

The Auditor-General
Audit Report No.53 2004–05
Performance Audit

The Home Ownership Programme

Indigenous Business Australia

Australian National Audit Office

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of Australia 2005

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Canberra ACT
21 June 2005

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in Indigenous Business Australia in accordance with the authority contained in the *Auditor-General Act 1997*. I present the report of this audit and the accompanying brochure to the Parliament. The report is titled *The Home Ownership Programme*.

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

Yours sincerely

A handwritten signature in black ink, appearing to read 'I. McPhee', is positioned above the printed name of the Auditor-General.

Ian McPhee
Auditor-General

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

AUDITING FOR AUSTRALIA

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

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Abbreviations/glossary

ABS	Australian Bureau of Statistics
AIFIS	ATSIC Financial Information System
AGS	Australian Government Solicitor
AIA	ATSIC Income Amount
ALS	ATSIC Loans System
ATSIC	Aboriginal and Torres Strait Islander Commission
ATSIS	Aboriginal and Torres Strait Islander Services
ACSI-33	Australian Government Information and Communication Technology Security Manual—formerly referred to as the Australian Communications Security Instruction.
AS ISO 15489	Australian and International Standard for Records Management
CAC Act	<i>Commonwealth Authorities and Companies Act 1997</i>
CPGs	Commonwealth Procurement Guidelines
DEWR	Department of Employment and Workplace Relations
DIRKS	Designing and Implementing Recordkeeping System
FACS	Department of Family and Community Services
FAU	Fraud Awareness Unit
FHOG	First Home Owners Grant
HOP	Home Ownership Programme
HPIS	Home Purchase Incentive Scheme
IBA	Indigenous Business Australia
ICCs	Indigenous Coordination Centres
IMIA	Immigration and Multicultural and Indigenous Affairs
IPPs	Information Privacy Principles
ITSP	IT Security Plan
LAS	Loans Administration System
MIP	Mortgagee in Possession

NAA	National Archives of Australia
NAWME	National Average Weekly Male Earnings
NSW AHO	NSW Aboriginal Housing Office
OFPC	Office of the Federal Privacy Commissioner
ORAC	Office of the Registrar of Aboriginal Corporations
PPLs	Purchasing Price Limits
PSM	Commonwealth Protective Security Manual
QATS	Quote and Application Tracking System
RMS	Records Management System
RFP	Request for Placement
RMP	Risk Management Plan
SHLOs	Senior Housing Loans Officers
SOPs	Standard Operating Procedures
SSP	System Security Plan
TSRA	Torres Strait Regional Authority

Summary and Recommendations

Summary

Background

1. The dual objectives of the Home Ownership Programme (HOP) are to provide a range of competitive housing loan products to eligible Indigenous Australians who may not qualify for assistance from mainstream lending institutions to assist them to buy and eventually own their home; and to assist in increasing the home ownership rate of Indigenous Australians to 40 per cent by the year 2010.
2. HOP is delivered through a network of regional Housing Loans Units located in each of the State capital cities, Darwin and six large regional centres. A HOP management team within Indigenous Business Australia in Canberra provides policy guidance and general programme management.
3. Regional Housing Loans officers assess applications for housing loans or related products against HOP policy and guidelines to assist Indigenous Australians into home ownership and provide aftercare services and support for the life of the loan.
4. HOP is essentially self-funding from funds received from loan repayments, discharges and interest. New loans are resourced from this funding stream. HOP's self-funding asset base has doubled since 1990¹ and over the same period HOP has provided housing for more than 21 700 Indigenous Australians. These results are consistent with the principal objects of the Aboriginal and Torres Strait Islander Commission (ATSIC) legislation in relation to housing, which were to promote the development of self-management and self sufficiency among Aboriginal and Torres Strait Islander peoples; and to further the economic, social and cultural development of Aboriginal and Torres Strait Islander peoples.
5. At the time of the ANAO's fieldwork for this audit, HOP was delivered to Indigenous Australians by the Aboriginal and Torres Strait Islander Services (ATSIS) on behalf of ATSIC. Following the passage of legislation on 16 March 2005 to amend the *Aboriginal and Torres Strait Islander Commission Act 1989*, HOP transferred to Indigenous Business Australia (IBA) within the Employment and Workplace Relations portfolio. Indigenous Business Australia is a *Commonwealth Authorities and Companies Act 1997* (CAC) agency. HOP's previous responsible agency—ATSIC—was also a CAC agency.

¹ The loan portfolio value was \$152 million upon transfer to ATSIC in March 1990. At 30 June 2004, it was estimated to be in excess of \$383 million. During this timeframe, the HOP did not receive any appropriations from general revenue but did receive additional funds of \$29.01 million from ATSIC general funds.

6. During the audit the ANAO was mindful of the government's intention to abolish ATSIC and, as a consequence, focussed the audit on the management of HOP and the operation of the Housing Fund.

Audit objectives and scope

7. The objective of the audit was to express an opinion on the effectiveness of HOP management having regard to:

- compliance with applicable Australian Government policies;
- compliance with internal guidelines to assist loans officers to assess applications and manage loans; and
- programme performance reporting.

8. The scope of the audit included an examination of arrangements at HOP's National Office and in three regional locations—Darwin, Perth and Rockhampton—to assess the effectiveness of HOP's internal processes especially with regard to compliance with applicable Australian Government policies. HOP's approach to planning, including risk and fraud management was assessed and the ability of its internal guidelines to support decision-making was examined. A focus of the audit was HOP's programme performance reporting framework. Where appropriate, the ANAO's conclusions and recommendations recognise HOP's transition to a new operating environment.

Key Findings

Compliance with applicable Australian Government policies

9. HOP is currently delivered through Indigenous Coordination Centres (ICCs) in each of the State capital cities and Darwin plus six large regional centres. Housing Loans Units are located in these ICCs and are staffed by Housing Loans officers who, subject to delegations, assess and approve housing loan applications from Indigenous clients and provide aftercare services for the life of the loan.

10. HOP requires the extensive collection of personal information associated with the financial position of Indigenous home loan applicants. The ANAO found the existing ATSIC loans system (ALS) which supports HOP decision-making needs updating and review to ensure that system security is compliant with, and better reflects, Australian Government system security policies.

11. The ANAO found that the management and protection of client information did not meet the requirements of the *Privacy Act 1988*. In particular, attention to the storage and physical security of client information was uneven across regional Housing Loans Units where relevant physical files are maintained. Arrangements with the ICCs need to be formalised to ensure compliance with Privacy Act requirements.

12. The ANAO also found that HOP recordkeeping practices were not consistent across regional Housing Loans Units and consequently HOP management was not able to ensure that the requirements of the *Archives Act 1983* and the standards set by the National Archives of Australia concerning the documentation of all business transactions and decisions were fully complied with.

13. The Commonwealth Procurement Guidelines do not apply to HOP and HOP has not market tested its outsourced banking and legal services.

Compliance with HOP procedures

14. The HOP Business Plan 2002–04 contains a strategy matrix designed to achieve HOP's stated goals. The matrix includes a number of perceived risks to the programme and puts forward strategies to mitigate these risks. The ANAO found this approach to be limited to the risk factors that were largely external to the programme, for example funding levels to meet demand. To further support the planning process, increased attention to internal risks such as fraud risk is also warranted.

15. The ATSIC Fraud Control Plan 2001–03 was based on a fraud risk assessment conducted in 2000. During 2003–04 the plan continued to apply to HOP operations. The ANAO noted substantial changes in HOP's operating environment since the 2000 assessment and found that the small number of more recent fraud cases, referred to the Fraud Investigation Unit by regional Housing Loans Units, had characteristics which could be moderated through a tightening of the control environment. This was particularly in the areas of establishing pre-existing ownership of a rental or investment property and the application of the First Home Owners Grant to HOP clients.

16. HOP policy has 14 standard eligibility criteria that HOP applicants have to meet to obtain a standard housing loan. The ANAO assessed compliance with the application and approval process in the following three areas:

- Request For Placement (RFP) on the housing loans application waiting list;
- the HOP loan invitation process; and
- the formal assessment, approval and settlement of the loan.

17. The ANAO found:

- the level of information required through the RFP process is not aligned with HOP policy concerning the order in which applicants should be placed on its housing loans application waiting list. Applicants are awarded a points score determined through the RFP process. The points score is intended to determine where an applicant is placed on the waiting list. The information sought in the RFP process to generate the points score does not always provide the evidence required to substantiate the priority awarded to the placement of applicants on the waiting list;
- the issuing of invitations to applicants on the waiting list to apply for a housing loan is largely at the discretion of individual regional Housing Loans Units and this means that the management of waiting lists is not uniform across the HOP network;
- HOP has implemented system controls which put in place a regional ceiling on the amount of money HOP will lend for the purchase of a property in a particular town or region;
- procedures to ensure that home insurance was in place prior to loan settlement were followed; and

- Housing Loans officers paid close attention to the findings in the valuation report of the property to be purchased and investigated any adverse findings.

Support for HOP decision-makers

18. Flow-charted processes in HOP's Funding Procedures manual were designed to align with housing loan processing steps to be taken in ALS, including the generation of standardised forms and letters.

19. The ANAO found that practices differed between Housing Loans Units with respect to key decision-making steps in the lifecycle of HOP loans. Because of the close interrelationship between processes outlined in the HOP Funding Procedures manual and steps to be taken in ALS that are not necessarily enforced or controlled by the system, the ANAO considers that there is a risk that ALS processing requirements will not be correctly followed where local practices have evolved and are being used.

20. HOP management recognised that its existing Funding Procedures manual had been superseded in many areas by local work practices and had taken steps to remedy this by undertaking a review and upgrade of its manual. This process provides an opportunity to improve the consistency of ALS processing where deficiencies are identified.

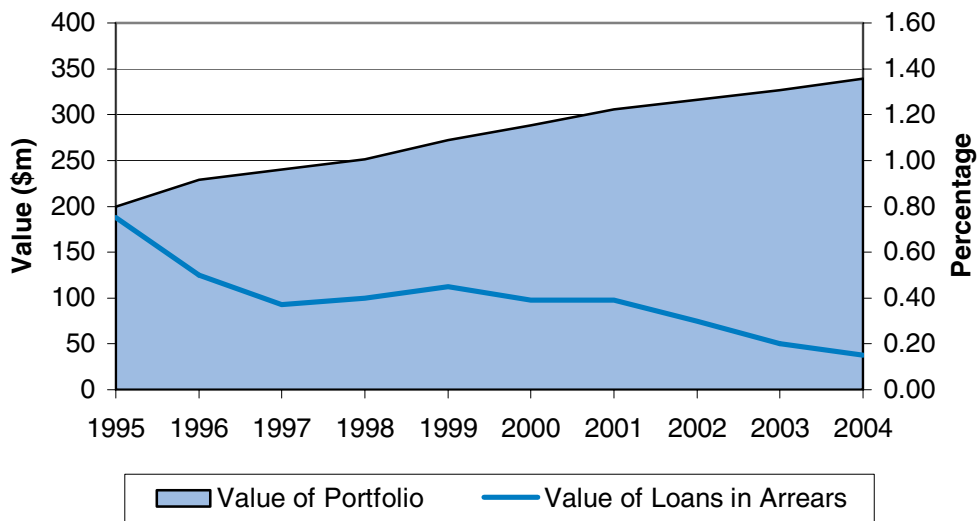
Managing individual loans

21. Concerning the management of housing loans in arrears, the ANAO is aware that HOP management has regard to commercial practices and to the intent of HOP policy. However, a HOP compliance check found that the monitoring and management of housing loans in arrears was uneven across the regional Housing Loans Units. This aspect of home lending would benefit from a review of successful better practice arrears management across HOP's regional units.

