

Western Australian Auditor General's Report



Fee-setting by the Department of Primary Industries and Regional Development and Western Australia Police Force



Report 13: 2019-20
4 December 2019

**Office of the Auditor General
Western Australia**

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The Office of the Auditor General acknowledges the traditional custodians throughout Western Australia and their continuing connection to the land, waters and community. We pay our respects to all members of the Aboriginal communities and their cultures, and to Elders both past and present.

WESTERN AUSTRALIAN AUDITOR GENERAL'S REPORT

Fee-setting by the Department of Primary Industries and Regional Development and Western Australia Police Force



**THE PRESIDENT
LEGISLATIVE COUNCIL**

**THE SPEAKER
LEGISLATIVE ASSEMBLY**

**FEE-SETTING BY THE DEPARTMENT OF PRIMARY INDUSTRIES AND REGIONAL
DEVELOPMENT AND WESTERN AUSTRALIA POLICE FORCE**

This report has been prepared for submission to Parliament under the provisions of section 25 of the *Auditor General Act 2006*.

This was an independent narrow scope performance audit. Performance audits are an integral part of my Office's overall program of audit and assurance for Parliament. They seek to provide Parliament and the people of WA with assessments of the effectiveness and efficiency of public sector programs and activities, and identify opportunities for improved performance.

This audit assessed if the Department of Primary Industries and Regional Development and the Western Australia Police Force effectively set fees for their services.

I wish to acknowledge the entities' staff for their cooperation with this report.

A handwritten signature in black ink, appearing to read 'Caroline Spencer'.

CAROLINE SPENCER
AUDITOR GENERAL
4 December 2019

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Auditor General's overview

Every year, State government entities set fees to recover costs of services. These fees have a direct impact on the public and businesses.

My office has previously audited State fees and charges in 2004, 2006 and 2010. Those audits found the sampled entities needed to improve their fee-setting frameworks and practices to ensure they effectively set fees for their services. Process weaknesses increase risks that fees are not correctly calculated for the services provided and may lead to non-compliance with government policies and legislation.

I decided to conduct a 4th audit on this subject as I consider it important to provide ongoing assurance to Parliament and the community that entities effectively set fees for their services.

I was pleased to see the WA Police Force had sound processes for setting fees. It also demonstrated better practice in some aspects which I have included in the report for the benefit of other entities.

However, the audit found that the Department of Primary Industries and Regional Development did not effectively set fees. It was disappointing to also find weaknesses in the fee-setting framework for recreational fishing licence fees similar to what this office reported back in 2010. Whilst I acknowledge DPIRD maintains a view that recreational fishing licence fees are not a “fee for service”, I believe it is important to cost the licence and monitoring aspects of the fee to support transparent fee-setting decisions.

I encourage all entities to use the checklist in Appendix 1 to guide their fee-setting framework and practices.



