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AUDITOR-GENERAL
SPECIAL REPORT NO. 36

THE COLLECTION OF RECEIVABLES AND LOANS IN TASMANIAN GOVERNMENT DEPARTMENTS

June 2001

Presented to both Houses of Parliament in accordance with the provisions of Section 57 of the Financial Management and Audit Act 1990

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26 June 2001

President
Legislative Council
HOBART

Speaker
House of Assembly
HOBART

Dear Mr President
Dear Mr Speaker

PERFORMANCE AUDIT NO. 36
THE COLLECTION OF RECEIVABLES AND LOANS IN TASMANIAN GOVERNMENT DEPARTMENTS

This report has been prepared consequent to examinations conducted under section 44 of the Financial Management and Audit Act 1990, for submission to Parliament under the provisions of section 57 of the Act.

Performance audits seek to provide Parliament with assessments of the effectiveness and efficiency of public sector programs and activities, thereby identifying opportunities for improved performance.

The information provided through this approach will, I am sure, assist Parliament in better evaluating agency performance and enhance Parliamentary decision making to the benefit of all Tasmanians.

Yours sincerely

A J McHugh

AUDITOR-GENERAL

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LIST OF ACRONYMS AND ABBREVIATIONS

ANAO	Australian National Audit Office
AR	Accounts Receivable
DoE	Department of Education
DHHS	Department of Health and Human Services
DIER	Department of Infrastructure, Energy and Resources
DJIR	Department of Justice & Industrial Relations
DMU	Debt Management Unit
DPPS	Department of Police and Public Safety
DPAC	Department of Premier and Cabinet
DPIWE	Department of Primary Industry, Water and Environment
DPP	Director of Public Prosecutions
DSD	Department of State Development
F&FF	Finance and Finance Facilities
FEU	Fines Enforcement Unit
FMAA	Financial Management and Audit Act 1990
GBE	Government Business Enterprise
Guidelines	Guidelines for Effective Cash Management in Agencies
HR	Human Resources
IVR	Integrated Voice Recognition
PAEC	Public Accounts and Estimates Committee
RHH	Royal Hobart Hospital
SDM	Student Debt Management system
SRO	State Revenue Office
TAFE	TAFE Tasmania
TCS	Tasmanian Collection Service
TIs	Treasurer's Instructions
Treasury	The Department of Treasury and Finance

INTRODUCTION

Under the provisions of section 44(b) of the *Financial Management and Audit Act 1990* the Auditor-General may

> "carry out examinations of the economy, efficiency and effectiveness of Government departments, public bodies or parts of Government departments or public bodies".

The conduct of such audits is often referred to as performance auditing.

This report relates to a performance audit carried out by the Tasmanian Audit Office during the period November 2000 to May 2001.

The objective of this performance audit was to review receivables and loan collection practices across the majority of government departments and examine how efficiently and effectively this collection was managed. A secondary objective was to identify, develop and report better practice to promote overall improvements in the management of accounts receivable.

To achieve this objective a review of the efficacy of credit practices and policies, documentation of procedures, review and follow-up of receivables, management reporting and performance measures was conducted.

The approach taken in this audit was to conduct field visits to a number of government departments and divisions.

AUDIT OPINION

Report Title	The Collection of Receivables and Loans in Tasmanian Government Departments.
Nature of the Audit	The objective of this performance audit was to review receivables and loan collection practices across the majority of Government departments and examine how efficiently and effectively this collection is managed. A supplementary objective was to identify, develop and report better practice to promote overall improvements in the management of accounts receivable.
Responsible Party	Department of Education (including TAFE Tasmania) Department of Health and Human Services Department of Infrastructure, Energy and Resources Department of Justice and Industrial Relations Department of Primary Industry, Water and Environment Department of State Development Department of Treasury and Finance
Mandate	This audit has been carried out under the provisions of Section 44(b) of the *Financial Management and Audit Act 1990* which provides that: *"The Auditor-General may carry out examinations of the economy, efficiency and effectiveness of Government departments, public bodies or parts of Government department or public bodies."*
Applicable Standards	This audit has been performed in accordance with Australian Auditing Standard AUS 806 "Performance Auditing" which states that: *"The objective of a performance audit is to enable the auditor to express an opinion whether, in all material respects, all or part of an entity's activities have been carried out economically, and/or efficiently and/or effectively.*"
Limitation on Audit Assurance	Audit procedures were restricted to interviews with departmental representatives and the selection and examination of a sample of departments. A checklist approach was adopted for sample testing. The evidence provided by these means restricts the audit assurance to a moderate level.
Audit Criteria	The assessment of departmental management of receivables and loans was ascertained under the following criteria: *1 Agency Accounting Controls and Collection Procedures* • The existence of a policy framework Coverage in Accounting Manuals

Staff awareness and knowledge

- Internal control mechanisms

Receivable creation, calculation, approval and recording practices

System integration and debt recognition

Organisational structure, including dedicated resources

- Receivable follow-up practices

Frequent review and action

Write-off practices

2 Credit Management, Recovery and Assessment Practices

- Identification, analysis and assessment of debt classification risks
- Identification, analysis and assessment of debtor classification risks
- Debt collection priorities set according to these classification risks

3 Performance Measures and Management Reporting

- Receivables collection and management targets and performance indicators are set
- Evaluation conducted against targets and performance indicators
- Mechanisms in place to identify and monitor receivables
- Other reporting mechanisms in place

Opinion and Conclusions

Based on the evidence collected, I conclude that many shortcomings in the management of departmental receivables and loans exist, the most significant of these include:

- Lack of a clear receivables and credit management policy framework;
- Low priority afforded to review and follow-up of receivables on a regular basis;
- Irregular application of penalties and service denial as a disincentive for the non payment of receivables;
- Significantly flawed debtors systems; and
- Inadequate reporting and performance management mechanisms.

SUMMARY OF AUDIT RECOMMENDATIONS

Departments should ensure that a policy framework exists and that it is widely available to relevant staff.

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Departments set a minimum level for follow-up of outstanding receivables and give priority to the follow-up and recovery of amounts greater than this threshold.

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Penalties should be applied consistently wherever possible and should be applied to inter-departmental receivables.

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Departments establish a policy which sets out adequate criteria for the review and write-off of outstanding receivables.

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Assessment of debt types should be conducted and controls established where exposures exist. Departments should promulgate policies and procedures in order to manage these debt types in accordance with the assessment.

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Appropriate reporting structures be implemented within departments in order to facilitate the monthly receivables follow-up process as well as performance measurement.

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Performance measures and indicators be established for the management of departmental receivables.

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AUDIT OBJECTIVES, APPROACH AND COST

Audit Objective

The objective of this performance audit was to review receivables and loan collection practices across the majority of government departments and examine how efficiently and effectively this collection was managed. A secondary objective was to identify, develop and report better practice to promote overall improvements in the management of accounts receivable.

To achieve this objective a review of the efficacy of credit practices and policies, documentation of procedures, review and follow-up of receivables, management reporting and performance measures was conducted.

Scope of the Audit

The scope of this audit was restricted to the receivables and loan functions within those departments with significant outstanding receivables and loans and where issues had been identified through a preliminary survey or were previously identified by Audit. The departments audited included:

- Department of Education (DoE), including TAFE Tasmania;
- Department of Health and Human Services (DHHS);
- Department of Infrastructure, Energy and Resources (DIER);
- Department of Justice and Industrial Relations (DJIR) - Fines Enforcement Unit (FEU) only;
- Department of Primary Industry, Water and Environment (DPIWE);
- Department of State Development (DSD); and
- Department of Treasury and Finance (Treasury).

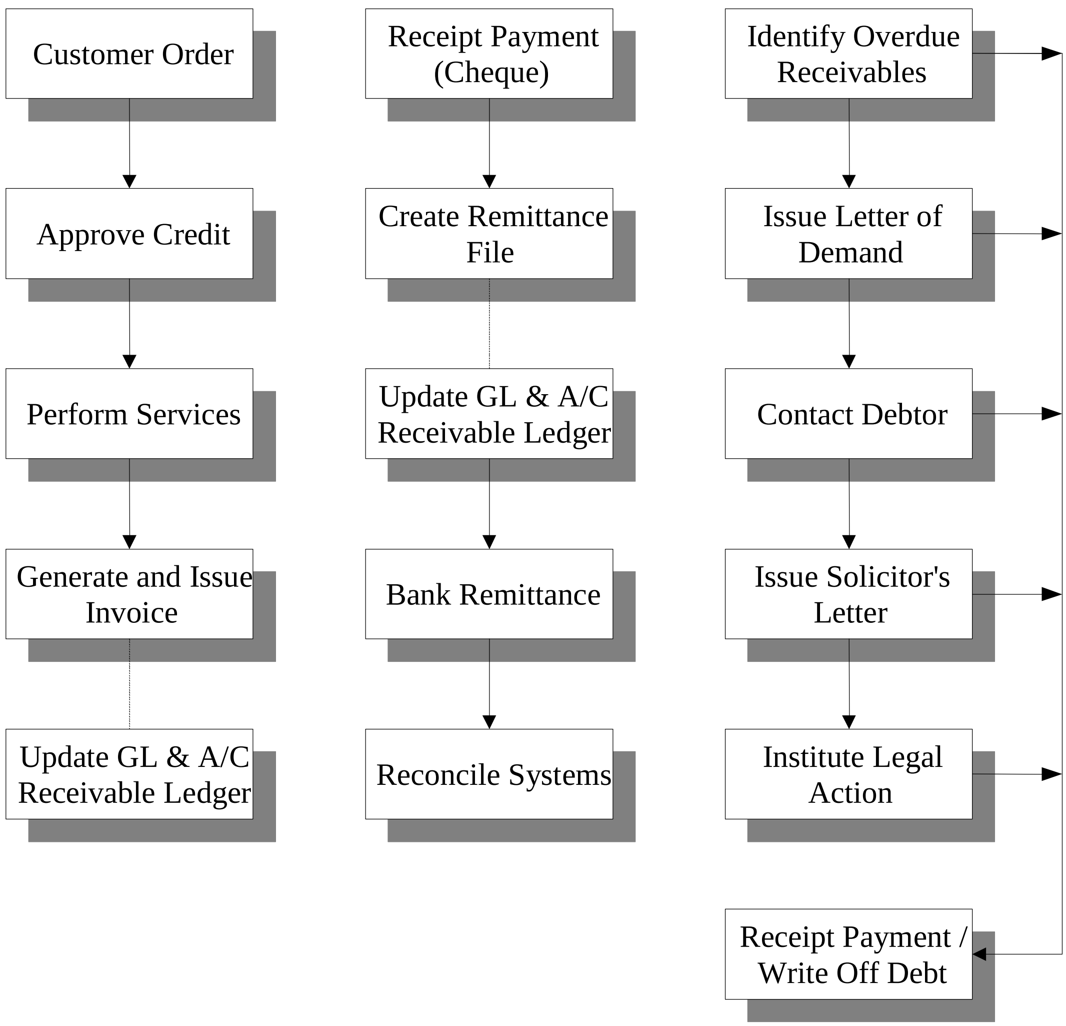
Departments excluded from this audit were the Department of Police and Public Safety (DPPS) and the Department of Premier and Cabinet (DPAC). DPPS was excluded because the FEU, part of DJIR, manages receivables collection for traffic infringement and speed camera notices on DPPS's behalf. DPAC was excluded because of the insignificant amount of inter-departmental debt managed by the department and the relatively low level of receivables outstanding over 90 days.

Audit recognised that Fines Enforcement collections are restricted to the recovery of pecuniary penalties which are not managed in exactly the same way as commercial debts although pecuniary penalties are reported as receivables in DJIR's annual financial statement and were therefore considered appropriate for examination in this audit of receivables. Accounting controls and systems, collection procedures, management reporting and performance measurement all remain relevant to the collection of pecuniary penalties. FEU was therefore examined in detail.

The Australian National Audit Office (ANAO) *Better Practice Guide on the Management of Accounts Receivables,* December 1997, mapped the accounts receivable process. This map has been reproduced below and identifies three functional streams within the accounts receivable process. This process commences with the customer order and ceases at the updating of the general ledger, the second stream commences at the receipt of payment through to the reconciliation process and the third stream focuses on the identification of overdue receivables through to taking legal action and writing the debt off.

