by Non-Residents
Australian Taxation Office

Audit Report No.58 Performance Audit
Veterans' Appeals Against Disability Compensation Decisions Follow-up Audit
Department of Veterans' Affairs and the Veterans' Review Board

Audit Report No.59 Performance Audit
Administration of Australian Business Number Registrations
Australian Taxation Office

Audit Report No.60 Business Support Process Audit
Closing the Books

Audit Report No.61 Financial Statement Audit
Control Structures as part of the Audit of Financial Statements of Major Commonwealth Entities for the Year Ending 30 June 2003

Audit Report No.62 Performance Audit
Management of Selected Aspects of The Family Migration Program
Department of Immigration and Multicultural and Indigenous Affairs

Better Practice Guides

Goods and Services Tax (GST) Administration	May 2003
AMODEL Illustrative Financial Statements 2003	May 2003
Managing Parliamentary Workflow	Apr 2003
Building Capability—A framework for managing learning and development in the APS	Apr 2003
Internal Budgeting	Feb 2003
Administration of Grants	May 2002
Performance Information in Portfolio Budget Statements	May 2002
Life-Cycle Costing	Dec 2001
Some Better Practice Principles for Developing Policy Advice	Nov 2001
Rehabilitation: Managing Return to Work	Jun 2001
Internet Delivery Decisions	Apr 2001
Planning for the Workforce of the Future	Mar 2001
Contract Management	Feb 2001
Business Continuity Management	Jan 2000
Building a Better Financial Management Framework	Nov 1999
Building Better Financial Management Support	Nov 1999
Managing APS Staff Reductions (in Audit Report No.49 1998–99)	Jun 1999
Commonwealth Agency Energy Management	Jun 1999
Corporate Governance in Commonwealth Authorities and Companies—Principles and Better Practices	Jun 1999
Managing Parliamentary Workflow	Jun 1999
Cash Management	Mar 1999
Management of Occupational Stress in Commonwealth Agencies	Dec 1998
Security and Control for SAP R/3	Oct 1998
Selecting Suppliers: Managing the Risk	Oct 1998
New Directions in Internal Audit	Jul 1998
Controlling Performance and Outcomes	Dec 1997
Management of Accounts Receivable	Dec 1997

Protective Security Principles (in Audit Report No.21 1997–98)	Dec 1997
Public Sector Travel	Dec 1997
Audit Committees	Jul 1997
Core Public Sector Corporate Governance (includes Applying Principles and Practice of Corporate Governance in Budget Funded Agencies)	Jun 1997
Management of Corporate Sponsorship	Apr 1997
Telephone Call Centres	Dec 1996
Telephone Call Centres Handbook	Dec 1996
Paying Accounts	Nov 1996
Asset Management	Jun 1996
Asset Management Handbook	Jun 1996
Managing APS Staff Reductions	Jun 1996