Executive summary

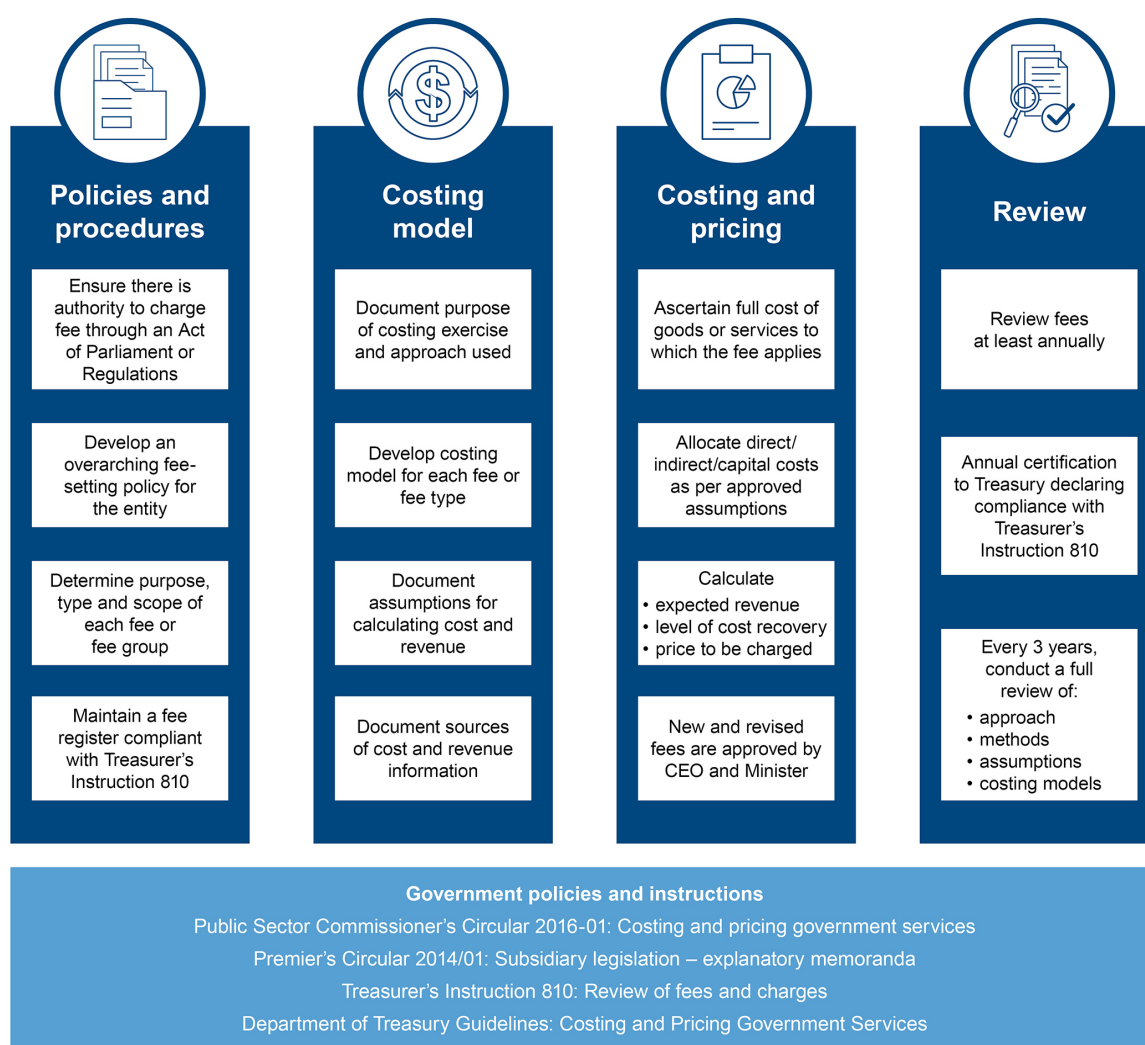
Background

State government entities (entities) set fees for certain services provided to the public and businesses (customers) from which they collect billions of dollars.

It is general government policy that fees should fully recover the cost of providing related services. If fees under-recover costs, this could mean the general public is subsidising customers, while over-recovery could mean customers are being charged too much. Any under or over-recovery of costs requires approval from the Minister or authority from legislation, respectively.

We previously audited State fees and charges in 2004, 2006 and 2010. Our audits found entities needed to improve costing and fee-setting practices.

In this audit, we focused on the better practice principles in Figure 1, to determine if the Department of Primary Industries and Regional Development (DPIRD) and the Western Australia Police Force (WA Police Force) had effectively set fees in 2018-19. We expected entities to follow government policies and instructions to ensure a consistent approach to costing and pricing services.



Source: OAG

Figure 1: Better practice fee-setting framework

Conclusion

We found that the fees of the 2 entities we audited were properly approved. However, the level of rigour in setting the fees varied significantly.

DPIRD lacked an effective framework for setting the fees we audited. Consequently, we could not determine if DPIRD accurately calculated the cost of these services and the level of cost recovery. This could affect fee-setting decisions made by DPIRD, or its Ministers.