22. The ANAO considered the relationship between the trend increase in the value of the HOP portfolio with the movement in the value of loans in arrears and found the relationship to be an inverse one. While the portfolio has been increasing steadily, the dollar value of the loans in arrears compared with the current balance of the loans portfolio has been steadily decreasing. At 30 September 2004, there were 145 housing loans in arrears across the HOP portfolio. This represented 4.1 per cent of the total number of loans and around \$441 000. This dollar value equalled 0.12 per cent of the current balance of the loan portfolio.

23. Figure 1 contrasts the growth in the HOP portfolio with the decreasing value of loans in arrears.

Figure 1
HOP Portfolio Growth and Arrears Decline



Source: Housing Loans Section.

Programme performance reporting

24. The ANAO found that a key HOP quantity measure ‘Increase Indigenous home ownership to 40 per cent by 2010’ is not reported against annually. The inclusion of annual milestones would enable HOP to track its progress over the reporting year and indicate its contribution to the longer term goal of increasing Indigenous home ownership to 40 per cent by 2010.
25. The ANAO found that HOP’s quality measures are actually quantity measures and that more detailed information should be provided in the output description to enable stakeholders to understand the significance of the measures.
26. HOP management employs a broad spectrum of performance information enabling it to accurately monitor financial commitments and expenditure levels against regional budget allocations and make adjustments on a timely basis.
27. The ANAO found that the lack of client service indicators limited the ability of HOP management to report on the benefits of HOP to its client group in a meaningful way. The development of a client service charter would assist in establishing specific and relevant performance indicators for client service that could be reported annually.

Overall conclusion

28. The ANAO notes that since 1990 the total dollar value of the HOP loan portfolio has more than doubled to around \$338 million and that, over the same period, HOP has provided housing for more than 21 700 Indigenous Australians. However, the ANAO concluded that the programme requires improvements in several key areas, especially with regard to the security and protection of client information. Given the sensitivity of client information, the ANAO considers it would be advisable for HOP to develop controls to limit the risk to the programme of inappropriate access or disclosure of client information and provide assurance that the controls established adequately reflect Australian Government requirements.

29. While the Commonwealth Procurement Guidelines (CPGs) do not formally apply to HOP's outsourced banking and legal services, the CPGs provide a useful framework for HOP to consider significant procurements such as banking and legal services.

30. HOP management has proposed the review and update of its Funding Procedures manual. Such an initiative will go a long way towards promoting consistency in decision-making across the Housing Loans Units and enabling the identification of key business requirements to be formalised in HOP's loans system and associated procedural guidance.

Recommendations

Recommendation No.1 Para 2.32

To ensure that HOP client information is appropriately protected in line with legislative requirements and Australian Government policies, the ANAO recommends that HOP management:

- undertakes an assessment of the impacts, to clients' privacy, associated with the inappropriate access or disclosure of information collected by HOP;
- assigns a security classification to the information held in ALS in line with the requirements of the Protective Security Manual; and
- undertakes a system security risk assessment, in the context of the classification of the data, to ensure system security risks are appropriately controlled.

IBA response: Agreed.

Recommendation No.2 Para 2.50

To ensure compliance with Privacy Act requirements, the ANAO recommends that HOP management:

- includes detailed statements on *all* forms collecting personal information by potential or actual applicants about the purpose and authority for the collection of the information; and
- establishes with the Indigenous Coordination Centres, where Housing Loans Units operate, appropriate arrangements for the storage and security of HOP client information.

IBA response: Agreed.

**Recommendation
No.3**

Para 2.70

To ensure compliance with Archive Act requirements and conformity with Australian and international record-keeping standards, the ANAO recommends that HOP management:

- establishes a process and provides training for Housing Loans officers in the appropriate creation and management of electronic and papers records of business transactions concerned with housing loans;
- maintains home loan legal documents in a secure deeds room; and
- establishes an arrangement appropriate to HOP for systematically recording documents held electronically, in its paper files and in its legal document management system.

IBA response: Agreed.

**Recommendation
No.4**

Para 2.89

The ANAO recommends that, as part of the move to new administrative arrangements and to ensure 'value for money', consideration is given to market testing HOP's externally provided banking arrangements and legal services.

IBA response: Agreed.

**Recommendation
No.5**

Para 3.141

The ANAO recommends that HOP management undertakes a systematic review of HOP funding procedures, forms and sources of decision-making guidance to better enable:

- alignment with overall HOP policy goals and objectives;
- transparent documentation of decisions and processes, and
- identification and effective treatment of fraud risks.

IBA response: Agreed.

**Recommendation
No.6**

Para 6.54

The ANAO recommends that HOP management review its performance information to:

- ensure its output measures are aligned with its programme objectives and performance measures to allow stakeholders and others to assess HOP performance over the financial year;
- develop a process to collect and analyse feedback, including complaints; and
- identify suitable opportunities for benchmarking of its lending activities to support continuous programme improvement.

IBA response: Agreed.

Audit Findings and Conclusions

1. Introduction

This chapter provides an overview of the Home Ownership Programme (HOP)—its legislative environment, funding arrangements, governance structures and programme objectives and outcomes. The audit scope and objective, conduct of the audit and the structure of the report are also presented.

Overview of the Home Ownership Programme

Establishment of the Home Ownership Programme

1.1 The Australian Government established the Home Ownership Programme (HOP) in 1975 under the then Aboriginal Loans Commission with an initial capital injection of \$5 million. HOP was transferred to the Aboriginal and Torres Strait Islander Commission (ATSIC) in March 1990.

1.2 Following the passage of the ATSIC Amendment Bill on 16 March 2005, the Housing Fund, in its entirety, was transferred to another Commonwealth Statutory Authority—Indigenous Business Australia (IBA) on 24 March 2005. IBA is within the Employment and Workplace Relations portfolio.

Legislative basis for HOP

1.3 Section 67 of the *Aboriginal and Torres Strait Islander Commission Act 1989* provided for a Housing Fund into which is paid:

- amounts appropriated to the Commission for housing loans;
- all housing loan repayments; and
- such amounts of the Commission's money that it makes available for housing loans.

1.4 Money in the Housing Fund may only be used for housing loan related purposes.

1.5 At the time of the fieldwork for this audit, HOP was administered by the Aboriginal and Torres Strait Islander Services (ATSIS). ATSIS was established as an executive agency of the Australian Government on 1 July 2003 and was given responsibility for a number of functions including the delivery of a number of programmes to Aboriginal and Torres Strait Islander peoples and acting as an agent for ATSIC in relation to certain other functions, including HOP.²

² The Australian Government Solicitor, 2003, *Agreement in Relation to Various Matters between ATSIC and the Commonwealth represented by ATSIS*, p. 4.

HOP objectives

1.6 HOP has two programme objectives. They are to:

- provide a range of competitive housing loan products to eligible Aboriginal and Torres Strait Islander peoples who may not qualify for assistance from conventional institutions to assist them to buy and eventually own their home; and
- assist in increasing the home ownership rate of Aboriginal and Torres Strait Islander people to 40 per cent by the year 2010.³

1.7 These objectives are included in HOP's policy document—*Home Ownership Programme Policy 2000–03*.

HOP focus

1.8 HOP services a section of the Indigenous community that, without assistance from HOP, would not have the opportunity to participate in home ownership.

1.9 HOP targets low to middle income families who have modest savings and are generally unable, owing to these factors, to secure or afford long-term commercial sector housing loan finance. HOP provides eligible Indigenous Australians with concessional interest rate loans, which are used to buy or build standard homes for occupancy. HOP does not provide home loans for investment or speculative purposes under its charter.

1.10 Aboriginal and Torres Strait Islander people can apply to HOP for loans for a range of housing related products, including loans for: the purchase or construction of homes; housing extension and renovations; housing related expenditure; refinance of housing loans;⁴ property settlements; the purchase of residential land; and a deposit gap. Categories of individuals and organisations who can apply include: low income earners, Community Development Employment Programme (CDEP) and social security recipients; former ATSIC/ATSIS Indigenous staff; Aboriginal and Torres Strait Islander organisations; non-Aboriginal or Torres Strait islander applicants;⁵ and temporary high income earners.

1.11 A significant proportion of HOP clients reside in Australia's major cities and large regional centres. Census data for 2001 indicate that major cities

³ The 2001 census estimated the rate of home ownership for Indigenous family and single person households to be 32 per cent. This compares with a national non-Indigenous rate of 71 per cent.

⁴ These loans are available where existing housing loans are held with mainstream lenders and, due to unforeseen circumstances, the borrower is unable to make the required loan repayments.

⁵ These loans may be made to an individual or an organisation for the purpose of furthering the social, economic or cultural development of Aboriginal and Torres Strait Islander peoples.

are home to the largest proportion of Indigenous Australians (30.2 per cent), followed by large regional centres (20.3 per cent).⁶

1.12 Consistent with its responsibility to ensure sound financial management of the Housing Fund, HOP can only lend money to borrowers where it is possible to secure a mortgage over the property being purchased. This means that funds are to be directed solely to applicants who are buying properties on freehold or crown lease land.

1.13 At the time of this audit, Indigenous Australians are not able to access HOP to purchase a home situated on community land (traditional land). This land is held in trust for the local community under State and Territory legislation.⁷

Torres Strait Islanders

1.14 Torres Strait Islander people, who live on mainland Australia, are able to access HOP.

1.15 In addition, the Torres Strait Regional Authority (TSRA) has a similar home ownership programme in the Torres Strait. Although the audit did not include this programme, a brief outline is provided at Appendix 1.