The scope of this audit was restricted to the third stream, specifically addressing the identification and management of overdue receivables through to the write-off process and was not limited to commercial receivables but was also applied to regulatory and license receivables. The first and second stream were excluded due to the potential for overlap with the Financial Audit process although aspects of stream one and two were examined where specific issues were identified within departments necessitating an examination of the action taken prior to the receivable becoming outstanding.

THE ACCOUNTS RECEIVABLE PROCESS



SOURCE: ANAO *Better Practice Guide on the Management of Accounts Receivables,* December 1997

Audit Criteria

1. Departmental Accounting Controls and Collection Procedures.

The existence of a policy framework within each department was examined in order to establish the context within which receivables were managed. It was recognised that many government receivables and loans were specific to the function of the administering department and as a result the extent to which policies were designed to meet these specific needs were examined. The level of staff awareness and knowledge of any existing departmental and Treasury policies, instructions and guidelines was also considered.

Internal control mechanisms were investigated and consideration was given to existing procedures, the approval process and level of delegation, recording practices and system integration. The internal organisational structure, degree of functional specialisation and staff training were also assessed.

Further, a review of receivables follow-up practices was conducted and included the frequency of review and follow-up action, the type of action taken, level of use of commercial debt collection agencies and review for possible write-off.

2. Credit Management, Recovery and Assessment Practices

The identification, analysis and assessment of debt risks was raised as a critical element in the efficient and effective process of managing government debt by the ANAO in report 29. This report recommended that debtors be categorised by risk profile and that debt collection be prioritised in accordance with these profiles. As a result the extent to which debt risks were identified, analysed and assessed, as well as the use of debtor profiles was examined. The establishment of separate credit policies for high and low risk debtors was also investigated.

It was recognised by Audit that the client department relationship was often an involuntary one, regulatory in nature, and that aggressive collection efforts could often be counter-productive under these circumstances. Accordingly the issue of cost-effective recovery by departments was investigated and involved an examination of the process of identification, analysis and assessment of the probability of recovery and subsequent strategies once assessed. The priority afforded to identified recovery ‘probability’ categories was examined, as was the establishment of effective credit policies for voluntary receivables and loans.

3. Performance Measures and Management Reporting

This criterion covered the extent to which departments set receivables collection targets and performance indicators, as well as the mechanisms for assessment against these targets and indicators. Further, the method of identifying and monitoring outstanding receivables including the assessment of existing reporting mechanisms and management reporting capabilities was examined.

Audit Methodology

A preliminary survey was conducted of all government departments in order to collect background data on the structure of the accounts receivable function within departments; the level of decentralisation within the department; and the existence of a policy framework. Divisions within departments to be subjected to review were selected with the assistance of an Audit Steering Committee.

Field visits were performed at all divisions selected by the Audit Steering Committee and a sample of receivables in arrears was selected. The source of sample selection was the most current departmental aged debtor schedule at the time of conducting the field visit and from write-off reports as at 30 June 2000. A checklist approach was adopted for testing in order to assess the level of compliance with the Treasurer’s Instructions (TIs) and to ensure a rigorous and consistent approach was adopted.

Interviews were held with the Officer responsible for overseeing the accounts receivables unit as well as with staff performing receivables management functions. Where necessary audit observation schedules were issued to departments in order to seek clarification, confirmation and comments on the audit findings and recommendations.

At the completion of the audit detailed draft departmental reports were forwarded to each department for input. This input was taken into account in the development of the final departmental report and the final audit report to parliament.

This final audit report summarises the findings that were consistently identified across all State government agencies as well as the major findings for each department audited.

Audit Steering Committee

The Audit Steering Committee consisted of representatives from the Departments of: Education; Health and Human Services; Infrastructure, Energy and Resources; Justice and Industrial Relations; and Treasury and Finance, and also included a representative from Aurora. The committee provided guidance on the terms of reference, the audit criteria and the audit methodology. The committee also met to comment on the findings of the draft audit report.

Audit Resources and Timing

Planning for the performance audit commenced in October 2000. Testing at departments occurred from late November 2000 through to March 2001. The report was finalised in May 2001.

The total cost of the audit, including the cost of Tasmanian Audit Office staff but excluding report production costs, is estimated at $60 885.00.

Report Format

The following section of this report commences with some background on the management of receivables in the Tasmanian State government and then follows with a discussion on the Whole-of-government audit findings, conclusions and recommendations, better practice examples and performance against the audit criteria. Detailed reports applicable to each department were supplied to these departments from which departmental summary reports have been included in this report.

BACKGROUND

Previously departments operated on a centralised financial system for year-end reporting. Departments used either manual systems or computerised systems to record accounts receivable off-line from the centralised financial system.

All departments have now implemented accounting systems which generally have an accounts receivable module. As a result, the focus has now changed to debtor management, including credit practices, collection procedures and use of commercial debt collection agencies.

The *Financial Management and Audit Act 1990* (*FMAA*) provides that Heads of Agencies are fully responsible for the efficient management of departmental resources, particularly the receipt, care, custody and payment of public money. The FMAA also refers to amounts to be credited to the Consolidated Fund, the establishment of Special Deposits and Trust Funds and recoveries and write-offs.

Many TIs have also been promulgated in order to provide guidance to departments on their accounting systems, practices and procedures.

Part III of the TIs instructs departments on the form and content of accounting manuals and states that these should cover the control of and accounting for public and other moneys receivable as well as credit management and accounts receivable processes. In addition, Parts VI, VII and X cover the receipt of moneys, salary and wage overpayments, write-offs and government loans and grants.

Treasury have also issued Guidelines to departments on the use of DeskBank for banking purposes and *Guidance Releases* to assist departments with the implementation of the Commonwealth Goods and Services Tax.

Cash Management Guidelines

It is recognised that a certain level of outstanding receivables is inevitable, although costly to the Tasmanian government. In order to minimise the effect of this government departments need to be pro-active in ensuring the incidence of outstanding receivables is minimised, therefore minimising interest costs to government.

TI 208 on Cash Management refers to the *Guidelines for Effective Cash Management in Agencies* (*Guidelines*) that were published by Treasury in May 1997. These *Guidelines* specifically refer to the expedition of the collection of amounts due, the follow-up of outstanding accounts and other amounts due, the receipt of payment through electronic methods and inter-departmental transactions.

Furthermore, the *Guidelines* recommend that debtors' ledgers be used for their proper purpose with regular, pro-active reviews of outstanding receivables being conducted. The use of debt collection agencies and the application of interest on outstanding balances are also supported, as is the application of interest on outstanding balances which result from inter-departmental transactions.

In addition, the *Guidelines* suggest that departments conduct assessments for potential default risks and maintain appropriate records to contribute to the construction of a credit profile.

Financial Management Reform Strategy

The Financial Management Reform Strategy pivots around the adoption of a commercial approach to the management of public finances. Reform has been motivated by demands for additional government services or reduced taxation whilst maintaining the existing level of goods and services to the community. Progress with respect to this strategy has been summarised in annual reports produced by Treasury since 1997 and is under continual review.

Service Tasmania

Service Tasmania offers an interface for the conduct of business with State government over a single shop front counter, the telephone or the internet. There are twenty-four shop fronts statewide.

As part of the *Report of the Service Tasmania Project: Comprehensive Review*, December 2000 the effectiveness of *Service* Tasmania's revenue receipting and distribution systems was evaluated. The report concluded that although the general receipting ledger system did not fully meet the specified terms of reference, the *Service* Tasmania receipting systems (StaRS) complied with financial management and audit requirements. The report endorsed the current developments towards a replacement system which would have the capacity to access back-end client agency databases.

Throughout the audit, departments offered suggestions for basic improvements to *Service* Tasmania receipting and feedback systems.

Reviews and Audits in other Jurisdictions

In December 2000 the ANAO tabled Report 25, *Benchmarking the Finance Function,* 2000-01. The stated objective of this report was to '… obtain, and report on over time, quantitative and qualitative data relating to finance function activities …'. It was recommended that Commonwealth organisations measure their performance against these benchmarks in order to detect and diagnose areas of concern.

The Office of the Auditor General of British Columbia published a report in October 1998 on the *Collection of Overdue Accounts Receivable* in the Province. This report found that government collection processes were fragmented, inconsistent and some poorly resourced. The report also found that many receivables were difficult to collect and recommended that with clear direction this could be improved.

The Victorian Audit Office conducted an audit on the State Revenue Office entitled *A Customer Service Focus Towards Improving Taxation Collection* in October 1998. This report recommended the introduction of a cost-effective method for calculating revenue required by legislation, the development of a more sophisticated means of identifying non-compliant taxpayers, introduction of an integrated land information system and greater precision in the setting of margins for targets.

In December 1997, the ANAO tabled report number 29 on the *Management of Accounts Receivable*. The audit was limited to agencies whose accounts receivable consisted of trade debtors, levies, other charges and recoveries from staff. The ANAO concluded that the management and organisational framework could be improved by establishing a policy framework, conducting risk assessment, giving program managers strategic decision making responsibility and by strengthening performance measurement and management reporting. As a result of this audit the ANAO produced the *Better Practice Guide on the Management of Accounts Receivables* in December 1997.

The Victorian Public Accounts and Estimates Committee's (PAEC) Report 21 of September 1997 addressed the issue of the large backlog of unpaid fines that had accumulated from infringement notices. The report recommended that legislation be enacted '...to govern the operation of the infringement notice system' and that guidelines outline payment options, including extensions of time to make payment and alternatives to payment such as community service. The report recommended vigorous prosecution of offenders who failed to notify of a change in address or transfer of ownership of vehicles and that license suspension be used on a greater scale. The PAEC did not endorse legislative changes which would attach fines to the renewal of driver's licences or vehicle registration.

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

Departmental Revenue and Receivables

The total administered and operating revenue for the departments audited in 1999/00 was $1.5 billion, this figure excludes appropriations from government. The balance of receivables at 30 June 2000 for the departments audited amounted to $459 million (31% of administered and operating revenue) for the same period.

Figures 1 and 2 below provide a summary of departmental administered and operating revenue and receivables for the 1999/00 financial year for the departments audited. As can be seen in Figure 1 State Taxation represented 45% of the total revenue of audited departments, Treasury accounted for 34% and the Department of Health and Human Services represented 9%. Of the receivables balance at 30 June 2000 (figure 2), 83% related to State Taxation, 11% to the Department of State Development and 4% to the Fines Enforcement Unit.

Figure 1 - Departmental Administered & Operating Revenue 1999/00
(excluding appropriations)

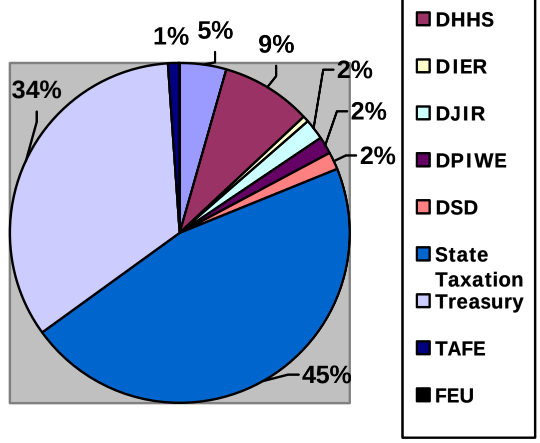
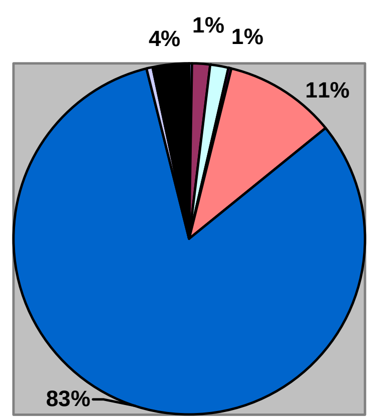


Figure 2 - Departmental Receivables at 30 June 2000



Preliminary Survey to All Departments

A preliminary survey was distributed to the Corporate Services sections of all departments as well as to some divisions within the DHHS, DoE, DJIR, DSD and Treasury. Of the twenty surveys distributed seventeen responses were received.

The results of the survey were collated in order to assist in the selection of appropriate departments or divisions to be included in the scope of this audit. The surveys provided some basic background information on recovery practices, policy framework and organisational structure and were constructed to reflect the proposed audit criteria.

Survey results identified that the majority of departments and divisions believed a policy framework existed and a number of these were being reviewed or refined. Although quite often not stated within departmental policies and procedures, the majority of departments and divisions surveyed stated that they conduct reviews of outstanding receivables on a regular basis. The stated frequency of these reviews ranged from monthly to annually, with only one department and one division reviewing on an ad hoc or irregular basis.