Despite gaps in its framework, the WA Police Force had sound processes for setting fees. As a result, the WA Police Force's calculations of costs and the level of cost recovery were generally correct and in line with the approved fees.

Audit focus and scope

This audit assessed if DPIRD and the WA Police Force effectively set fees for their services. We asked the following questions:

- Does the entity have an effective framework for setting fees?
- Are entity fees correctly calculated and implemented?

During the audit we:

- reviewed entity fee-setting policies, procedures and processes, and relevant legislation
- assessed costing models, accuracy of calculations, and relevant approvals for new or revised fees
- checked if sampled fees were reviewed annually, and after any significant changes to costs and other relevant factors (i.e. after machinery of government changes)
- reviewed if actual revenue collected was in line with the revenue estimated for 2018-19
- followed-up findings of our 2010 report¹ on recreational fishing licence fees.

We did not check that the charging of fees was consistent with the approved fees as we test this on a sample basis in our financial audits.

We assessed the following fees from 2018-19 (Table 1).

¹ [Office of the Auditor General 2010 *The price is right? Setting fees and charges for government services. Report 12 – November.*](#)

Fee type and description	Fees charged 2018-19	% Cost recovery reported to Treasury	Actual revenue 2018-19
Department of Primary Industries and Regional Development			
Plant inspections Biosecurity inspections of plants carried out mainly by Quarantine WA. There are 18 fees which are grouped together with plant inspection fees. These include insect and disease identification, laboratory analysis of plants, inspection, assessment and issue of import documentation, export certification etc.	\$40.50 - \$863	39.2%	\$2.7m
Recreational fishing licences Issue and renewal of recreational fishing licences, including any combination of the following 6 categories: recreational fishing from a boat, rock lobster, abalone, marron, freshwater angling, and net fishing. Recreational fishing licence fees are credited to the Recreational Fishing Account. Government has committed to ensuring 15% of fee revenue from this account goes to Recfishwest, and 25% to the Recreational Fishing Initiatives Fund.	\$40 - \$50	56%	\$8.8m
Western Australia Police Force			
Major events This fee covers police attendance at commercial events attracting at least 5,000 people, or where at least 10 police officers are assigned. For example, this fee would be charged for a sporting or entertainment event run for commercial gain. Fees are not charged for charity and some public events like the Australia Day Fireworks.	\$15 - \$2,741 per hour	100%	\$1.9m
Firearms licences There are 9 categories of firearm licence fees including: individual, collectors, corporate, dealers, repairers, manufacturer, shooting gallery, ammunition collectors and miscellaneous.	\$20 - \$446	27% - 100%	\$6.8m

Source: OAG

Table 1: Fees included in the audit

This was an independent narrow scope performance audit, conducted under Section 18 of the *Auditor General Act 2006*, in accordance with Australian Standard on Assurance Engagements *ASAE 3500 Performance Engagements*. We complied with the independence and other ethical requirements related to assurance engagements. Performance audits focus primarily on the effective management and operations of entity programs and activities. The approximate cost of undertaking the audit and reporting was \$132,000.

Audit findings

DPIRD did not effectively set fees

DPIRD did not have an effective framework for setting and reviewing fees and it did not correctly calculate the cost and the level of cost recovery for the services that we audited.

DPIRD lacked policies and procedures for setting fees

Legislation enables DPIRD to set recreational fishing licence and plant inspection fees. However, we found that policies and procedures to support their fee-setting process were inadequate. In addition, DPIRD could not provide details of the extent of departmental services included in the fees, costing methods, assumptions and fee-setting practices. This increases the risk that fees are not correctly calculated in line with government policies and instructions.

The above findings are similar to our 2010 report findings when we audited the recreational fishing licence fees managed by the then Department of Fisheries.