1.16 Figure 1.1 illustrates the distinctive features of HOP loans.

Figure 1.1

HOP loan characteristics

Characteristic	Value
Interest rates	
Family income over \$30 000	starting rate of 4.5 per cent
Family income up to \$30 000	starting rate of 3 per cent
Deposit requirements	
Family income over \$30 000	\$3,000*
Family income up to \$30 000	\$1,500*
*Or 5 per cent of purchase price whichever is the lesser.	
Loan Terms	32 years, can extend to 45 years
Loan Fees	
Establishment fee	nil
Mortgage insurance	nil
Monthly charges	nil
Loan discharge fee	nil

Source: Housing Loans Section.

⁶ ATSIIC, *Annual Report 2002-03*, p. 49.

⁷ Essentially the community owns the land and the trust nature of the holding prevents its sale or use as loan collateral as it is being held in perpetuity for the community.

1.17 In addition to the loan characteristics outlined above, HOP policy determines that housing loans which commence at a concessional interest rate will increase by 0.5 per cent per year, commencing on 1 January following the end of the first full year after the loan advance. They will continue to increase at this yearly rate until they reach the HOP Home Loan Rate, which is set at one per cent below the Commonwealth Bank's standard variable rate for owner occupied home loans. The current HOP home loan rate for owner occupied homes, set in November 2003, is 6.07 per cent.

Funding arrangements

1.18 HOP is essentially self-funding from funds received from loan repayments, discharges and interest, which are paid into the Housing Fund and form its funding base. New housing loans are resourced from this funding stream. The self-funding nature of the programme and the operational characteristics of the Housing Fund and lending portfolio distinguish HOP from other government administered programmes, which depend on annual appropriations. These arrangements were designed to ensure the continuity and viability of the programme and provide a sound basis for its continued operation.

1.19 Regional budgets for home lending are phased over the financial year to coincide with expected cash flows from loan repayments. These budgets are reported to regional Home Loans Units to enable home loans officers to plan lending activities, and to ensure that sufficient and timely invitations are made to meet forward approval budget allocations.

1.20 Government budget measures for 2004–05 provided an equity injection of \$20 million to expand the capacity of HOP. This initiative was designed to provide housing loans to more than 400 Indigenous families over the next four years. This injection will also generate interest income estimated at \$0.5 million in 2004–05 and \$1 million in each of the following years.⁸ This was the first budget appropriation measure since the commencement of ATSIC in 1990.

1.21 The Implementation Plan for the 2004–05 Budget capital injection and related support activities is discussed at Appendix 2.

1.22 The current allocation for HOP, including the capital injection, is \$110 million for 2004–05. This sum also includes \$2 million for the joint venture with the New South Wales Aboriginal Housing Office (NSWAHO) to assist the long-term tenants of the NSWAHO to purchase their rental properties. This project is considered in more detail in Appendix 2.

⁸ Immigration and Multicultural and Indigenous Affairs *Portfolio Budget Statements 2004–05*, pps. 142–143.

1.23 ATSIC/ATSIIS supplemented HOP with programme and administrative funds. For 2003–04, the budget for this purpose was \$720 000 and for 2004–05 it is \$500 000. These funds are used to cover legal and incidental items of expenditure related to the operation of the Housing Fund.

HOP outcomes

1.24 As at 30 June 2004, the Housing Fund portfolio, under HOP management, comprised 3 559 loans with a total value of \$338.7 million.⁹

1.25 In 2003–04, funds from principal and interest repayments to the Housing Fund were used to establish 469 new loans, with a total outlay for that year of \$80.17 million.¹⁰

1.26 Loan discharges accounted for approximately \$50.9 million of total funds received by the Housing Fund in 2003–04.

1.27 Discharges are a significant factor in the successful management of HOP. The majority of loan discharges are a result of borrowers ‘trading up’ to their second home or refinancing their loan in the commercial sector. In either case, these clients are continuing with home ownership. By doing so, the payout of their loan is a significant injection to the Housing Fund, making further funds available for home lending to Indigenous clients. HOP management do not analyse information on loan discharges on a consistent basis. Instead, they depend on anecdotal information drawn from detailed knowledge of HOP’s client base held in the regional HOP network. Reporting loan discharges is discussed in more detail in Chapter 6.

1.28 Effectively, this means that, in addition to the recycling of scheduled loan repayments, the value of the portfolio is being turned over every 6–7 years from loans being refinanced or paid out.

1.29 The number of loans written since the commencement of ATSIC in March 1990 total 6 042 and has provided housing for more than 21 700 Aboriginal and Torres Strait Islander people.¹¹

1.30 Approximately 90 per cent of families assisted in 2003–04 by HOP into home ownership had a family income (consisting of the main income earner’s gross wage, combined with 50 per cent of the spouse’s gross wage) less than the National Average Weekly Male Earnings—NAWME¹²—which is currently \$939.80 per week.¹³

⁹ ATSIC, *Annual Report 2003–04*, p. 86. The ANAO also analysed these data.

¹⁰ ATSIC, *ibid*, p. 85.

¹¹ ATSIC, *ibid*, p. 86.

¹² One of the standard HOP home loan eligibility criteria is based on this ABS statistic.

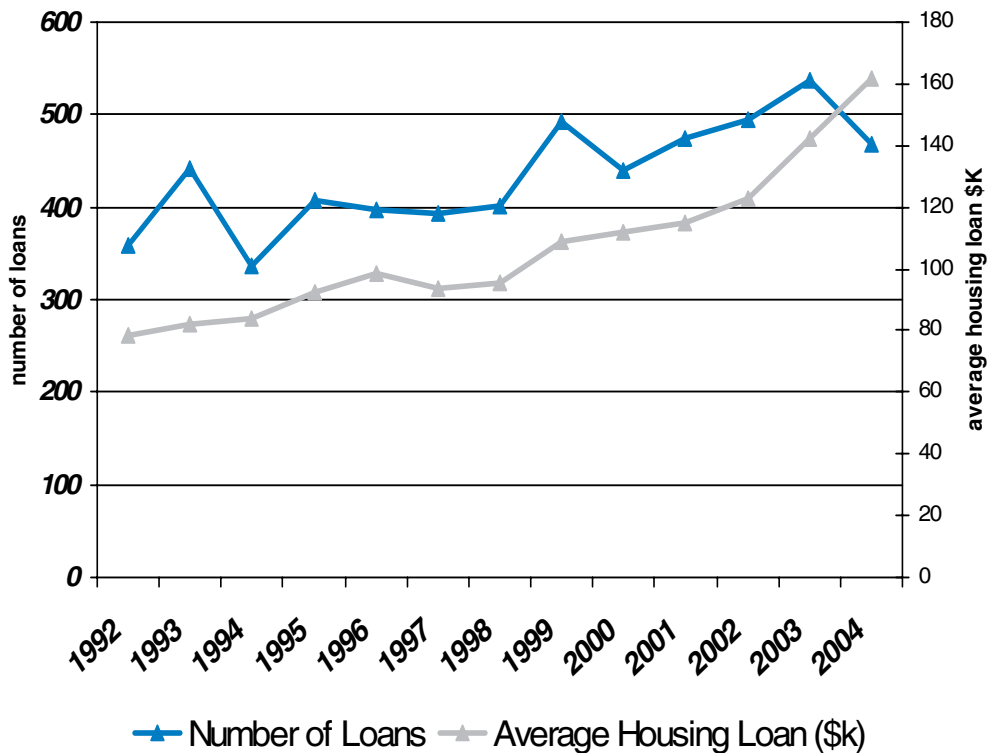
¹³ HOP loans data.

1.31 At 30 September 2004, there were 145 housing loans in arrears across the HOP portfolio. This represented 4.1 per cent of the total number of loans and around \$441 000. This dollar value equalled 0.12 per cent of the current balance of the loan portfolio.

1.32 HOP management advised that between 1 July 1995 and 30 June 2004, 276 loans were transferred to loss recovery. The value of the loans written off during this period was \$2.5 million and around \$2 million has been recovered from debts written off since 1990.

1.33 Figure 1.2 charts the trend increase in the size of the HOP portfolio including the number of loans approved on a per annum basis over a twelve year period. These data are presented in the context of a steep increase in the median price of homes in 2003–04, which is reflected in a decrease in the number of loans approved for that year.

Figure 1.2
Increase in the size of the HOP portfolio



Note: The above data are reported in financial years.

Source: Housing Loans Section.

HOP administration

1.34 The Australian Government announced the mainstreaming of Indigenous programmes in the 2004–05 Budget. However, the Home Ownership Programme remained within ATSI as a result of the 2003 ATSI–ATSI agreement. This agreement enabled ATSI to administer a range of ATSI functions, including HOP. However, the agreement ceased to apply to HOP on 24 March 2005 when HOP transferred to Indigenous Business Australia.

1.35 At the time of ANAO fieldwork, HOP's specialist Housing Loans officers were located in the ATSI/ATSI regional network in each of the State capital cities, Darwin and in major regional centres such as Townsville and Rockhampton in Queensland; Tamworth, Coffs Harbour and Wagga Wagga in New South Wales; and in Alice Springs in the Northern Territory.

1.36 The regionally based Housing Loans officers generally approve loans locally, subject to delegations, and provide on-going support and aftercare services for the life of the loan.

1.37 The Government established the Indigenous Coordination Centre (ICC) structure on 1 July 2004 to assist in the mainstreaming of Indigenous programmes. With the disbanding of the ATSI/ATSI regional network, Housing Loans officers were moved to the new ICC offices, subject to an agreement that the lending functions (including delegations and authorities) of the Housing Loans officers remained the same.

1.38 The HOP Manager, located in Canberra, has responsibility for all lending and administrative matters concerned with the operation of HOP, including regional home loans processing and management of home loans. A new set of delegations was issued in August 2004 with higher-level delegations (that is, those previously exercised by Regional Managers in the former ATSI/ATSI regional network) to be exercised by the HOP Manager or Assistant Manager.

Centralisation of key functions

1.39 As part of its initiative to provide the HOP with a consistent national focus, HOP management centralised a number of key operational functions in late 2004. This should assist in the better monitoring of regional processes and the easier development of forward plans and budgets. The functions centralised include, but are not limited to: loans analysis and arrears monitoring, budget analysis and monitoring, insurance monitoring and actioning and the development and delivery of a national training schedule. These areas are noted at relevant points in this report.

Audit objective and scope

Audit objective

1.40 The objective of this performance audit was to assess the effectiveness of HOP management having regard to:

- compliance with applicable Australian Government policies;
- compliance with internal guidelines to assist loans officers to assess applications and manage loans; and
- programme performance reporting.

Audit scope

1.41 The audit examined HOP's compliance with applicable Australian Government policies especially security, privacy and recordkeeping policies and HOP's approach to procurement. HOP's approach to planning, including risk and fraud management, was assessed and the ability of its internal guidelines to support decision-making was examined.

1.42 HOP's programme performance reporting framework, including the quality of its internal and external reporting, was also a focus of the audit.

