

The Auditor-General
Audit Report No.17 2003–04
Performance Audit

AQIS Cost-recovery Systems Follow-up Audit

Australian Quarantine and Inspection Service

Australian National Audit Office

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of Australia 2003

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Canberra ACT
4 December 2003

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in the Australian Quarantine and Inspection Service in accordance with the authority contained in the *Auditor-General Act 1997*. I present the report of this audit and the accompanying brochure to the Parliament. The report is titled *AQIS Cost-recovery Systems Follow-up Audit*.

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

Yours sincerely



P. J. Barrett
Auditor-General

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

AUDITING FOR AUSTRALIA

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

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Abbreviations

ABFC	AQIS Business and Finance Committee
ACA	Activity Cost Assessment scheme
The department	The Department of Agriculture, Fisheries and Forestry
ANAO	Australian National Audit Office
AQIS	The Australian Quarantine and Inspection Service
EXDOC	Electronic Export Documentation system
FBT	Fringe Benefits Tax
FTE	Full-time equivalent
ICC	Industry consultative committee
iTM1	AQIS' budget management system
IER	Income Equalisation Reserve account
JCPAA	Joint Committee of Public Accounts and Audit
MoU	Memorandum of Understanding
QAP	Quarantine Approved Premises (registration fee)
QSP	AQIS' financial management system
TPR	Trial Pay Report

Glossary

Activity Cost Assessment scheme (ACA)	A system enabling AQIS to measure the proportion of staff time spent working on each program and the different types of activities within programs.
Charge (registration and quantity charges)	An impost on clients raised under taxing legislation. To qualify as a tax, a charge must be a compulsory exaction of money by a public authority for public purposes, which is not a payment for services rendered. At least two acts are required, namely an act to impose the tax, and an act to authorise its collection.
Community service obligations	Services that are provided for the good of the public, the costs of which are met by government.
Cross-subsidisation	Occurs when clients of a service pay more than the cost of the service they receive, and the surplus is used to offset the cost of services provided to other clients (who pay less than the cost of the services they receive).
Fee-for-service	<p>An impost on clients for services that are rendered and raised under fee-for-service legislation. To qualify as a fee-for-service, a number of criteria need to be met, including that:</p> <ul style="list-style-type: none">• a specific service must be provided;• the service is rendered to, or at the request of, the party paying the account; and• the impost is proportionate to the cost of the service rendered.
Fixed cost	A cost that remains constant in a given operating range, or as the cost drivers change.
Full-time equivalent (FTE)	A measure of staffing in which employees are classified as either full-time or as fractions of a full-time equivalent.
Income Equalisation Reserve account (IER)	An account in which a proportion of over-recovered funds is placed to buffer AQIS and industry from unforeseen events resulting in under recoveries.
Industry consultative committee (ICC)	Advisory bodies that consult with AQIS on issues related to the cost-recovery relationship between industry and AQIS, such as fee-setting and budgeting.

Industry Initiative account	An account in which over-recovered funds above the amount to be held in the Income Equalisation Reserve are placed, with the agreement of industry, for use in projects that benefit the industry, such as research, marketing or promotional activities.
Report to Clients	Annual report from AQIS to its clients, providing information on revenue, expenditure and operating results for each cost-recovered program.
Revenue Rebate account	An account in which over-recovered funds above the amount to be held in the Income Equalisation Reserve are placed, with the agreement of industry, pending their return to industry by temporarily applying a predetermined rebate on the level of fees applied for services performed by the recoverable program.
Trial Pay Report (TPR)	Report disseminated by AQIS before each fortnightly payday, listing the number and cost of Full Time Equivalent (FTE) staff expected to be charged to each program/region for that pay period.
Variable cost	A cost that changes with movements in the level of output or as the cost drivers change.

Summary

Summary

Background

1. The Australian Quarantine and Inspection Service (AQIS) delivers quarantine and inspection services, including border control services, and export inspection, auditing and certification services. Thirteen AQIS programs are conducted on a cost-recovery basis, with clients being directly charged for the provision of services. AQIS' cost-recovery policy states that each cost-recovered program must recoup its own costs, reflecting a requirement that AQIS prevent cross-subsidisation between programs.
2. ANAO Audit Report No.10 2000–01, *AQIS Cost-Recovery Systems*, examined the accuracy and effectiveness of the cost-recovery systems employed by AQIS. The report contained six recommendations designed to assist AQIS to improve the efficiency and effectiveness of its cost-recovery systems. The Joint Committee of Public Accounts and Audit (JCPAA), at a public hearing on the audit report, added two recommendations, and endorsed the ANAO's sixth recommendation. This latter recommendation addressed the issue of better alignment of fees charged to particular clients with the costs associated with servicing those clients.

Key findings

3. Key findings against the previous ANAO recommendations and JCPAA recommendations are summarised in Figure 1.

Figure 1

Progress in implementing recommendations of the previous audit

Previous ANAO recommendations	Progress of implementation
<p>Recommendation 1–Policies and guidelines</p> <p>The ANAO recommends that, to promote accuracy, consistency and understanding of AQIS cost-recovery, AQIS fully documents its cost-recovery policies and ensures that guidelines developed on budget systems and the budget process are current, for maximum effectiveness.</p> <p><i>AQIS Response:</i> Agreed.</p>	<p>Implemented</p> <p>AQIS has documented its cost-recovery policies and developed and disseminated updated charging guidelines.</p>

<p>Recommendation 2—Staffing costs</p> <p>The ANAO recommends that AQIS consider the cost-effectiveness of introducing a system to enable it to determine, and regularly review, the proportion of time spent by staff working on each program, and the different types of activities within programs.</p> <p><i>AQIS Response:</i> Agreed.</p>	<p>Implemented</p> <p>AQIS has introduced an Activity Cost Assessment system to improve the accuracy of apportionment of staff to cost-recovered activities.</p> <p>Data from the Activity Cost Assessment system is being progressively used to align fees and charges with the costs of providing cost-recovery services.</p> <p>AQIS has also implemented improved procedures for allocating costs to the correct recoverable program.</p> <p>The ANAO considers that AQIS could better assure itself of the accuracy of staffing costs if it was to undertake systematic comparisons of the Activity Cost Assessment and personnel and human resources systems, at least at the end of each financial year.</p>
<p>Recommendation 3—Reporting to clients</p> <p>The ANAO recommends that, to improve transparency as part of its accountability obligations, AQIS include more comprehensive information in its annual <i>Report to Clients</i> about cost-recovery program performance, including cumulative results in relation to under and over-recoveries.</p> <p><i>AQIS Response:</i> Agreed.</p>	<p>Implemented</p> <p>AQIS now includes more comprehensive information about cost-recovery program performance in its Report to Clients</p>
<p>Recommendation 4—Animal quarantine stations</p> <p>The ANAO recommends that, in order to achieve the objective of cost-recovery, AQIS reviews more regularly its fees in relation to the costs incurred for the Animal Quarantine Stations program.</p> <p><i>AQIS Response:</i> Agreed.</p>	<p>Implemented</p> <p>AQIS conducted a number of reviews in relation to fees in the Post-entry Animal Quarantine program. There were some limitations in these reviews, but the results have been sufficient to improve the program's outcomes.</p> <p>Once AQIS has implemented the revised cost-recovery model (described at recommendation 6), the program will have a framework for the systematic review of fees and charges.</p>

<p>Recommendation 5—Legal basis for fees and charges</p> <p>The ANAO recommends that AQIS review and resolve as necessary, the uncertainties concerning the basis for imposing the 'quarantine approved premises registration' impost under the <i>Quarantine Act 1908</i> and the fish 'quantity charge' under the <i>Export Control Act 1982</i>. These matters should be kept under review on a regular basis.</p> <p><i>AQIS Response:</i> Agreed.</p>	<p>Implemented</p> <p>AQIS reviewed the basis for both imposts and found no changes were required. The ANAO also found that the basis for the 'approved premises' impost was sound. The fish quantity charge was abolished in November 2001.</p>
<p>Recommendation 6—Minimising cross-subsidisation</p> <p>The ANAO recommends that AQIS align fees charged to particular clients with the costs associated with servicing those clients where it is cost-effective to do so. Where this is not feasible, the reasons should be made transparent to relevant stakeholders and kept under review.</p> <p><i>AQIS Response:</i> Disagreed, but subsequently agreed following the JCPAA hearing.</p>	<p>Implementation in progress</p> <p>AQIS has made substantial progress towards implementing a revised cost-recovery system. When fully implemented in early 2004, this system has the potential to improve AQIS' cost-recovery performance. The revised system will make appropriate information available for AQIS to demonstrate that fees and charges bear a reasonable relationship with the costs of the services rendered.</p>

JCPAA recommendations	Progress of implementation
<p>Recommendation 2—Managing the risk of under and over-recovery</p> <p>The Committee recommends that AQIS improve risk management in its fee-setting activities with the aim of significantly reducing over-recoveries.</p> <p><i>AQIS Response:</i> Agreed.</p>	<p>Implemented</p> <p>AQIS has enhanced its procedures to reduce the risk of over-recoveries.</p> <p>All programs are now required to include strategies in their business plans that address risk management in fee and charge-setting activities. However, a clearer articulation of these strategies at a more detailed level would assist AQIS to manage risk more in line with the JCPAA's recommendation.</p> <p>Monthly reporting to senior management on the program outcomes has been enhanced. Detailed discussions between program management and industry consultative committees identify factors that may influence revenue and costs, and this information is used to identify potential situations in which under or over-recoveries may arise.</p> <p>The strategies AQIS now has in place to reduce over-recoveries have generally been effective in improving program outcomes in percentage terms.</p>
<p>Recommendation 3—Minimising cross-subsidisation</p> <p>The Committee recommends that AQIS implement the ANAO's Recommendation No.6 of Audit Report No.10, 2000–01.</p> <p><i>AQIS Response:</i> Agreed.</p>	<p>(See detail for ANAO Recommendation 6 - above)</p>
<p>Recommendation 4—Electronic Export Documentation system (EXDOC)</p> <p>The Committee recommends that AQIS conduct a thorough cost-benefit analysis of the non-meat EXDOC system project.</p> <p><i>AQIS Response:</i> Agreed.</p>	<p>Implemented</p> <p>A cost-benefit analysis has been completed as part of a post-implementation review of the EXDOC system. AQIS is now reviewing the cost attribution arrangements for EXDOC in light of the review's findings.</p>

Conclusion

4. AQIS has implemented ANAO recommendations 1, 2, 3, 4 and 5, and JCPAA recommendations 2 and 4. AQIS initially disagreed with ANAO recommendation 6. However, the JCPAA, at a public hearing, reinforced the importance of better aligning fees with charges in its recommendation 3. AQIS consequently agreed to this recommendation, and has made substantial progress in its implementation.

5. AQIS is continuing to enhance its cost-recovery management pursuant to the recommendations of the original audit. This follow-up audit includes a number of suggestions to assist this process. In particular, the ANAO suggests that AQIS consider undertaking systematic comparisons of staffing cost attributions from the Activity Cost Assessment and personnel and human resources systems (paragraph 3.27).
6. Overall, AQIS has improved its management of cost-recovery. Improvements to charging guidelines and client reporting have enhanced the quality and quantity of information available to stakeholders. AQIS has also taken steps to improve its attribution of staffing costs.
7. AQIS' new budget management system, new activity cost assessment system, revised cost model and updated procedural documents will provide a sounder framework for managing cost-recovery. They will facilitate alignment of fees and charges with costs at an activity level, enabling AQIS to better manage over and under-recoveries for each activity.
8. The ANAO has made no further recommendations in this audit.

Departmental response

9. The department's full response to the follow-up audit is as follows:

[I] consider the report to be an accurate and fair reflection of the progress made by AQIS to implement the recommendations made by the ANAO and the Joint Committee of Public Accounts and Audit in relation to the performance audit AQIS Cost-recovery Systems.

Since the first audit report, AQIS has significantly improved its systems for cost-recovery. The AQIS Fees and Charges Policy, developed as a result of an ANAO recommendation, has been a useful document to clarify AQIS' policy in terms of cost-recovery. AQIS will further develop this policy to implement improvements suggested by the ANAO in the follow-up audit. The new budget system has made the task of allocating costs to the correct programs more efficient, and cost-recovery information, such as budgeting policy and procedures and the treatment of over-recovered funds, has been fully documented and is now utilised on a regular basis. AQIS has also expanded its information provided to clients through the Report to Clients, produced on an annual basis.

The information collected via the Activity Cost Assessment (ACA) system is being progressively used to align program fees and charges with the cost of providing these services to clients. These fees and charges are now being modelled based on an activity-based costing methodology. AQIS notes the ANAO's suggestion that systematic comparisons of staffing cost attributions from the ACA data and the human resources systems should be undertaken. AQIS is seeking to develop a

procedure to verify the consistency and validity of data captured through the ACA system. AQIS is also considering using this information to provide some other important performance indicators, such as a chargeable hour indicator.

While the follow-up performance audit does not contain any recommendations, the suggestions contained in the report will assist AQIS in further improving its cost-recovery systems.

Audit Findings and Conclusions

1. Introduction

This chapter provides an overview of the Australian Quarantine and Inspection Service (AQIS) and the cost-recovery systems supporting the programs it delivers. The audit objective, scope, methodology and criteria employed are also discussed.

Australian Quarantine and Inspection Service

1.1 AQIS is part of the Department of Agriculture, Fisheries and Forestry. Its broad objective is to protect Australia's animal, plant and human health status and maintain market access through the delivery of quarantine and export services.

1.2 AQIS aims to achieve this objective by:

- providing appropriate border control arrangements for international passengers, cargo, mail, aircraft and other vessels entering Australia, and post-entry plant and animal quarantine arrangements;
- facilitating Australian exports, with export inspection, auditing and certification services provided to the meat, horticulture, grain, fish, dairy, live animal exports and organic industries to ensure compliance with importing country requirements;
- developing and implementing communications that raise awareness of quarantine, and promoting compliance with quarantine requirements by individuals or businesses within Australia and among overseas residents who may travel to or trade with Australia;
- developing and maintaining a partnership approach with stakeholders; and
- delivering a high level of service to industry and other external clients.

AQIS' cost-recovery framework

1.3 The cost of AQIS programs in 2002–03 was \$265.0 million, against revenue (after adjustments) of \$265.3 million.¹ AQIS' activities are primarily funded by a combination of cost-recovery (industry charges) and government appropriation. Revenue recovered through fees and charges contributed \$131.4 million or 49.5 per cent of total revenue, although this percentage varied between programs. Revenues from the Australian Government contributed \$129.0 million or 48.6 per cent, whilst the remaining \$4.9 million or 1.9 per cent was received from other sources, such as interest earned on reserve accounts.

¹ Source: AQIS.

Non-cost-recovered programs

1.4 The majority of AQIS' non-cost-recovered activities comprise large-scale community service obligations, the costs of which are met by Government. Examples include compliance, and activities conducted under the Northern Australia Quarantine Strategy.

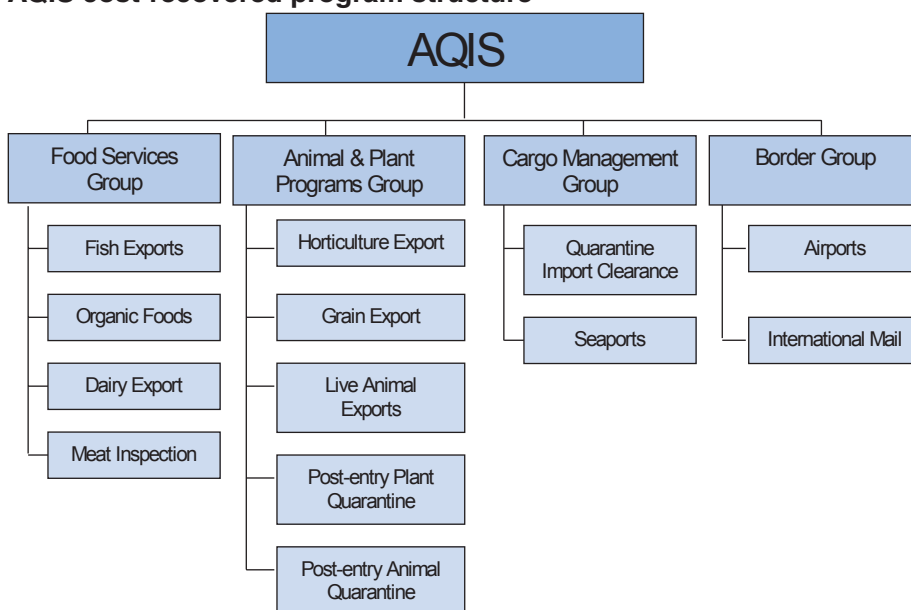
Cost-recovered programs

1.5 AQIS undertakes cost-recovery to assist with meeting the costs of thirteen programs (see Figure 1.1). The Australian Government's requirements for cost-recovery have changed since cost-recovery was first introduced for AQIS in 1979. Initially, AQIS was required to recover 50 per cent of the cost of providing services. It was required to recover 60 per cent of costs from 1 July 1988, and 100 per cent from 1991 until August 2001.

1.6 In August 2001, the Government reduced the recovery amount for AQIS export programs to 60 per cent of costs.² The Government provides the remaining 40 per cent. Import programs are still required to recover 100 per cent of their costs from clients.

Figure 1.1

AQIS cost-recovered program structure³



Source: AQIS.

² The reduction in fees and charges came into effect on 1 November 2001.

³ Post-entry Plant Quarantine and Post-entry Animal Quarantine are sub-programs; however, AQIS treats them as discrete programs for the purpose of cost-recovery performance.