We also found DPIRD used an inconsistent approach for setting fees. This is because fee-setting practices of the former Departments of Fisheries and Agriculture have not been fully merged. This leads to inconsistent fee-setting practices across the entity, which may result in errors in the information used to support fee decisions.

Fees were not supported by robust costing methods

DPIRD does not undertake a comprehensive costing exercise to establish how much it costs to deliver the selected services. As a result, DPIRD cannot be sure that it accurately calculates fees and the level of cost recovery for its services.

For example:

- costs for plant inspection fees were grouped with costs of providing other services (Table 1). The rationale for grouping these costs had not been documented. This means DPIRD did not know the cost of performing plant inspections and could be cross-subsidising the cost of other services within the group. We also found errors in the calculation of staff leave costs because the assumptions used were out of date.
- there is no costing model for recreational fishing licence fees. DPIRD advised us that the service did not need to be costed because recreational fishing licensing fees are not a fee for service. Whilst we agree a portion of these licences include a charge for accessing the State's fisheries, DPIRD should calculate the costs for licensing and monitoring components. This would improve the effectiveness and transparency of fee-setting, and would bring it in line with better practice and government policies and instructions.

A full review of fees has not been undertaken

Although DPIRD undertakes a high-level review of their fees annually, it has not carried out a full review following significant organisational changes. From 1 January 2019, Treasurer's Instruction 810: 'Review of Fees and Charges', requires that entities should perform a full review of fees when there are changes (e.g. organisational changes), that significantly impact on the cost of services. A detailed review of the costing model would ensure that DPIRD accounts for changes in cost and revenue patterns when setting fees.

WA Police Force's fee-setting is largely effective but it could improve its framework

The fee-setting for firearms licences and major events was generally correct and supported by sound costing processes, but there were some weaknesses in the framework.

WA Police Force should strengthen its policies for setting fees

The WA Police Force can improve its policies and procedures for setting fees. There is a charging policy for major events, that explains what the fee is for, but there is no similar policy for firearms licences. Its financial management manual briefly describes costing methodologies, however it does not contain enough information about fee-setting practices to ensure a consistent approach across all divisions within the WA Police Force.

Costing models used for calculating fees were adequate

Fees for firearms licences and major events had adequate costing models (see example in Figure 2). This meant that fee calculations were generally correct. However, the WA Police Force did not clearly document all data sources and methods for calculating certain staff and overhead costs, and revenue estimates. Documenting these in sufficient detail enables staff and other stakeholders to understand the reasons behind the calculations of costs. It also ensures that fee-setting practices are consistent from year to year. Treasury guidelines also require entities to document methodologies and assumptions for setting fees.

Firearms licence fees

In 2017, the WA Police Force performed a detailed review of costs associated with firearms licences. Fees were based on a time and motion study, which measured the time taken in each step of the process for issuing different categories of licences. This is a robust way to calculate direct costs for processing a licence. The model also includes allocation of third party costs, compliance costs, corporate overheads and other costs. By performing a detailed review of costs, entities will be more likely to calculate fees correctly.

Source: OAG

Figure 2: Firearms licence fee costing model

Reviews of fees were undertaken

The WA Police Force completed a detailed review of the firearms licence fees. Another time and motion study for firearms licensing was conducted in late 2018 in order to inform the 2019-20 fees. The WA Police Force is currently completing a high-level review of the new major events fees introduced in January 2018. A full review of the major events fees will be conducted in 2021, as sufficient data will be available to analyse the actual costs of services. Conducting full reviews ensure changes in costs are reflected in the entity's fee-setting calculations, and helps inform fee decisions by entities and ministers.

Fees at both entities were approved

DPIRD and the WA Police Force obtained proper Ministerial approvals for new and revised fees in 2018-19. The WA Police Force's internal process for approving fees is described in Figure 3. Fees at both entities were also gazetted, and updates were made to subsidiary legislation in line with the Ministers' approval.