1.43 Although HOP was located within ATSIIS at the time of the audit fieldwork, the audit did not consider the broader governance aspects of this arrangement and maintained the audit focus on the effectiveness of HOP's internal management. This was to ensure that any ANAO conclusions and recommendations remained relevant in the context of the movement of HOP administration to Indigenous Business Australia.

Conduct of the audit

1.44 The ANAO conducted audit fieldwork at HOP within the ATSIIS National Office in Canberra and ATSIIS regional offices in Darwin, Perth and Rockhampton. This included:

- interviewing personnel and conducting file analysis at these locations; and
- examining HOP documents, the HOP loans system and related files.

1.45 The audit was conducted in accordance with ANAO auditing standards and cost approximately \$318 110. The ANAO engaged consultants from Ascent Governance to provide IT support to the audit.

Report structure

1.46 This report has six chapters. This chapter has described the background to the audit, the audit objective and scope, conduct of the audit and structure of the report. Chapter 2 examines HOP compliance with applicable Australian Government policies. Chapter 3 analyses HOP's compliance with HOP policy and procedures. Chapter 4 assesses support for HOP decision-makers. Chapter 5 examines HOP loan management processes and Chapter 6 assesses HOP's programme performance reporting.

2. Compliance with Applicable Australian Government Policies

This chapter assesses the capacity of HOP's information management system—both electronic and manual—to protect and secure HOP client information in compliance with Australian Government policies and Privacy Act requirements. It also analyses HOP recordkeeping practices. Finally, it examines HOP's approach to procurement.

Introduction

2.1 HOP requires the extensive collection of personal information associated with the financial position of home loan applicants. Of the principal documents which govern the general protection and disclosure of official Australian Government information, the legislation most relevant to the protection of HOP information is the *Privacy Act 1988* and the *Archives Act 1983*. Agencies must also comply with the Commonwealth Protective Security Manual (PSM) 2000.¹⁴

2.2 The term 'information' in this context refers to any form of information, including:

- documents and papers;
- electronic data; and
- the software or systems and networks on which the information is stored, processed or communicated.

2.3 The Privacy Act recognises the importance individuals place on the manner in which Australian Government agencies treat their **personal** information and imposes stringent standards to which agencies must comply. These standards are set out in eleven Information Privacy Principles (IPPs) which govern the collection, storage, use and disclosure of personal information, as well as providing individuals with certain rights to access their personal information and correct errors.

2.4 The Commonwealth Protective Security Manual 2000 specifies the requirements for protecting the security and privacy of information collected and retained by the Australian Government. The manual is supported by the Australian Government Information and Communications Technology

¹⁴ The Australian Government's *Protective Security Manual* is issued by the Attorney-General's Department. It is the principal means for disseminating Australian Government protective security policies, principles, standards and procedures to be followed by all Australian Government agencies for the protection of official resources.

Security Manual (ACSI 33), which sets the minimum standards for the protection of IT systems.¹⁵

2.5 The Archives Act and associated legislation require agencies to retain accurate records of all business transactions and decisions made. Sound recordkeeping practices provide evidence of accountability and transparency in decision-making.

2.6 HOP has outsourced its banking arrangements and legal services. Australian Government procurement is governed by the Commonwealth Procurement Guidelines (CPGs). From 1 January 2005, the CPGs apply to specified agencies regulated by the *Commonwealth Authorities and Companies Act 1977*—the CAC Act. Following the passage of the ATSIC Amendment Bill on 16 March 2005, the Housing Fund and its administrative arm—HOP—was transferred to Indigenous Business Australia. Indigenous Business Australia is subject to the CAC Act, as was HOP's previous responsible agency—ATSIC. While IBA is not one of the agencies specified under the CPGs, the ANAO considers that the guidelines provide a framework to assist agencies to manage public resources efficiently, effectively and ethically when undertaking procurement.¹⁶

2.7 The ANAO examined the degree to which the following requirements are in place in HOP:

- the integrity of HOP's information management environment enabling conformance with the provisions of the Privacy Act and other Australian Government requirements; and
- systematic recordkeeping especially where a mix of physical files and electronic records are used to document and record decision-making processes and outcomes.

2.8 The ANAO also examined HOP's approach to procurement.

Information integrity

HOP information technology environment

2.9 The system used to manage the loan application, approval and subsequent repayment management processes for HOP is the ATSIC Loans System (ALS). ALS was introduced in 1999.

¹⁵ The Australian Government *Information and Communications Technology Security Manual* (also known as ACSI 33) has been developed by the Defence Signals Directorate (DSD) to provide policies and guidance to Australian Government agencies on how to protect their ICT systems.

¹⁶ Department of Finance and Administration, January 2005, *Commonwealth Procurement Guidelines*, p. 4.

2.10 The ATSIC Loans System consists of two applications—the Quote and Application Tracking System (QATS) and the Loans Administration System (LAS). The Quote and Application Tracking System is used to manage and record HOP loan approval processes, including Requests for Placement, assessment, waiting lists, invitations to apply for a loan, loan approvals and disbursements. QATS has an interface to LAS. When a loan is settled, information is automatically migrated from QATS to LAS establishing an ongoing loan account.

2.11 The LAS is used for all subsequent management of loans including interest calculation, recording repayments, arrears and insurance management.

2.12 To maintain account and repayment information in LAS there are a number of additional data flows between systems. These are with:

- the ATSIC Financial Information System (AIFIS);
- Centrepay¹⁷; and
- Deskbank.

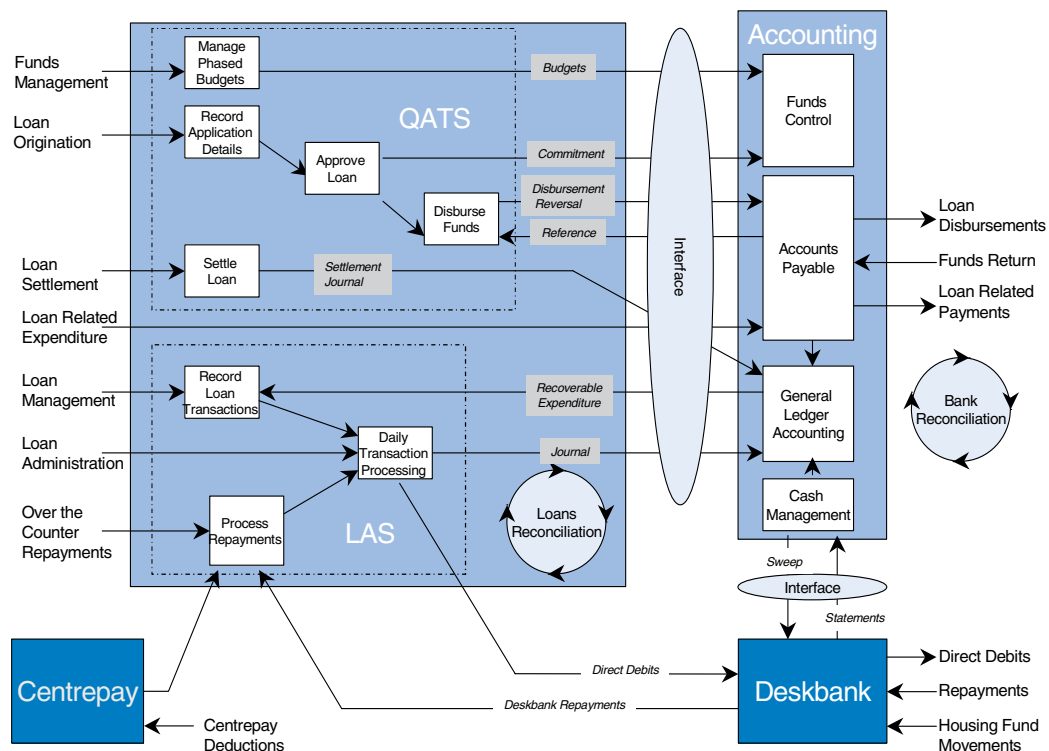
2.13 The ATSIC Financial Information System was the core Financial Management Information System (FMIS) for ATSIC/ATSI. HOP runs an automatic batch process daily to transfer financial data, such as loan repayments and releases, between ALS and AIFIS.

2.14 Centrepay remits payments to HOP where the borrower has requested Centrelink to make loan repayments by way of deduction from their Centrelink benefit. These repayments are interfaced to the loans system electronically.

2.15 HOP's institutional bank provides a facility—Deskbank—which includes details of all HOP payments made through it by HOP clients. Loan repayments are deposited by the borrower at branches of the bank using a pre-printed coupon book. These deposits are uploaded to the ALS from electronic bank statement details obtained through the Deskbank facility. Repayments remitted by cheque are deposited to HOP's bank account and processed as a cash receipt in the ALS.

2.16 Figure 2.1 is a graphic representation of the ALS and its interaction with the accounting and banking systems used by HOP.

¹⁷ In 2003, ATSI negotiated a repayment facility through Centrepay. Centrepay is a Centrelink initiative allowing people who are receiving a range of Centrelink payments to pay bills from their Centrelink entitlements. This service is provided at no cost to the client. The extension of this facility to HOP clients means that funds are deducted from a borrower's Centrelink fortnightly benefit and electronically remitted to the Housing Fund's bank account.

Figure 2.1**The ATSIC Loans System and Interaction with the accounting and banking systems used by HOP**

Source: Housing Loans Section.

System security planning and management

2.17 Australian Government agencies are required by the Commonwealth Protective Security Manual (PSM) to consider the security implications of their IT systems and to devise policy and plans to ensure the systems are appropriately protected. The PSM sets out the policies, practices and procedures that provide a protective security environment that is fundamental to good business and management practice, and essential for good governance. This is complemented by policies and guidance provided in the Australian Government Information and Communications Technology Security Manual (ACSI 33), which are designed to enable government agencies to achieve an assured information technology security environment.

2.18 Sound risk assessment and management is critical to obtaining and maintaining a robust information security environment that ensures the protection of Australian Government information. This requires a risk

assessment of the likelihood and consequences of inappropriate disclosure or misuse of information. The result of this assessment allows the classification of the information at a level appropriate to manage the impact of disclosure or misuse of the information. To ensure the information is adequately maintained in line with the classification of the data, a further risk assessment should be undertaken on the controls of the system on which the information is collected and held.

2.19 An appropriate information security environment requires the following components to enable it to meet the security requirements for the protection of information contained in Australian Government agency systems.