Seven respondents indicated that the services of commercial debt collection agencies were employed, with a further respondent preparing a business case to employ a commercial debt collection agency. In the remaining nine departments or divisions surveyed departmental employees performed the receivables collection role although training for these employees was limited to on-the-job training.

The invoicing function within departments and divisions appeared to be generally decentralised, although one department and four divisions had, or were moving to, centralised units. There also appeared to be a trend towards the centralisation of receivables collection functions, and the four departments or divisions with decentralised receivables collection functions either had a small number of decentralised units or were decentralised along output lines.

The majority of respondents stated that the invoicing and debtors systems were integrated, although this was not the case for four divisions.

From the responses received there appeared to be minimal debt risk assessment conducted within departments due to the involuntary nature of the receivables collected although assessments were made in areas were credit was offered or where there were different debt categories. Four divisions indicated that they were in the process of developing performance measures and targets in the area of receivables management.

All respondents stated that reports were available for aged debtors as at the end of the financial year and at other times. Reports were generally not available on collection success rates or the average amount of days it takes to collect receivables compared to the terms of trade.

Some of the survey responses were inconsistent with audit findings.

Audit Criteria:

1. Agency Accounting Controls and Collection Procedures.

1.1 Existence of a Policy Framework

A policy framework is desirable in order to establish a consistent platform to manage receivables and is an effective method of control. The TIs instruct departments on the form and content of accounting manuals and state that these should cover:

- the control of and accounting for public moneys and other moneys receivable;
- credit management;
- accounts receivable processes;
- the receipt of moneys;
- salary and wage overpayments;
- write-off practices; and
- government loans and grants.

As a minimum a departmental policy framework should include:

- receivables/loan collection strategies specific to the needs of the administering department;
- follow up procedures and timeframes;
- alternative modes of payment and officers delegated to approve alternate payment arrangements; and
- clear write-off/waiver instructions and criteria.

Ideally this framework should also cover procedures for handling customer inquiries and complaints as well as delegation limits. Departmental policy frameworks should be widely available and preferably available through departmental intranets to all staff.

Findings:

	DoE - Central	DoE Schools/District	TAFE Tasmania	Royal Hobart Hospital	Housing Tasmania	DPIWE	DIER	DSD - Central	DSD Finance &	DJIR - Fines Enforcement Unit	Treasury Finance-General	Treasury Revenue &
Criterion 1												
1.1 Policy Framework												
1.1.1 Internal Policy Framework and Coverage	✓	♦	✓	×	♦	♦	✓	♦	♦	×	✓	♦
1.1.2 Staff Knowledge and Awareness	✓	✓	✓	NA	✓	✓	✓	✓	✓	NA	✓	✓

KEY: ✓ Acceptable × Not Acceptable ♦ Partially acceptable NA Not Applicable (no existing policy)

1.1.1 Internal Policy Framework and Coverage

Treasury guidelines and instructions provide a basic framework for the collection of receivables although there is negligible measurement and benchmarking across government agencies.

Generally a basic policy framework existed within departments although the coverage of this policy framework differed amongst auditees. Other than existing Regulations, no policy framework existed at the Fines Enforcement Unit (FEU) or Royal Hobart Hospital (RHH), these are referred to as 'not acceptable' in the above table. A further six of the auditees had some policies in place and are referred to as 'partially acceptable' above. The coverage of these policies were limited although five of these divisions were reviewing the accounts receivable and credit management policies at the time of the audit. Only four of the auditees had an 'acceptable' framework in place.

1.1.1.1 Better Practice Example

At the time of conducting the audit of DSD a project officer had been appointed to conduct an extensive review of existing policies and procedures as well as establishing new policies and procedures in areas as required. A Lotus Notes 'Policy and Procedure Repository' database had been produced that would ultimately contain all DSD policies and procedures and be widely accessible to all employees. A consultative approach was taken in the review process and as part of this process all policies were allocated a future date for review, and a review officer.

Upon the full implementation of the 'Policy and Procedure Repository' this project has the potential to represent better practice among the agencies audited.

1.1.2 Staff Knowledge and Awareness

Audit found that staff performing accounts receivable and loan management functions possessed a general understanding of receivables management practices although many were not aware of basic cash management principles and the whole-of-government consequences of high levels of outstanding receivables.

Recommendation – Section 1.1:

Departments should ensure that a policy framework exists and that it is widely available to relevant staff.

1.2 Internal Control Mechanisms

In addition to the development of a policy framework, further internal controls are necessary. The additional controls examined as part of this audit included: processing, approval and recording practices; flexibility in payment options; system integration; credit checking; the degree of functional specialisation; and staff training.

Findings:

	DoE – Central	DoE Schools/District	TAFE Tasmania	Royal Hobart Hospital	Housing Tasmania	DPIWE	DIER	DSD - Central	DSD Finance & Facilities	DJIR - Fines Enforcement Unit	Treasury Finance-General	Treasury Revenue & Gaming
Criterion 1												
1.2 Internal Control												
1.2.1 Receivables Origination Controls	✓	✓	♦	♦	✓	♦	✓	✓	✓	♦	NA	✓
1.2.2 Adequate Payment Options	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	♦
1.2.3 IT System Integration	✓	✓	♦	✓	✓	✓	✓	✓	✓	♦	✓	♦
1.2.4 Credit Checks	♦	NA	♦	NA	✓	✓	NA	NA	✓	NA	✓	NA
1.2.5 Staff Training	×	×	×	×	×	×	×	×	×	×	×	×

KEY: ✓ Acceptable × Not Acceptable ♦ Partially acceptable NA Not Applicable

1.2.1 Receivables Origination Controls

Effective receivables origination controls include the separation of duties between the invoicing function and receivables recovery function, systematic checking and approval processes as well as minimal delays in the entry of receivables into the debtors system and the issue of invoices.

Generally separation of duties was evident in all areas examined. Of these divisions three had experienced some level of confusion between the responsibilities of the invoicing and receivables recovery functions which had resulted in duplicate billing or receivables not being passed to the receivables recovery unit for management and are therefore classified as 'partially acceptable' above.

Audit observed that appropriate checking and approval processes were in place within divisions and procedures for the timely recognition of receivables on the debtor system had been established. One exception to this was the less than timely migration of some infringement notice details from DPPS to the FEU resulting in onerous management of receipts held in suspense accounts, and was therefore assessed as 'partially acceptable'.

Where a receivable arrises from a statutory requirement and is paid on a self-assessment basis regular compliance activity was believed to be necessary, particularly for certain State Taxation types.

1.2.2 Adequate Payment Options

All departments and divisions examined offered a range of cost-effective alternative ways to paying receivables. The only exception was the payment of stamp duty loan instalments as only a limited range of payment options existed. Consideration needs to be given to the extension of these options in order to increase the payment rate, for example payment by direct debit.

Departments should seek to settle inter-departmental debts by electronic means rather than at present by cheque.

Some difficulties were experienced with the *Service* Tasmania integrated voice recognition (IVR) software where payments could be duplicated in circumstances where the payee believed the payment attempt had not been successful. A further limitation of this system is the restricted credit card limit of $1,000 which was lower than some departmental receivables.

Departments advised Audit that the cost of providing a wide range of flexible payment options, particularly through electronic means, were increasing.

1.2.3 I.T. System Integration

The full integration of receivables and debtor management systems within departments is desirable as it eliminates the need for manual processes, and accordingly reduces the risk of error. The Treasury *Guidelines* state that 'Considerable savings can be achieved by integrating the component modules and processes.'

Audit observed that system restrictions existed in many departments which limited integration between feeder systems. In particular, limitations were observed at the FEU, State Revenue Office (SRO) and TAFE Tasmania, all referred to as 'partially acceptable' in the above table. The replacement of the student debt management database at TAFE Tasmania in January 2001 had eliminated many of these system difficulties.

Some basic system problems were experienced with the Finance1 financial information system in the production of statements and reports. For example DoE were unable to print monthly reports and DPIWE were unable to produce debtor reports for divisional units.

In addition, the lack of electronic integration between departments and *Service* Tasmania had resulted in reconciliation difficulties for departments. Electronic interfaces are used successfully by Australia Post and should be considered by *Service* Tasmania.

1.2.4 Credit Checks

The level of revenue received through credit sales by government departments was immaterial in comparison to regulated charges, fees and fines. Those departments without credit sales and loans did not conduct credit checks.

Housing Tasmania consistently applied credit status checks to new rental clients as did Crown Land Services (part of DPIWE) which conducted credit checks as part of the assessment of applications for rental contracts.

The two 'partially acceptable' auditees included TAFE Tasmania and the DoE (Archives Office and Library Services). TAFE Tasmania did not apply credit checks to student enrolments as it was considered that access to education could not be refused for the non-payment of course fees although this is set to change for 2002 course enrolments.

The Archives Office and Library Services conducted credit sales although these were for very minor amounts that did not justify the conduct of credit checks.

The DSD applied strict loan assessment criteria to applications for new loans. A credit check was conducted and the results of this check were included in a detailed report to the Tasmanian Development Board or Loans Committee. Treasury also conducted credit checks when renegotiating loan conditions on existing *Public Bodies Assistance Act, State Loans and Loans Guarantees Act and Tourism and Recreational Development Act* loans, however no new loans are granted under these acts.

1.2.5 Staff Training

Limited training of staff performing receivables management roles had been conducted. Often departments stated that only limited receivables recovery action was being conducted by the department before referral to an external debt collection agency for action and therefore training was not considered necessary. Regardless of this Audit considers that all staff performing receivables management roles should, at a minimum, be made aware of the Treasury Instructions and guidelines as well as internal departmental policies and procedures. In particular it is imperative that these staff have a full understanding of effective cash management principles.

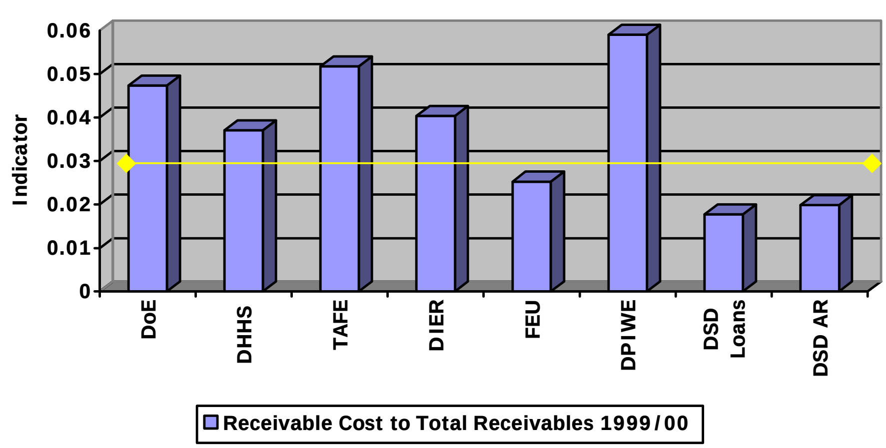
1.2.6 Organisational Structure

The ANAO conducted a benchmarking study on the finance function from which they published Report 25 of 2000/01 titled *Benchmarking the Finance Function*. This study was based on the activities conducted within Commonwealth organisations although it is highly relevant to other government entities.

The limited availability of consistent departmental information has restricted any attempt to compare departments against these benchmarks. The figure below (figure 3) calculates the ratio of the total salary costs for the Receivable unit to the total departmental receivables as at 30 June 2000. The indicator is the ratio of U/R when U = total salary costs for the Receivable unit and R = departmental receivables as at 30 June 2000.

It is worth noting that the existence of high volume, low-level receivables can potentially result in a relatively high indicator.

Figure 3 - Receivable Activity Cost Benchmark



Depicts the ratio of total AR unit salary costs to the total receivables for audited departments as at 30 June 2000

1.3 Receivables Follow-up Practices

The Treasury *Guidelines* and ANAO *Better Practices Guide to Cash Management* published in 1999 both recommend that agencies expedite the collection of amounts due, conduct regular review of outstanding receivables and encourage payment through electronic methods. The *Guidelines* also state that commercial billing practices should be adopted and that terms of trade should not exceed 30 days.

The establishment of criteria for the referral of debt to an external debt collection agency, referral to the Director of Prosecutions and for the write-off of debt is considered imperative for effective debt management.