WA Police Force fee approval process

The WA Police Force had a good internal process for approving fees. A Corporate Board made up of the Commissioner and Deputy Commissioners review and endorse fees each financial year. Senior finance staff prepare a submission to the Corporate Board with information about pricing options, different levels of cost recovery, financial impacts, and a recommendation. Once fees are endorsed, approval is sought from the Minister. Good review and approval processes help to ensure that ministers are well informed when making fee decisions.

Source: OAG

Figure 3: WA Police Force fee approval process

We also found revenue collected in 2018-19 was in line with the estimated revenue for all of the fees in our sample. Overall, the variance of actual revenue for the audited fees was within 1 to 11% of the 2018-19 estimate. Properly approved and implemented fees reduces the risk of charging invalid fees.

Recommendations

DPIRD and the WA Police Force should ensure:

1. their fee-setting frameworks align with government policies and instructions and better practice principles

DPIRD response:

Agreed. While the former agencies had effective frameworks which aligned with government policies and instruction, the achievement of contemporary better practice principles will be considered when establishing a single DPIRD framework.

Implementation timeframe:

Following the implementation and bedding down of the one DPIRD HR information system and one DPIRD Financial management information system.

WA Police Force response:

The audit findings on variations from Treasury guidelines relate to the level of documentation. This will be addressed with the adoption and implementation of a formal financial costing methodology manual in line with government policies. The manual will provide base methodology and assumptions for the formation of ongoing and future costing models for the calculation of fees and charges.

Implementation timeframe:

It is anticipated this manual will be completed within the next 12 months, prior to the review of the 2021-22 fees and charges.

2. all assumptions and methods used to determine fees and estimated revenue are clearly documented.

DPIRD response:

Agreed

Implementation timeframe:

This will be included as part of the work currently being undertaken to update the DPIRD Financial Management Manual.

WA Police Force response:

The adoption and implementation of a formal financial costing methodology manual will provide base methodology and assumptions for the formation of ongoing and future costing models for the calculation of fees and charges, with data sources and individual costing calculations methods detailed within each costing model.

Implementation timeframe:

It is anticipated this manual will be completed within the next 12 months, prior to the review of the 2021-22 fees and charges.

DPIRD should also:

3. develop a robust costing model for each fee or fee group to reliably determine the cost of providing the service(s)

DPIRD response:

Agreed

Implementation timeframe:

A cost allocation methodology study will be undertaken during the design phase for the one DPIRD Financial Management Information System. This will be used to partially inform the configuration and implementation of the system.

Following implementation, it is expected that DPIRD will be in a position to more reliably determine the cost of providing each service.

4. review each fee periodically in accordance with Treasurer's Instruction 810.

DPIRD response:

Agreed. DPIRD does review each fee periodically. However, pending the systems integration process, this review continues to be undertaken using methodologies, assumptions and bases of allocations from the former agencies.

Implementation timeframe:

DPIRD will continue to perform a high level review on an annual basis until such time as the one financial management information system has been implemented and a robust cost allocation model developed and implemented as mentioned above.

Response from Department of Primary Industries and Regional Development

We have not noted any factual inaccuracies in the report. However, we draw your attention to a difference of opinion on the nature of the licence fees paid for recreational fishing.

Nature of recreational fishing licence

As we have stated in previous correspondence to your office, the recreational fishing licence framework is not a fee for service arrangement. It is a mechanism for assisting in the management of fish resources, with the fee providing a direct contribution towards activities to manage and enhance recreational fishing.

The Department undertakes a number of activities to manage the sustainable exploitation of fish resources. These activities vary from year to year and are determined on the basis of risk to the resource and priority. The activity is not provided at an individual “user” level which is a characteristic of a fee for service arrangement.

The maintenance of complex budgeting and accounting frameworks to assess the costs and level of cost recovery at individual activity level is therefore unwarranted, particularly as Parliament has made it clear that the level of the fee is a matter to be determined by the Minister, including setting a fee that is greater than the cost of delivering a particular service.

