



Department of
AGRICULTURE
FISHERIES &
FORESTRY -
AUSTRALIA



AQIS
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EXECUTIVE MINUTE

on

JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT REPORT [No. 383] REVIEW OF AUDITOR GENERAL'S REPORTS

General comments

Since the release of ANAO Report No.10 and the subsequent JCPAA Hearing, AQIS has sought to implement all of the six recommendations included in the Report, including Recommendation 6 which was not agreed at the time that ANAO Report was released. AQIS recognises the importance of operating effective and efficient cost-recovery systems, and particularly the need for continuous improvement in the setting of fees and charges and their alignment with the costs of providing those services.

Response to the recommendations

Recommendation No.2

“The Committee recommends that the Australian Quarantine and Inspection Service (AQIS) improve risk management in its fee-setting activities with the aim of significantly reducing over-recoveries.”

This recommendation is supported.

This recommendation relates to the ANAO finding in Report No.10 that within several of AQIS' cost-recovered programs there appeared to be a track record of over-recoveries. While recognising that AQIS' programs operated for industries subject to substantial uncertainty in export and import volumes, the ANAO encouraged AQIS to adopt better risk management practices in setting fees and charges. The ANAO also noted that there had been delays in returning over-recovered funds held in Revenue Rebate accounts to industry.

AQIS uses a system of three liability accounts to manage over-recoveries. This system, which has been agreed with industry, includes:

- *Income Equalisation Reserve (IER)* – where up to ten percent of a program's annual expenditure budget can be held to provide for any unplanned shortfall. This may occur due to seasonal or other unforeseen events that impact on the activity level within the program in any given year. Maintaining a balance in this account is regarded as a positive way to respond to these unforeseen changes in program activity.
- *Industry Initiative Account* – is used when a program has fully utilised its IER and there remain further over-recoveries to be returned to clients. The Industry Initiative account is used where it has been agreed with industry that revenue rebates are uneconomic due, for example, to a large number of clients and the small amount per client to be returned. Instead, funding

is used for specific projects that are determined by AQIS/industry consultative bodies.

- *Revenue Rebate Account* - is used when a program has fully utilised its IER and there remain further over-recoveries to be returned to clients. The ANAO found that there had been balances held in Revenue Rebate Accounts over a number of years and that these should have been returned in a more timely manner.

Attachment 1 provides a table that compares the balances held in over-recovery accounts at 30 June 1999 (the latest data contained in the ANAO Report No.10) and the most recent balances reported to the AQIS Business and Finance Committee for the period ending 31 January 2002. The table identifies that during the intervening period there has been a significant reduction in the level of over-recoveries held in Revenue Rebates and Industry Initiative accounts. Whereas at 30 June 1999 there were 14 different industry accounts containing balances, there are now only four, and the amount of funds held in these accounts has reduced from about \$5.12m (see note 2 in the attachment) to about \$1.15m. Furthermore, either specific action has been agreed or discussions are underway between AQIS and industry to remove all of these remaining balances.

The level of funds held in Income Equalisation Reserves (IER) has increased, but remains within the framework of no greater reserve than ten per cent of expenditure in any program. The overall increase is due primarily to recoveries in the Meat Inspection and Import Clearance programs (AQIS' two largest programs), which were largely agreed with industry as a mechanism to provide for future unforeseen reductions in activity levels. At 30 June 1999 only \$0.121m or about 0.2% of total expenditure in these programs was held in IERs, and this was considered to constitute a financial risk. With the Import Clearance program currently experiencing reduced activity levels in 2001/02, it is likely that the IER will be fully utilised this year to meet this decrease in revenue.

Despite improvement in the management of over-recoveries over recent years, AQIS believes there remains scope for further improvement and has made several significant changes to the way that it manages the fee and charge setting processes.