Management of cost-recovery

1.7 AQIS manages its cost-recovery in a devolved framework. Individual program managers are responsible for developing budgets, establishing fee and charge structures, monitoring program performance, and reporting program outcomes to clients.

1.8 Proposed budgets are presented to the AQIS Business and Finance Committee⁴ (ABFC) at the start of each financial year, and again after a mid-year review, for approval. Program performance against approved budget is reported monthly to the ABFC.

Recovering costs

1.9 AQIS' cost-recovery policy states that each cost-recovered program must fully recover its costs. Accordingly, AQIS seeks to prevent cross-subsidisation between programs.⁵

1.10 AQIS sets fees and charges in advance. This inevitably results in some over and under-recoveries, an outcome exacerbated by the cyclical nature of many of the industries serviced by AQIS.

1.11 It is AQIS policy that over-recovered funds be placed in industry reserve accounts to cover future funding shortfalls; under-recoveries are managed using funds in these reserve accounts and/or by increasing fees in subsequent years.

Consultation with industry

1.12 AQIS has industry consultative committees (ICCs) for all of its recoverable programs. Each committee has representation from AQIS, the major client groups and industry peak bodies. The consultative committee is the principal forum for notifying industry of policy and strategic changes, and for consulting about program costs and fees and charges. Committees meet regularly—generally between three and four times per year.

1.13 Additionally, AQIS produces an annual *Report to Clients*. This provides information on revenue, expenditure and operating results for each cost-recovered program.

⁴ This committee was split into two committees in early 2003: the AQIS Business Committee—a policy-setting forum—and the AQIS Finance and Audit Committee. As the ABFC was the forum in existence for three of the four years covered by this report, the Committee will continue to be reported as the ABFC in this report.

⁵ *AQIS Fees and Charging Policy*, September 2002.

Previous ANAO audit

1.14 An ANAO audit of AQIS' cost-recovery systems was conducted in 2000–01, following a request from the Joint Committee of Public Accounts and Audit (JCPAA).

1.15 The previous audit aimed to assess the efficiency and effectiveness of the management of AQIS' cost-recovery systems, and provide assurance to Parliament that cost-recoverable programs were identifying and recovering the full costs of services provided, without cross-subsidisation.

1.16 The resulting ANAO report, Audit Report No.10, 2000–01 *AQIS Cost-Recovery Systems*, concluded that AQIS' systems were mature and stable, and, with some exceptions, had delivered near cost-recovery for the recoverable programs. Notwithstanding this, the ANAO concluded that the systems contained a number of inherent weaknesses that potentially impaired the efficiency and effectiveness of the management of those systems.⁶

1.17 Accordingly, the ANAO made six recommendations for improving the efficiency and effectiveness of AQIS cost-recovery systems. AQIS agreed with recommendations 1-5, and disagreed with recommendation 6.

Review by the Joint Committee of Public Accounts and Audit

1.18 In March 2001, the JCPAA reviewed the ANAO's audit report and conducted a hearing into AQIS' cost-recovery systems.

1.19 The JCPAA's subsequent report—*JCPAA Report No. 383, June 2001, Review of Auditor General's Reports 2000–2001, First Quarter*—made three recommendations. They addressed improved risk management in fee-setting activities; the conduct of a cost-benefit analysis of the Electronic Export Document Management System (EXDOC); and alignment of fees charged to particular clients with the costs associated with servicing those clients, where it was cost effective to do so. The latter recommendation endorsed recommendation 6 of the previous ANAO audit report. Subsequent to the hearing, AQIS agreed to all three JCPAA recommendations.⁷

⁶ Australian National Audit Office Report No.10 2000–01, *AQIS Cost-Recovery Systems*, Canberra, paragraphs 14–20.

⁷ Agriculture, Fisheries and Forestry—Australia, Executive Minute on *Joint Committee of Public Accounts and Audit Report No. 383, Review of Auditor-General's Reports*, 25 February 2002.

This follow-up audit

Audit objective and focus

1.20 The objective of the follow-up audit was to assess AQIS' implementation of the six recommendations made by the ANAO and the three recommendations made by the JCPAA. The audit also aimed to determine whether implementation of these recommendations, or alternative actions taken to address the issues leading to the recommendations, had improved AQIS' management of its cost-recovery processes. In particular, the audit focussed on ANAO recommendation 6 / JCPAA recommendation 3, regarding whether AQIS had aligned fees charged to particular clients with the costs associated with servicing those clients, where it was cost-effective to do so.

1.21 The audit reviewed five of AQIS' thirteen cost-recoverable programs, namely:

- Quarantine Import Clearance
- Horticulture Export
- Post-entry Animal Quarantine
- Fish Exports
- Meat Inspection

1.22 The first four programs were chosen because the previous audit found that fee and charge-setting practices led to considerable cross-subsidisation between clients within each program. The fifth program (Meat Inspection) was selected because it was the largest recoverable program in 1998-99, representing about 40 per cent of expenditure.

Audit methodology

1.23 Fieldwork was conducted in AQIS' Canberra, Adelaide and Melbourne offices. It involved interviews and review of relevant documentation, data and systems. The ANAO also consulted stakeholders from four industry consultative committees.

1.24 The cost-recovery system was tested for the:

- accuracy of cost identification and attribution;
- alignment of revenue from fees and charges with the costs of providing the associated services; and
- transparency of cost-recovery program performance.

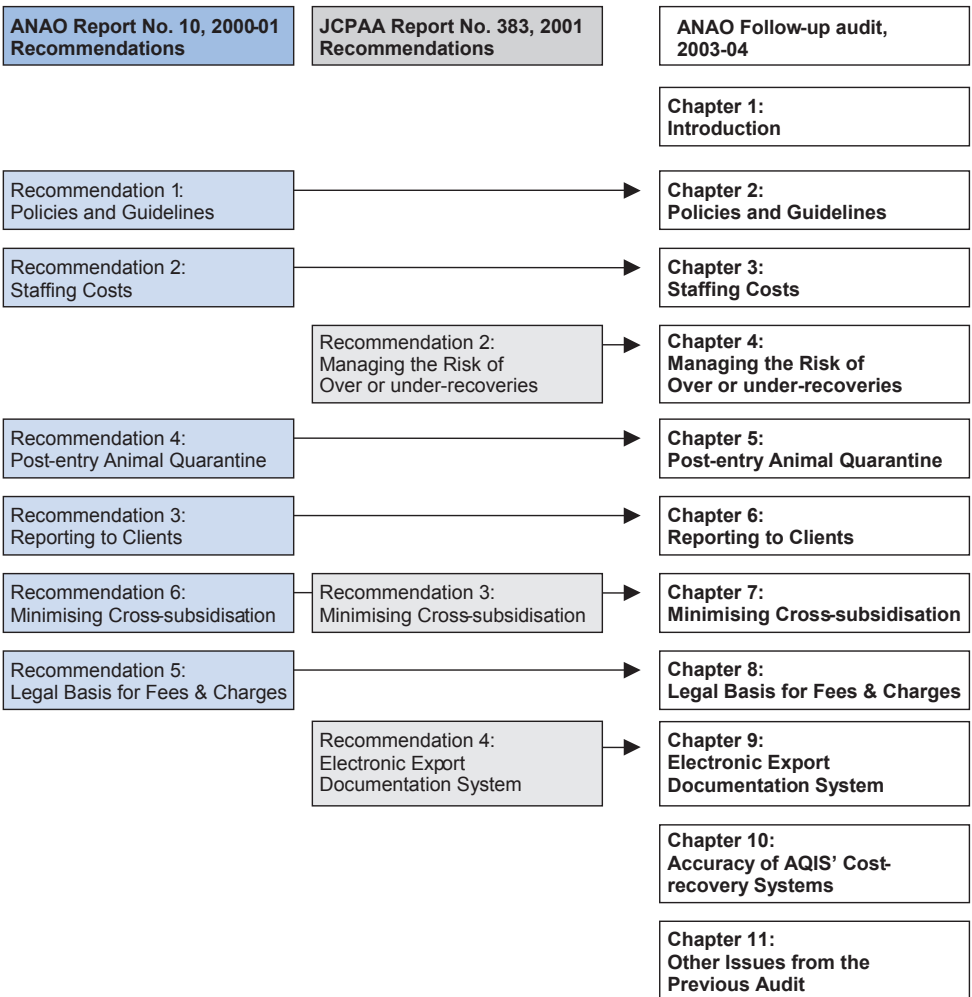
1.25 The ANAO also tested the accuracy of AQIS' information technology systems—including the recently implemented iTM1 budget management system and QSP financial management system. This testing was designed to determine the integrity of data used as a basis for cost-recovery, and to determine the accuracy with which these data were processed and manipulated by AQIS' new information technology systems.

1.26 The audit was conducted in accordance with ANAO standards at a cost of \$271 000.

1.27 This follow-up report is structured as follows:

Figure 1.2

Structure of the report



2. Policies and Guidelines

This chapter outlines AQIS' implementation of recommendation 1 of the previous ANAO Report.

Introduction

2.1 Clearly stated policies and procedures are an important element of a full cost-recovery environment. They provide guidance to administrative and operational staff in support of the cost-recovery objective.

Findings of the previous audit

The previous audit found that, while AQIS had developed cost-recovery practices, many of its policies were undocumented. The ANAO considered that clear documentation would provide support to cost-recovery operations and facilitate ongoing quality assurance.⁸

ANAO recommendation 1

Accordingly, the ANAO recommended that, to promote accuracy, consistency and understanding of AQIS cost-recovery, AQIS fully documents its cost-recovery policies and ensures that guidelines developed on budget systems and the budget process are current, for maximum effectiveness.⁹

AQIS response

AQIS agreed to this recommendation.

AQIS' cost-recovery policy framework

2.2 AQIS now has a number of cost-recovery policy documents and guidelines. Figure 2.1 provides a summary of these.

⁸ ANAO Report No.10 2000–01, op. cit., paragraph 2.26, p. 45.

⁹ ibid., ANAO recommendation 1, paragraph 2.27, p. 45.

Figure 2.1

AQIS cost-recovery policy documents and guidelines

Document	Function/s	Audience	Availability
Fees & Charging Policy	<ul style="list-style-type: none">• sets broad parameters for fees / charging, including guidance on:<ul style="list-style-type: none">– legal definitions and principles– managing cross-subsidisation– the integration of cost-recovery strategies into business plans	<ul style="list-style-type: none">• AQIS staff• cost-recovery clients	<ul style="list-style-type: none">• available from AQIS' website
Program-level charging guidelines	<ul style="list-style-type: none">• inform clients on how, and when, particular fees and charges are applied• provide information about the legislative basis for fees and charges	<ul style="list-style-type: none">• cost-recovery clients	<ul style="list-style-type: none">• available from AQIS' website
Internal Budgeting Policy	<ul style="list-style-type: none">• outlines the roles of those responsible for developing budgets• stipulates the order in which budgets are developed• details revenue and expenditure allocations, and the process for approval	<ul style="list-style-type: none">• AQIS staff	<ul style="list-style-type: none">• internal only
AQIS Budget Overview	<ul style="list-style-type: none">• outlines the budget process• provides information needed to develop program budgets in iTM1	<ul style="list-style-type: none">• AQIS staff	<ul style="list-style-type: none">• internal only

Source: ANAO analysis of AQIS information.

Fees and Charging Policy

2.3 At the time of the previous audit, AQIS did not have a comprehensive policy document relating to cost-recovery. A 1994 Memorandum of Understanding (MoU) between AQIS and the then Department of Finance,¹⁰ and a Budget Management System training manual, provided limited policy guidance, although some of the information was out of date.¹¹

¹⁰ This department is currently known as the Department of Finance and Administration.

¹¹ AQIS' MoU with DoFA has not been updated since 1994 and no longer reflects AQIS' business environment. The ANAO suggests that AQIS and DoFA consider clarifying the purpose of the MoU.

2.4 The ANAO found that AQIS has now addressed the recommendation by developing a *Fees and Charging Policy* document. The document outlines the broad parameters to be adopted when setting AQIS fees and charges under cost-recovery arrangements. For example, it contains information on preventing cross-subsidisation between programs, legal definitions and principles, and uniform charging. The policy document was first developed in September 2000—after the ANAO’s previous audit—and AQIS reviews it annually and when significant Government policy changes occur. It was most recently updated in September 2002. Aspects of this document are discussed below.

Fixed and variable costs

2.5 AQIS imposes its fees and charges under two types of legislative instrument: taxation legislation,¹² and fee-for-service legislation.¹³ The *AQIS Fees and Charging Policy* states that the general principle underpinning its fees and charges is that:

- taxation imposts such as annual registration charges should cover fixed costs; and
- fee-for-service charges should cover variable costs.

This principle may be varied if it can be readily justified, and documented agreement reached with industry.

2.6 However, with the exception of the Meat Inspection program, this principle has not yet been implemented by AQIS. The ANAO found that the type of costs covered by registration charges varies widely. Some programs use registration charges to cover variable costs such as travel to inspections/audits, while other registration charges exclude some components of fixed costs. This is consistent with the findings of the previous audit.¹⁴

2.7 These practices have meant that revenue outcomes have been more vulnerable to unanticipated changes in activity levels than would otherwise have been the case. This has contributed to some of the under and over-recoveries identified in subsequent chapters.

2.8 AQIS advised that there will always be some differences across programs between the sources of income used to cover fixed and variable costs. However, AQIS is currently restructuring its fees and charges to emphasise the distinction between fixed and variable costs.

¹² A taxation impost is defined as a compulsory exaction of money by a public authority for public purposes, which is not a payment for services rendered. Productivity Commission, Inquiry Report No.15, 16 August 2001, *Cost Recovery by Government Agencies*, p. XXV.

¹³ A fee-for-service is defined as a direct charge for the provision of a good or service. *ibid.*, p. XXIII.

¹⁴ ANAO Report No.10 2000–01, *op. cit.*, paragraph 5.11, p. 77.

2.9 AQIS has not defined the items that are to be treated as ‘fixed’ or ‘variable’ costs. The ANAO considers that the provision of policy guidance on the costs that are to be attributed as fixed costs would assist AQIS in implementing its policy and in achieving consistency in charge-setting.

Guidance on managing cross-subsidisation

2.10 AQIS’ cost-recovery policy states that each cost-recovered program must fully recover its costs. Accordingly, AQIS seeks to prevent cross-subsidisation between programs.

2.11 The ANAO considers it good practice for AQIS to minimise cross-subsidisation below the program level. A situation where clients of one service (or activity¹⁵) are over-charged while clients of another service (or activity) are under-charged can lead to the inequitable situation where clients in the first group effectively are subsidising clients in the second. A clear articulation of AQIS’ policy direction and broad intent on cost-recovery below the program level would aid in preventing this cross-subsidisation, and would better support consistent and more transparent decision-making.

2.12 At the start of this audit, AQIS advised that it had an informal policy of minimising cross-subsidisation below the program level. AQIS has now documented this policy in its 2003–04 Internal Budgeting Policy. The policy requests programs to align their fees and charges with the costs of activities and/or services to major client groups. Where the costs do not align, either changes need to be made to fee and charge structures, or the reasons need to be documented and agreed by the AQIS Business and Finance Committee. AQIS is in the process of updating its *Fees and Charging Policy* document, and it advised the ANAO that its policy on minimising cross-subsidisation below the program level will form a part of its revised 2003–04 version.

Uniform charging

2.13 AQIS has a system of nationally uniform fees and charges. At the time of the previous audit this policy was not formally articulated. The policy of nationally uniform charging is now included in the AQIS *Fees and Charging Policy* document. Whilst uniform charging will result in a degree of cross-subsidisation between locations with respect to fixed costs, the policy recognises Constitutional requirements that the Commonwealth cannot discriminate between states or parts of states.

¹⁵ AQIS groups services into activities. See paragraph 3.14.

Guidelines

2.14 AQIS has charging guidelines for each cost-recoverable program, which are available from the AQIS website. The guidelines inform clients on how, and when, particular fees and charges are applied. They also provide a description of the program and the Act under which fees and charges are imposed.

2.15 The previous audit found that the charging guidelines, which had been developed in 1996, were out of date. AQIS has now updated all charging guidelines for its cost recoverable programs.¹⁶ Although programs are required to update the guidelines annually, and when fees and charges have been changed, this is not reflected in AQIS' *Fees and Charging Policy*. AQIS advised that it will update the 2003–04 *Fees and Charging Policy* to incorporate this requirement.

2.16 The ANAO found that guidelines for some programs did not accurately reflect the legislation under which AQIS currently operates.¹⁷ In contrast, the Post-entry Animal Quarantine guidelines are more comprehensive and reflect better practice that might be followed by other programs. These guidelines list the relevant section from the legislation against each fee, making the basis of the imposition of each fee more transparent for industry. AQIS advised that it is correcting the inaccuracies in the legislative references in guidelines. It will also consider implementing more widely the better practice observed by the ANAO.

Procedural documentation

2.17 At the time of the previous audit, AQIS was replacing its Budget Management System.¹⁸ The ANAO noted that a comprehensive document on cost-identification in the new system would be required to support effective implementation.¹⁹

Internal Budgeting Policy

2.18 AQIS has articulated the framework for managing the internal budget cycle in its Internal Budgeting Policy. The document outlines the roles of those responsible for developing budgets, the order in which budgets are developed, revenue and expenditure allocations, and the process for approval.

¹⁶ The 2002–03 guidelines for the Quarantine Import Clearance program were being updated at the time of this audit and were not available to the public.

¹⁷ For example, the Fish Export program has fee-for-service activities that are given effect by the *Export Inspection (Service Charge) Regulations 1985*; this legislation does not appear in the guidelines. The Horticulture Export program guidelines list the *Export Inspection (Quantity Charge) Regulations 1985*; these regulations do not apply to any of the fees and charges in the Horticulture Export program.