- An IT Security Policy (ITSP) describing how the agency will protect its IT resources. Typically ITSPs describe the IT security policies, standards and responsibilities for ensuring security.
- The security classification of the data managed by the system determines the security controls to be applied.
- Security controls developed for the system should be based on a security risk assessment of the system and reflect the security policies and procedures of the agency for systems managing data at the identified classification. ACSI 33 sets out a minimum standard for information and communication technology security that requires:
 - a system specific Risk Management Plan (RMP) that includes the security threats, the levels of risk posed by each and a risk treatment plan identifying how each threat is to be managed.
 - a System Security Plan (SSP) that identifies how all the security requirements specified by the Security Policy and the Risk Management Plan are to be met for the specific system environment.
 - Standard Operating Procedures (SOPs) that provide the instructions that the procedures are to follow for the secure operation and management of the system. SOPs ensure the implementation of and compliance with the SSP.

2.20 The ANAO assessed HOP against this framework including the:

- agency IT security policies and procedures;
- security classification of the information held on the system; and
- security risk assessment of the system.

Agency IT security policies and procedures

2.21 The ANAO found that HOP has historically maintained an ALS Security Policy and Procedures guide, outlining the high-level security policies to be applied to ALS. The document references the security policy requirements of ATSIC and the accompanying ALS procedures reflecting these policies. The document also outlines the reliance of HOP security on other areas within ATSIC and associated policies and procedures, including those of the outsourced IT service provider—a firm called IPEX.

Security classification of the information held on the system

2.22 The PSM outlines security classifications to be used in identifying the associated disclosure risk from the information, based upon the results of a risk assessment.¹⁸ This assessment will measure the impacts, particularly to clients' privacy, of inappropriate access or disclosure of information collected by HOP. If the risk assessment suggests that the unauthorised disclosure or misuse of information would have adverse consequences, the information should be given extra protection. The level and type of protective measures will depend on the severity of the consequences.

2.23 Subject to the security classification assigned to the information, there are associated minimum-security standards defined for the protection, handling and dissemination of the information.¹⁹ In the case of HOP, personal information associated with the financial position of home loan applicants is sensitive and a security classification, commensurate with the sensitive nature of the information, should be assigned.

2.24 The ANAO found that ALS security policies and procedures have been defined and security controls implemented to protect information retained in ALS. However, the risk assessment to measure the impacts to clients' privacy of the inappropriate access or disclosure of information and the assignment of the commensurate security classification of the information collected and retained within ALS and supporting paper records had not been carried out.

2.25 Additionally, there were disparate approaches between HOP regional Housing Loans Units to the marking of paper files with an appropriate security classification and associated processes for the handling and protection of these physical files.

2.26 While the ANAO did not find evidence of any breaches related to inappropriate access or disclosure of HOP information, the ANAO considers it would be timely for HOP to review its controls to limit the risk to the

¹⁸ Attorney-General's Department, 2000, *Commonwealth Protective Security Manual*, ref C.6.11; 6.26; 6.53.

¹⁹ *ibid*, ref C6.

programme of the likelihood of any breaches. Given the sensitivity level of the information, this would provide additional assurance that the controls established adequately reflect Australian Government requirements.

Security risk assessment of the system

2.27 The PSM also requires agencies to comply with the Australian Government Information and Communications Technology Security Manual–ACSI 33 for the protection of information held on their system.

2.28 An important step in determining the appropriate security controls to be implemented in protecting Australian Government information is the performance of a security risk assessment of the systems holding that information. Having already classified the data at a certain level, the minimum requirements of ACSI 33, concerning the implementation of appropriate security controls, may change to reflect the classification of the data.

2.29 The ANAO found that, while security over ALS had been previously considered by HOP and found to be appropriate in prior audit reviews²⁰, this judgement was not based upon a formal system security risk assessment or an assessment of compliance with ACSI 33.

2.30 The transfer to the DEWR operating environment provides HOP with an opportunity to undertake an appropriate security risk assessment of the ALS in defining its new or changed security requirements commensurate with DEWR's IT Security Policy.

2.31 Having such a security risk assessment would enable HOP to develop an appropriate SSP and SOPs and to assess the compliance of its loans system against Australian Government policies specified in ACSI 33.

Recommendation No.1

2.32 To ensure that HOP client information is appropriately protected in line with legislative requirements and Australian Government policies, the ANAO recommends that HOP management:

- undertakes an assessment of the impacts, to clients' privacy, associated with the inappropriate access or disclosure of information collected by HOP;
- assigns a security classification to the information held in ALS in line with the requirements of the Protective Security Manual; and
- undertakes a system security risk assessment, in the context of the classification of the data, to ensure system security risks are appropriately controlled.

²⁰ AT SIS, internal audit report, February 2004, *Information Technology Audit–Home Ownership Programme and Business Fund Loan Scheme*, p.1.

IBA response

2.33 Agreed.

2.34 IBA will undertake an assessment of the risk of inappropriate access or disclosure of information and take appropriate action to ensure that customer information is adequately protected.

Management of client information and privacy requirements

2.35 The requirement for the Australian Government to protect and manage **personal** information²¹ to ensure the privacy of individuals is specified by the *Privacy Act 1988* (Cth) and its associated Information Privacy Principles (IPPs). IPPs set out minimum standards for agencies and compliance with the IPPs is a legal obligation.

2.36 Section 14 of the Privacy Act specifies eleven IPPs that Australian Government agencies must comply with. A full set of the IPPs is at Appendix 3.

2.37 The ANAO examined HOP performance against two of the IPPs as the ANAO considered these two principles to be those most relevant to the management and protection of the personal information of HOP clients. They are IPP 2—*solicitation of personal information from individual concerned* and IPP 4—*storage and security of personal information*.

IPP 2—Solicitation of personal information from individual concerned

2.38 Information Privacy Principle 2 requires that individuals are informed as soon as practicable about the purpose and authority for the collection of information, and any parties to which the information will be disclosed.

2.39 The Office of the Federal Privacy Commissioner (OFPC) publishes IPP guidelines which advise that IPP 2 obligations are met through the inclusion of an IPP 2 statement on all forms used to collect personal information such as: 'The agency should provide the IPP 2 details as early as possible for each request for personal information it makes.'²²

2.40 The ANAO found that HOP's Housing Loans Application form included a detailed IPP 2 statement—requiring express consent to be provided by applicants—for collecting, using and sharing information for the purpose of credit checking.

2.41 However, this application form is only used after the applicant has been invited to apply for a loan. Prior to this stage of the application process,

²¹ The Privacy Act only covers personal information.

²² OFPC, *Guidelines to Information Privacy Principles 1-11*, Guideline 2.

applicants have provided substantial personal information by filling out Confirmation of Cultural Descent and a Request for Placement on the Housing Loans Application Waiting List forms.

2.42 To fully comply with the privacy guidelines, *all* forms collecting personal information need to include IPP 2 statements and as early in the collection process as possible, including the Confirmation of Cultural Descent and Request for Placement on Housing Loans Application Waiting List forms.

IPP 4—Storage and security of personal information

2.43 Information Privacy Principle 4 requires that personal information is reasonably protected against loss, unauthorised access, use, modification or disclosure.²³ IPP4 refers to the physical security of information held. This includes paper records in filing cabinets, safes and compactuses and personal information, which is electronically stored. It also refers to security over communications.²⁴

2.44 In 1999, ATSIC sought and received a determination from the OFPC, specifying ATSIC and consequently HOP as a credit provider for the purposes of the Privacy Act. Credit provider status allows HOP to request credit reports and investigate matters that may appear on credit reports—for example, applications for credit and defaults where they arise—and secondly, as a responsible lender, to report borrower defaults where they occur.

2.45 Internal ATSIC/ATSIIS directives had been sent to regional offices from 1999 onwards to further ensure that requirements concerning the privacy of personal information with respect to storage and security were being met. These directives addressed the physical security over customer information, HOP work areas and client interview facilities.

2.46 The ANAO conducted fieldwork before 1 July 2004 when Housing Loans Units, located within the regional ATSIIS offices, were still operational.²⁵

2.47 The ANAO found that the offices it visited prior to 1 July 2004 had taken steps to provide for appropriate security and privacy over work areas, including provision of private meeting rooms for discussions with applicants and arrangements for HOP's work area to be segregated and secured from the remainder of the regional office.

2.48 In July 2004, the CEO of ATSIIS communicated with the Group Manager responsible for the Indigenous Coordination Centres (ICCs)—Office of

²³ The core requirements in appropriately providing for IPP 4 are the existence of appropriate security controls over the storage and security of personal information.

²⁴ OFPC, *op cit*, Guideline 4.

²⁵ As noted previously, on 1 July 2004 the government put in place new arrangements—Indigenous Coordination Centres—for the delivery of Indigenous specific services, including HOP.

Indigenous Policy Coordination—concerning arrangements for the on-going operation of HOP within the ICC structure. This communication referred to ATSIC's status as a recognised credit provider under the Privacy Act and reinforced the requirement that information concerning HOP clients was to be kept secure and restricted to authorised ATSI staff only.²⁶

2.49 The ANAO considers it would be advisable for HOP management to develop, in conjunction with the new Indigenous Coordination Centres, appropriate arrangements—such as segregated work areas, the physical security of paper files and the provision of facilities for confidential client phone calls—to ensure compliance with Privacy Act requirements and review adherence with IPP4 on a regular basis in its regional Housing Loans Units.

Recommendation No.2

2.50 To ensure compliance with Privacy Act requirements, the ANAO recommends that HOP management:

- includes detailed statements on *all* forms collecting personal information by potential or actual applicants about the purpose and authority for the collection of the information; and
- establishes with the Indigenous Coordination Centres, where Housing Loans Units operate, appropriate arrangements for the storage and security of HOP client information.

IBA response

2.51 Agreed.

2.52 IBA will incorporate purpose and authority statements on all forms which collect customer specific information. IBA will formally write to the Office of Indigenous Policy Coordination to reiterate the programme's requirements in relation to the Privacy Act and the need for programme staff to have appropriate facilities for the collection and storage of customer information.

Records management

2.53 The *Archives Act 1983* and associated legislation require agencies to retain accurate records of all business transactions and decisions made. Such records provide evidence of accountability and transparency in

²⁶ The report of a compliance field visit, conducted in September 2004, to a regional Housing Loans Unit by the ATSI National Office, revealed that HOP staff had been moved from a discrete work area into an open area; HOP files were contained in a compactus which had been moved to an area open to all staff; and that the new work area was not suitable for making confidential phone calls with HOP clients.

decision-making. The National Archives of Australia (NAA), through the ePermanence suite of standards, provides specific policy advice for sound Australian Government recordkeeping. The ePermanence suite reflects the requirements of the Australian Standard for Records Management–AS ISO 15489 (2002).²⁷

2.54 Current HOP processes require that once a new application has been entered in the ALS, Housing Loans officers are required to open a paper file in TRIM.²⁸ The ANAO found that there was considerable variation in compliance with this requirement across the Housing Loans Units visited. Files were opened at different stages in the process and, in at least one Housing Loans Unit, key documents were placed on unofficial files. There were also differences in what was actually placed on file. In some instances, everything in relation to the application was filed, while in others only minimal records were retained.