Audit therefore reviewed departmental receivables follow-up practices, such as: the frequency of receivables review for follow-up or write-off, the financial thresholds established where receivables were considered uneconomical to pursue, prioritisation of receivables recovery action on the basis of risk indicators, and the level of use of commercial debt collection agencies.

Findings:

	DoE - Central	DoE Schools/District	TAFE Tasmania	Royal Hobart Hospital	Housing Tasmania	DPIWE	DIER	DSD – Central	DSD Finance & Facilities	DJIR - Fines Enforcement Unit	Treasury Finance-General	Treasury Revenue & Gaming
Criterion 1												
1.3 Receivables Follow-up Practices												
1.3.1 Frequency of Receivables Follow-up and Review	×	✓	♦	×	♦	×	✓	✓	✓	×	✓	×
1.3.2 Receivables Collection Techniques (use of incentives/penalties)	×	NA	×	NA	✓	×	✓	✓	✓	✓	✓	×
1.3.3 Use of Commercial Debt Collection Services	✓	✓	✓	✓	✓	✓	✓	✓	✓	NA	✓	✓
1.3.4 Write-off Practices	✓	×	✓	×	♦	×	✓	✓	✓	✓	✓	✓

KEY: ✓ Acceptable × Not Acceptable ♦ Partially acceptable NA Not Applicable

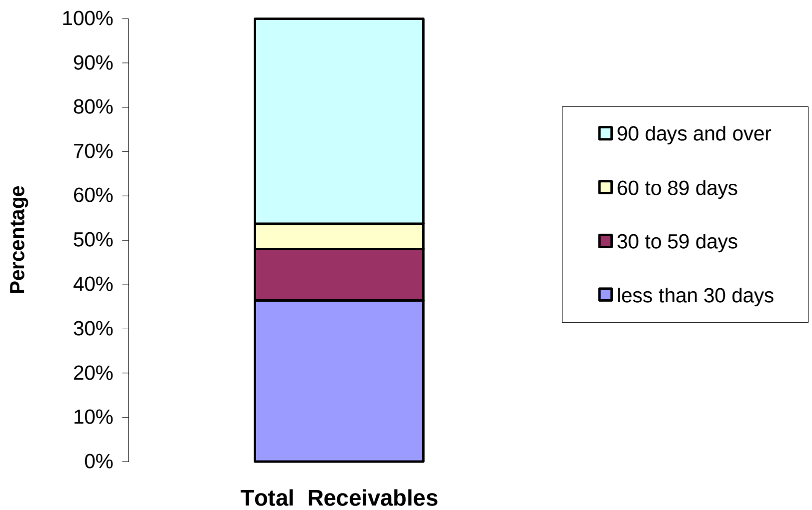
1.3.1 Frequency of Receivables Follow-up and Review

Of the twelve divisional units examined in this audit seven conducted some type of review of outstanding receivables although often the threats made to debtors for the non-payment of receivables were not followed through. Of concern to audit was the high number (5) of divisional units not conducting any receivables follow-up or review at all. These are referred to as 'not acceptable' in the above table.

Audit noted that often departments relied on the issue of paper reminder notices which appeared to be less effective than reminders through personal contact.

Figure 4 below is based on departmental aged debtors reports and shows the average number of elapsed days between the issue of an invoice and invoice payment. Forty six percent of outstanding receivables at the time of conducting the audit were 90 days or older, while 36% of the receivables was current, outstanding less than 30 days.

Figure 4 - Elapsed Days Between Invoice and Payment



1.3.2 Debt Collection Techniques (use of incentives/penalties)

The Treasury *Guidelines* and ANAO *Better Practices Guide to Cash Management* encourage the charging of interest on outstanding balances although the *Guidelines* recommend that *'explicit notification should be given to the debtor at the time the invoice is raised'*. Also recommended by both sources is that interest be applied to outstanding receivables from other government agencies. Other penalties include the revocation of licenses and the suspension of services (service denial).

Of the twelve divisions examined two were able to apply interest to debtors with outstanding receivables although it appeared that interest was applied to these receivables on an inconsistent basis.

The calculation of interest on loans administered by the DSD, Treasury and Housing Tasmania was consistent with loan contracts and the risk ratings applied to the loan.

Audit observed that departments aimed to suspend services or revoke licenses where these options were available however system and reporting limitations restricted the effectiveness of the application of penalties in two departments. These reporting limitations are discussed in more detail under Criterion 3, Section 3.1.

The application of penalties was not applicable to those departments where they are not able to refuse service provision or apply penalties.

1.3.3 Use of Commercial Debt Collection Services

Most departments employed the services of commercial debt collection services although as can be seen from the table (1) below, the amounts referred to these services were quite small. Table 1 below summarises departmental collection service costs, the amount of revenue returned by the agency and the amount of debt referred to the service for collection for those departments able to extract this information.

Where these services were employed the average return was four times the cost of employing the service although the amount of revenue returned was only 27% of the amount referred to the service. This may be regarded as cost efficient provided that standard collection efforts within the departments had exhausted all other means of recovery.

Table 1 – Summary of Debt Collection Costs by Agency

Debt Collection Agency	*1999/00 Debt Collection Agency Fees*	*Revenue collected by Debt Collection Agency for 1999/00*	*Debt referred to Debt Collection Agency for recovery in 1999/00*
DoE	$30,817	$155,241	$238,915
DHHS	$44,527	$278,000	$1,473,390
DIER	$2,374	$3,622	$9,020
Housing	$69,402	$237,999	$990,618
TAFE (year 2000)	$27,049	$84,134	$68,000
Total	**$174,169**	**$758,996***	**$2,779,943**

* may include receivables referred in previous financial years.

1.3.3.1 Better Practice Example

Audit observed a structured, better practice approach to the management of those debts referred to a commercial debt collection agency by the Debt Management Unit (DMU) of SRO.

All outstanding debts with a value greater than $20 where departmental follow-up action had been ineffective were referred to a commercial debt collection agency. Debts greater than $20 but below $50 were referred to the collection agency with no action taken other than to register the debt on the National Collection database. DMU had daily contact with the Tasmanian Collection Service (TCS) and monitoring of debts occurred.

Debts greater than $1,000 registered with the collection agency were also published in the trade gazette. As a matter of practice, contact was made with the defaulting client prior to referral to the collection agency in order to assist them in making payment arrangements and thus to avoid gazettal.

1.3.4 Write-off Practices

Regular review and write-off of outstanding debt by departments is desirable to ensure that the level of debt reported in departmental financial statements is not overstated and that recovery effort is not wasted.

Most departments were conducting a review of outstanding debt for possible write-off on an annual basis although Audit observed that departments were carrying forward debt which appeared unrecoverable. Two divisions were not conducting a review of debts for write-off and Schools and Colleges were using an incorrect method of write-off and are therefore referred to in the above table as ' not acceptable'. Another division was rated as 'partially acceptable' as there was a write-off process in place although this had lapsed at the time of conducting the audit.

It is for this reason that criteria for the review and write-off of outstanding debt need to be established by each department and take the form of a write-off policy.

Recommendations – Section 1.3:

Departments set a minimum level for follow-up of outstanding receivables and give priority to the follow-up and recovery of amounts greater than this threshold.

Penalties should be applied consistently wherever possible and should be applied to inter-departmental receivables.

Departments establish a policy which sets out adequate criteria for the review and write-off of outstanding receivables.

Conclusion – Audit Criterion 1

The low priority afforded to the collection of receivables within agencies was partially as a result of the lack of access to these collections by departments and the limited guidance provided to agencies through policy framework. Generally the revenue collected by departments is receipted into the Treasury Consolidated Revenue fund and therefore provides little incentive to departments to adequately resource or prioritise the collection of receivables. Treasury have an interest in ensuring that this receives greater priority.

Generally basic policy frameworks existed within departments although many of these were in need of review, or were undergoing review. The development of a policy framework is critical in achieving effective receivables management and impacts on overall departmental and whole-of-government cash management. As a minimum departments should ensure that internal policies and procedures meet the requirements specified above.

The application of late payment penalties and service denial is an effective way in which to encourage timely payment although audit observed that few agencies consistently applied these penalties.

Most departments aimed to review debts for write-off at least annually although policies and criteria for write-off were often inadequate.

2. Credit Management, Recovery and Assessment Practices

In the majority of cases departments did not have the ability to refuse the offering of a service on the basis of a credit check or risk assessment and therefore had not developed credit policies. Very few departments conduct credit sales or grant loans of any magnitude.

Findings:

	DoE - Central	DoE Schools/District	TAFE Tasmania	Royal Hobart Hospital	Housing Tasmania	DPIWE	DIER	DSD - Central	DSD - Finance & Facilities	DJIR - Fines Enforcement Unit	Treasury Finance-General	Treasury Revenue & Gaming
Criterion 2												
Department Allows and Manages Credit	✓	NA	✓	NA	NA	NA	NA	NA	✓	NA	NA	NA
Credit Policies Established and Risks Assessed	✓	NA	♦	NA	NA	NA	NA	NA	✓	NA	NA	NA
Debt Collection Prioritised in Accordance with Credit Policies/Risk Assessment	✓	NA	♦	NA	NA	NA	NA	NA	✓	NA	NA	NA

KEY: ✓ Acceptable × Not Acceptable ♦ Partially acceptable NA Not Applicable

Many departments dealt with voluntary, involuntary (statutory) and license debtors and had established terms of trade and credit policies for each of these debtor types. Generally those departments that were not conducting regular follow-up of debt lacked clear policies and procedures in this area and therefore had nothing to guide them in the debt management process.

‘Credit Management’ in the strict interpretation of the term was only applicable to TAFE Tasmania’s course fees, DSD loan applications and the Archives Office and Library Service (DoE Central). Housing Tasmania and Treasury also administer loans although no new loans are granted.

The level of credit approved to clients of the Archives Office and Library Service was for minor amounts and therefore Audit considered it unnecessary for these offices to conduct debtor risk assessments. TAFE Tasmania were not conducting debtor risk assessments as they believed that students could not be refused on this basis although they were considering the implementation of a process where previous outstanding debt status would be checked before re-enrolment is accepted.

DSD had the ability to categorise debtors by risk profiles and prioritise debt collection in accordance with specified profiles.

Recommendation:

Assessment of debt types should be conducted and controls established where exposures exist. Departments should promulgate policies and procedures in order to manage these debt types in accordance with the assessment.

Conclusion – Audit Criterion 2

Only three auditees dealt with credit sales or granted loans. One area for improvement was noted for TAFE Tasmania although it still remains imperative that all departments conduct an assessment of debt types, establish controls where exposures exist and promulgate policies and procedures in order to manage these debt types effectively.

3. Performance Measures and Management Reporting

Management reporting is a critical part of departmental planning and monitoring functions and is an effective control mechanism. It provides a means for managers to make informed decisions and is an effective source of information for performance measurement and evaluation and provides a platform for service benchmarking. Reporting information therefore needs to be relevant, valid and reliable.

Information reliability and validity has proven problematic for many departments that are operating with inadequate systems. For this reason the availability of adequate debtor reports, methods of identifying and monitoring outstanding receivables were examined and included an assessment of existing reporting mechanisms and management reporting capabilities.

Treasury's publication titled *Performance Information for Management and Accountability Purposes* published in October 1997 identified six key aspects of performance that could be measured and could form the basis of departmental performance indicators. The six key aspects include economy, efficiency, effectiveness, appropriateness, responsiveness, social justice and equality and quality. The audit therefore examined the establishment of performance indicators within departments as well as the extent to which departments set receivables collection targets. The mechanisms for assessment against these indicators and targets were also examined.

Findings:

	DoE - Central	**DoE Schools/District**	**TAFE Tasmania**	**Royal Hobart Hospital**	**Housing Tasmania**	**DPIWE**	**DIER**	**DSD - Central**	**DSD Finance & Facilities**	**DJIR - Fines Enforcement Unit**	**Treasury Finance-General**	**Treasury Revenue & Gaming**
Criterion 3												
Adequate Reporting Mechanisms	✓	✓	✓	✓	✓	♦	✓	✓	✓	×	✓	×
Adequate Performance Measures Established and Monitored	×	NA	×	×	♦	×	♦	×	✓	♦	NA	♦

KEY: ✓ Acceptable × Not Acceptable ♦ Partially acceptable NA Not Applicable

3.1 Adequate Reporting Mechanisms

At a minimum departmental receivables reporting should include:

- Aged debtors report at the end of each month by debt category; and
- Average number of days to collect receivables (including the average time to collect compared to 'terms of trade').