¹⁸ BMS was replaced by iTM1: see chapter 10—Accuracy of AQIS' Cost-recovery Systems.

¹⁹ ANAO Report No.10 2000–01, op. cit., paragraph 2.8, p. 40.

2.19 A feature of the AQIS internal budgeting process is the collection of information from, and accountability to, AQIS' internal and external stakeholders, such as industry consultative committees (ICCs). However, some stakeholders advised the ANAO that they feel unable to influence some aspects of the budget process, such as the attribution of the department's overheads to programs.²⁰

2.20 In response, AQIS advised that while ICCs play an active role in budget formulation, ultimately their role is advisory only—it is AQIS' responsibility to finalise and approve budgets. Further, the choice of cost drivers used to allocate the department's overhead costs—a decision that may impact favourably on some programs and unfavourably on others—is determined by senior staff across the department, following extensive consultation with ICCs. The ANAO examined the cost drivers and found that they satisfactorily attributed overhead costs across programs.

2.21 Some stakeholders contacted by the ANAO also considered the financial information provided to the ICCs to be insufficiently detailed. AQIS advised that a standard financial reporting framework was introduced following agreement by all ICCs. ICCs have the option of requesting more detailed reports if they believe that the standard reports provide insufficient detail.

2.22 AQIS has since discussed the level of financial detail with these stakeholders to resolve this issue.

Budget Overview

2.23 The AQIS Budget Overview is a procedural document for AQIS staff. It outlines the budget process, and provides information needed to develop program budgets in iTM1, the new budget management system. There is also a mid-year version of the Budget Overview outlining the mid-year budget process.

2.24 The Budget Overviews include a data dictionary that defines the fields that are to be entered into iTM1. This data dictionary provides, amongst other things, instructions on how to enter full-time equivalent (FTE) staffing numbers into the budget system so that the correct employee expenses are calculated. However, it does not address what to enter when an employee works in more than one program. The ANAO found that regional offices undertook different procedures when this occurs; AQIS has agreed to update the documents to address this.

²⁰ These overheads comprise corporate expenses that are charged to AQIS and other agencies within the department, such as insurance, the cost of graduates and other recruitment services, internal audit fees and corporate legal costs.

Conclusion

2.25 AQIS has implemented this recommendation:

- it has documented its cost-recovery policies;
- its fees and charging guidelines have been updated, and are now subject to regular review; and
- procedural documentation has been developed to guide staff in the budget development process.

3. Staffing Costs

This chapter outlines AQIS' implementation of recommendation 2 of the previous ANAO Report.

Introduction

3.1 Nearly 60 per cent of AQIS' recoverable program costs relate to the employment of staff. The accurate apportionment of staffing costs is therefore vital to ensuring that AQIS' programs are accurately costing their activities.

Findings of the previous audit

The previous audit found that AQIS systems provided only limited assurance of the apportionment of the costs of staff who share their time across recoverable programs, or between recoverable and non-recoverable programs.²¹

It also found that AQIS estimated the allocation of staff costs to some major client groups, but that this was not general practice and the groupings were at a high level. Consequently, there was limited information on the costs of various services for clients within programs. Furthermore, the allocations made were subjective and not subject to verification processes.²²

ANAO recommendation 2

The ANAO recommended that AQIS consider the cost-effectiveness of introducing a system to enable it to determine, and regularly review, the proportion of time spent by staff working on each program, and on the different types of activities within programs.²³

AQIS Response

AQIS agreed to this recommendation.

3.2 AQIS now uses two systems for apportioning staff costs across activities and programs. The following sections summarise these two systems.

Apportioning staff costs

At the program level

3.3 Information on the number of staff, their pay rates, and the programs against which staff costs will be charged is held in the personnel and human

²¹ ANAO Report No.10 2000–01, op. cit., paragraph 3.27, p. 54.

²² *ibid.*, paragraph 3.29, p. 54.

²³ *ibid.*, ANAO recommendation 2, paragraph 3.32, p. 55.

resources system (AURION). Before each fortnightly payday, AQIS disseminates a report—the Trial Pay Report (TPR)—that lists the number and cost of full-time equivalent staff that are expected to be charged to each program/region on payday. The program managers and/or regional managers are responsible for verifying that the information in the report is accurate, including checking that:

- all staff in that office appear on the report;
- all classifications, project and location codes are correct; and
- staff who work for more than one program have the correct program codes and time allocations.

3.4 Managers are required to return the reports, including nil amendment reports, to their regional business support area, where the personnel and human resources system is updated as necessary. A second report—the Final Pay Report—is then sent to managers, detailing the final salary costs to be charged to their program for that pay period. If the staffing costs are still incorrect at this stage, managers are required to prepare correcting journal entries post-pay to credit the program that has been incorrectly charged, and debit the correct program.

3.5 The generation of the Trial Pay Report is a new step introduced by AQIS since the previous audit to simplify and hasten the method of amending incorrect staff costs. Paragraphs 3.23 to 3.25 below provide further information.

At the activity level

3.6 AQIS calculates activity staffing costs by apportioning the total program staffing cost (described above) to the program's component activities in proportion to the time recorded on the activities. Time data is obtained through the new Activity Cost Assessment scheme (ACA). AQIS introduced the ACA to obtain more accurate details of time spent on activities, and to better manage the risk of cross-subsidisation between activities.

3.7 When the ACA was implemented, each program identified the activities against which staff record their time. This time recording takes place during a snapshot period of two weeks every three months. Four of these snapshots had been completed by July 2003.

Activity Cost Assessment scheme

3.8 In response to the previous audit's recommendation, AQIS contracted a consultant to undertake a review to determine the cost-effectiveness of introducing a system to enable AQIS to measure the proportion of staff time

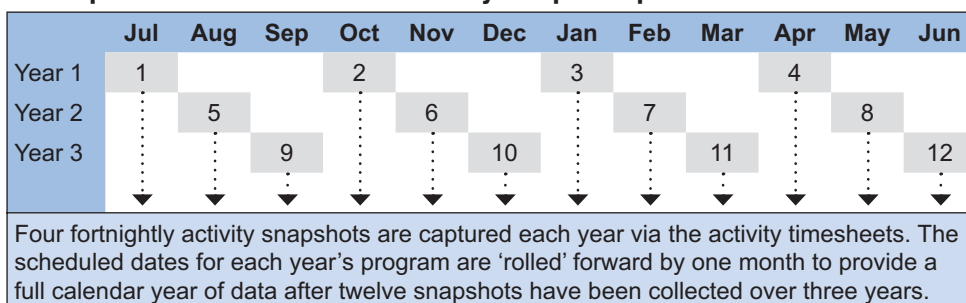
spent working on each program and the different types of activities within programs. The review considered four options:

- continuing with the existing method of allocating staffing costs, with improvements to the processes used to validate salary adjustments;
- implementing a program of activity snapshots to capture the activities performed by staff;
- implementing timesheets to capture all work undertaken (i.e. staff would complete a time sheet every day). Under this proposal, program activities would receive direct charges from staff, based on the time spent each fortnight on each activity; or
- implementing a full activity-based costing regime.²⁴

3.9 The consultant recommended the option of activity snapshots that would capture, over a two-week period every three months, the activities within each program performed by staff. The ‘rolling’ program of snapshots would provide data for a 12-month period after three years (refer to Figure 3.1 below).

Figure 3.1

Conceptual overview of AQIS activity snapshot process



3.10 The consultant advised AQIS that this option would provide greater transparency and veracity to the process of allocating staffing costs to program activities than AQIS’ previous method, while also being more cost effective to administer than a full activity-based costing regime.

3.11 AQIS agreed to the consultant’s recommendation and, after conducting a trial, implemented the ACA system in August 2002.

Guidelines

3.12 At the time of each snapshot, staff are sent a timesheet, and the ACA Recording Guide containing instructions for its completion. The ANAO found

²⁴ The basic principle of activity-based costing is that when activities are performed, costs are incurred, and the cost objects (branch, location, activity, a process, or a unit of output) consume activities. Costs are traced firstly to activities, and then to cost objects. *Building Better Financial Management Support—ANAO Better Practice Guide*, November 1999.

that the guide provided clear instructions for completing the timesheet. The timesheets reviewed by the ANAO were consistent with the instructions in the guide.

Quality assurance

3.13 There is a two-stage quality assurance process undertaken for each snapshot. The ACA project team conducts an initial quality assurance check by consolidating the ACA data into regions, programs, and activities, and checking for anomalies. Following this, reports summarising the total hours and cost for each activity are sent to managers for validation. Unlike the TPR process, which requires nil amendment reports to be returned, managers only return the ACA reports if they identify a possible error, so it is unclear whether all managers are correctly validating their reports. If all managers were to confirm that they had validated the report, this would strengthen the quality assurance process.

Improvements

Forming activities

3.14 One of the aims of the ACA project is to improve the management of cross-subsidisation at an activity level. However, if an activity is formed at an inappropriate level, the risk of cross-subsidisation between clients remains.

3.15 Consequently, activities should be formed at a level that considers:

- equitable outcomes for clients;
- the cost for AQIS;
- the benefits of stability of fees and charges;
- transparency of outcomes; and
- the 'wider' AQIS outcomes associated with Government export and import reforms.

3.16 The ANAO found instances where the activity had not been formed at the most appropriate level. For example, for the Post-entry Plant and Animal Quarantine programs,²⁵ AQIS initially formed one activity that covered all the services provided by the program, and this activity was used in the ACA for the first three snapshots. However, clients using plant services are different to those using animal services; consequently, grouping all services under one activity increased the risk of cross-subsidisation between client groups. AQIS revised the program's activities for the fourth snapshot, creating separate activities for

²⁵ Post-entry animal quarantine and plant quarantine are combined into one program, but because they comprise two distinct user groups, the performance of each group is reported separately.

plant maintenance, the care and maintenance of cats and dogs, and the administration of each animal type.²⁶

3.17 The ANAO suggests that guidelines outlining the level at which activities are to be formed would assist AQIS to better manage cross-subsidisation below the program level.

3.18 AQIS advised that it was important that the ACA system was successfully implemented. This may not have occurred if the initial list of activities was excessively complex and could not easily be understood by staff. AQIS further advised that it will revise the activities when they are not considered suitable, following the system's successful implementation and its acceptance by staff.

Alignment to fees and charges

3.19 AQIS began to analyse the results of the four activity snapshots for each program in June 2003.

3.20 If the data from the four snapshots are consistent across quarters, then the time recording data will be available for use during 2003–04 to begin to align fees and charges to costs at the activity level.²⁷

3.21 If ACA data indicate that fees and charges for a particular activity need adjustment in one direction, but do not conclusively indicate the magnitude of the necessary adjustment, AQIS will consider a partial, pro-rata adjustment to fees and charges. The partial adjustments will continue until AQIS has collected snapshot data for each calendar month (i.e. after three years). At this time, fees and charges will be fully aligned using ACA data.

3.22 If there is no discernable trend or pattern, the ANAO suggests that AQIS examine the cost effectiveness of collecting two-monthly, or even monthly, snapshots for activities where partial adjustments to fees and charges have been made. For example, if a seasonal pattern in an activity is known to occur, and will not be sampled by the snapshot program until the third year, then collecting additional snapshots to capture the seasonal pattern in these programs might allow a full alignment of costs with fees and charges to take place more rapidly. Alternatively, the timing of the snapshots for this program could be adjusted to coincide with the seasonal pattern.

²⁶ Separate activities have been formed for horses; cattle/alpacas; avian; and other animals.

²⁷ Due to impediments discussed in paragraph 7.25 that may limit the use of this initial data, some programs may not be able to fully align fees and charges at this stage.

Trial Pay Report procedure

3.23 The previous audit found that the fortnightly FTE reports were not monitored in a consistent manner, therefore appropriate journal entries to reflect actual staffing costs to program areas were not always raised to correct the general ledger.²⁸

3.24 The ANAO found the TPR procedure has addressed these weaknesses. It is a far simpler and quicker method of correcting staff costs than the previous method of raising journal entries, and managers are monitoring the TPR more consistently than the previous FTE reports. All staff surveyed during the audit were aware of the reports and the requirement for them to be validated. AQIS provided an audit trail showing the reconciliation processes between programs and reports, changes made to the reports, and final costs apportioned to programs. Staff responsible for completing the reports for numerous programs sought assistance from appropriate contacts in each area when required.

3.25 Notwithstanding the improvements in monitoring, there is no systematic procedure for these estimates to be validated against the results of the ACA. The ANAO noted that some managers did such checks, especially when there was an absence of historical data.

Comparing program and activity staffing data

3.26 As described in paragraphs 3.3 to 3.7, AQIS calculates staffing costs using two different systems. The first system allocates actual salary costs to programs (after refinements have been made using the TPR procedure). The second system calculates activity staffing costs by apportioning the actual program salary costs to its component activities in proportion to the time recorded in the ACA on each activity. Using these two methods, the total of the component activity staffing costs will always sum to the actual program costs.

3.27 As noted in paragraph 3.25, the results from the two systems are not systematically compared. The ANAO considers that AQIS would benefit from undertaking systematic comparisons, at least at the end of each financial year. The comparisons could be undertaken at two levels:

- for staff who share their time across programs, AQIS could check that the proportions of time allocated to each program are comparable between the personnel and human resource system and the ACA. This would assist in providing assurance that costs are correctly attributed to programs; and

²⁸ ANAO Report No.10 2000–01, op. cit., paragraphs 3.23–3.25, p. 53.

- AQIS could compare annual program FTE based on time recording data²⁹ with the annual program FTE from the personnel and human resources system. This would assist in providing assurance that costs are correctly attributed to activities.

3.28 While some differences in these comparisons are to be expected, a large variance may indicate that:

- systematic errors are not being identified in the TPR or ACA validation process; or
- time recorded in the ACA is not representative of time periods when no snapshots are undertaken. For example, snapshots may have been completed in peak workloads when more staff are employed than usual.

3.29 In the latter case, there is a risk to the accuracy of activity staffing costs calculated through the modelling process. ACA data may be consistent across snapshots, and will be used to fully adjust fees and charges during 2003–04, but this may have occurred because the variation occurs in other time periods not measured by snapshots.

Conclusion

3.30 AQIS has addressed the recommendation by undertaking a review, and then implementing the Activity Cost Assessment scheme to measure, on a periodic basis, staff time attributed to program activities.

3.31 In addition, AQIS has implemented the new Trial Pay Report procedure. The ANAO found that this procedure provides greater assurance that staff costs have been allocated to the correct recoverable program in AQIS' accounting system.

3.32 The ANAO considers that AQIS could better assure itself of the accuracy of staffing costs if it was to undertake systematic comparisons between its two systems, at least at the end of each financial year.

²⁹ AQIS records time spent on activities for a period of eight weeks a year (four snapshots of two weeks each) so an adjustment would need to be made to estimate the annual hours. For example, if 200 hours were spent on a program's activities during the eight week recording period, 1300 hours (200 x (52/8)) would be estimated to be spent in a year. Other adjustments may be necessary to ensure that the two sets of FTEs are comparable, for example, excluding overtime hours.

4. Managing the Risk of Under or Over-recoveries

This chapter outlines AQIS' implementation of recommendation 2 of the JCPAA Report.

Introduction

4.1 It is AQIS' policy that cost-recovered programs should ideally recover their costs in the year the costs are incurred. However, the policy states that 'full recovery in one year should be weighed against the necessity for price stability and, in practice, it may not be possible to achieve full cost-recovery in one year'.³⁰

4.2 Programs may budget for under-recoveries in a particular year to preserve stability in fees and charges, as long as there are sufficient funds held in reserve accounts and they have the agreement of the relevant industry consultative committee.

4.3 Programs may also budget for over-recoveries to cover previous years' deficits, to build up funds in their industry reserves accounts, or to ensure that the program has sufficient revenue to cover costs in cases where revenue or cost estimates are hard to quantify.

Findings of the previous audit

*Over-recovered funds held in program reserves were significant for some industries, and were often retained in industry liability accounts for a number of years, rather than being paid out promptly.*³¹

JCPAA recommendation 2

*The JCPAA noted that AQIS had not acted promptly to rectify these issues,³² and consequently recommended that AQIS improve risk management in its fee-setting activities with the aim of significantly reducing over-recoveries.*³³

AQIS response

AQIS agreed to this recommendation.

³⁰ AQIS *Fees and Charging Policy*, September 2002, p. 18.

³¹ ANAO Report No.10 2000–01, op. cit., paragraphs 4.17, p. 67; and 4.22, p. 69.

³² Joint Committee of Public Accounts and Audit, *Report No. 383: Review of the Auditor-General's Reports 2000–01, First Quarter*, paragraphs 4.34–4.36, p. 41.

³³ *ibid.*, recommendation 2, p. 41.

4.4 When unbudgeted under or over-recoveries become evident, AQIS' policy states that action should be taken to adjust charges to ensure that costs are fully recovered over a set period of time.

Managing the risk associated with setting fees and charges

4.5 The ANAO found that AQIS manages the risk of under or over-recoveries in a number of ways:

- since the previous audit, each AQIS program is required to prepare annual business plans describing how the program will assist AQIS to achieve its objectives. As part of the completion of business plans, managers must complete a systematic risk analysis and evaluation, including risk management strategies for their fee and charge-setting activities. AQIS has a business planning toolkit that provides managers with comprehensive guidance on the steps to take when developing these business plans. The toolkit incorporates instructions on how to identify, analyse and evaluate potential risks, and to identify options for their treatment. The ABFC endorses the plans and each program is required to report its performance against its plan;
- monthly reporting to the ABFC on the status of program revenue and expenditure has been enhanced. At the time of the previous audit, the ABFC received high level summary data for each program (e.g. revenue and expenditure). It now receives individual program reports, including comprehensive financial analyses. Program managers are also now required to sign off a checklist showing that they have completed a number of processes prior to the reports being sent to the ABFC.³⁴

The ABFC uses this information to monitor results for each program. It pays particular attention to any variance against budgeted expenditure and revenue for the year to date in excess of five per cent or \$0.5 million, whichever is the greater. Programs are also required to prepare a special presentation to the ABFC if the variance is in excess of \$2 million in the Meat Inspection, Quarantine Import Clearance, or the Airports programs, and ten per cent or greater in the other programs.