2.55 This indicates that there is limited definition of HOP's recordkeeping requirements and existing procedural guidance does not provide sufficient advice to Housing Loans officers for the creation and management of HOP records.²⁹ Recordkeeping policies that do exist are not uniformly applied in the Housing Loans Units.

2.56 The lack of a consistent process in the management of electronic and paper records concerned with business transactions across HOP's regional network compromises the accountability and transparency of HOP decision-making processes.

2.57 The ANAO considers it advisable that HOP management identifies HOP's specific recordkeeping requirements and establishes a process to ensure these records are created and managed in accordance with AS ISO 15489 and the ePermanence suite of standards.

2.58 The ANAO is aware that HOP management proposes to redevelop HOP's Funding Procedures manual. This provides an opportunity to document recordkeeping requirements and to educate and train users. HOP recordkeeping requirements could be incorporated into process and decision-making flow charts in the revised procedures manual. At each check or decision point the required records to be retained could also be specified.

²⁷ AS ISO 15489 and guidance provided by the NAA, through the Designing and Implementing Recordkeeping Systems (DIRKS) methodology, outline a number of key components to be addressed when establishing an appropriate recordkeeping framework. The ANAO has summarised these key records management components at Appendix 4.

²⁸ TRIM is the records management system employed by HOP to record details of physical files created.

²⁹ The ANAO notes that the draft HOP Funding Procedures manual, currently in use at some Housing Loans Units and the ALS operating guide specifically state the requirement to create formal records from the Request for Placement assessment phase, and makes reference to AS ISO 15489.

Recordkeeping systems

2.59 HOP records consist of electronic data stored in ALS; supporting paper records managed by TRIM; and legal documents housed in a secure deeds room formerly managed by ATSI's commercial law section. The deeds room uses a legal document management system called Concerro.

2.60 The ALS and TRIM systems use a unique record number for each loan application that is consistent between the systems.³⁰ However, this unique record identifier is not used in the legal document management system.

Deeds management

2.61 Standard banking practice is that all legal documents associated with housing loans—secured by a registered first or second mortgage—are held until the mortgage is discharged.

2.62 ATSI's deeds management guidelines required that, at a minimum, three key legal documents be kept secured. These are:

- the certificate of title;
- the mortgage; and
- the loan agreement.

2.63 The combined ATSI/ATSI's/HOP deeds room uses Concerro to record and track packets. The 'packet' is the physical container housing all legal loan documents relating to a specific loan.

2.64 In 2004, an internal audit of the approximate 3 500 HOP deed packets was undertaken. Using the results of the audit, the ANAO was able to ascertain that:

- just under one per cent of the total number of HOP packets were missing;
- around 15 per cent of the packets did not contain the required minimum three documents; and
- borrowers' names were frequently inverted or part of the name was missing.

2.65 Because the unique record identifier used in ALS and TRIM is not recorded on HOP deed packets, the only way to reconcile the contents of the

³⁰ ALS assigns a loan application number. This is used to identify all information with respect to the application between the Quote and Tracking System (QATS) and the Loans Administration System (LAS). When a paper file is established for physical documents, the ALS assigned application number is used as the uniquely identifiable record number in TRIM providing for consistency between the two systems.

packets held in Concero to ALS or TRIM is through the names of the borrower. However, often the borrower's name recorded in ALS or TRIM differs from that on the signed legal documents that are in Concero.

2.66 HOP runs at around ten new loans and ten discharges per week. There have been a small number of instances where loans have been discharged and the deeds room in AT SIS was not able to provide the legal documents required for the loan discharge.

2.67 While copies of these missing documents can be sourced from other parties at a cost, these practices reduce the efficiency of HOP in its dealings both with borrowers and other lending institutions.

2.68 The unique record number in ALS and TRIM could be used in the legal document management system to enable searches to be readily conducted and reconciliations made between the records retained in ALS and TRIM and the legal document management system.

2.69 With its transition to Indigenous Business Australia, the ANAO considers there would be value in HOP maintaining a secure deeds room for its home loans legal documents.

Recommendation No.3

2.70 To ensure compliance with Archive Act requirements and conformity with Australian and international record-keeping standards, the ANAO recommends that HOP management:

- establishes a process and provides training for Housing Loans officers in the appropriate creation and management of electronic and papers records of business transactions concerned with housing loans;
- maintains home loan legal documents in a secure deeds room; and
- establishes an arrangement appropriate to HOP for systematically recording documents held electronically, in its paper files and in its legal document management system.

IBA response

2.71 Agreed.

2.72 IBA has assumed responsibility over accessing and dealing with loan securities following the transfer of programme responsibilities in March 2005. IBA is currently reviewing its requirements for the ongoing management of security documents, which may involve the establishment of new storage facilities.

HOP's approach to procurement

2.73 Following the passage of the ATSIC Amendment Bill on 16 March 2005, the Housing Fund was transferred to Indigenous Business Australia (IBA). IBA is a *Commonwealth Authorities and Companies Act 1997* (CAC) agency. HOP's previous responsible agency—ATSIC—was also a CAC agency.

2.74 Until recently, the Australian Government Procurement Guidelines did not apply to CAC agencies. From 1 January 2005, the *Finance Minister's (CAC Act Procurement) Directions* (the Directions) apply to specified agencies subject to the Commonwealth Authorities and Companies Act. Under these directions, it is mandatory for specified CAC agencies to apply the Procurement Policy Framework set out in the Commonwealth Procurement Guidelines (CPGs).

2.75 In a procurement process the principle of *value for money* requires a comparative analysis of *all* relevant cost and benefits of each proposal throughout the procurement cycle.³¹ *Value for money* is enhanced in Government procurement by:

- *encouraging competition* by ensuring non-discrimination in procurement and using competitive procurement processes;
- promoting the use of resources in an *efficient, effective and ethical* manner; and
- making decisions in an *accountable and transparent* manner.³²

2.76 The Commonwealth Procurement Guidelines do not apply to HOP's procurement arrangements because it is not a specified agency under the CAC regulations. However, the CPGs provide a useful framework in which to consider the process of procurement.

2.77 In this section, HOP arrangements for the purchase of banking and legal services are examined.

Banking arrangements

2.78 Since its inception in 1990, ATSIC (including the Housing Fund) has had a banking arrangement with a single institutional banker. This arrangement was transferred from the Aboriginal Development Corporation, which preceded the formation of ATSIC. The bank undertook three separate financial functions for ATSIC, namely the provision of investment advice—which was a responsibility shared with an investment adviser; the purchase and sale of securities and the provision of cash accounts; and

³¹ Department of Finance and Administration, op cit, p.10.

³² Department of Finance and Administration, op cit, p.17.

custodial services for securities. No competitive tender was conducted for these banking services.

2.79 These banking arrangements included a provision that allows for either party to seek a review of the financial arrangement. Up until 1997, banking fees—transactional and service charges—were offset against interest earned by the Housing Fund. In 1997, at the request of the bank, a review of banking fees took place. This resulted in a move away from the previous arrangement and focused on the introduction of direct debiting facilities, with fees attached.

2.80 The move to direct debit facilities had potentially significant benefits for the Housing Fund by reducing transactional costs. There was general agreement that direct debiting facilities would be introduced in conjunction with the new loans system (the ALS) in 1999 and that Housing Loans officers would encourage its use, particularly for new or renegotiated loans.

2.81 ATSIC did not implement direct debiting at this time owing to required system modifications and software vendor availability. Direct debits were able to implemented from June 2002.

2.82 The ANAO notes the 1997 agreement between the bank and ATSIC aimed to introduce direct debit facilities and also notes that the then Manager of ATSIC Financial Administration recommended that the arrangement be market tested within two years of implementation.³³

2.83 The ANAO found no evidence that this market testing occurred.³⁴ While not formally applicable, the CPGs provide a useful framework in which to consider HOP's purchase of banking services.

Legal services

2.84 Prompt, effective legal services are an important support to institutions engaged in lending. This is especially so for HOP which operates across the eight legal jurisdictions in Australia. This means that there are variations in legal requirements for home lending, which may impact on the price of legal services.

2.85 The Home Ownership Programme has outsourced the provision of its legal services. The ANAO queried whether HOP had examined the cost-effectiveness of this arrangement as well as the standard to which the legal services were provided.

³³ Internal ATSIC minute to Assistant General Manager–Finance, August 1997.

³⁴ ATSI officials confirmed at a Senate Legal and Constitutional Committee hearing on 18 February 2005 that they were not aware of any competitive tender process being conducted concerning transactional banking services for ATSIC.

2.86 Historically one legal service provider has provided legal services to HOP in respect to conveyancing, recoveries and other issues associated with housing loans. These services are provided through the legal service provider's offices in the State and Territory capital cities on instructions provided by regional Housing Loans Units.

2.87 In 2002, the HOP Manager proposed that ATSIC seek tenders from a range of legal service providers with a view to reducing HOP legal costs.³⁵ The ANAO notes that ATSIC was aware that it was paying higher than market rates to its current legal service provider for legal services. HOP management and the regional Housing Loans Units were also aware of variations in the standard of legal services provided. Despite this, ATSIC did not proceed to tender for HOP legal services. The ANAO found no evidence that HOP's current legal services were market tested to ensure value for money.

2.88 The ANAO concluded that, while the CPGs are not formally applicable, they provide a useful framework in which to consider HOP's purchase of legal services.

Recommendation No.4

2.89 The ANAO recommends that, as part of the move to new administrative arrangements and to ensure 'value for money', consideration is given to market testing HOP's externally provided banking arrangements and legal services.

IBA response

2.90 Agreed.

2.91 IBA will consider the cost effectiveness of its banking and legal service arrangements in the broader context of its business operations.

³⁵ Minute from the Executive Programme Officer, Housing Loans, ATSIC, 22 July 2002, to the National Programme Manager in the National Housing and Infrastructure Centre.

3. Compliance with HOP Policy and Procedures

This chapter examines HOP's planning framework, including its approach to risk management. It also assesses the consistency of decision-making across the regional Housing Loans Units and the treatment of key operational risks identified by the ANAO.

Introduction

3.1 A sound-planning framework is a critical feature of good governance as it supports the efficient and effective implementation of government policy and programme objectives.

3.2 A planning framework includes the conduct of a business risk assessment informing the development of business plans. Business plans typically include the provision of information designed to assess programme performance. As well as overall HOP planning, the ANAO examined HOP's approach to fraud control.

3.3 Consistent and equitable decision-making is an important governance requirement for a national programme such as HOP. Sound decision-making requires sound administrative guidance for decision-makers enabling the achievement of HOP policy objectives.