For this reason, we do not intend to characterise or treat the recreational fishing licence fees as a cost recovery fee in implementing the recommendations in your report.

It is acknowledged that the cost of managing recreational fishing at an aggregate level, on the other hand, is required to meet reporting obligations under the *Fish Resources Management Act 1994*

Commentary

The following general response relates to all four recommendations:

The implementation of a single cost allocation methodology has not been possible while DPIRD’s organisational structure and core systems remained disparate.

By 30 November 2019, DPIRD will complete its redesign to fully support the amalgamation of its legacy agencies and the State’s nine regional development commissions to enable the efficient and effective delivery of its fisheries, agriculture and regional development functions.

This outcome will provide greater cost allocation clarity across the Department.

However, as you are aware, the Department still operates on three Human Resources, Financial Management and Electronic Document systems with different applicable policies, processes, charts of accounts, cost centres and project hierarchies. This has made it difficult to implement a single cost allocation methodology for the purposes of costing tariffs, fees and charges.

Therefore, the Department continues to utilise previous costing methodologies. Whilst these costing models are not robust, they provide a historically consistent basis for the purpose of costing fees for service, pending the introduction of integrated core systems.

With good progress now being made to integrate the Department's core systems, we do not propose to develop an interim position based on the now completed structure, as this would be an inefficient use of resources.

The implementation of integrated core systems will enable the Department to improve its operating model for effective, efficient financial transacting, strong governance and customer support. Clear whole of Department data standards and reporting will be achieved, including consistent risk, control and compliance frameworks.

Once these are in place, the Department will be in a position to implement an appropriate cost allocation methodology.

Appendix 1 – Better practice checklist

The following better practice checklist can be used for developing an effective fee-setting framework. Our listed expectations are not exhaustive and do not cover all of the requirements of government policies and instructions, but rather provide structured prompts to guide entities' considerations.

Better practice principles for fee-setting	
Principle	Our expectation
Policies and procedures	<ul style="list-style-type: none"> • ensure there is authority to charge fees through legislation • develop an overarching fee-setting policy for the entity • document the purpose, scope and desired level of cost recovery for each fee or fee group • maintain a fee register in accordance with Treasurer's Instruction 810.
Costing model	<ul style="list-style-type: none"> • document the basis of the costing exercise and approach used • develop a costing model for each fee or fee type • document the assumptions and methods for calculating costs and revenue • document all sources of cost and revenue information.
Costing and pricing	<ul style="list-style-type: none"> • obtain actual cost information to input into the cost model • allocate direct/indirect/capital costs based on approved assumptions and methods • calculate: <ul style="list-style-type: none"> ○ expected revenue ○ level of cost recovery ○ price to be charged • obtain approval from the CEO and the Minister(s) for new and revised fees • update subsidiary legislation through Gazettal.
Review	<ul style="list-style-type: none"> • review fees at least annually • every 3 years or after significant changes, conduct a full review of fees, including policies and procedures, and the costing model.

Source: OAG

See also Figure 1 on page 3 for our 'Better practice fee-setting framework' diagram.

Auditor General's reports

Report number	2019-20 reports	Date tabled
12	Audit Results Report – Annual 2018-19 Financial Audits of State Government Entities	14 November 2019
11	Opinion on Ministerial Notification	30 October 2019
10	Working with Children Checks – Follow-up	23 October 2019
9	An Analysis of the Department of Health's Data Relating to State-Managed Adult Mental Health Services from 2013 to 2017	9 October 2019
8	Opinions on Ministerial Notifications	8 October 2019
7	Opinion on Ministerial Notification	26 September 2019
6	Opinions on Ministerial Notifications	18 September 2019
5	Fraud Prevention in Local Government	15 August 2019
4	Access to State-Managed Adult Mental Health Services	14 August 2019
3	Delivering Western Australia's Ambulance Services – Follow-up Audit	31 July 2019
2	Opinion on Ministerial Notification	26 July 2019
1	Opinions on Ministerial Notifications	19 July 2019

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