4.6 Consultation with industry groups on projected activity levels still occurs in the manner described during the last audit. There are detailed discussions between program management and industry committees at the start of the year, and as the year progresses, to identify factors that may influence revenue and

³⁴ Such as ensuring that: the staff to computer ratio is reasonable; revenue/expenditure has been correctly phased to reflect seasonality; and that any variance against budget has been explained.

costs. AQIS advised that industry has considerable insights regarding factors that may affect activity levels within programs, such as environmental issues and levels of overseas trade. This information is valuable to program managers in assisting them to identify potential situations in which under or over-recoveries may arise, and is used as part of the discussions between program managers and the ABFC.

4.7 Although AQIS has enhanced its procedures for managing the risk of over-recoveries, it does not draw together all identified program risks into its business plans. The ANAO reviewed business plans for the five programs surveyed for this audit. The Meat Inspection program had the most comprehensive risk assessment of the five programs. Its plan considered detailed risks and treatments for specific cost increases and fluctuations in industry demand. However, the risk identification and mitigation strategies in relation to cost-recovery for the four other programs were less comprehensive. For example, the only risk identified by the Quarantine Import Clearance program was 'failure to cost-recover', and the mitigation strategy was 'progression of the Import Clearance Cost-Recovery 2002–03 Project'.

4.8 A clearer articulation of cost-recovery risk management strategies in the business plans would assist AQIS to manage risk more in line with the JCPAA's recommendation. For example, AQIS could identify the risk of external factors that could significantly impact on the demand for exports or imports, such as world events (for example, hostilities overseas, exchange rate variations), environmental issues (for example, droughts), changes to legislative requirements (for example, arising from foot-and-mouth breakouts) and the subsequent impacts on program revenue, costs and fees/charges.

4.9 The effectiveness of AQIS' risk management strategies in managing under and over-recoveries is discussed below.

Cost-recovery performance

4.10 AQIS' cost-recovery performance across all AQIS programs is summarised in Figure 4.1. AQIS over-recovered \$20.4 million during the four years from 1999–2000 to 2002–03. This represents 2.8 per cent of costs over the period. Appendix 1 summarises the cost-recovery outcomes for individual programs.

4.11 As mentioned in paragraph 2.7, the cost-recovery outcomes have been vulnerable to unanticipated changes in activity levels, partly because the AQIS policy principle that fixed costs are to be covered by charges, and variable costs by fees, has not yet been fully implemented. This has contributed to some of the under and over-recoveries discussed in this chapter.

Figure 4.1

AQIS recoverable programs' operating outcomes and percentage of costs recovered 1999–2000 to 2002–03³⁵

Year	1999–2000	2000–01	2001–02	2002–03	Cumulative results 1999–2003
Operating outcome (\$m)	\$1.7	\$2.6	\$5.2	\$10.9	\$20.4
Costs recovered (%)	101.2	101.7	102.9	104.6	102.8

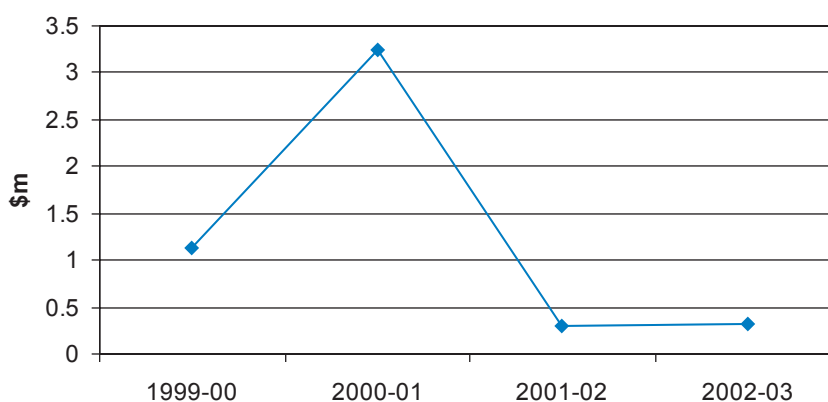
Source: AQIS.

Meat Inspection program

4.12 The previous audit found that the Meat Inspection program under-recovered its costs over the six years from 1993–94 to 1998–99 by an average of \$5.3 million each year. This audit found that the reforms mentioned in the previous audit have assisted in management of cost-recovery. The program is now over-recovering its costs by a small amount, the average for the period 1999–2000 to 2002–03 being \$1.3 million per year (see Figure 4.2). AQIS advised that the large over-recovery against fixed and variable costs in 2000–01 was largely due to a reduction in fixed costs—for example, there was an unplanned reduction in corporate overheads during that year.

Figure 4.2

Cost-recovery outcomes for the Meat Inspection program, 1999–2000 to 2002–03



Source: AQIS.

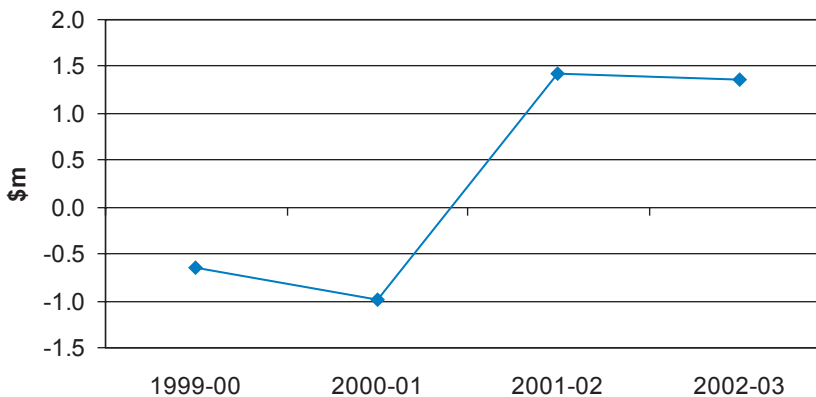
³⁵ Includes transfers from Revenue Rebate accounts and excludes transfers to and from other reserves. These reserve accounts are described in the 'Management of under or over-recovered funds' section of this chapter.

Horticulture Export program

4.13 Over the four years 1999–2000 to 2002–03, the Horticulture Export program had both the lowest and highest cost-recovery results in percentage terms of all programs. Figure 4.3 summarises each year's operating results.

Figure 4.3

Cost-recovery outcomes for the Horticulture Export program, 1999–2000 to 2002–03



Source: AQIS.

4.14 The program restructured fees and charges in 2001–02 to achieve a balanced cost-recovery outcome. However, large surpluses were generated in 2001–02 and 2002–03. AQIS advised that these arose partly as a result of greater than expected export volumes that generated revenue without significant increases in expenditure. The Horticulture Exports volume charges were set to cover most overheads, so if horticulture activity increased, the program over-recovered its fixed costs.

4.15 There was also an additional impact resulting from changes following the introduction of the 40 per cent government contribution to exports. At this time, AQIS and industry agreed to move to a co-regulatory framework where horticulture businesses perform some inspection and assurance functions previously performed by AQIS inspectors. This was consistent with the Government's intention that the 40 per cent contribution be used to encourage industry to move to a co-regulatory framework. Shipments exported from businesses with co-regulatory arrangements attract a lower charge per tonne for some exports, based on the lower level of AQIS involvement in the certification process.

4.16 The fees charged for inspections performed by AQIS were set to encourage a move away from AQIS involvement in the process, with the agreement of industry. However, exporters continued to use the more expensive AQIS process,

contributing to the over-recovery. AQIS advised that this was due in part to the nature of the industry, which has many small, family businesses.

4.17 AQIS advised that on occasions it seeks to influence industry behaviour by setting some fees above the cost of the service provided. However, the *AQIS Fees and Charging Policy* does not provide guidance on the circumstances where this is considered appropriate. Such guidance will be particularly pertinent as setting fees in excess of the costs raises the issue of whether the fees could be construed as charges, and should then have been imposed under taxation legislation.

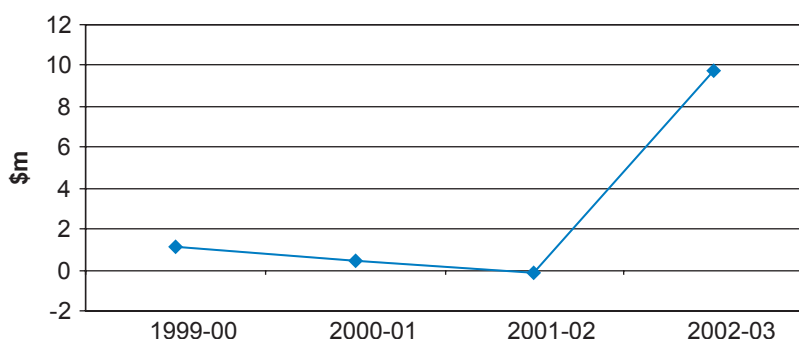
4.18 AQIS advises that considerable work has been undertaken during 2002–03 to assist exporters to take up co-regulation. AQIS has sought advice on the impediments to business, and has been educating and providing assistance to enable exporters to take up this option.

Quarantine Import Clearance program

4.19 The Quarantine Import Clearance program is the largest recoverable program. It represented about 28 per cent of recoverable program expenditure in 2002–03. The program had the largest quantum of over-recovered funds of all programs during the period 1999–2000 to 2002–03. This was largely attributable to a \$9.8 million over-recovery (87 per cent of the total over-recovery) in 2002–03 (see Figure 4.4).

Figure 4.4

Cost-recovery outcomes for the Quarantine Import Clearance program, 1999–2000 to 2002–03



Source: AQIS.

4.20 AQIS advised that the large over-recovery in 2002–03 was attributable to import volumes being considerably higher than expected, by some 10–15 per cent. The higher than expected imports were considered most likely due to a favourable exchange rate and low interest rates boosting spending. AQIS further

advised that the realisation of program efficiencies meant that the program did not incur additional costs to cope with the unexpected growth, hence over-recoveries occurred. Fees and charges were set to recover a proportion of overhead costs, so if the volume of imports increased, the program over-recovered its fixed costs.

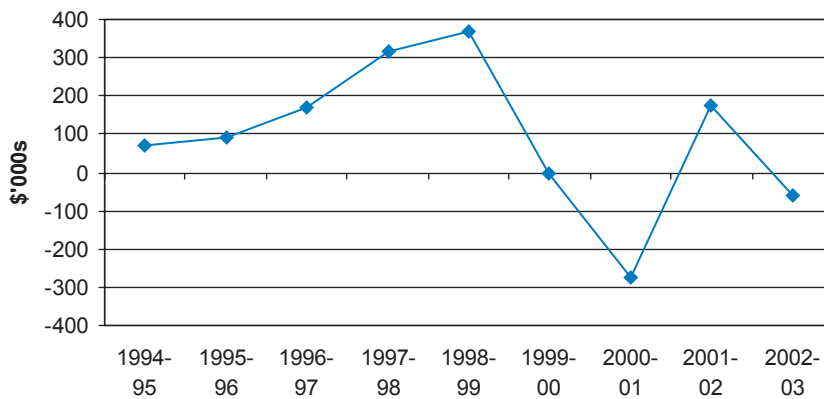
4.21 A review of the current charging structure is underway as part of the implementation of the revised cost-recovery model (discussed in Chapter 7). In addition, an independent review of expected economic conditions over the next three years is underway to predict elements of the economy that may impact on quarantine activities and revenue. The results of both these reviews will be used by AQIS to determine whether the program's fees and charges should be varied to better manage cost-recovery outcomes.

Post-entry Animal Quarantine program

4.22 The previous audit found that the Post-entry Animal Quarantine program had generated over-recoveries totalling \$1 million in the five years to 30 June 1999.³⁶ This audit found that over the next four years, the program had a deficit of \$158 000³⁷ (see Figure 4.5).

Figure 4.5

Cost-recovery outcomes for the Post-entry Animal Quarantine program, 1994–95 to 2002–03



Source: AQIS.

4.23 AQIS is budgeting to under-recover its costs in 2003–04 by \$0.2 million due to increased property costs, additional maintenance at the Eastern Creek

³⁶ ANAO Report No.10 2000–01, op. cit., paragraph 4.33, p. 72.

³⁷ Note that the 1999–2000 *Report to Clients* disclosed a surplus of \$122 000 for that year due to an unexpected increase in occupancy rates. However, this surplus was adjusted through a reduction in the Quarantine Subsidy revenue.

Quarantine Station to repair kennel drains, and an increase in the number of cages required to house cats and dogs. The under-recovery will be financed by previous over-recoveries of fixed and variable costs. If the deficit is realised, the program's outcomes over the five years from 1 July 1999 to 30 June 2004 will be largely balanced.

4.24 Chapter 5 provides more information on reviews conducted by the program that have contributed to the outcomes described above.

Grain Export program

4.25 The previous audit found that the Grain Export program had an average over-recovery of 26 per cent per annum over the period from 1994 to 1999.³⁸ The program had considerably more balanced cost-recovery outcomes during the 1999 to 2002 period, than those prior to 1999. The average under-recovery was 0.3 per cent.

Summary

4.26 The ANAO found that AQIS is managing its over-recoveries better than during the previous audit. Appendix 1 shows that during the 1999 to 2003 period, none of the programs consistently over-recovered its costs by more than 10 per cent each year.

4.27 The implementation of the Government's Increased Quarantine Intervention initiative from 2001–02 more than doubled the costs of the non-meat programs. The increased costs contributed to an increase in the average annual operating result between the periods covered by the two audits³⁹ (from \$2.2 million to \$3.8 million), but a reduction in the percentage of costs over-recovered for these programs (from 3.7 per cent to 3.0 per cent).⁴⁰ If the Quarantine Import Clearance program is excluded from the calculations, the percentage of costs over-recovered shows a much larger improvement (from 4.8 per cent to 1.3 per cent).

4.28 The average annual operating outcome for the two audit periods has improved substantially for the Meat Inspection program (from -\$4.4 million to \$1.3 million).

³⁸ ANAO Report No.10 2000–01, op. cit., paragraph 4.18, p. 68. The ANAO also noted that AQIS had legal advice advising that a program could have difficulty in maintaining its status of fee-for-service 'cost recovery' if its revenue exceeded its costs by more than 10 per cent—the charge could be construed as a tax.

³⁹ 1994–95 to 1998–99 and 1999–2000 to 2002–03.

⁴⁰ Non-meat program expenditure was \$78.4 million in 1998–99, and \$178.2 million in 2003–04.

Management of under or over-recovered funds

Industry liability accounts

4.29 Under the terms of the *Financial Management and Accountability Act 1997*, over-recovered funds represent Commonwealth monies and there is no specific requirement under AQIS fees and charging legislation to return these funds to industry. However, AQIS has a general agreement with industry on the treatment of over-recovered funds, which is expressed in the *AQIS Fees and Charging Policy*.

4.30 The ANAO notes that over-recoveries received under fee-for-service legislation could be construed as a tax if the funds were not to be returned to industry. AQIS could be subject to a legal challenge if this is the case.

4.31 AQIS has agreed that over-recoveries will be returned to industry; they therefore represent a liability to AQIS. The recognition of a liability for over-recovered funds is supported by the Statement of Accounting Concepts, which indicates that a liability must reflect a 'present obligation'. The definition of a present obligation includes equitable and constructive obligations as well as legal obligations.⁴¹

4.32 AQIS uses industry liability accounts to hold funds over-recovered from industry.

4.33 AQIS requires that specific criteria be met in order to establish and maintain industry liability accounts. There must be a specific identifiable program that operates on a cost-recovery basis; the program must have an identifiable industry group and/or group of clients; and there must be an expectation that the program's activities will extend into the future. It must not contravene any other agreement relating to the return of over-recoveries, such as an agreement with another agency. Establishment of the account should be agreed with the relevant industry consultative committee and approved by the ABFC.

4.34 There are three types of industry liability accounts:

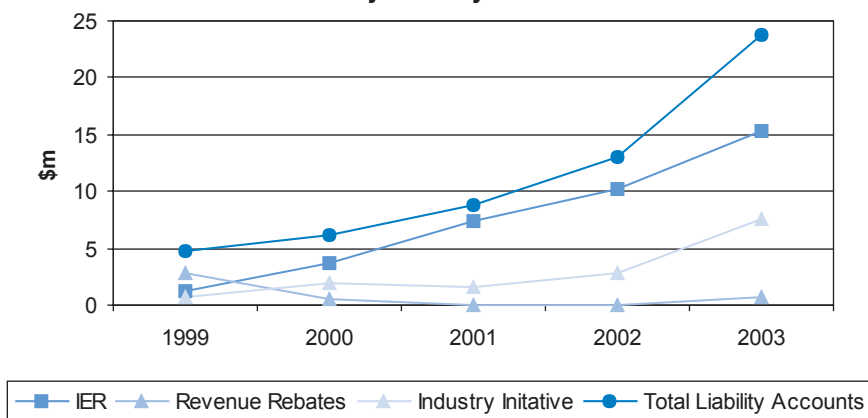
- Income Equalisation Reserve accounts (IER);
- Revenue Rebate accounts; and
- Industry Initiative accounts.

4.35 Figure 4.6 shows the amounts held in the three accounts at 30 June for each year 1999 to 2003. Appendix 2 provides further information.

⁴¹ *AQIS Policy on the Use of Industry Liability Accounts*, p. 3.