3.4 The Australian Public Service values also require that decision-makers can demonstrate that their decisions are 'fair and reasonable' in the circumstances, that the powers they exercise are properly authorised and used appropriately, that procedural fairness has been observed and that they are able to provide reasons to explain and justify their decisions, ensuring fairness, transparency, consistency and accountability.³⁶

3.5 For these reasons, the ANAO tested the consistency of HOP decision-making across its regional Housing Loans Units and the extent to which key operational risks identified by the ANAO were treated in HOP policy and procedural guidelines.

HOP planning

3.6 Planning is an activity essential to the achievement of government policy and programme objectives. HOP plans, nationally and within its regional Housing Loans Units, should be based on an assessment of the risks

³⁶ Australian Public Service Commissioner, August 2002, *APS Values and Code of Conduct in practice*, p. 2.

current to the programme and relate directly to the relevant outcomes and outputs³⁷ contained within Immigration and Multicultural and Indigenous Affairs (IMIA's) Portfolio Budget Statements (PBS). This is discussed in more detail in Chapter 6.

3.7 The *Home Ownership Programme Policy 2000–03* sets the objectives, strategies and performance measures for the programme. It also determines the eligibility criteria and conditions for each of the loan products, the points system which guides the priority accorded to eligible applicants and associated matters concerned with the responsibilities of borrowers.

3.8 To implement this policy and its objectives, HOP has developed and promulgated the *Home Ownership Programme Business Plan 2002–04*. This plan was developed while HOP operated within the ATSIC environment with programme delivery through the ATSIC network and regional office structure. Overall, the Housing Loans Section in National Office provided budget management and policy support. However, the HOP Manager did not have direct management control of network and regional office Housing Loans officers.

3.9 The ANAO notes the development of new planning structures in 2004. These planning arrangements are designed to take the programme through the transitional stage and provide it with a sound basis for future programme lending activity.

3.10 The Housing Loans Section in National Office and the regional Housing Loans Units have jointly commenced the development of a Two Year Strategic Plan covering 2005–07.

3.11 The Housing Loans Section is developing template Business Plans for each of the regional Housing Loans Units. The Housing Loans Section proposes to pre-populate the template for each individual Unit with lending and loan information drawn from the ATSIC Loans System (ALS). The template allows for additional input from the regional Housing Loans Units such as forward projections and targets for the second half of this financial year.

3.12 The Housing Loans Section consolidates this local information to provide an overall picture of the level of demand for housing loans, expected levels of approvals and the arrears and loss recovery situation.

³⁷ IMIA's Outcome 4 is 'the economic, social and cultural empowerment of Aboriginal and Torres Strait Islander peoples in order that they may freely exercise their rights equitably with other Australians.' Output 4.3 is Home Loans.

3.13 Business goals for the Plan are to:

1. provide appropriate and effective personnel and resources to deliver the Programme;
2. target HOP to eligible clients;
3. achieve measured and responsible origination and approval of home loans;
4. provide effective and efficient portfolio management; and
5. maintain effective relationships with stakeholders.

3.14 The Housing Loans Section seeks to establish, through this two-way planning process, a profile of potential and expected demand and approvals for housing loans across various target categories.

3.15 In particular, the planning process would gather the following information from regional Housing Loans Units to better align levels of demand and need with planned expenditure: waiting list profiles, levels of new inquiries, loans management plans (pre-salvage), arrears management intentions, loss recovery targets, identify high risk arrears, target other loans initiatives and estimate funds required. The Business Plan has the potential to assist HOP to achieve government and programme objectives and the two-way process will enable a realistic assessment of demand for HOP products and contribute to the effective allocation of the HOP budget across the regional Housing Loans Units.

3.16 To further support the planning process, the ANAO considers that increased attention to internal risks will improve the management of HOP programme activity.

Risk management

3.17 The effective management of risk is an important governance tool. Risk assessment identifies, assesses and treats risks, which may prevent the achievement of objectives or limit the capacity of an agency or programme to achieve them to the required standard.

3.18 The HOP Business Plan 2002–04 contains a strategy matrix designed to achieve HOP stated goals. The matrix includes a number of perceived risks to the programme and puts forward strategies to mitigate these risks. The ANAO found this approach to be limited to the risk factors that were largely external to the programme, for example funding levels to meet demand.

3.19 A comprehensive and systematic approach to risk assessment and management includes attention to risks at different levels within the programme plan. These include the identification of risks at the strategic level and those internal to the programme, which principally arise at the operational

level. For example, the risks associated with operating a programme at 13 regional sites and ensuring consistency of decision-making and equitable application to clients.

3.20 Typically business plans need to address this level of risk so that they do not inhibit effective programme operation. This is especially with regard to the policies and procedures that underpin the achievement of the business plan's objectives. HOP policy and procedures guidelines are considered latter in this chapter.

3.21 Up to July 2004, the planning processes of the regional Housing Loans Units were incorporated in the ATSIC/ATSIS planning framework. Subsequently, the HOP manager in National Office assumed administrative responsibility for regional Housing Loans officers. This provided an opportunity for an integrated planning process, which can identify and address programme risks.

3.22 The ANAO suggests that HOP management conduct a risk assessment in conjunction with its line areas to identify the critical internal risk factors, for example fraud control, to better inform its planning process. HOP's management of fraud is assessed at paragraph 3.104.

Consistency of HOP decision-making

3.23 Table 3.1 illustrates the stages in applying for a housing loan with HOP.

Table 3.1

Housing Loan application and settlement process

Stages	HOP process
Stage 1	Request for Placement (RFP) on the Housing Loans Application List—commonly referred to as the waiting list.
Stage 2	Invitation to apply for a housing loan.
Stage 3	Formal assessment, approval and settlement of the housing loan.

Source: HOP.

3.24 HOP policy has 14 standard eligibility criteria that HOP applicants have to meet to obtain a standard housing loan. These are set out at Table 3.2.

3.25 The ANAO first examined whether the relevant eligibility criteria that are in place for the RFP process were met and that this led to the applicant being placed on the waiting list.

3.26 Secondly, the ANAO examined the process to invite applicants from the waiting list to apply for a housing loan. A further consideration was whether the applicants were consistently and accurately assessed against the

relevant standard eligibility criteria set out in HOP policy. These criteria are based on commercial lending principles and designed to ensure that the borrower is able to meet the costs of home ownership, while maintaining a reasonable standard of living.

3.27 Finally, the ANAO examined HOP processes in the formal assessment, approval and settlement stage of the loan application.

3.28 The ANAO analysed the key risks in the application and approval process in the following three areas:

- the initial HOP application process;
- the HOP loan invitation process; and
- the formal assessment, approval and settlement process.

3.29 In undertaking this analysis, the ANAO considered how these risks were addressed within HOP policy, the HOP Funding Procedures manual and associated decision-making guidance documents.

Table 3.2

HOP standard eligibility criteria

HOP standard eligibility criteria
Applicants must: Criterion A: provide a fully completed Statutory Declaration attesting to the applicant's Aboriginality together with satisfactory written confirmation of the applicant's Aboriginality from a recognised Aboriginal or Torres Strait Islander organisation.
Criterion B: be able to produce satisfactory evidence that the current gross weekly income of the main income earner combined with 50 per cent of the gross weekly income of the spouse is within the range of 50 per cent to 150 per cent of the current ATSIC Income Amount(AIA).
Criterion C: have a stable work record. The main income earner must be able to demonstrate a stable work record for the twelve months preceding the application (but not necessarily with the same employer).
Criterion D: be able to contribute a minimum equity/deposit of \$3 000 or 5 per cent of the cost of the home, whichever is the lesser. Where the annual family income is not more than \$30 000, a reduced equity/deposit requirement of \$1 500 or 5 per cent of the cost of the home whichever is the lesser may apply. This includes, where necessary, accessing the First Home Owners Grant (FHOG).
Criterion E: be able to meet all legal and incidental costs associated with the purchase or construction of the home, eg. valuations, stamp duty, etc.
Criterion F: have the capacity to meet ATSIC loan repayments.
Criterion G: demonstrate the ability to complete at least half of the loan term before the age of 65 years.

HOP standard eligibility criteria
Criterion H: not have repayments for consumer debt which, combined with the proposed housing loan payments, exceed 35 per cent of gross monthly income.
Criterion I: have a demonstrated satisfactory tenancy record, if renting a home.
Criterion J: have access to other housing loan monies if the applicant(s) is required to obtain part of the loan monies from another lending institution.
Criterion K: provide ATSIC with a satisfactory up to date Credit Advantage Limited report.
Criterion L: be buying a standard home in accordance with the Commission's area purchase price limits.
Criterion M: not already own, or be paying off, a rental or investment property.
Criterion N: reside in the property that is the security for the relevant loan product upon advancement of loan funds excluding land loans.

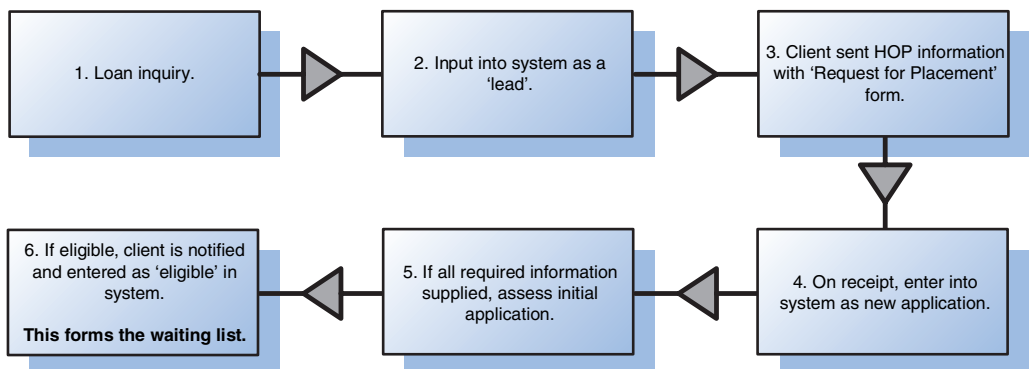
Source: Home Ownership Programme Policy 2000–03.

Request for Placement on the Housing Loans Application List

3.30 The Request for Placement (RFP) on the Housing Loans Application List is described in Figure 3.1.

Figure 3.1

Request for Placement



Source: ANAO, based on HOP funding procedures.

3.31 Risk factors identified by the ANAO and considered in the initial application process include:

- the confirmation of cultural descent;
- the tests undertaken as part of the Request for Placement process; and
- the points system used to determine where an eligible applicant is placed on the waiting list.

Confirmation of Cultural Descent Form

3.32 The basic premise of the establishment of the Housing Fund was to provide housing loans to further the social, economic and cultural development of Indigenous Australians. Consequently, only Indigenous Australians can apply to HOP for a housing loan. To ensure that only people entitled to apply for a Housing Fund loan can do so, the ANAO considered the effectiveness of HOP procedural guidance to decision-makers concerning the initial standard eligibility criterion—**Criterion A**.