Generally, in excess of 40% of the total outstanding receivables per department was overdue more than 90 days and had received little or no follow-up action in an effort to recover these receivables. Of this 40% approximately one quarter was estimated to be difficult to collect or uncollectible and thus required the instigation of legal action or write-off. Many of these receivables were deemed uncollectible or difficult to collect due to the length of time they had been outstanding and the lack of current debtor details.

For those departments utilising the Finance1 financial management information system a full range of reports and report writing facilities are available. The DoE was experiencing problems with the production of debtor statements and the DPIWE could not produce debtor reports for each divisional unit due to the structure of the chart of accounts.

Of concern to Audit were the limitations experienced by the FEU and SRO in accurately reporting departmental outstanding receivables. It has been recommended to these agencies that these system limitations be dealt with as a matter of priority.

3.1.1 Better Practice Example

On a monthly basis the Accounts Receivable clerk at DIER conducted a monthly review of all outstanding receivables and prepared a written report to senior management on the status of each of these receivables. This report presented a complete snapshot of the outstanding receivables situation at the time of preparation and elicited comment from senior management on appropriate management strategies. Audit was advised by the Manager Financial Services that this reporting framework was being further refined.

The receivables review and reporting process observed at DIER was extremely effective and appeared to facilitate regular receivables follow-up action. The effectiveness of this system was evidenced by the low percentage of receivables outstanding over 90 days (11.5%) and stood out in this audit as better practice.

A similar process was also in place in the Finance and Finance Facilities unit of the DSD for loan management.

3.2 Performance Measures Established and Monitored

Very few departments utilised performance indicators or targets to measure the performance of Accounts Receivable units and receivables collection practices although four had developed some basic indicators or where in the process of developing indicators.

For those departments who manage a significant amount of receivables the use of performance measures would be beneficial and would enable strategies to be developed to improve performance in this area.

Where adequate systems exist, performance measurement should measure the following:

- Average cost per collection;
- Number of invoices and reminders issued;
- Percentage of acceptable 30, 60, 90 day debts; and
- Collection success rates.

Targets should also be established for the time between the provision of the goods/services and the issue of the invoice and monitored on a regular basis. Further suggestions to the development of performance indicators are provided in Appendix 1.

The development of performance indicators will facilitate the benchmarking of services and allow service-wide comparisons as well as comparison on a state-by-state level.

Recommendations:

Appropriate reporting structures be implemented within departments in order to facilitate the monthly receivables follow-up process as well as performance measurement.

Performance measures and indicators be established for the management of departmental receivables.

Conclusion – Audit Criterion 3

The lack of ability by many departments and divisional units to produce debtor reports and age these receivables was of concern to Audit. It is difficult to effectively manage receivables when little or no receivables information exists.

Appropriate reporting structures need to be implemented within departments in order to facilitate the monthly receivables follow-up process as well as performance measurement. The establishment and monitoring of the receivables collection function and level of outstanding receivables is also important for monitoring and planning purposes.

The establishment of performance indicators will provide ways in which to measure and benchmark the performance of Receivables units across the State government sector as well as provide a platform in which to compare and contrast agency performance against other State governments. Benchmarking projects are currently being conducted between State Revenue Offices at a national level and TAFE Tasmania and the TAFE of NSW are also conducting a benchmarking study.

Overall Conclusion

This audit has highlighted flaws in the process in which departments and divisions manage outstanding receivables the most significant of these include:

- Lack of a clear receivables and credit management policy framework;
- Low priority afforded to receivables review and follow-up on a regular basis;
- The irregular application of penalties and service denial as a disincentive for the non payment of receivables;
- Significantly flawed debtors systems; and
- Inadequate reporting and performance management mechanisms.

DEPARTMENT OF EDUCATION (DoE)

DoE is responsible for State Schools and Colleges, the State Library Service, the Archives Office of Tasmania and Strategic Development and Evaluation Services. TAFE Tasmania is a Statutory Authority within the Education Portfolio and has been reported on separately for the purposes of this audit.

This audit was conducted in November 2000 and examined the Accounts Receivable (AR) unit, Library Service, Archives Office, Human Resource (HR) Operations unit and the Derwent District Office. A small sample of schools and colleges was also examined and included Hobart College, Clarence High School and Cambridge High School.

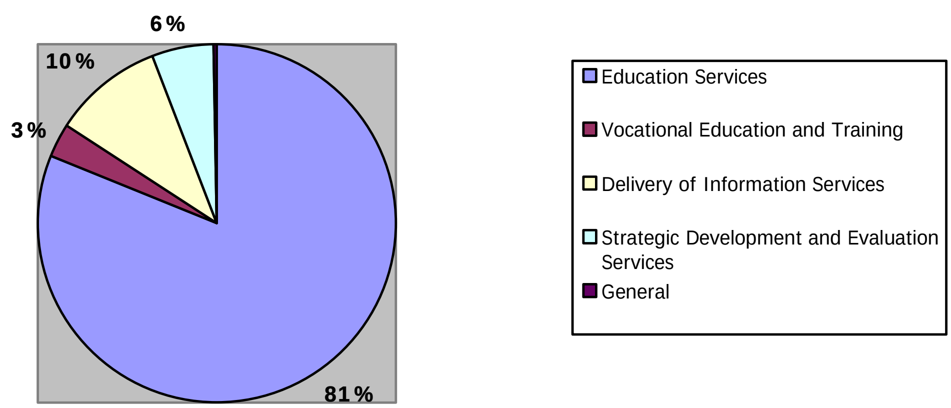
Table 2 below provides a summary of the DoE operating revenue and receivables for the 1999/00 financial year. The receivables managed by Central Office, and including the receivables for the Archives Office and Library sundry debtors, represented 57% of the DoE total. School receivables accounted for the remaining 43% of total receivables.

Table 2 - DoE Operating Revenue and Receivables

Operating Revenue 1999/00 *(excluding appropriation)*	***($'000)***	**Receivables 1999/00**	***($'000)***
User Fees & Charges	216	Central Office Receivables	971
Fines	262	School Receivables	740
Proceeds of Sale	1,741		**1,711**
Grants Received	37,335		
Workers Comp. Refunds	2,306		
School levies	6,633		
Miscellaneous Income	21,841		
	70,334		

A breakdown of operating revenue for each DoE output group for 1999/00 is shown in figure 5 below. The Education Services output group represented 81% of the total operating revenue and the Delivery of Information Services for 10%.

Figure 5 - Operating Revenue by DoE Output Group



OVERVIEW OF MAJOR FINDINGS

Although there was an awareness internally of the need to conduct receivables follow-up and review action it was evident that this was not being conducted by the central Accounts Receivable unit due to other priorities. Audit therefore recommended that a greater priority be placed on this function and that at least bi-monthly reviews of outstanding receivables be undertaken. In particular, it was recommended to DoE that negotiations be conducted with the workers compensation fund administration agent to achieve timely reimbursement of workers compensation claims.

Audit found inconsistent application of service denial within two DoE divisions. This inconsistency as a response to accumulated outstanding fees needs to be addressed. Management of service denial could be more effectively managed through the issue of a departmental policy detailing the criteria for restricting access to services. Also desirable would be the development of a formal bad debt write-off policy.

Schools and colleges appeared to manage outstanding receivables recovery very effectively given the limitations imposed on receivables recovery techniques. It was recognised that receivables management in the colleges was of a more complex nature than that in the schools and as a result recommendations on the implementation of upfront fee payment, census dates and the conduct of credit checks before accepting student re-enrolments were made.

MAJOR RECOMMENDATIONS

The major recommendations made throughout the detailed report to DoE referred to:

- The desirability of adhering to the internal target of reviewing receivables on a monthly or bi-monthly basis;
- The adoption of a consistent approach by the Archives Office and Library Service in managing service denial as a response to accumulated outstanding fees;
- The development of a departmental policy and criteria for restricting service to customers with outstanding fees and fines;
- The desirability of formalising a bad debt write-off policy; and
- The establishment and monitoring of performance measures.

AGENCY RESPONSE

The report contains some interesting observations and makes constructive recommendations.

The response offered two suggestions for consideration by Audit for the inclusion in the individual DoE report.

DEPARTMENT OF HEALTH AND HUMAN SERVICES (DHHS)

DHHS provides a range of services through output groups: Health Advancement; Community and Rural Health; Child, Youth and Family Services; Hospitals and Ambulance; and Housing Services.

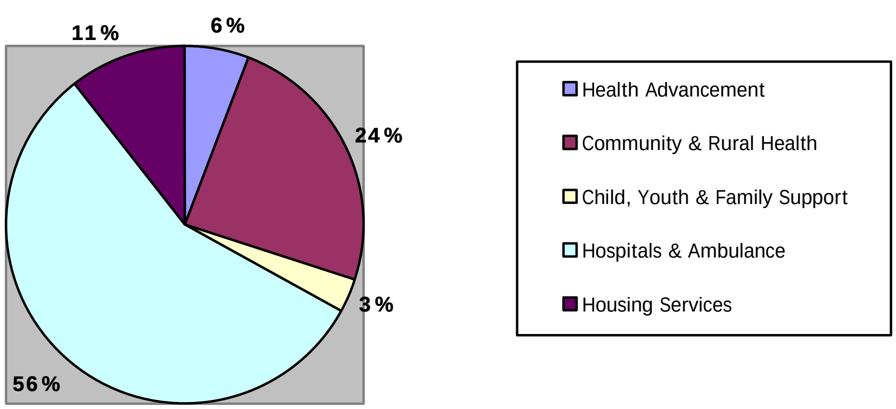
This audit was conducted in December 2000 and examined two divisional units within DHHS, RHH and Housing Tasmania. Table 3 below details the DHHS operating revenue and receivables for the 1999/00 financial year. Rental revenue for 1999/00 represented 33% of the total operating revenue and Hospitals and Ambulance revenue represented 30%. The income from purchase dwellings represented only 1.6% of the total.

Table 3 - DHHS Operating Revenue and Receivables

Operating Revenue 1999/00 *(excluding appropriation)*	***($'000)***	**Receivables 1999/00**	***($'000)***
Rental Revenue	43,248	User Charges & Fees	9,591
Income on Purchase Dwellings	2,188	Less Provision for doubtful debts	-2,491
Hospitals, Ambulance & Other	38,937		**7,100**
Other Revenue	46,324		
	130,697		

The breakdown of operating revenue for each DHHS output group for 1999/00 is provided in Figure 6 below. The Hospitals and Ambulance output group accounted for 56% of the total operating revenue and the Community and Rural Health output group for 24%. The Housing Services output group represented 11% of the total.

Figure 6 - Operating Revenue by DHHS Output Group



OVERVIEW OF MAJOR FINDINGS

The RHH Accounts Receivable unit was reviewing outstanding receivables but were not taking follow-up action. The staffing instability within the RHH Accounts Receivable unit over the last two years had resulted in a number of receivables follow-up and debtor review tasks not being performed. Receivables outstanding over 90 days were not receiving any attention. Audit was advised by DHHS that it was intended that a Senior Clerk would be recruited to fill a dedicated receivables management role.

The RHH Accounts Receivable unit needs to ensure that a full receivables and debtor review is conducted in order to more efficiently and effectively manage the receivables currently outstanding and any future receivables in arrears.

Housing Tasmania takes a structured approach to reminding rental clients of their rental arrears and an informal, case-by-case approach to the management of home purchase contracts. The low eviction rate demonstrates Housing Tasmania's preference for alternatives to eviction when receivables are outstanding.

Delays in the consideration of home purchase scheme recommendations have resulted in interruptions to the follow-up of outstanding instalments for lengthy periods resulting in clients accumulating unmanageable receivables. Although Housing Tasmania does not operate in a commercial environment the adoption of commercial-like practices would be desirable.

MAJOR RECOMMENDATIONS

The major recommendations made in the detailed report to DHHS referred to:

- The development of specific receivables collection and follow-up policies and procedures for the RHH (centrally) and long-term rental and home purchase contracts;
- The need for regular review and follow-up of outstanding receivables on a monthly or bi-monthly basis and the follow-through of actions threatened;
- The requirement for the conduct of a full review of the process of remitting private patient insurance excesses by negotiation and appropriate policies, procedures and delegations to be established;
- The desirability of upfront payment for Pharmaceutical products in order to eliminate the issue of invoices with a value less than $10;
- The need to conduct a risk assessment of debts to increase the efficiency of debt collection;
- The desirability of formalising a bad debt write-off policy; and
- The establishment and monitoring of performance measures.