Figure 4.6

Funds held in AQIS industry liability accounts at 30 June



Source: AQIS.

4.36 The combined balance of the three accounts at 30 June 2003 was almost five times the balance held at 30 June 1999 (\$23.7 million compared to \$4.8 million). This was largely attributed to: higher reserves being held for import programs, which increased in size;⁴² a build up of \$5.4 million in reserves for the Meat Inspection program (which had operating deficits for most of the years covered by the previous audit); and an unexpected \$9.7 million over-recovery in 2002–03 for the Quarantine Import Clearance program.

4.37 Each of the three accounts is discussed in more detail below. Appendix 3 illustrates how over-recovered funds move between the three accounts.

Income Equalisation Reserve accounts (IERs)

4.38 The principal purpose of IERs is to buffer AQIS and industry from unforeseen events that would result in program deficits, thereby reducing the need for frequent changes to fee and charging levels.

4.39 Prior to June 2003, AQIS' policy was that a maximum of 10 per cent of annual program expenditure could be held in an IER⁴³ to cover unforeseen events. AQIS did not have a policy that allowed programs to use these balances to cover budgeted⁴⁴ deficits. IER balances for some programs were, therefore, steadily accumulating towards the 10 per cent limit.

4.40 In June 2003, the ABFC amended the IER policy so that programs could use IER balances to cover budgeted deficits, so long as at least five per cent balances remained to meet unforeseen future deficits.

⁴² Due to extra funding for the Increased Quarantine Intervention initiative. There was a \$56.9 million (37 per cent) increase in AQIS' expenditure during 2001–02.

⁴³ *AQIS Fees and Charging Policy*, September 2002, p. 20.

⁴⁴ That is, planned or 'foreseen' deficits.

4.41 At 30 June 2003, IERs for three programs had reached their allowable limit (see Figure 4.7). These were: Quarantine Import Clearance; Horticulture Export; and Dairy Export programs. Two other programs, the Seaports and Meat Inspection programs, had balances approaching the limit (9.4 per cent and 8.9 per cent, respectively).

4.42 With the exception of Quarantine Import Clearance, AQIS plans to under-recover the costs of these programs in 2003–04 (see Appendix 4), which should reduce the balances held in their IERs.

4.43 Cost-recovery strategies for the Quarantine Import Clearance program will be determined at the mid-term budget review, following the current reviews (see paragraph 4.21). This will include consideration of the need to reduce the balances held in the IER.

Figure 4.7

Balances in Income Equalisation Reserves–30 June 2003

Program	IER balance \$'000	2002–03 expenditure \$'000	IER % of expenditure
Quarantine Import Clearance	6 573	65 828	10.0
Airports	98	61 608	0.2
Meat Inspection	5 397	60 651	8.9
International Mail	969	15 749	6.2
Seaports	858	9 169	9.4
Grain Export	405	7 107	5.7
Horticulture Export	563	5 631	10.0
Fish Exports	69	3 938	1.8
Post-entry Animal Quarantine	202	3 625	5.6
Live Animal Export	47	2 594	1.8
Post-entry Plant Quarantine	0	1 628	0
Dairy Export	120	1 197	10.0
Organics	7	132	5.3
Total	15 308	238 857	6.4

Source: AQIS.

Revenue Rebate accounts

4.44 It is AQIS policy that over-recoveries above 10 per cent of the expenditure of a program can be placed in a Revenue Rebate account. Funds in these accounts are to be used by temporarily applying a rebate to the level of fees or charges applied for services performed by the recoverable program, unless the industry

agrees to the funds being transferred to another reserve account.⁴⁵ There are no limits on the level of funds that can be held in the Revenue Rebate accounts.

4.45 The previous audit found that, of the six programs that had Revenue Rebate balances at 30 June 1997, only one had paid out rebates over the two years following this date. The ANAO concluded that Revenue Rebate balances were often retained for a number of years, rather than being paid out promptly by means of a fee or charge discount.⁴⁶

4.46 AQIS has now addressed this finding. The balance in Revenue Rebate accounts decreased from \$2.8 million at 30 June 1999, to \$0.8 million at 30 June 2003 (see Appendix 2). The latter amount is attributable to the Horticulture Export program, which transferred \$0.8 million of over-recovered funds into its Revenue Rebate account. AQIS advised that these funds will be used during 2003–04 by applying a rebate against the fees/charges paid by clients of the program.

4.47 AQIS cleared the balance in the Quarantine Import Clearance program Revenue Rebate account mentioned in the previous audit by transferring \$1.3 million to its Industry Initiative account during 1999–2000.⁴⁷ These funds had been held in the Revenue Rebate account from 30 June 1998. Most of the funds transferred have not yet been spent. AQIS advises that the program expects to gain agreement from industry to rebate approximately \$5 million during 2003–04. It will do this by transferring the funds from the Industry Initiative account to the Revenue Rebate account.

Industry Initiative accounts

4.48 It is AQIS policy that any over-recoveries above 10 per cent of the expenditure of a program may be placed in the program's Industry Initiative account, rather than the Revenue Rebate account. The purpose of an Industry Initiative account is to fund specific projects agreed between industry and AQIS. For example, the Quarantine Import Clearance Industry Initiative account has funded projects aimed at identifying more efficient processes in the industry. It has also funded short-term transfers of staff between AQIS and industry, aimed at enhancing AQIS' knowledge about the industry, and industry's knowledge about AQIS.

4.49 The balance in Industry Initiative accounts increased from \$0.7 million at 30 June 1999 to \$7.6 million at 30 June 2003 (see Appendix 2). The majority of the funds (\$5.8 million) are attributable to the Quarantine Import Clearance program,

⁴⁵ *AQIS Policy on the Use of Industry Liability Accounts*.

⁴⁶ ANAO Report No.10 2000–01, op. cit., paragraphs 4.21–4.22, p. 69.

⁴⁷ Net movements are shown in the reserve accounts in Appendix 2. Therefore, the two movements in the Industry Initiative and Revenue Rebate accounts for the Quarantine Imports Clearance are not identical.

which transferred \$4.7 million into its account after the large over-recovery in 2002–03 (see paragraph 4.19).

4.50 AQIS advises that the three programs with large balances - Quarantine Import Clearance, Horticulture Export and Seaports—should exhaust their funds during 2003–04:

- approximately \$5 million of the \$5.8 million Quarantine Import Clearance program balance is to be transferred to its Revenue Rebate account to fund the proposed rebate (see paragraph 4.47);
- the Horticulture Export account is expected to fund a number of consultancies to identify more efficient export processes in the industry; and
- AQIS has reached agreement with industry to fund a number of industry projects from the Seaports account. These include identifying improvements in industry coordination and consultation. The remaining funds will be used to offset an expected program deficit during 2003–04.

Over-recovered funds returned to industry

4.51 AQIS held \$5.4 million in AQIS industry liability accounts at 30 June 1999. It over-recovered a further \$24.7 million in the four years to 30 June 2003. Over the same period, it returned \$6.3 million to industry, leaving \$23.7 million of over-recovered funds held (see Figure 4.8).

Figure 4.8**Over-recovered funds, and funds returned to industry, 1999 to 2003**

Program	Over-recovered funds held at 30 June 1999 ^a \$'000	Gross over-recoveries 1999–2000 to 2002–03 ^b \$'000	Total over-recoveries returned to clients 1999–2000 to 2002–03 ^c \$'000	Over-recovered funds held at 30 June 2003 ^d \$'000
Quarantine Import Clearance	1 995	11 378	-967	12 417
Airports	0	1 059	-855	98
Meat Inspection	275	5 006	-275	5 397
International Mail	266	896	-194	969
Seaports	94	1 706	-303	1 404
Grain Export	1 687	550	-1 775	435
Horticulture Export	110	2 787	-506	2 248
Fish Exports	361	109	-414	69
Post-entry Animal Quarantine	360	175	-360	202
Live Animal Export	-1	455	-364	47
Post-entry Plant Quarantine	89	53	-142	0
Dairy Export	198	345	-138	405
Organics	0	40	-20	8
AQIS Training Services	0	141	-30	0
Total AQIS^e	5 434	24 700	-6 343	23 699

Source: ANAO analysis of AQIS data.

a \$4.8 million held in Industry Liability accounts; \$0.7 million credited to equity.

b Excludes program under-recoveries.

c Includes Revenue Rebates and Industry Initiatives paid; transfers from IERs to offset program losses; reductions in the accumulated deficit or surplus position between July 1999 and June 2003.

d Held in Industry Liability accounts. No funds were credited to equity.

e Totals do not sum due to rounding.

4.52 AQIS expects the various initiatives and proposals described at paragraphs 4.42 to 4.50 to reduce industry liability accounts to around 5 per cent of the expenditure of cost-recovered programs in 2003–04,⁴⁸ or \$12 million.

Conclusion

4.53 AQIS has implemented this recommendation.

⁴⁸ \$252 million. See Appendix 4.

4.54 AQIS has enhanced its procedures to reduce the risk of over-recoveries. All programs are now required to include strategies in their business plans that address risk management in fee and charge-setting activities, and to report their performance against these plans to the ABFC. AQIS has enhanced its procedures for managing the risk of over-recoveries. However, it does not draw together identified program risks into its business plans. Doing so would assist AQIS to manage risk more in line with the JCPAA's recommendation.

4.55 Monthly reporting to the ABFC on the status of program revenue and expenditure has been enhanced since the previous audit. Detailed discussions between program management and industry committees identify factors that may influence revenue and costs, and this information is used to identify potential situations in which under or over-recoveries may arise.

4.56 AQIS' strategies have generally been effective in improving program outcomes in percentage terms. The percentage of costs recovered for the period 1999–2000 to 2002–03 has improved for the Meat Inspection and non-meat programs, compared to the percentages recovered for 1994–95 to 1998–99.

4.57 Whilst the average over-recovery results in percentage terms have improved since the previous audit, the ANAO found that a number of programs have now reached the limit of the funds that can be held in their IER accounts. All but one of these programs have budgeted for deficits in 2003–04, and these deficits should reduce the balances. The remaining program, Quarantine Import Clearance, is undertaking a review of its fee structure, before determining whether a variation in fees is necessary.

5. Post-entry Animal Quarantine Program

This chapter outlines AQIS' implementation of recommendation 4 of the previous ANAO Report.

Introduction

Findings of the previous audit

The previous audit found that clients using the animal quarantine stations, mainly cat and dog importers, had paid fees well in excess of costs for a number of years. As a result, the program generated over-recoveries totalling \$1 million for the five years to 30 June 1999.⁴⁹

ANAO recommendation 4

The ANAO recommended that, in order to achieve the objective of cost-recovery, AQIS review more regularly its fees in relation to the costs incurred for the Animal Quarantine Stations program.⁵⁰

AQIS response

AQIS agreed to this recommendation.

5.1 AQIS conducted several reviews of fees and costs in the Post-entry Animal Quarantine program⁵¹ between 1999–2000 and 2001–02, although not all reviews resulted in changes to fees. The reviews concentrated on aligning program level revenue and costs, and reducing over-recoveries.

5.2 In October 2000, AQIS reviewed whether a new fee structure was required for animal quarantine station services in light of the program's previous over-recoveries. AQIS agreed that the over-recoveries would be utilised to offset future cost increases, such as increases in rent for quarantine stations. The fee structure remained unchanged.

5.3 In mid 2001, AQIS reviewed and then amended the fees relating to horses and queen bees. However, the ANAO found that AQIS based these reviews on four-year old cost data from 1997–98, rather than the costs that were current at the time.

⁴⁹ ANAO Report No.10 2000–01, op. cit., paragraph 4.33, p. 72.

⁵⁰ *ibid.*, p. 74.

⁵¹ Previously called the Animal Quarantine Stations program.

5.4 The options for the future delivery of quarantine services at the Western Australian and Victorian stations were discussed by the ABFC in April and May 2002. Issues discussed were property costs for each of the stations, lease arrangements, and capital investment to improve and expand the facilities. No amendments were made to fees as a result of these reviews.

5.5 In late 2002, AQIS reviewed the fees for cat and dog services, but agreed to delay any changes to fees as a major review of fees was planned for 2003.

5.6 In late 2002, AQIS also reviewed the program's accounting treatment of over-recoveries. As a result of this review, AQIS established an IER during 2002–03 with the aim of buffering itself and industry from unforeseen events resulting in program deficits, and to enable some degree of price stability for the program.⁵²

5.7 In recognition of the limited progress on aligning revenue and costs at the activity level, AQIS initiated a major review of fees in mid 2003 that will aim to align fees with current costs at the activity level. This review is part of the revised cost-recovery model discussed in Chapter 7.

Conclusion

5.8 AQIS has implemented this recommendation.

5.9 AQIS has conducted a number of reviews in relation to fees in the Post-entry Animal Quarantine program. There were some limitations in these reviews, but as described in paragraph 4.22, the reviews have led to improvements in the program's cost-recovery results.

5.10 Once the revised cost-recovery model has been implemented, the program will have a framework for the systematic review of fees.

⁵² Prior to 2002–03, any over or under-recovered funds in the program were treated as an increase or decrease in AQIS' equity.

6. Reporting to Clients

This chapter outlines AQIS' implementation of recommendation 3 of the previous ANAO Report.

Introduction

6.1 AQIS' annual Report to Clients provides information on revenue, expenditure and operating results for each cost-recovered program. Additionally, some industry consultative committees (ICCs) maintain websites and produce newsletters to inform the public and their members about operating results.

Findings of the previous audit

The previous audit found that the annual Report to Clients had a number of limitations.⁵³

It did not include:

- *details of the opening and closing balances of the reserve accounts;*
- *cumulative results for surpluses or deficits;*
- *consistent reports on the actual percentage of costs recovered, either at the program level or on an AQIS-wide basis; or*
- *information on how surpluses/deficits were employed.*

ANAO recommendation 3

The ANAO recommended that, to improve transparency as part of its accountability obligations, AQIS include more comprehensive information in its annual Report to Clients about cost-recovery performance, including cumulative results in relation to under and over-recoveries.⁵⁴

AQIS response

AQIS agreed to this recommendation.

Report to Clients

6.2 AQIS has included more comprehensive information in its annual Report to Clients since 1999–2000. It now includes:

- information on program revenues and expenditure, with details of resulting surpluses and deficits and the percentage of costs recovered;

⁵³ ANAO Report No.10 2000–01, op. cit., paragraph 4.28, p. 70.

⁵⁴ *ibid.*, ANAO recommendation 3, p. 71.

- details of transfers to/from industry accounts, enabling industry to monitor the movements of over and under-recovered funds; and
- tables detailing the balances of Income Equalisation Reserve and Revenue Rebate/Industry Initiative accounts, allowing program users to monitor the levels of surplus funds which will become available for fee and charge rebates or industry-specific projects.

6.3 Stakeholders consulted by the ANAO advised that they were now satisfied with the level of information reported.

Conclusion

6.4 AQIS has implemented this recommendation.

7. Minimising Cross-subsidisation

This chapter outlines AQIS' implementation of recommendation six of the previous ANAO Report, and of recommendation three of the JCPAA Report.

Introduction

7.1 Cross-subsidisation presents several equity and economic issues. The 2001 Productivity Commission report on cost-recovery by government agencies stated:

Cross-subsidies between different processes or different users may permanently disadvantage one group relative to another. Those who pay the subsidy may restrict their use of the product, reducing desirable consumption that would have taken place if products were appropriately priced. Conversely, those who receive a subsidy may be encouraged to use too much of the product. There may also be 'flow-on' effects where the cross-subsidised services are inputs to other activities.

In addition, the costs of cross-subsidies often remain hidden. Favoured groups can receive benefits without those incurring the costs knowing that they are doing so.⁵⁵

7.2 In principle, an organisation could, on an annual basis, examine the costs of each service provided to clients, and set the fee/charge for the service to ensure sufficient revenue is generated to produce a zero outcome. This would ensure that no cross-subsidisation occurs, either across programs, across services, or across years.

7.3 However, alignment at the individual fee/charge level is rarely practicable, and not cost-effective for AQIS given the large number of services provided. Sound cost-recovery practice, therefore, seeks to manage costing and fee and charge-setting mechanisms to minimise the occurrence of cross-subsidisation, having regard to cost-effectiveness considerations. In some instances, cross-subsidisation within programs may be unavoidable or planned. For example, AQIS may set fees higher than costs for certain activities or services within a program to influence industry behaviour,⁵⁶ or to fund activities that benefit the industry as a whole.

⁵⁵ Productivity Commission, *Report No. 15*, 16 August 2001, op. cit., p. 119.

⁵⁶ Paragraph 4.16 describes such a case in the Horticulture Exports program.

Findings of the previous audit

The previous audit found that AQIS set its fees and charges at levels considered appropriate by AQIS and industry. Fees and charges were set above or below the estimated costs of the services provided, causing cross-subsidisation to be present at a number of levels in AQIS' cost recoverable programs. The extent of this cross-subsidisation was not readily quantifiable in some cases because, for example, cost data was not always available.⁵⁷

ANAO recommendation 6

The ANAO recommended that AQIS align fees charged to particular clients with the costs associated with servicing those clients where it was cost-effective to do so. Where this was not feasible, the reasons should be made transparent to relevant stakeholders and kept under review.⁵⁸ The JCPAA endorsed the ANAO's recommendation.⁵⁹

AQIS response

AQIS disagreed with the ANAO recommendation. However, it subsequently agreed to the JCPAA recommendation, thereby effectively agreeing to the previous ANAO recommendation.⁶⁰

7.4 At the start of this audit, AQIS was largely using the same cost-recovery model to set its fees and charges as in the previous audit. However, in response to the ANAO/JCPAA recommendation, AQIS has been revising this model. By the end of this audit, AQIS had made substantial progress in addressing the recommendation. The revised model will be a more equitable cost-recovery system that should reduce cross-subsidisation.

