

**Department of
Infrastructure, Transport,
Regional Development and
Local Government**

**Maritime and Land
Transport – Vehicle
Imports Review**

2007-08

Conducted:

December 2007

Draft Report

June 2008

Final Report:

July 2008

This report contains 20 pages

2245253_1

Third Party Reliance

This internal audit report has been prepared at the request of Management of the Department of Infrastructure, Transport, Regional Development and Local Government in connection with our engagement to perform internal audit services as detailed in the contract dated 23 July 2007. Other than our responsibility to the Department, neither KPMG nor any member or employee of KPMG undertakes responsibility arising in any way from reliance placed by a third party on this report. Any reliance placed is that party's sole responsibility.

This report may be provided to the Auditor-General, the ANAO, the external auditor of the Department, for its own use. If the Auditor-General intends to rely on internal audit work it can only do so in the context of the professional requirement placed on it by the provisions of the Australian Auditing Standard ASA 610 (Considering the Work of Internal Audit).

We believe that the statements made in this report are accurate, but no warranty of accuracy or reliability is given in relation to information and documentation provided by the Department's Management and personnel.

Inherent Limitations of Internal Audit

Because of the inherent limitations of any internal control structure it is possible that errors or irregularities may occur and not be detected. An internal audit is not designed to detect all weaknesses in control procedures as it is not performed continuously throughout the period and the tests performed are on a sample basis. As such, except to the extent of sample testing performed, it is not possible to express an opinion on the effectiveness of the internal control structure. Any projection of the evaluation of control procedures to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate. The internal audit findings expressed in this report have been formed on the above basis.

Contents

1	Executive summary	3
1.1	Background	3
1.2	Objective	3
1.3	Scope & approach	3
1.4	Audit results	4
2	Management report	5
2.1	Overview of legislative requirements	5
2.2	Audit testing	6
2.3	Import processes	8
2.4	Recommendation 1 – Insufficient documentation on file to support approval of application (CR2)	9
2.5	Other observations – financial controls	11
A	Staff consultation	12
B	Process diagrams	13
C	Categorisation of findings	15

1 Executive summary

1.1 Background

The Maritime and Land Transport (MALT) Division is responsible for the regulation of vehicles imported to Australia to ensure that relevant standards are met for each imported vehicle. The legislation supporting this function is the:

- *Motor Vehicle Standards Act 1989; and*
- *Motor Vehicle Standards Regulations 1989*

Of particular importance to the MALT Division are following regulations:

Regulation	Category of Motor Vehicle
Regulation 11	Importation of a vehicle without vehicle identification plates.
Regulation 12	Importation of a road vehicle that complies with the national standards but does not have an identification plate.
Regulation 13	Approval to import vehicle without an identification plate if owned and used by applicant overseas.
Regulation 17	Approval to import non-standard vehicles built prior to 1 January 1989 without identification plates.
Regulation 18	Approval to import vehicles without identification plates for evaluation purposes.

1.2 Objective

The key objective of this review was to determine whether the MALT Division is effective in ensuring compliance with Motor Vehicle Standards legislation with respect to the import of a motor vehicle.

1.3 Scope & approach

The scope of this review was to, test compliance on a sample basis, of key legislative requirements, which have been identified as being regulations 11, 12, 13, 17 and 18 of the *Motor Vehicle Standards Regulations (1989)*.

The approach undertaken was to:

- Identify key legislative requirements relevant to the vehicle import process;
- Assess of key risks and controls in place within the vehicle import process to ensure compliance with relevant legislative requirements; and
- Select a sample of applications in order to test compliance.

1.4 Audit results

Vehicle import processes

Audit testing identified numerous instances of missing documentation required to support the Department's assessment of imports in respect of regulations 11, 12, 13, 17 and 18.

The table below summarises the results of testing:

Regulation	No. Applications Sampled	Missing Documentation	No Evidence of Payment on the Application file
11	4	3	4
12	3	0	1
13	11	0	1
17	10	0	10
18	2	0	1

In respect of these results we have made one CR2 recommendation in respect of the development of application assessment checklists, supervisor sign-off and referencing evidence of payment on the application file.

In all other respects there was nothing to indicate the requirements of regulations 11, 12, 13, 17 and 18 were not being administered correctly, based on the sample selected.

Other observations

Notwithstanding the limited scope of our audit we made a number of broader legislative compliance/control environment observations:

- There is appropriate evidence to support the delegation of the Minister's and Secretary's powers under the *Motor Vehicle Standards Act 1989* to the General Manager, Vehicle Safety Standards Branch.
- Several key financial controls are in place, such as:
 - Refunds are only made by Finance Branch, who has drawing rights over these funds.
 - Payments are processed by Finance Branch and reconciliations are performed by MALT staff on a daily basis.