AGENCY RESPONSE

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DEPARTMENT OF INTRASTRUCTURE, ENERGY AND RESOURCES (DIER)

DIER was formed through the amalgamation of the Department of Transport, Office of Energy and Planning, Conservation and Workplace Standards Authority, Mineral Resources Tasmania, the Local Government Building and Plumbing Regulation Unit and the former Racing Tasmania were integrated into the Department.

This audit was conducted in February 2001 and examined the central Accounts Receivable (AR) unit and Mineral Resources Tasmania. Transport Tasmania was excluded from this audit as registration and license charges are classified as 'invitations to renew' rather than recognised as debts.

Table 5 details the DIER operating revenue and receivables for the 1999/00 financial year.

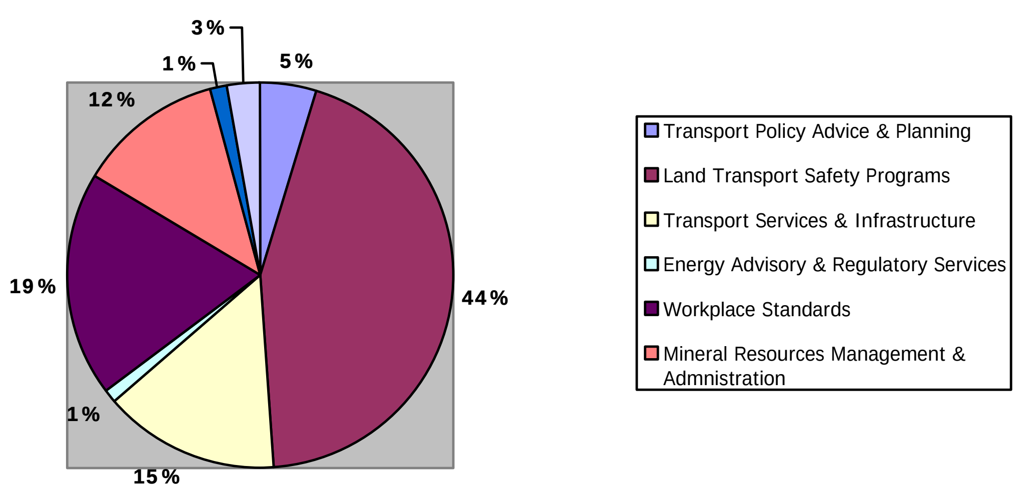
Table 5 - DIER Operating Revenue and Receivables

Operating Revenue 1999/00 *(excluding appropriation)*	***($'000)***	**Receivables 1999/00**	***($'000)***
User Fees & Charges	950	Receivables	1,003
Other Revenue	5,434		
	6,384		

DIER user fees and charges identified in the above table (5) represent contributions from external parties for road works, installation and rehabilitation of traffic signals as well as for the sale of goods and services. Other revenue relates to contributions received for specific purposes and not yet spent.

Figure 8 below provides a breakdown of operating revenue for each DIER output group for 1999/00. The Land Transport Safety Programs output group represented 44% of the total operating revenue, with Workplace Standards representing 19% and Transport Services and Infrastructure 15%.

Figure 8 - Operating Revenue by DIER Output Group



OVERVIEW OF MAJOR FINDINGS

Efficient and effective receivables collection practices were observed within DIER. The internal control mechanisms and receivables management functions represented better practice amongst the agencies examined in this audit. Some suggested improvements to the policy framework have been made and the establishment of performance indicators has been recommended.

MAJOR RECOMMENDATIONS

The major recommendations made in the detailed report to DIER referred to:

- The extension of existing policies and procedures to address receivables collection strategies, receivables follow-up procedures, write-off and waiver instructions and delegations;
- The treatment of exploration licenses as 'invitations to renew'; and
- The development and monitoring of performance measures.

AGENCY RESPONSE

It is pleasing to note the positive comments made in the report concerning the Department of Infrastructure, Energy and Resources.

Once the report becomes final, the Department will take action in respect of each of the recommendations.

DEPARTMENT OF JUSTICE AND INDUSTRIAL RELATIONS (DJIR)

DJIR contributes to a just and safe society by providing systems and services for the promotion and maintenance of rights and responsibilities and the resolution of disputes, for the benefit if the Tasmanian community.

This audit was conducted in January 2001 and examined the FEU. FEU is responsible for the collection and enforcement of monetary penalties imposed by the issue of Infringement Notices issued by State government bodies and by Courts. The FEU is also charged with the collection of criminal compensation orders and the remittance of these.

The main goals of the FEU include:

- To enforce monetary penalties imposed by the Courts and other authorities;
- To ensure the integrity of Court Orders for payment of fines;
- To provide an efficient service to the public for the payment of fines; and
- To achieve best practice in the collection and enforcement of monetary penalties whilst ensuring fairness and integrity in the process.

Table 6 below details the DJIR operating and administrative revenue and receivables for the 1999/00 financial year. Proceeds from the rendering of services represented 88% of the total Operating revenue for the department in 1999/00. Infringement revenue accounted for 26% of departmental Administered revenue (excluding government revenue), while fines imposed by Courts represented 24.5%. The combined revenue received through infringement notices and fines imposed by Courts was the largest area of revenue for the department amounting to $11.169 million in 1999/00. Operating revenue collected through services rendered was the next largest area of revenue representing $9.581 million in 1999/00.

Of the $11.169 million in fee and fine revenue 21% was provided for under the provision for expected remissions as fees and fines could be satisfied by methods other than payment i.e. community service orders.

Table 6 - DJIR Revenue and Receivables

Operating Revenue 1999/00 *(excluding appropriation)*	***($'000)***	**Operating Receivables 1999/00**	***($'000)***
Sales of Goods	1,315	Receivables	1,092
Rendering of Services*	9,581		
	10,896		
Administered Revenue 1999/00 *(excluding Revenue from Government)*	***($'000)***	**Administered Receivables 1999/00**	***($'000)***
For Transfer	1,346	Gross Receivables	25,007
Fees Imposed by Magistrates Courts	620	*Less* Provision for expected remissions##	-2,387
Regulatory services**	1,762	*Less* Provision for doubtful debts	-16,635
Registration fees#	520	Net Receivables	5,985
Fines Imposed by Courts	5,392		
Infringements	5,777		
Other	112		
Other Revenue	6,461		
	21,990		

**Includes proceeds for Civil Litigation, commercial and conveyancing functions, goods and services produced by Risdon Prison Industries and Hayes Gaol Farm and the conduct of elections for local government and other organisations.*

***Provided by Measurement Standards Branch and Business Affairs Office.*

#For the registration of Births, Deaths and Marriages.

##Relates to receivables remitted due to the fine being satisfied by means other than payment i.e. community service order.

Figure 9 below provides the breakdown of Operating revenue for each DJIR output group for 1999/00 and figure 10 covers Administered revenue. The Administration of Justice output group represented 33% of the total Operating revenue for 1999/00, with Corrective Services representing 29% and Legal Services 19%. For Administered revenue the Administration of Justice output group accounted for 69% of the total Administered revenue with Consumer Services representing 25%.

Figure 9 - Operating Revenue by DJIR Output Group

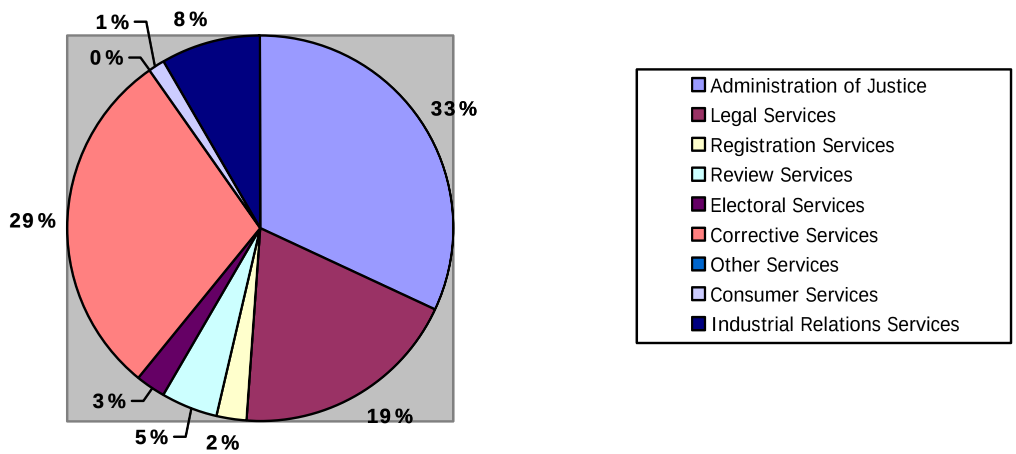
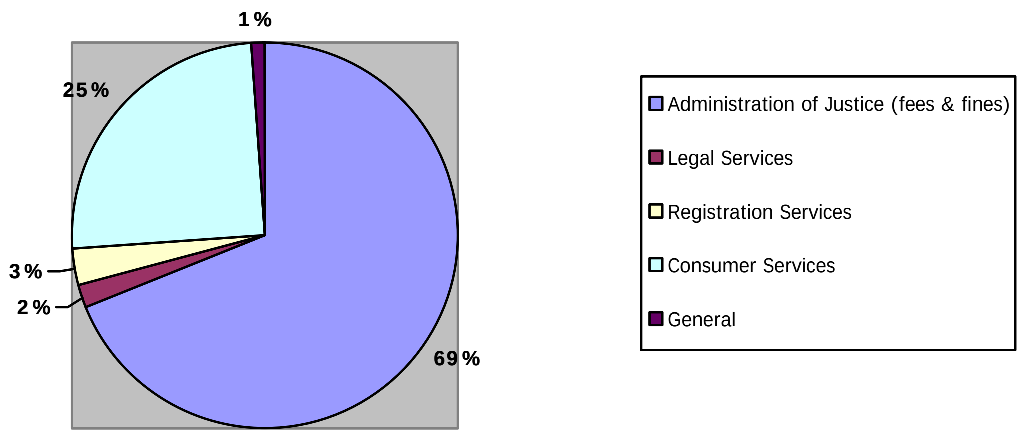


Figure 10 - Administered Revenue by DJIR Output Group
(excludes Government revenue)



As detailed in the *Report of the Auditor-General*, 1999-2000 November 2000, outstanding receivables payable to the FEU as at 30 June 2000 was $16.047 million that included an amount of $1.640 million that was not overdue at that time. This outstanding receivables figure had increased by 8% on the 1998/99 financial year. The department attributed this increase to extended periods of payment ordered by the Courts, difficulty and delays in executing warrants and Victims of Crime Compensation levies deemed unenforceable.

OVERVIEW OF MAJOR FINDINGS

Audit accepts that the range of inter and intra-departmental relationships as well as system compatibility issues makes it difficult to manage the collection of receivables. The Fines Collection System is seriously flawed and limits any efforts available to reduce the significant problems observed during the audit. Ultimately the purpose of issuing infringement notices as a deterrent has been compromised. The major audit findings included:

- significantly flawed Fines Collection System;
- lack of review of outstanding receivables and reporting mechanisms to identify defaulters;
- reluctance to prioritise the issue of Warrants for Apprehension;
- failure to continuously account for infringement notice receivables from the time of issue through to the time of payment, remission or write-off; and
- lack of capability to record and report on revenue foregone.

MAJOR RECOMMENDATIONS

The major recommendations made throughout the detailed report to the FEU referred to:

- The continuous accounting for infringement notice receivables from the time of issue through to the time of payment, remission or write-off;
- The full and accurate recording and reporting of fine revenue foregone;
- The continuous monitoring of outstanding fees and fines and the prioritisation of the issue of Warrants for Apprehension;
- The development or replacement of the Fines Collection System; and
- The establishment and monitoring of performance measures.

AGENCY RESPONSE

Fines Enforcement agrees with audit that there are flaws within the Fines Collection System. These flaws are becoming more apparent as the number of enforcement debtors increase.

Not only are the numbers of enforcement debtors increasing but the number of Agencies issuing infringement notices, as well as the number of offences for which an infringement notice may be issued, are increasing.