7.5 The following sections provide a broad outline of cost-recovery arrangements under the model used by AQIS during 1999–2000 to 2002–03, and more detail on the model that will be used from 2003–04 onwards.

1999–2000 to 2002–03 cost-recovery model

7.6 Under this model, AQIS program managers attributed the total costs of a program to various activities within the program. However, the attribution method and the frequency of cost compilations varied across programs. For example:

⁵⁷ ANAO Report No.10 2000–01, op. cit., paragraphs 5.20, p. 81; 6.31, p. 91.

⁵⁸ Ibid., ANAO recommendation 6, p. 92.

⁵⁹ JCPAA, *Report No.383*, June 2001, op. cit., recommendation 3.

⁶⁰ Department of Agriculture, Fisheries and Forestry, Executive minute on *JCPAA Report No.383*, 25 February 2002.

- the compilation of costs, and the subsequent alignment of these costs with fees and charges, occurred on an inconsistent basis across programs; and
- in most programs, the staffing costs used in the alignment of fees and charges were estimated—they were not based on time-recording data.

7.7 After the activity costs had been estimated, AQIS program managers conducted an ‘alignment exercise’. This exercise entailed:

- estimating budgeted costs at the activity level for the following year, based on the actual costs for the current year;
- estimating budgeted revenue at the activity level for the following year, based on the current fees and charges;
- amending fees and charges for the following year so that budgeted revenue aligns with budgeted costs at the activity level.

7.8 However, the alignment exercise occurred infrequently in many AQIS programs. This was because annual activity level costs were not available. For example, prior to the introduction of the revised model, the last alignment exercise conducted for the five programs surveyed during this audit ranged from 1995–96 for the Fish Exports program, to 2002–03 for the Quarantine Import Clearance program (see Appendix 5).

7.9 Between such alignment exercises, fees and charges may have been amended, even though there was limited evidence that the costs of providing the relevant service had changed. These amendments were made to align budgeted program level revenue with costs. AQIS determined which of the program’s fees and charges should be amended to align the program’s budgets, in consultation with the relevant industry representatives.

7.10 All export programs reviewed and adjusted their fees/charges in late 2002 after the Government’s decision to contribute 40 per cent to the costs of export programs. However, this was not done in conjunction with an exercise to align fees/charges to costs. AQIS advised that this was because there was insufficient time to recalculate activity level costs and revenue, hold discussions with industries over the changes to fees and charges, and obtain the Minister’s approval to the changes.

7.11 The infrequent nature of the alignment exercises, combined with limited evidence that associated costs had changed, increases the risk that fees and charges do not reflect the costs of the services provided. Such misalignment is likely to cause cross-subsidisation within the program.

7.12 The previous audit was unable to quantify the degree of potential or actual cross-subsidisation between clients because AQIS did not systematically collect data on the actual costs of services for client groups within all programs.

7.13 This audit found that this was the case prior to the implementation of the revised cost-recovery model in late 2003. The rest of this chapter discusses implementation of the model, and its pertinence to the ANAO recommendation.

Revised cost-recovery model

Managing costs

7.14 From 2003–04, all AQIS cost-recovery programs will calculate costs for activities using a consistent methodology. These calculations will be undertaken twice each year: at the start of the budget process; and again during the mid-year review.

7.15 As described in Chapter 3, each program has formed activities to measure the staffing costs related to particular groups of clients. The activities formed are generally different across programs because of the nature of each program's work. For example:

- in the Post-entry Animal Quarantine program, activities have been formed for clients using cat and dog quarantine services, as well as for clients using other types of animal services; and
- in the Horticulture Export program, activities have been formed for clients using inspection and auditing services, and documentation services.

7.16 There are a number of activities that are common to all programs, for example, program management and administration. These activities are not directly associated with servicing particular groups of clients.

7.17 To measure each activity's full costs, that is, staffing and non-staffing costs, AQIS has developed a three-tiered cost approach. The three tiers are:

- program management and infrastructure;
- service delivery; and
- other.⁶¹

7.18 Full costs will be compiled both at the activity and the tier level. Figure 7.1 provides an example of the tier and activity links for the Horticulture Export program.

⁶¹ Includes costs that have not been attributed to infrastructure and service delivery, for example, overtime, and travel. If a program has more than one 'other' cost, each one will be treated as a separate activity.

Figure 7.1**Example of costs attributed to tiers in the Horticulture Export program**

Tier	Activity	Staffing costs	Non-staff costs
Program and Infrastructure			
	Program management and infrastructure	Time spent on program management. Salary on-costs, such as superannuation and long service leave.	Fixed costs such as corporate costs, overheads, property and technical costs.
Service Delivery			
	Inspection and auditing	Time spent on field inspections/audits, including time spent travelling to inspection. Time spent managing field staff. Salary on-costs, such as superannuation and long service leave.	Activity specific supplier costs.
	Manual documentation	Time spent on documentation, and salary on-costs, such as superannuation and long service leave.	Activity specific supplier costs.
	Electronic documentation		EXDOC costs.
Other			
	Overtime	Overtime (charged on a fee-for-service basis).	
	Travel		The costs of running the AQIS fleet of vehicles.

Source: ANAO analysis of AQIS data.

7.19 Non-staffing costs will generally be attributed to a particular tier in a consistent manner across programs. Any program that seeks to attribute these costs in a different manner will need agreement from the ABFC, and from the relevant industry consultative committee.

7.20 At September 2003, all cost-recovery programs had finalised the initial derivation of activity level costs using the revised methodology.

7.21 The ANAO considers that the revised costing methodology is an improvement on the previous method. The use of time-recording data to attribute program staffing costs to activities will result in more accurate attributions of costs than the previous method. Costs should be attributed to activities in a more consistent manner across programs, and these attributions will occur more frequently than occurred previously.

Fees and charges

Review and rationalisation

7.22 As part of the implementation of the revised cost-recovery system, all programs are reviewing their fees and charges in an effort to rationalise the number of fees and charges. AQIS advises that all programs will complete this process by the end of 2003.

Aligning fees and charges with costs at the activity level

7.23 AQIS will conduct annual alignment exercises. Each exercise will involve the comparison of activity costs and revenue. Fees and charges will be amended to align activity costs and revenue.

7.24 Alignment exercises will be phased in progressively, on a program by program basis, starting in mid 2003 and finishing early 2004.

7.25 AQIS advised that, for a number of reasons, fees and charges may not be amended in the first iteration to fully align revenue with costs at the activity level. This is because:

- some fees and charges will need to increase substantially to achieve alignment. Progressive increases may therefore be necessary to better manage the burden on industry;
- the initial activity cost assessment data may be inconsistent across snapshots (see Chapter 3 for further discussion on this issue);
- there may be excessive reserves in industry accounts, which could delay fee and charge increases;
- it may be desirable to keep fees and charges constant for industries adversely affected by seasonal or economic conditions; and
- it may be desirable to influence industry behaviour by setting some fees above or below the cost of the services provided (see paragraph 4.17, which discusses the benefits of a clearer policy framework for such decisions).

7.26 AQIS still has to consider the appropriate level to align costs with fees and charges for the Quarantine Import Clearance program. Activities have been formed covering a number of services, as follows:

- all imported cargo is subject to AQIS cargo risk services. These services are supplied under the 'cargo risk management activity';
- around 12 per cent of these imports represent a degree of quarantine risk, so are referred to AQIS for further services. These are provided under the 'entry management activity';
- some imports still require further services, provided under the 'inspection and treatment services activity'.

7.27 AQIS has been estimating costs for these activities annually, but has not sought to align them fully at the activity level. AQIS advised that this is because:

...[the] client base of the program is largely customs brokers and importers. A customs broker acts as an agent for the importation of a variety of goods. AQIS Import Clearance fees are applied as a network of charges, according to the extent to which AQIS services are used. Cross-subsidisation is occurring between some revenue activity streams but this does not necessarily translate to cross-subsidisation between groups of clients. For example, the same groups of clients (namely custom brokers) pay for fees associated with cargo risk management, entry management and inspections and treatments.

7.28 Notwithstanding AQIS' advice, the ANAO considers that cross-subsidisation between groups of clients will occur. This is because a broker is merely an agent who facilitates the movement of imported goods on behalf of different clients. The agent passes on any AQIS fees to these clients. Although some clients (for example, large supermarket chains) import a wide variety of goods and would therefore use all the program's activities, many clients would only be subject to the services provided under the cargo risk management activity.

7.29 The ANAO suggests that the level to align fees for the Quarantine Import Clearance program be considered as part of the current reviews.

7.30 The ANAO considers that the approach AQIS has adopted so far for the annual alignment exercises will improve its cost-recovery system. The exercises, and subsequent amendments to fees and charges, once fully implemented, should improve transparency, and provide assurance to AQIS and its clients that the fees and charges are equitable. However, it is important that AQIS align fees and charges in a reasonable timeframe, so that any cross-subsidisation is minimised.

Cross-subsidisation within programs

7.31 The revised cost-recovery model will allow AQIS to assess the alignment of fees and charges more frequently, and with more consistent and accurate attributions of costs. In addition, AQIS will collect the data required to measure cost-recovery performance (including the degree of cross-subsidisation) in a systematic manner, which will improve transparency, and provide assurance to AQIS and its clients that the fees and charges are equitable.

7.32 In September 2003, AQIS completed the first iteration of the revised cost-recovery model for six of its 13 programs. For three programs—Dairy Export, Seaports, and Airports—the ANAO found that budgeted 2003–04 revenue is largely aligned to budgeted 2003–04 costs at the activity level. No changes will be required to fees and charges, and cross-subsidisation has been minimised.

7.33 For the other three programs—Horticulture Export, Live Animals Exports, and Grain Export—the ANAO found that fees/charges and costs are not well aligned, indicating a degree of cross-subsidisation when revenue for one activity is being used to offset costs for another activity. In response to the draft audit report, AQIS advised that cost-recovery impact statements have been completed, and amendments to fees and charges are currently being requested.

7.34 Figure 7.2 shows details of budgeted costs and revenue before, and after, proposed changes in fees and charges, for the Horticulture Export program. Prior to the proposed changes, over-recoveries from manual documentation services would be used to offset under-recoveries in activities such as audit and inspection. After the proposed changes, there is better alignment, and cross-subsidisation has been minimised.

7.35 Even with the proposed fee and charge amendments, over or under-recoveries may still occur. Fee and charge amendments are based on budgeted figures, which may be different from the actual revenue and costs achieved. Any over or under-recoveries will be managed through the industry reserve accounts in the normal manner, and fees and charges will be adjusted if necessary in the second year's alignment exercises.

7.36 The ANAO suggests that AQIS review its policies for managing funds in the existing industry reserve accounts before it fully implements the revised cost-recovery model. Under the current policy, over-recoveries are managed at the program level, hence over-recoveries from clients of one activity could be used to offset under-recoveries from clients of another activity. A more equitable method would be for any over-recoveries for a particular activity to be returned in future years to that activity's clients, either by budgeting for a deficit for that activity, or directing rebates to those fees and charges that have caused the over-

recoveries. This would not necessitate additional reserve accounts, but could be facilitated by the available management information on individual activities.

Figure 7.2

Horticulture Export program budgeted 2003–04 cost-recovery results

Tier and activity	Budgeted 2003–04 costs \$'000s	Budgeted 2003–04 revenue (based on 2002–03 fees and charges) \$'000s	Difference prior to fee/charge amendments \$'000s	Budgeted 2003–04 revenue (based on proposed fees and charges) \$'000s	Difference after fee/charge amendments \$'000s
Infrastructure	2 541	2 541 ^a	0	2 541	0
Service Delivery	3 939	3 752	-187	4 058	119
Audit and Inspection	2 330	1 343	-987	2 330	0
Manual documentation	1 135	1 936	801	1 263	128
EXDOC Documentation	474	473	-1	465	-9
Overtime	71	67	-4	70	-1
Travel	286	97	-189	286	0
Government Business	15	15	0	15	0
Total	6 852	6 472	-380	6 970	118

Source: AQIS.

^a AQIS has decided, with the agreement of industry, to use revenue provided under the 40 per cent Government contribution to cover the infrastructure costs.

Conclusion

7.37 Since the previous audit, the AQIS Finance area has taken a more active role in determining acceptable changes to fees and charges. However, the majority of fees and charges at June 2003 were set in a similar manner found by the ANAO during the previous audit. They are, therefore, subject to the same limitations.

7.38 AQIS has made substantial progress towards implementing a revised cost-recovery system. When fully implemented in early 2004, this system has the potential to improve AQIS' cost-recovery performance. The revised system will make appropriate information available for AQIS to demonstrate that fees and

charges bear a reasonable relationship with the costs of the services rendered. Figure 7.3 provides a summary of the changes between the two models.

Figure 7.3

Attributes of the revised and previous cost-recovery models

Model used prior to 2003–04	Revised model
Unavailability of cost and revenue data at the activity level	Budgeted cost and revenue data will be calculated at the activity level. The largest component of costs, staffing costs, will be based on a time-based recording system.
Infrequent alignment of costs and revenue	Budgeted revenue will be aligned annually to budgeted costs. If revenue does not align, either changes will be made to fees/charges, or approval for misalignment must be gained from the ABFC. During the implementation phase, alignment may not be reached immediately.
Variations in costs covered by individual fees/charges	Components of costs will generally be attributed to the same activity (e.g. infrastructure; service delivery) in all programs.
Variations in fees/charges for similar services	The number of fees and charges will be rationalised. Fees/charges will generally be set to recover similar costs, hence fees/charges for similar services should generally be consistent.
Cross-subsidisation at different levels	The degree of potential cross-subsidisation at the activity level will be reduced.

7.39 The ANAO considers that it is important that AQIS align fees and charges in a reasonable timeframe, so that any cross-subsidisation is minimised.

7.40 The ANAO also suggests that AQIS review its policies for managing funds in the existing industry liability accounts before it implements the revised cost-recovery model. A more equitable method than the current method would be for any over-recoveries for a particular activity to be returned to that activity's clients.

8. Legal Basis for Fees and Charges

This chapter outlines AQIS' implementation of recommendation 5 of the previous ANAO Report.

Findings of the previous audit

Normal AQIS practice was to impose registration and quantity charges under tax legislation. However, the previous audit found that two programs were imposing registration and quantity charges under fee-for-service legislation:

- the Quarantine Import Clearance program collected five per cent of its revenue in 1998-99 (\$1.6 million) from 'approved premises registration' imposts collected under the Quarantine Act 1908; and*
- the Fish Exports program collected 16 per cent of its revenue in 1998-99 (\$0.5 million) from a fish quantity charge, collected under the Export Control Act 1982.⁶²*

Legal advice received by the ANAO indicated that the validity of imposing these charges under fee-for-service legislation was uncertain, as they did not appear to relate to the provision of services, and may have been revenue raising in nature.⁶³

ANAO recommendation 5

The ANAO recommends that AQIS review and resolve as necessary, the uncertainties concerning the basis for imposing the 'quarantine approved premises registration' impost under the Quarantine Act 1908 and the fish 'quantity charge' under the Export Control Act 1982. These matters should be kept under review on a regular basis.⁶⁴

AQIS response

AQIS agreed to this recommendation.

Quarantine Approved Premises (QAP) registration

8.1 Following the ANAO's recommendation, AQIS sought advice concerning the legal basis for imposing the Quarantine Approved Premises (QAP) registration fee. This advice indicated that this basis was sound because the fee related to the provision of services and was not revenue raising in nature.

8.2 The ANAO found that, unlike other programs' registration charges, the registration fee for QAP has been costed to only recover the costs of activities

⁶² ANAO Report No.10 2000-01, op. cit., paragraph 5.6, p. 76.

⁶³ *ibid.*, paragraph 5.7, pp. 76-77.

⁶⁴ *ibid.*, ANAO recommendation 5, p. 77.

associated with the approval of premises for quarantine, and does not include costs of any unrelated activity.⁶⁵ The fee includes the cost of providing the infrastructure of the inspection service, the costs associated with processing and checking the application, and the costs of maintaining records relating to the premises on the AQIS system.⁶⁶ The ANAO therefore considers it appropriate that the QAP registration fee is imposed under fee-for-service legislation.

Fish quantity charge

8.3 Prior to November 2001, the Fish Exports program charged \$10 per tonne (or part thereof) for fish or fish products being exported from Australia. The charge was used to collect revenue to offset shortfalls elsewhere in the program, and was not aligned to any particular service provided to clients.

8.4 After the introduction of the 40 per cent government contribution to export programs in November 2001, the quantity charge was discontinued. Therefore, the ANAO did not review the appropriateness of the legislative basis of the charge.

Conclusion

8.5 AQIS has implemented the recommendation.

8.6 AQIS reviewed the basis for both imposts and found that no changes were required.

8.7 The ANAO also found that the basis for imposing the 'approved premises' impost is sound. The ANAO did not review the basis for the fish quantity charge because the charge was abolished in November 2001.

8.8 AQIS advises that there have been no changes to fee and charge structures since the previous audit substantial enough to warrant a review of the imposing legislation. However, the fee and charge restructures arising from the revised cost-recovery model (discussed in Chapter 7) are likely to be substantial. AQIS advised that it will therefore conduct a review of the basis for imposing fees and charges.

⁶⁵ Subject to other findings noted in this report (for example, staffing costs are currently estimated). A breakdown of costs provided by AQIS include: invoicing/receipting and accounts receivable (five per cent); systems maintenance (3.9 per cent); field operations (58.1 per cent); administration (23.5 per cent) and management (9.5 per cent).

⁶⁶ Other program registration charges cover the program's fixed costs, such as central and regional office management costs.