Partner
KPMG

Executive Director
Maritime and Land Transport

2 Management report

2.1 Overview of legislative requirements

In respect of vehicle imports the Vehicle Safety Standards (VSS) Branch processes applications under the *Motor Vehicle Standards Act 1989 (MVS Act)* and the subordinate *Motor Vehicle Standards Regulations 1989 (MVS Regulations)*.

The MVS Act provides guidance on:

- the certification and approval of vehicles to achieve uniform vehicle standards;
- the supply and importation of vehicles to regulate the used imported vehicles market;
- Registered Automotive Workshops; and
- administration, including the Minister's delegations, the payment of fees and the power of inspectors.

A high level risk assessment was undertaken with VSS Branch staff (refer Attachment A for the list of key staff consulted). The results of the risk assessment identified that the MVS Regulations, and in particular, regulations 11, 12, 13, 17 and 18, represented the most significant legislative compliance risks to the Branch.

The regulations govern the Departments responsibilities in respect of the assessment of vehicle import applications, as follows:

Regulation	Category of Motor Vehicle
Regulation 11	Importation of a vehicle without vehicle identification plates.
Regulation 12	Importation of a road vehicle that complies with the national standards but does not have an identification plate.
Regulation 13	Approval to import vehicle without an identification plate if owned and used by applicant overseas.
Regulation 17	Approval to import non-standard vehicles built prior to 1 January 1989 without identification plates.
Regulation 18	Approval to import vehicles without identification plates for evaluation purposes.

Other import elements of the MVS Act and Regulations include:

- Section 7 – management of Australian Design Rules (ADRs), which is also governed by factors outside the legislation, including international forums;
- Section 9 – ADR 'certification' – to date, there has been no instances of cases where this provision has been used;

- Section 13E, 16, 16A – enables certain industry participants to import a limited number of vehicles, which is monitored by the Branch (includes approval requirements and offence provisions);
- Section 22 – enables the Secretary to appoint an Administrator and Associate Administrator for the *Motor Vehicle Standards Act 1989* and the *Motor Vehicle Standards Regulations 1989*. The General Manager, VSS Branch has been appointed the Administrator and has been delegated powers.
- Section 23 lists a range of powers the Minister may exercise under the *MVS Act*. These include the power to determine national standards and various procedures and arrangements (e.g. placement of vehicle identification plates); and
- Section 25 – The Minister may, in writing, appoint a person engaged under the Public Service Act 1999 to be an inspector.

2.2 Audit testing

Audit testing was limited to testing compliance with high risk areas, identified as regulations 11, 12, 13, 17 and 18.

A sample size of 30 was calculated in accordance with the KPMG sampling methodology. Application files were selected based on the number of applications within each area of the legislation (i.e. relative to the number of applications received).

Legislative requirements	Results	Compliance
Regulation 11 – General discretion		
Applications, which fall under Regulation 11, are required to be signed by the Minister or delegate as evidence of approval.	All four applications files sampled contained clear evidence of delegate approval.	✓
Documents required to support the approval: <ul style="list-style-type: none"> - Evidence of payment of application fee; - Purchase document; - A brochure showing manufacturer's specifications of the vehicle and picture; and - Certified photo identification (ID) of the importer or responsible officer (if a company). 	None of the four contained evidence of payment of the application fee. Three out of four did not contain a certified picture ID of the importer or responsible officer.	✗ Refer to Recommendation 1

Legislative requirements	Results	Compliance
Regulation 12 – Letter of compliance		
Applications, which fall under Regulation 12, are required to be signed by the Minister or delegate as evidence of approval.	All three application files sampled contained clear evidence of delegate approval.	✓
Documents required for approval: <ul style="list-style-type: none"> - Evidence of payment of application fee; - Purchase document; - Original letter of compliance; and - Certified photo ID of the importer or responsible officer if a company (if applicant has not imported in the last 12 months, other forms of ID will need to be provided). 	One of three application files sampled did not contain evidence of payment of the application fee.	✗ Refer to Recommendation 1
Regulation 13 – Personal imports		
Applications, which fall under Regulation 13, are required to be signed by the Minister or delegate as evidence of approval.	All 11 applications sampled contained clear evidence of delegate approval.	✓
Documents required for approval: <ul style="list-style-type: none"> - Documentation varies depending on details of application – the requirements are outlined on pages 8-12 of the application brochure. 	One of eleven application files sampled did not contain evidence of payment of the application fee.	✗ Refer to Recommendation 1
Regulation 17 – Pre-1989		
Applications for vehicles manufactured before 1 January 1989, which fall under Regulation 17, are required to be signed by the Minister or delegate as evidence of approval.	All 10 applications sampled contained clear evidence of delegate approval.	✓