Audit state 'Ultimately the purpose of issuing infringement notices as a deterrent has been compromised.' Fines Enforcement does not agree with this statement. If the infringement notice is not paid then the issuing authority withdraws the matter for prosecution. The alleged offender is then proceeded against, by the issuing authority, in Court. It is when the matter has been progressed to a Court fine that the process of enforcement and collection of this fine may be compromised, due to the difficulties highlighted by Audit in this report.

The performance of Fines Enforcement in the recovery of pecuniary penalties is ultimately governed by legislation. Presently legislation governing the operation of Fines Enforcement hinders more than helps Fines Enforcement in its work.

If a Court order is not satisfied then the only action available to Fines Enforcement is the issue of a warrant to bring the offender back before the Court where almost inevitably the Magistrate will allow a further time to pay. At the expiration of this further period a warrant of commitment is issued.

This is a very inefficient system involving Fines Enforcement, Tasmania Police an the Courts. The system is resource intensive and inefficient due to the lack of sanctions and the length of time involved in the process.

Whilst the introduction of the Infringement Registration Project (IRP) would have had benefits to the Police and Court process, it would not have necessarily resulted in an increase in the collection of pecuniary penalties.

This Agency is currently in the initial stages of drafting new legislation that would change the way fines are enforced and collected within Tasmania.

Based on legislation already operating in the majority of Australian States, this legislation would incorporate the best of IRP in relation to the registration of infringement notices, and would also establish the Director of Fines Enforcement as a statutory officer with the appropriate powers. Inherent in these powers would be sanctions to be used for defaulters and powers to recover debt without further recourse to the Court.

If this legislation is to eventuate it will necessitate major changes to the Fines Collection System, and it may even necessitate a new Fines Collection System. This would then give the Agency the opportunity to address all the issues that Audit has identified in relation to the Fines Collection System.

DEPARTMENT OF PRIMARY INDUSTRY, WATER AND ENVIRONMENT (DPIWE)

DPIWE consists of the following Output Groups:

- Information and Land Services;
- Food, Agriculture and Fisheries Services;
- Resource Management and Conservation; and
- Environment Protection, Planning and Analytical Services.

This audit was conducted in January 2001 and examined receivables relating to:

- Crown Land;
- Marine Farming;
- Rivers and Waters;
- Environmental Protection;
- Meat Hygiene; and
- Analytical Laboratories.

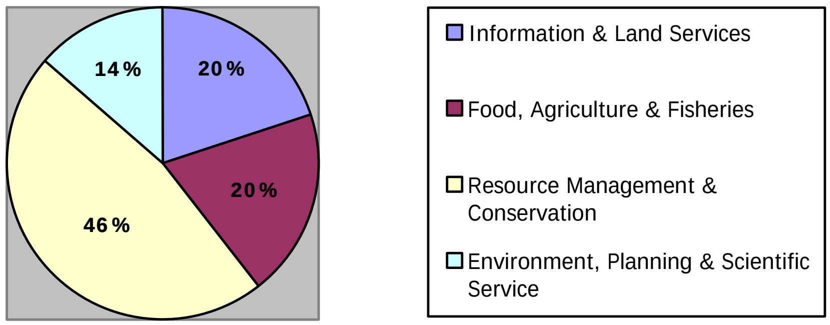
Table 7 below provides a summary of DPIWE operating revenue and receivables for the 1999/00 financial year. Excluding Commonwealth and non-government contributions, DPIWE other revenues represent 48% of operating revenues. User charges, fees and fines accounts for 44% and property and investment income for the remaining 8%.

Table 7 – DPIWE Operating Revenue and Receivables (excluding Commonwealth and non-government contributions)

Operating Revenue 1999/00 *(excluding appropriation)*	***($'000)***	**Receivables 1999/00**	***($'000)***
User charges, fees & fines	11,418	Receivables	1,637
Property and investment income	2,051	*Less* Provision for doubtful debts	- 265
Other revenues	12,407		**1,372**
	25,876		

Figure 11 below provides a breakdown of operating revenue for each DPIWE Output Group for 1999/00. The Resource Management and Conservation group represented 46% of the total operating revenue, which included Commonwealth and non-government contributions. Information and Land Services and Food, Agriculture and Fisheries both accounted for 20% of the total.

Figure 11 - Operating Revenue by DPIWE Output Group
(includes Commonwealth & non-government contributions)



OVERVIEW OF MAJOR FINDINGS

The effectiveness of receivables follow-up and review by DPIWE was adversely influenced by the difficulties experienced in producing appropriate and timely reports as well as by the inconsistent approach to receivables management taken by the central AR unit and divisional units.

The credit policy proposed by DPIWE goes some way in addressing these issues although successful change will be dependant on the negotiation of appropriate individual service level agreements between the Finance Branch and divisional units.

MAJOR RECOMMENDATIONS

The major recommendations made in the detailed report to DPIWE agency referred to:

- The development of Accounts Receivable policies and procedures;
- The review of current intra and inter-departmental debts and action be taken to post journal entries for intra-departmental debts and encourage prompt payment through the use of electronic funds transfer for inter-departmental debts;
- The adoption of a structured and consistent approach to receivables review, follow-up and possible write-off for all divisional units;
- The provision of debtor reports to divisional units for monitoring purposes and to ensure the suspension of services or revocation of licenses of defaulting customers; and
- The establishment and monitoring of performance measures.

AGENCY RESPONSE

The Report highlights matters that require attention in effectively managing the Department's debtors. During the current Financial Year, the Finance Branch has instigated significant measures to address those issues. These include:

- *restructuring operations of the Accounts Receivable Unit;*
- *negotiating debt management Service Level Agreements with Divisions;*
- *restructuring the debtors ledgers;*
- *writing new debtors reports for Divisions; and*
- *compiling a new Credit and Debt Collection Policy.*

In addition, significant efforts are being made to reduce the level of outstanding debt. Over recent months the total of sixty and ninety day debtors has been reduced by some $1.5 million.

DEPARTMENT OF STATE DEVELOPMENT (DSD)

During 1999/00 DSD's areas of responsibility included:

- Investment, Trade and Development;
- State Industries;
- Centre for Research, Industry and Strategic Planning;
- Tourism Tasmania;
- Museums;
- Arts Tasmania; and
- The Office of Sport and Recreation.

This audit was conducted in February 2001 and primarily examined loans administered by the Finance and Finance Facilitation (F&FF) unit and briefly examined receivables managed by the central Accounts unit.

Table 8 below provides a summary of DSD operating revenue and receivables for the 1999/00 financial year. Investment and sundry income represented 83% of operating revenues and interest on advances accounted for the remaining 17%.

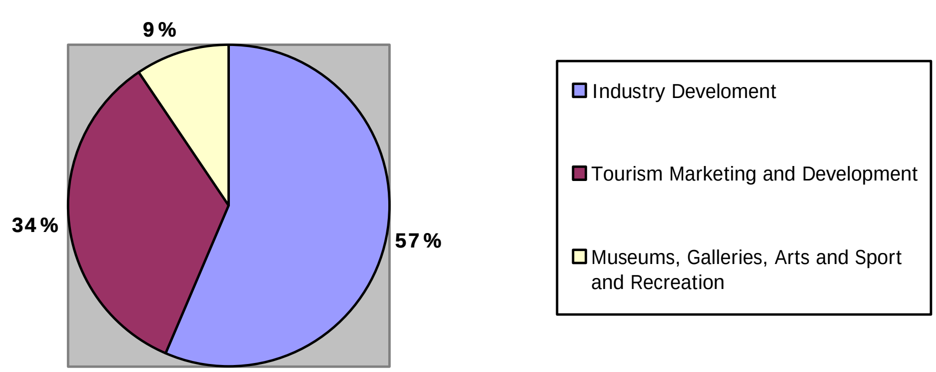
Table 8 – DSD Operating Revenue and Receivables

Operating Revenue 1999/00 *(excluding appropriation)*	***($'000)***	**Receivables 1999/00**	***($'000)***
Interest on advances	4,403	Sundry receivables & prepayments	2,038
Investment & sundry income*	21,751	Current loan advances	11,410
	26,154	Non-current loan advances	35,420
			48,868

** Includes Commonwealth program funding, sundry fee revenues and interest earned on Treasury trust accounts and DSD investments.*

Figure 12 below provides a pictorial view of the breakdown of operating revenue for each DSD output group for 1999/00. The Industry Development output group represented 57% of the total operating revenue, Tourism Marketing and Development accounted for 34% and the remaining 9% related to Museums, Galleries, Arts and Sport and Recreation.

Figure 12 - Operating Revenue by DSD Output Group

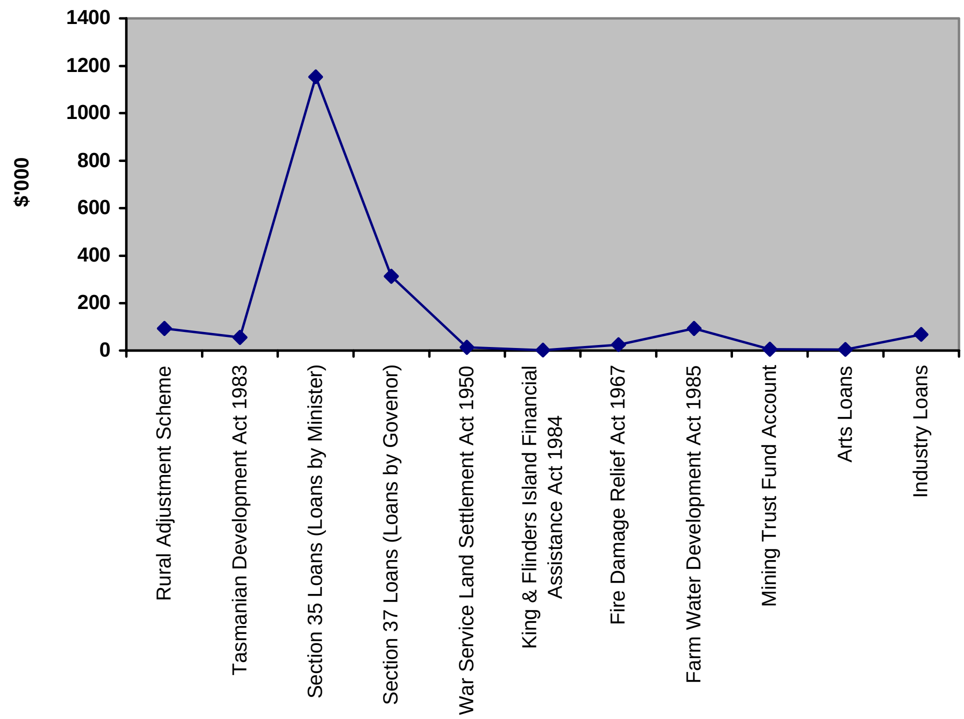


The DSD loan portfolio consists of loans across all industry sectors although DSD advised that '...new loans are required to meet strict criteria relating to the strategic benefits to Tasmania' which has seen the number of loan accounts reduce from 615 in 1999 to 462 in 2000 (25% reduction).

The graph below (Figure 13) provides a summary of the number of DSD loan advances to the value of loan advances for each loan category. The average value of Section 35 loans administered by DSD was $1,153,687.50, with the next highest averages being $312,888.88 for Section 37 loans and $94,300 for loans made under the Farm Water Development Act 1985.

Figure 13 - DSD Loan Advances 2000

Average Value of Loan Advances



OVERVIEW OF MAJOR FINDINGS

Audit observed effective management of loans and receivables within DSD. DSD demonstrated a structured approach to receivables review and follow-up and credit management. The development of the 'Policy and Procedure Repository' has the potential to represent better practice amongst agencies.

Audit has suggested that evidence be retained on loan files that consideration had been given to the payment of loan draw down funds in accordance with the recommendations of Treasury's *Guidelines for Effective Cash Management*.

MAJOR RECOMMENDATIONS

The major recommendation made in the detailed report to DSD referred to:

- The desirability of retaining evidence on loan files that consideration has been given to the recommendations of the *Guidelines for Effective Cash Management*.

AGENCY RESPONSE

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DEPARTMENT OF TREASURY AND FINANCE (TREASURY)

Treasury carries out functions associated with State economic and financial management including the collection of major forms of State taxation and the administration of gaming. Treasury is also responsible for Government building services.

Administered transactions for the department relate to transactions processed on behalf of the State in a whole-of-government context. In the 1999/00 financial year 99.9% of total revenues related to administered revenue, with only 0.1% or $2 million relating to controlled revenue.