9. Electronic Export Documentation System (EXDOC)

This chapter outlines AQIS' implementation of recommendation 4 of the JCPAA Report.

Introduction

9.1 The AQIS Electronic Export Documentation System (EXDOC) processes and produces the government-to-government documentation required for the export of prescribed goods. The system links the details of proposed exports from exporters with the results of product inspections, and issues export permits and the necessary certificates to enable export.

9.2 EXDOC has been in operation in the Meat Inspection program since 1992. In 1997, EXDOC was redeveloped for use by several non-meat programs, namely the Dairy Exports, Fish Exports, Grain Exports and Horticulture Export programs.

9.3 The costs of EXDOC are currently split 50 per cent to the Meat Inspection program and 50 per cent equally across the four non-meat commodities. This distribution was intended to be an interim arrangement only, in order to support the extension and uptake of EXDOC to the non-meat commodities.

Findings of the previous audit

The previous audit found some limitations in the management of the EXDOC project and in the adequacy of industry consultation. The costs of the redevelopment had escalated considerably from \$0.75 million at initial planning in 1996, to \$4 million in 1999. The ANAO suggested that a thorough cost-benefit analysis would assist in providing full transparency and accountability to industry.⁶⁷

The JCPAA noted that EXDOC costs were major recovery costs for industry and expressed a particular concern that the costs were appearing to outweigh the benefits.⁶⁸

JCPAA recommendation 4

The Committee recommended that AQIS conduct a thorough cost-benefit analysis of the non-meat EXDOC system project.⁶⁹

AQIS response

AQIS agreed to this recommendation.

⁶⁷ ANAO Report No.10 2000–01, op. cit., paragraphs 7.13; 7.15; 7.22, pp. 95–97.

⁶⁸ JCPAA, Report No. 383, June 2001, op. cit., paragraph 4.63, p. 47.

⁶⁹ *ibid.*, JCPAA recommendation 4.

Cost-benefit analysis

9.4 As a result of the JCPAA recommendation, AQIS engaged consultants to conduct a post-implementation review of the non-meat EXDOC system. The purpose was to review the development of EXDOC and its effectiveness for non-meat industries, and to conduct a cost-benefit analysis of the system. The cost-benefit analysis calculated, inter alia, operating costs and the quantified benefits from the avoided costs of the paper-based system. The ANAO assessed the review and associated cost-benefit analysis and concluded that it addressed the JCPAA recommendation.

9.5 The review, completed in March 2002, concluded that the EXDOC system is technically robust with an expected 10-year useful life.⁷⁰ It estimated that the total costs of non-meat EXDOC to 2007 had a present value of \$21.2 million. The total benefits (the avoided costs of the manual system) had a present value of \$27.4 million. This results in an estimated net present value of \$6.2 million, representing a benefit to industry as a result of the adoption of the non-meat EXDOC.

9.6 The majority of the financial benefits will be obtained during the second half of its useful life once the majority of expected users have adopted the system. Consequently, the early adopters of non-meat EXDOC (the Dairy and Fish Exports programs) will realise the greatest benefits.

9.7 The consultants recommended that AQIS continue with the development, operation and enhancement of the EXDOC extension until 2007. This would maximise the benefit for all industries, and allow a sufficient timeframe for the development of a replacement system.

9.8 The report noted that the initial lack of consultation with industry exacerbated problems related to the perceived reduced functionality of EXDOC compared to the manual procedures. This is the principal reason for the slower uptake in the Grain industry. AQIS has since improved consultation processes with the implementation of an EXDOC industry consultative committee, and is in the process of addressing the functionality problems. This should also improve industry uptake and support the continuing development of the EXDOC system.

9.9 EXDOC costs are recovered through a fee imposed for export documents issued. These fees are set in conjunction with the industry consultative committees, and may be used to cover costs associated with the manual system. The report found that this confuses the real cost of EXDOC, and leads to different pricing structures for manual and electronic documents between industries. The report supported AQIS' development of a stand-alone pricing model for EXDOC.

⁷⁰ Minter Ellison Consulting Pty Ltd, March 2002, *Report to the Australian Quarantine and Inspection Service for Post-Implementation Review of EXDOC Extension for Non-meat*, p. 7.

AQIS is therefore currently reviewing the EXDOC financial management arrangements as outlined below.

The future of EXDOC

9.10 As a result of the recommendations arising from the cost-benefit analysis, AQIS is currently reviewing the cost attribution arrangements for EXDOC to determine which costing arrangements could be used to attribute EXDOC infrastructure and operating costs. A preferred option has been presented to the EXDOC industry consultative committee for discussion, with the key changes to costing arrangements being that:

- EXDOC information technology infrastructure costs be apportioned to export programs according to user-pays principles; and
- EXDOC costs be 100 per cent recovered from clients, rather than covered by the Government's contribution to export programs.

9.11 With respect to recovering costs from clients, some programs have already either abolished or heavily decreased the EXDOC registration fee following the introduction of the 40 per cent government contribution. If EXDOC costs were to be 100 per cent cost recovered from clients, this registration fee would need to be re-introduced, or substantially increased. The proportion of the 40 per cent government contribution that is currently used to cover EXDOC costs could then be diverted to offset other fees elsewhere in the program. The ANAO notes that AQIS would need to consult widely with its EXDOC clients before such changes were implemented.

9.12 With respect to the introduction of a user-pays system, the ANAO considers that this system would be more equitable for clients than the current system. The current system of apportioning non-meat EXDOC costs equally between the four non-meat programs means that industries with low usage rates are cross-subsidising industries with high usage rates.

Conclusion

9.13 AQIS has implemented this recommendation.

9.14 A cost-benefit analysis was conducted as part of a post-implementation review of the non-meat EXDOC system project. The ANAO found that the analysis was thorough; it analysed costs from the perspective of both industry and the system users, and compared these costs to the efficiency and savings gains.

9.15 The analysis recommended that AQIS continue with the operation and continued enhancement of the present system until 2007, but it also concluded

that AQIS would benefit greatly from greater transparency in costs and uniformity in document pricing structures across industries.

9.16 AQIS is now reviewing the cost attribution arrangements for EXDOC, and is considering the apportionment of EXDOC infrastructure costs using user-pays principles. The ANAO considers that the introduction of a user-pays system would be more equitable for clients than the current equal share method and would assist in the management of cross-subsidisation across programs. This would also address the issue highlighted in the review whereby EXDOC provides differing levels of functionality between industries.

10. Accuracy of AQIS' Cost-recovery Systems

This chapter discusses the accuracy and consistency of the data moving through AQIS' cost-recovery systems.

Introduction

10.1 Since the ANAO's previous audit, AQIS has directed considerable resources towards integrating and automating its cost-recovery systems. As part of this audit, the ANAO conducted data integrity and accuracy tests to determine whether these changes have resulted in consistent and reliable cost-recovery data. The results of this testing are described below.

AQIS' budget and financial systems

10.2 AQIS currently uses iTM1 as its budget management system and QSP as its financial management system.

10.3 QSP superseded MASS as AQIS' financial management system in mid-1999. It is an integrated system with a number of modules including accounts payable, sales ledger, sales invoicing, purchase order processing, fixed assets and general ledger which support AQIS' financial management. QSP also interacts with the personnel and human resources system (AURION) and other AQIS operational business systems.

10.4 The iTM1 budget management system replaced BMS in 2001–02, and is used to prepare revenue and expenditure budgets for both recoverable and non-recoverable program areas. It supports the AQIS budget management process, records all aspects of the budget, automates the allocation of indirect costs across and within programs, and provides a variety of reports.

10.5 QSP and iTM1 both interact with a number of other cost-recovery systems and databases. Appendix 6 provides further details on a number of these.

10.6 The sections below provide an outline and results of the testing conducted on these systems for this audit.

Financial management system

10.7 The ANAO and the department's internal audit section have both undertaken extensive testing of QSP data integrity. Testing has covered various system functions, including:

- the reconciliation between feeder sub-systems and QSP;
- the integrity of expenditure components in QSP, including employee expenses (discussed in Chapter 3), operating leases and depreciation expenses, supplier expenses, and revenue. Issues examined included:
 - whether invoices and payments were correctly allocated to the appropriate program;
 - whether the rates invoiced were consistent with legislative requirements;
 - whether revenue was appropriately allocated for each invoiced item; and
 - whether inspection bookings and invoices were correctly reconciled.

10.8 The ANAO found that the key components of the QSP framework were operating effectively, and the reconciliations between feeder sub-systems and QSP were accurate and subject to adequate review. Invoices and payments were found to be correctly allocated, and the standing invoice rates in QSP agreed with the amounts stated in the relevant legislation. Although revenue was allocated to the correct program for each invoiced item tested, the ANAO found that, in a small number of cases, this revenue was allocated to the incorrect activity within that program.

10.9 In one state office, the invoices generated were incomplete, thus compromising the reconciliation with inspection bookings. AQIS advised that a new protocol will be introduced to address this issue, requiring the generation of an invoice for each individual booking. The ANAO will review this protocol as part of the future financial statements audit program.

10.10 The ANAO concluded that QSP was performing the majority of its functions accurately and without significant error.

Budget management system

10.11 The ANAO analysed the data within the iTM1 budget management system to confirm that indirect budget allocations are being correctly and consistently attributed based upon the defined and agreed cost drivers. This analysis consisted of extracting actual cost driver and calculated value information related to the original 2002–03 budget. This data was matched and then, for selected nominal account codes⁷¹ and cost drivers, was recalculated to derive an expected value. The expected value was then compared to the actual value within iTM1.

⁷¹ For example, corporate charges including general finance and rent.

10.12 No significant errors within the iTM1 data were identified. For the nominal accounts selected, total budget cost allocations were correctly and consistently applied across all relevant projects based upon the defined cost drivers.

10.13 At the individual project level, minor variations were identified, particularly where FTE and personal computer cost drivers were used. These variations could be explained by changes to the cost drivers as a result of the mid-year review process.

10.14 Based upon this analysis, the ANAO concluded that cost drivers within iTM1 were being used correctly and applied consistently, and according to AQIS budget process requirements.

Activity Cost Assessment scheme (ACA)

10.15 The ACA was introduced in August 2002. Its aim is to enable AQIS to measure the proportion of staff time spent working on each program and on each type of activity within programs. The ACA is discussed in more detail in Chapter 3.

10.16 The ANAO conducted the following checks on the accuracy of data flowing through the ACA system:

- for a single snapshot, verification that the total hours for an activity reflected the time entered by individuals on that same activity; and
- for multiple snapshots, verification that the cumulative total hours for an activity reflected the totals of the previous snapshots.

10.17 The ANAO found that the data remained consistent throughout this process—the hours recorded by staff against particular activities were consistent with the program level reports sent to managers for verification.

AQIS Revenue Re-engineering Project

10.18 AQIS has implemented a major revenue re-engineering project within export and import programs to remove inefficiencies, including the use of manual processes, different methodologies for determining program costing bases, and multiple invoicing of clients. The project will transform AQIS' largely discrete information systems into an integrated environment. Appendix 7 provides a summary of project activities and goals, and details progress towards these goals to date.

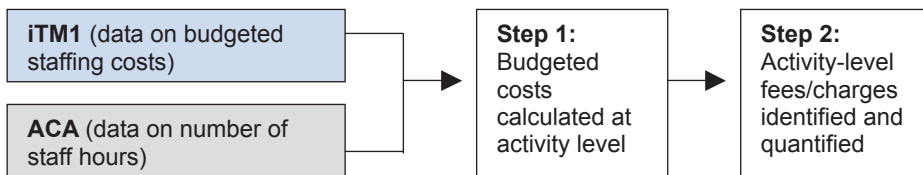
10.19 As part of the re-engineering process, AQIS has developed standardised cost units to simplify the recording and reporting of data. For example, rather than having four separate units for inspections based on time (15 minute, 1 hour,

1 day, and 1 week), these have been simplified to a standard unit for each time period of 15 minutes. Once the number of units has been quantified for each activity, the total estimated cost for that activity is divided by the number of units to provide a calculated unit rate.

10.20 The process for the calculation of fees/charges, as shown in Figure 10.1, extracts data from the ACA and iTM1 systems and converts it to activity level data using standardised units.

Figure 10.1

Process for the calculation of fees



10.21 This process was reviewed in the Horticulture Export program. The ANAO tested the data to ensure that the transfer of program level data into activity level data and the subsequent calculation of fees and charges were accurate by:

- confirming that budgeted costs in iTM1 at the program level had been converted to activity level costs;
- confirming that the rationalisation of fees/charges charged on a time basis had been accurately converted, for example to 15 minute units of time; and
- recalculating the new fee/charge based on the costs in step 1 and the quantity data in step 2.

10.22 The results from these tests indicated that the transference of program level data into activity level data, the rationalisation of fees/charges and the calculation of new fees and charges were accurate for the Horticulture Export program. The ANAO was satisfied that the calculations to determine the rates were logical, and able to be reperformed with consistent results in a sample of cases.

Conclusion

10.23 Although it has taken some time to implement AQIS' improved financial and budgeting framework, testing by the ANAO has demonstrated that AQIS' systems are robust and reliable, and they enable a flow-through of accurate data.

10.24 Furthermore, the flexible nature of AQIS' new systems—for example, the modular nature of QSP—enables ongoing refinement and improvement, both

in response to issues identified during testing, and in line with changes in AQIS' commercial strategies and operational environment.

10.25 The systems tests conducted as part of this audit will be reviewed for inclusion in the ANAO's annual financial statements audit program for AQIS.

11. Other Issues from the Previous Audit

11.1 The previous audit report identified a number of areas where AQIS procedures could be improved. These areas and the subsequent follow-up audit findings are summarised in the table below.

Previous Chapter 3—Identifying and attributing costs

Previous para	Previous audit comment	Follow-up
3.13	<p><u>Under-estimation of direct costs</u></p> <p>In 1998-99, a number of program costs were under estimated, totalling over \$1.9 million, or about one percent of total AQIS expenditure. These included FBT; interest, borrowings and banking; bad and doubtful debts; and depreciation. The variation between the budgeted and actual amount ranged from 29 per cent for depreciation to 431 per cent for FBT.</p>	<p>This audit revealed a significant improvement in the estimation of these program costs. The variation ranged from 10 per cent for depreciation, to 29 per cent for FBT.</p>
3.18	<p><u>Free-of-charge services</u></p> <p>The ANAO suggested that AQIS reflect the value of any services provided free-of-charge (for example, accommodation) in program budgets and expenditure results to ensure that the full cost of recoverable programs was transparent.</p>	<p>There has been no change in the reporting of services provided free of charge. For the International Mail program these services are unable to be reliably measured and are considered immaterial for financial statement purposes.</p>

Previous para	Previous audit comment	Follow-up
3.38	<p><u>Measuring chargeable hours</u></p> <p>The chargeable hours measures were not consistent between programs, making comparisons difficult. This area warranted continued management attention to provide better information on the efficiency of staffing allocations and to assist informed decision making regarding allocation of resources. The ANAO also suggested that reporting on the performance targets and the results in the AQIS annual Report to Clients would enhance accountability and transparency.</p>	<p>AQIS has not developed a performance indicator for chargeable hours for use by all cost recovery programs. AQIS advised that the use of a common indicator was not considered appropriate for some programs due to the nature of the services they provide. Some programs have developed a measure suitable for their own use, and report the relevant data regularly to their clients' consultative committee. Stakeholders reported that these allow greater cost accountability, and allow comparisons across regions and time periods, leading to efficiency improvements.</p> <p>The ANAO suggests that AQIS review the compilation of a chargeable hours indicator after all programs have implemented the revised cost-recovery model. At this time, there will be more consistency in costing and charging across programs and comparisons may be more valid.</p>
3.41	<p><u>Corporate on-costs of state/territory employees</u></p> <p>The variations in on-costs provide potential for benchmarking between States, and scope for deriving efficiencies.</p>	<p>AQIS advises that the on-costs have been benchmarked, as suggested.</p>

Previous para	Previous audit comment	Follow-up
3.49	<p><u>Overhead cost drivers</u></p> <p>Further refinements to the overhead cost drivers were considered desirable. In particular, the method of apportioning rent and property-operating expenses.</p>	<p>AQIS changed the allocation base for accommodation costs in 2002–03 from FTEs to the amount of floor space used.</p> <p>AQIS also reviewed the cost drivers used to attribute technical and operational costs in 2000–01, 2001–02, and 2002–03. These are customised for each category of cost, and target specific programs and regions based on a calculation of their use of the service.</p> <p>The ANAO considers these and other modifications have made the allocation process more accurate and that full costs better reflect actual costs incurred.</p>
3.54	<p><u>Identifying capital costs</u></p> <p>The ANAO observed that the cost of the internal funding of capital acquisitions, such as the opportunity cost of its capital or notional interest on the funds employed, was not identified in AQIS' costing systems. The ANAO suggested that AQIS examine this issue to ensure that the full cost of capital is identified and appropriately recovered.</p>	<p>The ANAO found that AQIS implemented this change in 2002–03.</p>

Previous Chapter 6—Managing cross-subsidisation

Previous para	Previous audit comment	Follow-up
6.11	The previous audit found that interest earned on industries' over-recovered funds was not credited in a transparent manner in proportion to each industry's share of over-recovered funds	AQIS has modified the cost driver for interest revenue so that interest earned on industries' over-recovered funds is credited in a transparent manner, in proportion to each industry's share of the funds.
6.24	Users of manually issued wool, skins and hides certificate services had been subsidising users of the Meat EXDOC electronic certificate system.	During this audit AQIS advised that these manually issued certificate services moved to the electronic certificate system in early 2003. The fee for electronic certificates was set in line with other electronic certificates, thus removing cross-subsidisation.