<i>Legislative requirements</i>	<i>Results</i>	<i>Compliance</i>
<p>Documents required for approval:</p> <ul style="list-style-type: none"> - Evidence of payment of application fee; - Purchase document; and - Certified photo ID of the importer or responsible officer if a company (if applicant has not imported in the last 12 months, other forms of ID are required) 	<p>All 10 application files sampled had all the required documents needed to support approval.</p> <p>None of the files contained evidence of payment of the application fee.</p>	<p>✗</p> <p>Refer to Recommendation 1</p>
Regulation 18 – Race rally		
<p>Applications, which fall under Regulation 18, are required to be signed by the Minister or delegate as evidence of approval.</p>	<p>The two application files sampled contained clear evidence of delegate approval.</p>	<p>✓</p>
<p>Documents required for approval:</p> <ul style="list-style-type: none"> - Evidence of payment of application fee; - Purchase documents; - Copy of CAMS R3 or higher license or CAMS C3 or higher; - Evidence of rally or closed circuit participation and vehicle homologation; and - Certified photo ID of importer or responsible officer if a company. 	<p>One of two application files sampled did not contain evidence of payment of the application fee.</p>	<p>✗</p> <p>Refer to Recommendation 1</p>

2.3 Import processes

The above testing was undertaken after documenting the key processes undertaken by VSS Branch in respect of application processing.

These are summarised at Attachment B.

2.4 Recommendation 1 – Insufficient documentation on file to support approval of application (CR2)

Finding

The testing identified:

- Three cases (from a sample of four) where documentation was not complete to support Regulation 11 decisions; and
- Seventeen cases (from a sample of thirty) where there was no evidence of payment on the application files.

The table below summarises the compliance test results in respect of missing documentation:

Regulation	No. Applications Sampled	Missing Documentation	No Evidence of Payment on Application file
11	4	3	4
12	3	0	1
13	11	0	1
17	10	0	10
18	2	0	1

Risk/implication

Certain key documentation needs to be received and maintained on file to ensure the Department can demonstrate that a decision for the import of a motor vehicle under Regulations 11, 12, 13, 17 and 18 of the Motor Vehicle Standards Regulations 1989 has been made appropriately and in accordance with legislative requirements.

Recommendation

Internal audit recommend that the Department:

- Develop checklists for each Regulation Outcomes (i.e. Regulation 11, 12, 17 and 18) to support staff in ensuring that all mandatory documentation required by the MVS Act is retained on an application file;
- Require the team-leader / supervisor to initial the checklist indicating that they consider that all appropriate documentation is on file; and
- Ensure evidence of payment is maintained for each application (e.g. SAP Document Number is recorded on the application) to maintain an appropriate and transparent audit trail.

Management response

Agreed

Responsible officer:

 - MALT Team Leader

Deadline for Implementation:

30 September 2008

Description of action:

The MALT team will design various checklists for each of the various Regulation Outcomes. These checklists will be attached to the front of each file and used by staff to ensure that all mandatory documentation required by the MVS Act are retained on application files. Checklists will be signed off at appropriate milestones throughout the approval processes.

2.5 Other observations – financial controls

Payment of refunds

Discussions held with the VSS team leader identified that refunds occur approximately once a week. These are paid out of the Department's official bank account.

Section 26 of the *Financial Management and Accountability Act 1997* (FMA Act) requires:

An official or Minister must not do any of the following except as authorised by a valid drawing right:

- (a) make a payment of public money;*
- (b) request that an amount be debited against an appropriation;*
- (c) debit an amount against an appropriation.*

Internal audit has confirmed that the Finance Branch (Corporate Division) processes all fee receipting and refunds. Drawing right delegations are held by EL1 & 2 staff in the financial management team in Finance Branch.