- The AQIS Business Planning process has been reinforced to ensure greater scrutiny is made by program areas when estimating activity and reviewing fee and charge levels. The business planning templates include particular reference to the consideration of several specific business risks in the setting of fees and charges, including changes in activity levels. Industry Consultative Committees are charged with ensuring that there is a common understanding of the risks and assumptions when recommending fees and charges within programs.
- As part of the 2000/01 internal budget process, AQIS implemented a new budget management system called iTM1. The previous budget management system required program managers to provide an estimate of their program's total revenue for the year, but with iTM1 they provide a revenue budget for each type of fee and charge within their program at a region by region level for each month of the year. As part of the 2001/02 budget process, AQIS also held a mid-year budget review in December

2001 where revenue estimates were further refined.

- Qualified accountants from the AQIS Finance area have been designated as Accounting Liaison Officers (ALOs) for each of the cost-recovered programs, to assist with the development of budgets, ongoing monthly financial management and the setting of fees and charges. A role of the ALOs is to specifically assist in the formulation of monthly revenue accruals so as to ensure management action can be considered in a timely manner should over-recovery trends become apparent.
- Following the Government's decision in August 2001 to provide a 40 percent contribution towards AQIS' export certification programs, AQIS used this opportunity to work closely with industry and review the number and type of fees and charges in each of the export programs. A more streamlined structure of fees and charges within these programs will assist in managing over-recoveries.

Recommendation No.3

“The Committee recommends that the Australian Quarantine and Inspection Service implement the Australian National Audit Office’s recommendation No.6 of Audit Report No.10 2000-2001, namely that the Australian Quarantine and Inspection Service align fees charged to particular clients with the costs associated with servicing those clients where it is cost effective to do so. Where it is not feasible, the reasons should be made transparent to relevant stakeholders and kept under review.”

This recommendation is supported.

This recommendation arises from the ANAO's view that AQIS should consider more closely aligning the setting of fees and charges below the program level. In responding to the ANAO Report No.10, AQIS argued that each of its cost-recovered programs reflected an integrated industry group utilising a network of services. As such AQIS was acting consistently with legal advice in seeking to primarily align fees and charges with costs at a program level. While in practice, some of AQIS' programs do seek to align fees and charges at a lower level than this, AQIS argued that sub-program costing systems in all programs were not necessary and would be expensive to implement and maintain. Significant industry funds are involved and industry did not support more costly lower-level accounting arrangements. Nonetheless, AQIS made it clear that it intended to pursue continuous improvement in this area.

AQIS has accepted the JCPAA recommendation and sought to implement a system that will enable it to meet the requirements of aligning fees and charges within programs at a lower level. AQIS recognises that to identify costs at a lower level within programs requires the implementation of a time-based cost attribution model.

In February 2001 AQIS engaged the assistance of KPMG Consulting; a firm that has implemented similar time based systems with the Australian Customs Service (ACS). Recognising the issues of size, complexity and distance that are associated with AQIS' operations, as well as seasonal and fluctuating activity

levels and relevant cost considerations, KPMG recommended that AQIS implement a 'snapshot' based time recording system; one similar to that used by ACS. Using the snapshot approach, staff are required to complete timesheets at different times throughout the year. The timesheets require staff to identify their time with different activities that directly relate to the types of fee and charge categories that exist in the different quarantine and export certification programs. As more snapshots are taken, a database is developed that can be used to model costing information out of the financial management system and align it with fee and charge categories within AQIS' programs. As a consequence, there is a closer alignment of fees and charges at a sub-program level to the costs of providing those services.

With the assistance of KPMG, a pilot of the 'snapshot' costing model was conducted in December 2001. Using the findings of a follow-up questionnaire, a trial will be run in April 2002 that will involve a larger sample of the organisation. Assuming the trial is successful, this will be followed by full implementation from July 2002 with subsequent 'snapshots' every three months. This phased approach to implementation allows for adequate training of staff in the regional offices.

Recommendation No.4

"The Committee recommends that the Australian Quarantine and Inspection Service conduct a thorough cost-benefit analysis of the non-meat EXDOC system project."

This recommendation is supported.