Canberra ACT
4 December 2003



P. J. Barrett
Auditor-General

Appendices

Appendix 1: AQIS recoverable programs' operating outcomes

AQIS recoverable programs' operating outcomes and percentage of costs recovered, 1999–2000 to 2002–03

Program	Operating outcome (\$'000) ^a					Percentage of costs recovered					Actual expenditure 2002–03
	1999–2000	2000–01	2001–02	2002–03	Cumulative ^b	1999–2000	2000–01	2001–02	2002–03	Cumulative ^b	
Quarantine Import Clearance	1 136	452	-168	9 790	11 210	103.2	101.1	99.7	114.9	105.6	65 828
Airports	-106	232	827	-403	550	99.5	100.9	101.6	99.3	100.3	61 608
Meat Inspection	1 133	3 252	291	330	5 006	102.2	105.9	100.5	100.5	102.2	60 651
International Mail	-16	9	699	188	880	99.3	100.3	106.9	101.2	102.8	15 749
Seaports	278	212	1 115	101	1 706	106.6	103.8	114.7	101.1	106.4	9 169
Grain Export	163	-353	387	-278	-81	102.4	95.1	105.7	96.1	99.7	7 107
Horticulture Export	-650	-990	1 421	1 366	1 147	87.8	82.8	130.6	124.3	105.4	5 631
Fish Exports	-302	-11	109	-32	-236	92.2	99.7	102.9	99.2	98.5	3 938
Post-entry Animal Quarantine	0	-273	175	-322 ^c	-420	100.0	91.9	105.3	91.1	96.8	3 625
Live Animal Export	-44	69	215	171	411	97.6	103.6	110.4	106.6	104.9	2 594
Post-entry Plant Quarantine	0	46	7	-183	-130	100.0	103.1	100.5	88.8	97.8	1 628
Dairy Export	-93	-45	137	208	207	91.5	95.6	112.6	117.4	104.7	1 197
Organics	27	10	2	1	40	124.5	107.7	101.5	100.8	107.9	132
AQIS Training Services	141	-14	-14	na ^d	na ^d	109.0	99.1	99.1	na ^d	na ^d	na ^d
Total AQIS	1 667	2 596	5 203	10 937	20 403	101.2	101.7	102.5	104.6	102.8	238 857

Source: ANAO analysis of AQIS data.

a Includes transfers from Revenue Rebate accounts and excludes transfers to and from other reserves.

b 1999–2000 to 2002–03.

c \$262 000 relates to an accounting entry to transfer the carry-over balance into an Income Equalisation Reserve.

d AQIS Training Service was rolled into the Meat Program in 2003–04.

Appendix 2: AQIS industry liability accounts

AQIS Income Equalisation Reserve accounts

Program	1999–2000			2000–01		2001–02		2002–03		2002–03 actual expenditure \$'000s	IER as a % of 2002–03 expenditure
	Opening Balance \$'000s	Movements \$'000s	Closing Balance \$'000s	Movements \$'000s	Closing Balance \$'000s	Movements \$'000s	Closing Balance \$'000s	Movements \$'000s	Closing Balance \$'000s		
Quarantine Import Clearance	121	1 136	1 257	452	1 709	-167	1 542	5 031	6 573	65 828	10.0
Airports	0	0	0	0	0	501	501	-403	98	61 608	0.2
Meat Inspection	0	1 408	1 408	3 256	4 664	292	4 956	441	5 397	60 651	8.9
International Mail	192	-174	18	64	82	699	781	188	969	15 749	6.2
Seaports	0	39	39	213	252	505	757	101	858	9 169	9.4
Grain Export	558	124	682	-368	314	369	683	-278	405	7 107	5.7
Horticulture Export	0	0	0	0	0	464	464	99	563	5 631	10.0
Fish Exports	277	-277	0	0	0	101	101	-32	69	3 938	1.8
Post-entry Animal Quarantine	0	0	0	0	0	0	0	202	202	3 625	5.6
Live Animal Export	0	0	0	0	0	0	0	47	47	2 594	1.8
Post-entry Plant Quarantine	48	0	48	87	135	7	142	-142	0	1 628	0.0
Dairy Export	36	0	36	0	36	73	109	11	120	1 197	10.0
Organics	0	6	6	1	7	0	7	0	7	132	5.3
AQIS Training Services	0	141	141	-15	126	-15	111	-111	0	0	na
Totals	1 232	2 403	3 635	3 690	7 325	2 829	10 154	5 154	15 308	238 857	6.4

Source: AQIS.

AQIS Revenue Rebate accounts

Program	1999–2000			2000–01		2001–02		2002–03	
	Opening Balance \$'000s	Movements \$'000s	Closing Balance \$'000s	Movements \$'000s	Closing Balance \$'000s	Movements \$'000s	Closing Balance \$'000s	Movements \$'000s	Closing Balance \$'000s
Quarantine Import Clearance	1 335	-1 335	0	0	0	0	0	0	0
Airports	0	0	0	0	0	0	0	0	0
Meat Inspection	0	0	0	0	0	0	0	0	0
International Mail	54	0	54	-54	0	0	0	0	0
Seaports	47	-47	0	0	0	0	0	0	0
Grain Export	1 077	-862	215	-215	0	0	0	0	0
Horticulture Export	6	0	6	-6	0	0	0	767	767
Fish Exports	84	-7	77	-65	12	-12	0	0	0
Post-entry Animal Quarantine	0	0	0	0	0	0	0	0	0
Live Animal Export	-1	1	0	0	0	0	0	0	0
Post-entry Plant Quarantine	41	0	41	-41	0	0	0	0	0
Dairy Export	162	-93	69	-45	24	-24	0	0	0
Organics	0	21	21	-12	9	-8	1	0	1
AQIS Training Services	0	0	0	0	0	0	0	0	0
Total	2 805	-2 322	483	-438	45	-44	1	767	768

Source: AQIS.

AQIS Industry Initiative accounts

Program	1999–2000			2000–01			2001–02			2002–03		
	Opening Balance \$'000s	Movements \$'000s	Closing Balance \$'000s	Movements \$'000s	Closing Balance \$'000s	Movements \$'000s	Movements \$'000s	Closing Balance \$'000s	Movements \$'000s	Closing Balance \$'000s	Movements \$'000s	Closing Balance \$'000s
Quarantine Import Clearance	539	1 400	1 939	-519	1 420	-281		1 139	4 705	5 844		
Airports	0	0	0	0	0	0		0	0	0		
Meat Inspection	0	0	0	0	0	0		0	0	0		
International Mail	0	0	0	0	0	0		0	0	0		
Seaports	47	47	94	0	94	515		609	-64	545		
Grain Export	52	-52	0	0	0	30		30	0	30		
Horticulture Export	104	-104	0	0	0	957		957	-39	918		
Fish Exports	0	-21	-21	21	0	0		0	0	0		
Post-entry Animal Quarantine	0	0	0	0	0	0		0	0	0		
Live Animal Export	0	0	0	0	0	0		0	0	0		
Post-entry Plant Quarantine	0	0	0	0	0	0		0	0	0		
Dairy Export	0	0	0	0	0	88		88	197	285		
Organics	0	0	0	0	0	0		0	0	0		
AQIS Training Services	0	0	0	0	0	0		0	0	0		
Total	742	1 270	2 012	-498	1 514	1 309		2 823	4 799	7 622		

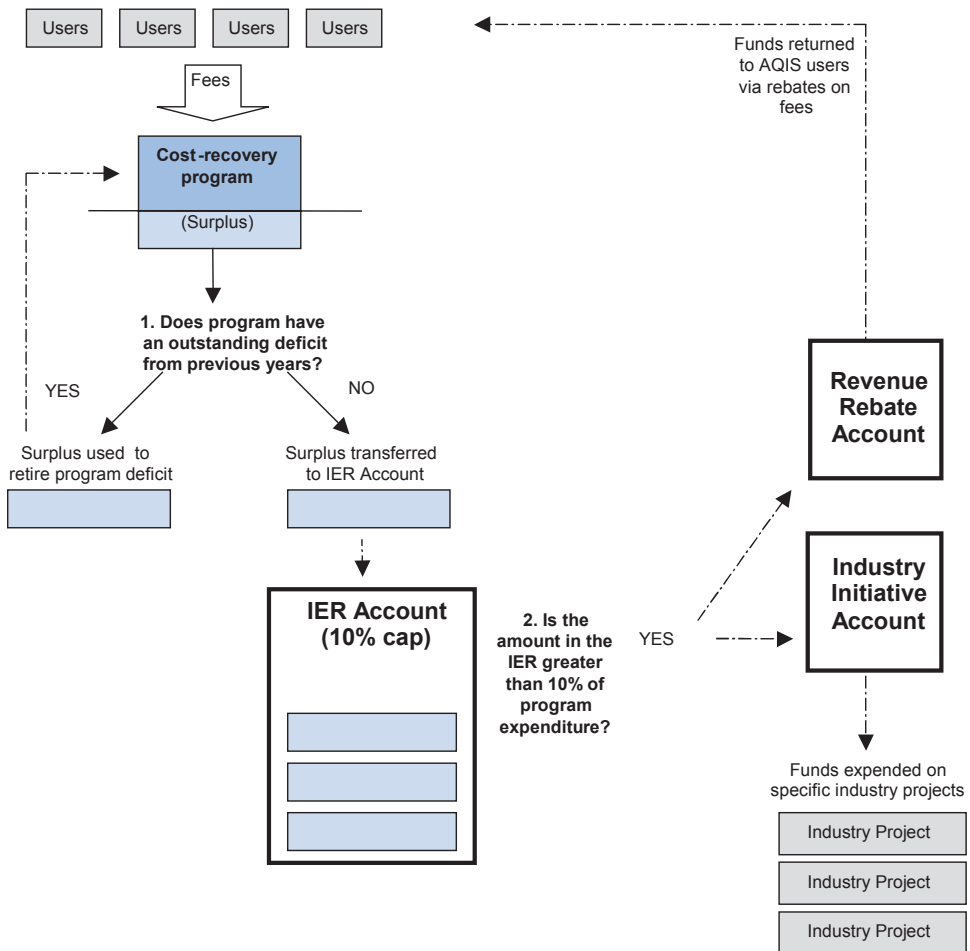
Source: AQIS.

AQIS Total Industry Liability accounts

Program	1999–2000			2000–01			2001–02			2002–03		Reserves as a % of 2002–03 expenditure
	Opening Balance \$'000s	Movements \$'000s	Closing Balance \$'000s	Movements \$'000s	Closing Balance \$'000s	Movements \$'000s	Closing Balance \$'000s	Movements \$'000s	Closing Balance \$'000s	2002–03 actual expenditure \$'000s		
Quarantine Import Clearance	1 995	1 201	3 196	-67	3 129	-448	2 681	9 736	12 417	65 828	18.9	
Airports	0	0	0	0	0	501	501	-403	98	61 608	0.2	
Meat Inspection	0	1 408	1 408	3 256	4 664	292	4 956	441	5 397	60 651	8.9	
International Mail	246	-174	72	10	82	699	781	188	969	15 749	6.2	
Seaports	94	39	133	213	346	1020	1 366	37	1 403	9 169	15.3	
Grain Export	1 687	-790	897	-583	314	399	713	-278	435	7 107	6.1	
Horticulture Export	110	-104	6	-6	0	1421	1 421	827	2 248	5 631	39.9	
Fish Exports	361	-305	56	-44	12	89	101	-32	69	3 938	1.8	
Post-entry Animal Quarantine	0	0	0	0	0	0	0	202	202	3 625	5.6	
Live Animal Export	-1	1	0	0	0	0	0	47	47	2 594	1.8	
Post-entry Plant Quarantine	89	0	89	46	135	7	142	-142	0	1 628	0.0	
Dairy Export	198	-93	105	-45	60	137	197	208	405	1 197	33.8	
Organics	0	27	27	-11	16	-8	8	0	8	132	6.1	
AQIS Training Services	0	141	141	-15	126	-15	111	-111	0	0	0.0	
Total	4 779	1 351	6 130	2 754	8 884	4 094	12 978	10 720	23 698	238 857	9.9	

Source: AQIS.

Appendix 3: Operation of industry liability accounts



Source: ANAO analysis of AQIS information.

Appendix 4: AQIS recoverable program budgets 2003–04

Program	Expenditure \$m	Revenue \$m	Outcome \$m	Cost Recovery %
Quarantine Import Clearance	75.1	75.7	0.6	100.8
Airports	61.8	61.8	0.0	99.9
Meat Inspection	60.4	57.9	-2.6	95.8
International Mail	16.1	16.0	-0.1	99.4
Seaports	9.9	9.3	-0.6	94.0
Grain Export	7.2	7.3	0.1	101.0
Horticulture Export	6.9	6.5	-0.4	94.5
Fish Exports	4.1	4.1	0.0	100.3
Post-entry Animal Quarantine	3.8	3.6	-0.2	94.8
Live Animal Export	3.5	3.3	-0.2	94.5
Post-entry Plant Quarantine	1.8	1.8	0.0	100.5
Dairy Export	1.3	1.3	0.0	97.0
Organics	0.2	0.2	0.0	100.0
Total	252.2	248.8	-3.4	98.7

Source: AQIS.

Appendix 5: Frequency of cost-recovery calculations

Program	Costs	Revenue	Alignment with fees and charges
Meat Inspection	Costs calculated at activity level each year.	Revenue calculated at activity and fee/charge level each year.	Program sought to align activity revenue with activity costs in 1997 and fees/charges were changed for the 1997–98 year. However, strict alignment did not occur at this time. Fees/charges were reconfigured in November 2002, after 40 per cent Government contribution.
Quarantine Import Clearance	Costs estimated at activity level each year.	Revenue estimated at activity and fee level each year (revenue collected by Customs is not split by activity, so it is manually estimated by the program).	Program sought to align activity revenue with activity costs in October 2002, and fees were changed for the 2002–03 year. However, strict alignment did not occur at this time.
Fish Exports	Last detailed costings for all fees/charges were calculated in 1995–96. Costs for manual documentation were calculated in 2002.	Revenue calculated at activity and fee/charge level each year.	Program sought to align activity revenue with activity costs in 1995–96, and fees/charges were changed in the same year. Fees/charges were reconfigured in November 2002, after 40 per cent Government contribution. Fees/charges for manual documentation aligned to costs in 2002–03.
Horticulture Export	Last detailed costings for all fees/charges were calculated in late 2000.	Revenue calculated at activity and fee/charge level each year.	Program sought to align activity revenue with activity costs in 2000, and fees/charges were changed for the 2001–02 year. Fees/charges were reconfigured in November 2002, after 40 per cent Government contribution.
Post-entry Animal Quarantine	Last detailed costings for all fees were done in 1997–98 at the 'type of animal' level.	Revenue calculated at activity and fee level each year.	Program sought to align activity revenue with activity costs in 1997–98, and fees were changed for the 1998–99 year. Fees for horses and bees were reviewed in 2001, but were based on the 1997–98 costs.

Source: ANAO analysis of AQIS information.

Appendix 6: AQIS' cost-recovery financial and information systems

AQIS Automated Import Management System is an interactive database that processes all imported sea and air cargo that poses a potential health or disease risk to Australia. It is used to profile, assign quarantine directions, apply fees and issue invoices as well as electronically release all imported cargo that is identified as being of quarantine concern.

AURION is a commercial human resource management system used by AQIS.

Electronic Export Documentation system (EXDOC) provides exporters of prescribed goods with a 'single window' facility to transact their export clearance business with AQIS and the Australian Customs Service. The system delivers documentation to meet stakeholder and overseas market access requirements.

Establishment Register provides an electronic export establishment registration regime for export packers/processors of non-meat prescribed goods that meets AQIS' legislative needs and satisfies customer country requirements. The register interacts with EXDOC to ensure that export documentation is only provided for products eligible for a particular market.

Import Conditions database is an Intranet query facility that enables AQIS staff to source a range of commodity related import information.

Meat Fee for Services is a database used by AQIS to facilitate export meat inspection services.

Vessel Monitoring Systems is a computer-driven risk management system to provide a vessel reference database that facilitates inspection and compliance activities. In addition, this system allows the position of fishing vessels, fitted with appropriate equipment, to be determined and tracked.

Appendix 7: AQIS revenue re-engineering project summary

Stage	Description	Date
Review program fees and charges to identify inconsistencies with the standard model	A standard costing model has been developed based on a three-tiered approach of direct fee for service costs and infrastructure and program costs. Each program's fees and charges regime will be reviewed against this model.	July 2003
Electronic Service Advice (ELSA) proof of concept	ELSA is the combination of software and handheld computing devices to replace the Service Advice Form currently used to record and invoice for services provided in the field. The proof of concept is a docked demonstration and trial of the proposed technology to regional staff.	July 2003
Develop and implement AQIS Consolidated Record of Service System (ACROSS)	ACROSS is a database that will consolidate and manage data from business systems and ELSA that is to be passed to QSP. It will remove much of the manual upload processes currently in place. ACROSS will include the development of a client register that links client data between business systems and QSP.	December 2003
ELSA user trial	Upon completion of the proof of concept phase, an alpha version of ELSA will be developed. This will be trialled over three months in the Horticulture Export program. During this trial it is proposed that both docked and direct dial connectivity will be utilised.	December 2003
Full implementation of ELSA in Horticulture Export Program	Upon completion of the trial any required changes will be made and ELSA will be fully implemented in the Horticulture program.	March 2004
Implementation of ELSA in programs with similar business requirements to the Horticulture Export program	Where programs have similar business requirements to the Horticulture Export program ELSA will be implemented for their field staff.	December 2004
Implementation of ELSA in all other relevant programs	The last phase will be to implement ELSA for those programs where further business re-engineering or additional software is required.	December 2005

Source: AQIS.

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