Reconciliations

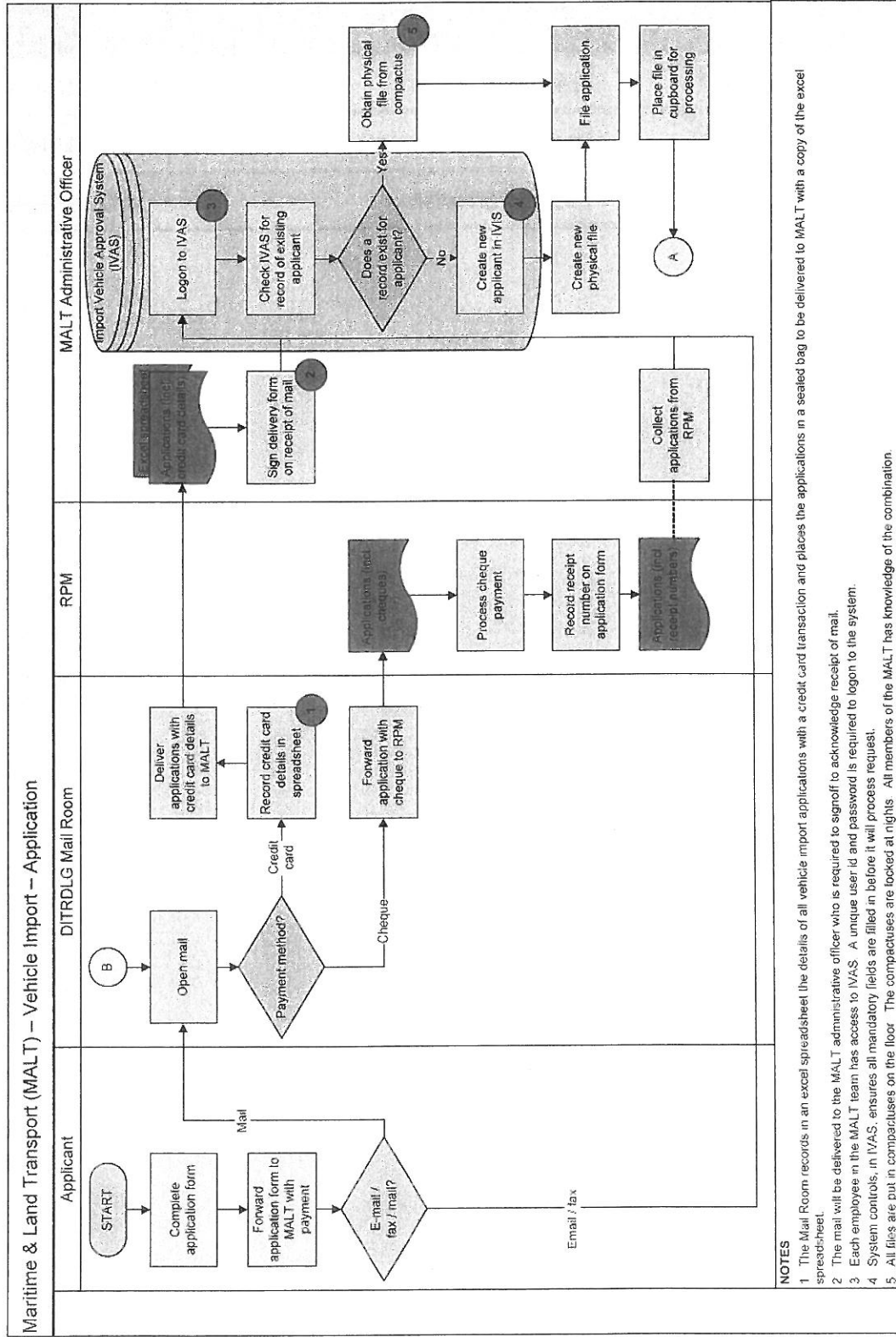
A member of the MALT team performs the reconciliations of credit card payments at the end of each business day. An excel spreadsheet detailing all credit card applications received from the Department's mailroom is maintained. At the close of each business day, a report from the merchant terminal is printed and reconciled with the excel spreadsheet to ensure that all credit card payments have been received.