This recommendation arose from a case study contained in the ANAO Report No.10 which highlighted there had been no cost-benefit study for the extension of the Export Documentation (EXDOC) system to non-meat industries.

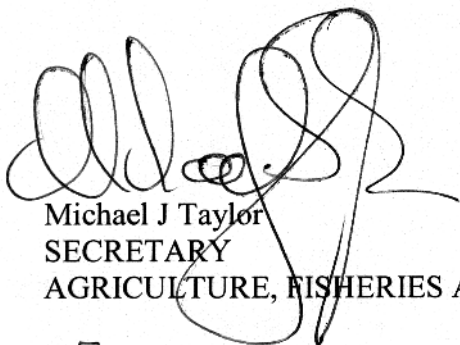
In October 2001, AQIS sought expressions of interest to undertake a cost-benefit analysis (CBA) of non-Meat EXDOC, and subsequently appointed Minter Ellison in November 2001 to undertake the study. The CBA was to form the basis of a post implementation review.

The review requires Minter Ellison to undertake a cost-benefit analysis into the development of the EXDOC system and the functionality provided to the dairy, seafood, grain and horticulture export industries. In conducting the CBA, Minter Ellison is required to consult with AQIS program staff and EXDOC staff as well as a variety of users from each export industry. In addition, the costs and benefits are to be analysed from three viewpoints:

- in relation to AQIS's costs and benefits in introducing an automated export documentation system;
- from an industry by industry perspective with regard to the overall financial investment in the development and on-going cost of EXDOC in comparison to the cost-efficiencies generated; and
- from the perspective of system users in each of the export industries. This would take into account initial exporter set-up costs including, hardware, software, staff training and telecommunication costs. It would also consider savings associated with adoption of the EXDOC system, such as

reductions in courier costs, documentation processing costs and use of AQIS to access the Customs exit system.

Minter Ellison is required to provide AQIS with a report by the end of March 2002. Once AQIS has examined the report and determined subsequent action I would be pleased to provide a supplementary response to the Joint Committee if required.



Michael J Taylor
SECRETARY
AGRICULTURE, FISHERIES AND FORESTRY - AUSTRALIA

25 February, 2002

AQIS Over-recovery Accounts
Movements between July 1999 and January 2002

	IER		Balance Jan-02 \$'000s	%	Rebates		Balance Jan-02 \$'000s	Industry Initiatives			
	Balance Jun-99 \$'000s	Transfers ¹ \$'000s			Balance Jun-99 \$'000s	Payments Transfers ¹ \$'000s		Balance Jun-99 \$'000s	Payments Transfers ¹ \$'000s	Balance Jan-02 \$'000s	
Live Animal Exports	-	-	-	-	(1)	1	-	-	-		
Grain Exports	558	(232)	326	5%	1,077	(923)	-	52	(286)		
Horticultural Exports	-	-	-	-	6	(6)	-	104	(104)		
Dairy	36	24	60	6%	162	(162)	-	-	-		
Fish	277	(277)	-	-	80	(9)	-	-	(31)		
Organics	-	7	7	5%	-	(21)	9	-	-		
International Mail	192	(110)	82	1%	54	(54)	-	-	-		
Import Clearance	121	1,588	1,709	3%	1,335	(1,335)	-	539	(895)		
Post Entry Plant	48	87	135	9%	41	(41)	-	-	-		
Seaports	-	252	252	3%	47	(47)	-	47	47		
Meat	-	4,664	4,664	9%	-	-	-	-	-		
AQIS Training Services	-	126	126	8%	-	-	-	1,579	(1,579)		
Ballast Water	-	-	-	-	-	-	-	-	-		
Total AQIS	1,232	6,129	7,361		2,801	(953)	9	2,321	(1,316)	146	1,151

Notes

¹ Reflects transfers between over-recovery accounts and to/from Program Revenue

² The combined balance of the Industry Initiative Account (\$2.801m) and the Revenue Rebate Accounts (\$2.321m) in 1998/99 is \$5.122m.