Table 9 below details Treasury operating and administered revenue and receivables for the 1999/00 financial year. Current and non-current loans combined were the largest area of receivables and represented 98% of the total administered receivables.

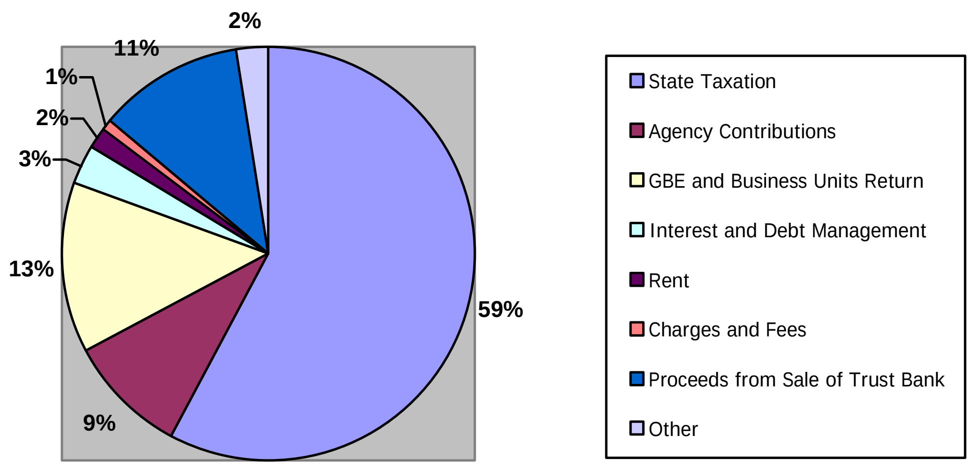
Table 9 - Treasury Operating Revenue and Receivables (excluding Government income)

Operating Revenue 1999/00 *(excluding appropriation)*	***($'000)***	**Operating Receivables 1999/00**	***($'000)***
User Fees & Charges*	2,322	Receivables	347
Other Revenues	14		
	2,336		
Administered Revenue 1999/00 *(excluding Revenue from Government)*	***($'000)***	**Administered Receivables 1999/00**	***($'000)***
State Taxation	708,926	Current Receivables	38,742
Agency Contributions	116,097	Current Loan Receivables	21,067
GBE and Business Units Returns	163,909	Non-current Receivables	3,135
Interest and Debt Management	37,932	Non-current Loan Receivables	326,279
Rent	19,814		**389,223**
Charges and Fees	11,451		
Assets Received Free of Charge	459		
Recoveries from Agencies	4,813		
Proceeds from Sale of Trust Bank	140,651		
Other	24,195		
	1,228,247		

**Includes $2,014 for the recovery of gaming machine validation costs*

Figure 14 below provides a breakdown of administered revenue for Treasury in 1999/00. State Taxation accounted for 59% of total administered revenues in 1999/00. Government Business Enterprise (GBE) and Business Unit returns represented 13% of the total, with proceeds from the sale of Trust Bank representing 11%.

Figure 14 - Treasury Administered Revenue



OVERVIEW OF MAJOR FINDINGS

Some headway had been made in the management of SRO receivables although the most significant problem SRO face is the identification and reporting of the total receivables outstanding over all tax lines. This is mainly due to system limitations but needs to be resolved as a matter of priority.

It is also important that criteria for the referral of outstanding receivables to DMU be established and that these receivables be transferred to this unit promptly.

The administration of loans under the *Public Bodies Assistance Act 1971, State Loans and Loans Guarantees Act 1976 and Tourism and Recreational Development Act 1977* by the Government Finance and Accounting Branch was well managed although the process of administering fully subsidised and partially subsidised loans was considered inefficient.

MAJOR RECOMMENDATIONS

The major recommendations made in the detailed report to SRO referred to:

- The promulgation of accounts receivables policies and procedures;
- The enhancement of TRACS for receivables management purposes thus eliminating the need for a separate Excel debtor spreadsheet and ensuring receivables not recorded on any other SRO database can be recorded appropriately;
- The conduct of a major overhaul of outstanding receivables for all tax lines and writing-off long-outstanding receivables in order to improve manageability. Those receivables meeting the criteria for transfer to DMU be transferred promptly and TRACS status codes be altered to reflect the transfer;
- The frequent review and follow-up of outstanding receivables;
- The development of criteria for debt write-off and regularly review debts for possible write-off;

- The application of penalties to State government agencies for late payment;
- The development of appropriate debtor reports; and
- The establishment and monitoring of performance measures.

The major recommendations made in the detailed report to the Government Finance and Accounting Branch referred to:

- The redemption of fully subsidised loans and partially subsidised loans that receive 90% subsidisation or greater;
- The provision of the option of redeeming non or partially subsidised loans without penalty and the formulation of partnership agreements; and
- The automatic discharge of mortgages upon the satisfaction of a loan.

AGENCY RESPONSE

The Treasury response offered some suggestions for consideration by Audit for the inclusion in the individual Treasury report and also stated that many changes had been implemented which would satisfy Audit's recommendations.

TAFE TASMANIA

TAFE Tasmania was established under the *TAFE Tasmania Act 1997* and delivers statewide vocational education and training and adult and community education. TAFE Tasmania is an Authority with a board of seven directors and is responsible to the Minister for Education.

This audit was conducted in December 2000 and examined the Accounts Receivable (AR) and Student Debtor units within TAFE.

Table 4 below details TAFE operating revenue and receivables for the 1999/00 financial year. Of the $2.349 million of receivables $1.935 million related to sundry debtors. International student fees and charges were the next highest debtor category at $0.189 million.

Excluding Government income, student fees and charges accounted for 36% of TAFE operating revenue, with commercial training representing 33% and retail services representing a further 18%.

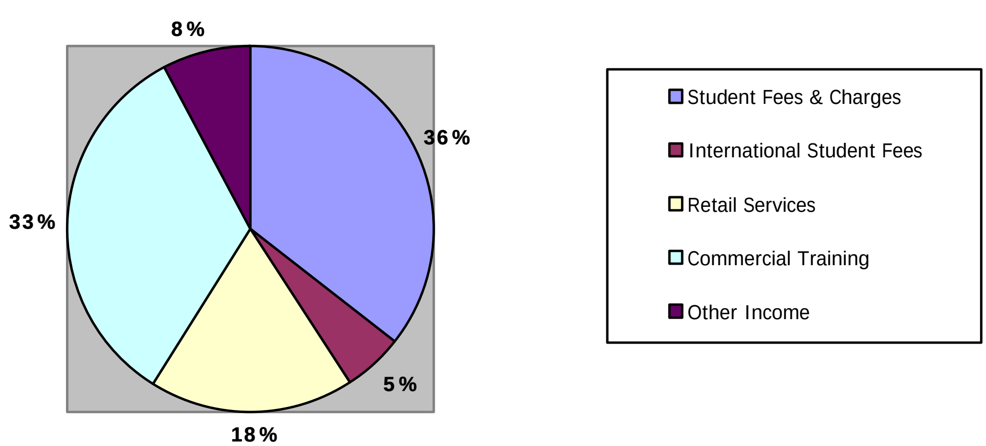
Table 4 - TAFE Operating Revenue and Receivables (excluding Government income)

Operating Revenue 1999/00 *(excluding appropriation)*	***($'000)***	**Receivables 1999/00**	***($'000)***
Student Fees & Charges	5,438	Sundry*	1,935
International Student Fees	826	Student Fees & Charges	162
Less Refunds of Student Fees	-192	Adult Education Fees & Charges	8
Retail Services	2,759	International Student Fees & Charges	186
Commercial Training	5,101	Other Income	59
Other Income	1,187		**2,349**
	15,119		

* Commercial training and retail services

Figure 7 below provides a pictorial view of the breakdown of operating revenue for each TAFE income group for 1999/00 but excludes Government income.

Figure 7 - Operating Revenue by TAFE Output Group



OVERVIEW OF MAJOR FINDINGS

The new student debt management system (SDM) has the potential to eliminate many of the inefficiencies observed within TAFE, particularly the manual data entry from one system to another.

Although not currently utilised TAFE have the ability to impose penalties on the late payment of fees, these penalties include the application of interest to unpaid commercial debts and enrolment refusal for unpaid student fees. Other options include the use of census dates and requirement for upfront payment of fees wherever possible. These approaches would encourage timely payment of student and commercial debts.

A review of past student debt status prior to the approval of applications for re-enrolment has been recommended as it could assist in the recovery of outstanding course fees.

MAJOR RECOMMENDATIONS

The major recommendations made throughout the detailed report to TAFE referred to:

- The development of the SDM system towards the full integration with TAFE systems in order to minimise the amount of manual data entry and eliminate those ledgers operating externally to the SDM system;
- The review of student outstanding debt status before approving future enrolments;
- The rigorous application of penalties for non-payment of debts. Examples include the application of interest charges for debts outstanding over 60 days, withholding student results and restricting the use of payment by instalment;
- The implementation of census dates for all TAFE students, and upfront payment wherever possible; and
- The establishment and monitoring of performance measures.

AGENCY RESPONSE

Overall, the findings and recommendations are constructive and will improve debt management processes within the organisation.

As a general comment, considerable changes are being implemented to the student debtor systems that will lead to greatly enhanced management of student debtors. Furthermore, revised procedures for the management of sundry debtors are being implemented which will, it is anticipated, significantly improve the efficiency of the Accounts Receivable Unit and dramatically improve management of outstanding debtors in the 90 day plus category.

APPENDIX 1

Performance Measures and Management Reporting

ACCOUNTS RECEIVABLE BENCHMARKS:

The ANAO's report number 25 titled *Benchmarking the Finance Function*, 2000-01 suggests a number of benchmarks for accounts receivable and payroll activity, these included:

Indicator
Cost-Overall - Total accounts receivable activity cost / Total organisational expenditure
Cost-Per Activity - Total accounts receivable activity cost / Total credit activity
Efficiency–Per Resource - Total number of remittances / Total accounts receivable FTEs
Quality-Error Rate - Total remittance errors / Total number of journals
Quality-Error Rate - Total remittances matched first time / Total remittances
Better Practice - Elapsed days between customer invoicing and receipt of payment.

SOURCE: ANAO *Benchmarking the Finance Function,* Report 25, 2000-01

In addition, the ANAO in the *Management of Accounts Receivable Better Practice Guide*, December 1997 suggests a number of performance indicators which could be established, a sample of these are provided below:

Indicator	**Commonwealth Benchmark**	**Best Practice Benchmark**
Efficiency Measure:		
Cost of accounts receivable as a percentage of revenue from credit sales	.3%	.15%
Effectiveness Measures:		
Debtors turnover i.e.. average time to collect	30 days	23 days
Debt written off as a % of total debt	10%	1%
% of debts collected within terms of trade	50%	90%
Debtors by age group as a percentage of total debt		
- 30 to 60 days	30%	15%
- 60 to 90 days	20%	10%
- greater than 90 days	15%	5%
Proportion of debts settled by electronic means, i.e. EFT	10%	100%

SOURCE: ANAO *Better Practice Guide on the Management of Accounts Receivables,* December 1997

The Department of Treasury and Finance suggested a number of indicators for measuring performance in their *Guidelines for Effective Cash Management in Agencies*, May 1997, those indicators that relate to the accounts receivable function were:

Indicator
- Percentage of payments by direct entry or EFT
- Percentage of payments made on the due date
- Percentage of late payments
- Invoices processed annually per accounts processing FTE
- Total processing cost per invoice

SOURCE: Department of Treasury and Finance *Guidelines for Effective Cash Management in Agencies,* May 1997

PAYROLL BENCHMARKS:

The suggested benchmarks and indicators below are useful in the measurement of error rates and salary overpayments.

Indicator	**Commonwealth**	**Global**
Payroll Activity Benchmarks:		
Quality to error rate – total number of pays with errors/total number of pays annually (percentage)		
- Lowest errors/pay	0.086	0.014
- Highest errors/pay	6.213	8.742

SOURCE: ANAO *Benchmarking the Finance Function,* Report 25, 2000-01

Additional indicators for reporting and monitoring over time:

Indicator
Quality-Error Rate - Total outstanding debt / Total salary expenditure
Quality-Error Rate - Total outstanding debt for contractors / Total salary expenditure for contractors
Quality-Error Rate - Ratio of FTEs / Overpayments
Better Practice - Processing delays

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