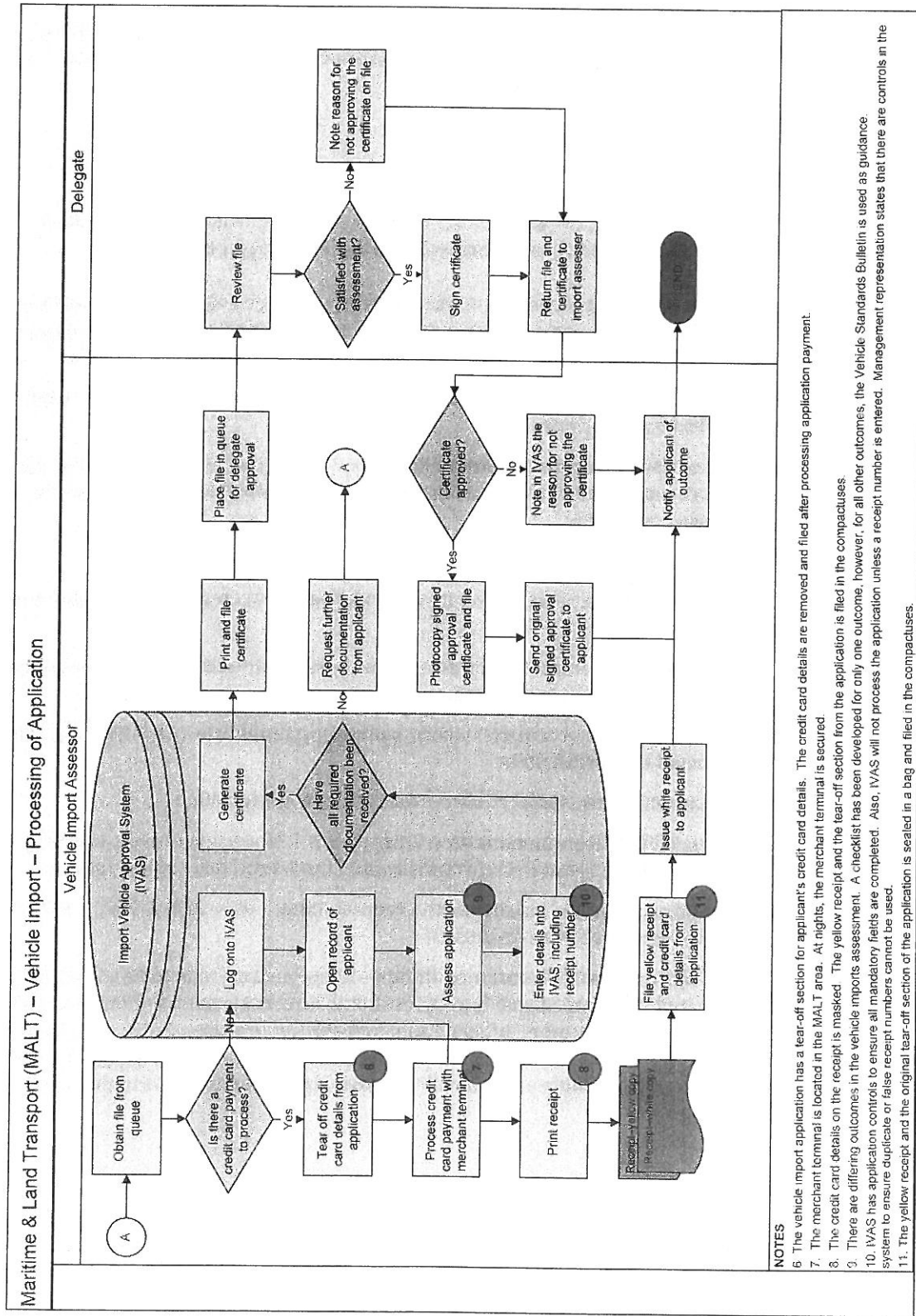
A Staff consultation

The following table lists the key staff members that Internal Audit was in contact with during this review:

<i>Name</i>	<i>Job title</i>	<i>Branch</i>
	General Manager	MALT Division
	Section Head	MALT Division
	MALT team leader	MALT Division

B Process diagrams





C Categorisation of findings

Each finding in this report is classified and the significance of each category is defined as follows:

CR 1 Control and Risk Recommendation Category 1 – The classification of a finding into this category represents that one of the organisation's extreme or high business risks has not been suitably controlled.

This category includes:

- Breakdowns in processes that are critical to the organisation's operations.
- Breakdowns or absence in internal controls that are significant and fundamental to the satisfactory operation of critical processes.

These processes and/or controls when operating limit or mitigate the impact and likelihood of risks the organisation faces. These breakdowns have the potential to damage the organisation's reputation.

These recommendations require immediate management attention and would be considered an urgent priority.

CR 2 Control and Risk Recommendation Category 2 – The classification of a finding into this category represents that one of the organisation's moderate business risks has not been suitably controlled.

This category includes:

- Breakdowns in processes that are necessary or core to the organisation's operations.
- Breakdowns in internal controls that are relevant to the satisfactory operation of necessary or core processes.

These processes and/or controls when operating contribute to the internal control environment of the organisation.

These recommendations require timely management consideration.

CR 3 Control and Risk Recommendation Category 3 – Management issues to be raised and discussed, but not seen to be of consequence from a residual risk perspective.

These matters require management consideration but after CR1 and CR2 recommendations have been addressed.

BIR Business Improvement Recommendation – Arises where the auditor considers the recommendation, if implemented, would result in a benefit accruing to the organisation (for example through more efficient and cost-effective processes or a reduction of expenditure or increase in revenue). Recommendations in this category are further expressed as either 'major' or 'minor' to ensure significant areas for improvement are not overlooked.