3.33 **Criterion A** requires applicants to complete the Confirmation of Cultural Descent Form. In order to assess whether the applicant has met this criterion, the Confirmation Form requires the applicant, by way of a statutory declaration, to state that s/he is of Aboriginal or Torres Strait Islander descent. The application also requires the applicant to state that s/he identifies as an Aboriginal or Torres Strait Islander person and that s/he is recognised by her or his community as a person who is of Aboriginal or Torres Strait Islander descent.³⁸

3.34 There are two appropriate types of organisations that can provide this confirmation. They are:

- an Aboriginal or Torres Strait Islander association incorporated under Part IV of the *Aboriginal Councils and Associations Act 1976*. The Office of the Registrar of Aboriginal Corporations (ORAC) supports and regulates corporations controlled by Indigenous Australians. There are around 2 680 such corporations across Australia;³⁹ or
- an incorporated community organisation where all members of the governing body are Aboriginal persons or Torres Strait Islanders.

3.35 For both ORAC registered organisations and incorporated community organisations, confirmation must be approved by a resolution at a formal

³⁸ ATSIC, July 2002, *Confirmation of Cultural Descent Form*, p. 1.

³⁹ Office of the Registrar of Aboriginal Corporations, *Yearbook 2002–03*, p. 13.

meeting of the organisation's governing body and the record sealed with the Common Seal of the organisation and signed by the authorised signatories.⁴⁰

3.36 An ANAO review of a selection of manual files found that, in all cases, the confirmation forms were included. However, in some cases, there was a common seal affixed which did not make any reference to an Aboriginal corporation. The ANAO found no evidence that ORAC or the incorporated community organisation was consulted in circumstances where a Housing Loans officer was not familiar with the organisation or its common seal and needed further information.

3.37 It would be advisable that, as a component of its business improvement and forward direction initiatives, that HOP management develops appropriate procedures in circumstances where Housing Loans officers do not know the organisation.

Request for Placement eligibility criteria

3.38 In addition to confirmation of cultural descent, HOP policy requires that housing loan applicants meet three of the standard eligibility criterion in order to secure a place on the housing loans application waiting list. These are **Criteria B, D and E**.

3.39 HOP has developed a standard Request for Placement (RFP) form to assist decision-makers. The RFP form includes a list of criteria that HOP applicants must meet. These include criteria additional to those required for placement on the waiting list.

3.40 Table 3.3 sets out:

- the standard eligibility criteria used on the RFP form;
- HOP waiting list criteria; and
- the tests HOP applies at this initial stage.

⁴⁰ ATSIC, July 2002, op cit, p. 2.

Table 3.3

Initial HOP eligibility tests

HOP standard eligibility criteria	HOP waiting list criteria	RFP form requirement	RFP tests
Criterion B: be able to produce satisfactory evidence that the current gross weekly income of the main income earner combined with 50 per cent of the gross weekly income of the spouse is within the range of 50 per cent to 150 per cent of the current ATSIC Income Amount (AIA).	✓	Proof of income.	Salary slips, Centrelink payments.
Criterion C: have a stable work record. The main income earner must be able to demonstrate a stable work record for the twelve months preceding the application (but not necessarily with the same employer).		Evidence of employment for the last 12 months.	Letter from employer or Group Certificate.
Criterion D: be able to contribute a minimum equity/deposit of \$3 000 or 5 per cent of the cost of the home, whichever is the lesser. Where the annual family income is not more than \$30 000, a reduced equity/deposit requirement of \$1 500 or 5 per cent of the cost of the home whichever is the lesser may apply.	✓	Details of savings.	Recent bank statements.
Criterion E: be able to meet all legal and incidental costs associated with the purchase or construction of the home, eg. valuations, stamp duty, etc.	✓	Details of savings.	Recent bank statements.
Criterion I: have a demonstrated satisfactory tenancy record, if renting a home.		Evidence of a satisfactory tenancy record if currently renting.	Letter from landlord or real estate agent.

Note: ✓ means that the RFP form addresses the HOP waiting list eligibility criteria.

Source: ANAO, based on HOP information.

ANAO analysis of HOP decision-making in relation to criteria B, C, D, E and I

3.41 In relation to the evidence to satisfy waiting list eligibility **Criterion B: Satisfactory evidence of income**, the RFP requires salary slips and/or Centrelink payments. The current RFP form does not stipulate over what period evidence of income is required.

3.42 The ANAO considers that the loan applicant's salary slips are appropriate to meet *satisfactory evidence of income*. However, more guidance

could be provided to decision-makers concerning an adequate time frame for evidence of income.

3.43 Where Centrelink family benefit payments are used as evidence of income, the ANAO found that treatment of this evidence varied widely among regional Housing Loans Units. In some instances, family benefits were not included as income for assessment purposes, while in others 50 per cent of the benefit was included and yet in other situations 100 per cent was included.

3.44 The diverse and inconsistent treatment of family benefits as income by Housing Loans officers when assessing loan applications can lead to inequitable outcomes for Indigenous clients.

3.45 To ensure the equitable treatment of HOP clients on a national basis in the initial HOP application round, it would be appropriate for the Housing Loans Section in National Office to develop and promulgate advice on assessing Centrelink family benefit payments as income and monitor its application.

3.46 In relation to the evidence to satisfy waiting list eligibility **Criterion D: *Ability to contribute a minimum equity/deposit*** and **Criterion E: *Ability to provide the deposit or equity and to pay legal and stamp duty costs***, the RFP requires the production of recent bank statements.

3.47 The ANAO considers that recent bank statements are a sufficient test to meet these criteria.

3.48 In relation to standard eligibility **Criterion C: *Evidence of employment for the last 12 months***, and **Criterion I: *Evidence of a satisfactory tenancy record***, the ANAO notes that meeting these criteria is not required to secure a place on the waiting list. However, evidence tests in the Request for Placement form require either a letter from an employer or a copy of a Group Certificate to meet **Criterion C**; and either a letter from a landlord or real estate agent to meet **Criterion I**.

3.49 An ANAO review of a sample of files found that a copy of a Group Certificate and a letter from a real estate agent were the most commonly used forms of evidence to satisfy these criteria.

3.50 The ANAO considers that a record of stability in employment is a good indicator that a proposed client would be able to manage the requirements of a home loan. Similarly, a satisfactory tenancy record, especially concerning regular rental payments, is a good indicator that a proposed client would be able to manage the regular repayment requirements of a home loan.

3.51 It would be a useful guide for decision-makers if HOP management decided what constitutes the most suitable form of evidence and the most

appropriate point in the decision-making process to obtain these forms of evidence to satisfy standard eligibility **Criteria C and I**.

The ‘points system’ and placement on the waiting list

3.52 Applicants placed on the Housing Loans waiting list are not necessarily treated in a sequential order.

3.53 HOP policy is:

An invitation to apply for a loan is generally made according to a ‘points system’. Those potential applicants with a greater number of points will normally have priority for an invitation.⁴¹

3.54 Question 4 of the RFP form asks for: *The names/details of the people who will live with you*, including ages and Aboriginal/Torres Strait Islander descent. Responses to Question 4 directly affect the points that applicants receive, as each person of Aboriginal or Torres Strait Islander descent to be housed receives one point.

3.55 The points score is set out at Table 3.4. The ANAO considered the operation of the ‘points system’ from the perspective of evidence to support dependency and overall conformity with HOP policy.

Table 3.4

The Points System

Criterion	Score
For each Aboriginal or Torres Strait Islander person in the family: includes husband, wife or de facto spouse and dependent children. This does not include extended family members.	1 point
Applicants renting a house from an Aboriginal or Torres Strait Islander Organisation; or under the Aboriginal Rental Housing Programme financed through the Commonwealth/State Housing Agreement.	1 point
Families paying more than 35 per cent of their adjusted gross income (to include all taxable income, and rent from boarders) in house payments. A Real Estate Agent’s rent receipts must verify rent paid for 12 months.	1 point
Applicants who meet the standard deposit/equity requirements excluding FHOG.	1 point
Applicants who meet the standard deposit/equity requirement plus have an additional deposit amount of \$3 000 or more excluding FHOG.	1 point

Source: Home Ownership Programme Policy 2000–03.

⁴¹ ATSIC, 2000, *Home Ownership Programme Policy 2000–03*, p. B15.

3.56 In the RFP form satisfactory evidence to validate responses to Question 4 include copies of birth certificates and/or a photocopy of a Medicare card listing dependents.

3.57 Concerning responses to Question 4 in the RFP, HOP policy clearly states that points are restricted to immediate family members and not extended family members.

3.58 The purpose of a Medicare card is to determine eligibility to a range of benefits under the Medicare system and not to establish dependency.

3.59 To enrol in Medicare, the Health Insurance Commission requires original or certified copies of documents such as a birth certificate or passport to prove eligibility. However, people can choose to be on separate Medicare cards or be included with other people at the same address.⁴² Being on a Medicare card does not automatically carry with it proof of dependency, it simply records that the persons on the card live at the same address. This applies equally to members of a group household as it does to a family unit.

3.60 The ANAO reviewed a sample of HOP files and found that Medicare cards were the most commonly used form of evidence within HOP as proof of dependency.

3.61 The ANAO considers that to validate dependency it would be advisable for Housing Loans officers to seek out other sources of evidence which clearly demonstrate the relationship between the loan applicants and who is nominated on the application form as a dependent such as birth certificates or Centrelink family payment records.

Conforming with HOP policy

3.62 HOP policy states that points are to be awarded for each Aboriginal or Torres Strait Islander person in the family, including husband, wife or de facto spouse and dependent children.

3.63 The RFP form collects the information necessary to calculate the points score. Points allocated to an applicant are recorded in the Point Score tab in HOP's Quote and Application Tracking System (QATS). The ANAO considers that responses to Question 4 in the RFP which specifically requires *the listing of the names and details of the people who will live with you in the home you wish to buy* is not consistent with HOP policy as it could include non-dependent people. Points are automatically allocated by the system for the number of Aboriginal and Torres Strait Islander people to be housed.

⁴² Health Insurance Commission, 2004, Canberra, viewed 28 November 2004, <<http://www.hic.gov.au/yourhealth/forms/mf.htm>>.

3.64 Other points, which go to make up the final points score of the applicant, are calculated separately. Points are automatically allocated for the current rental situation of the applicant and are recorded in the Household Details tab. Housing Loans officers manually allocate points in relation to Equity and Deposit criterion. For the purpose of the deposit/equity criterion, the amount of funds available for deposit will be equal to the total funds the applicant has available less the estimated legal and stamp duty costs. This amount is entered manually in the Deposit Field in the Invitation Tab.

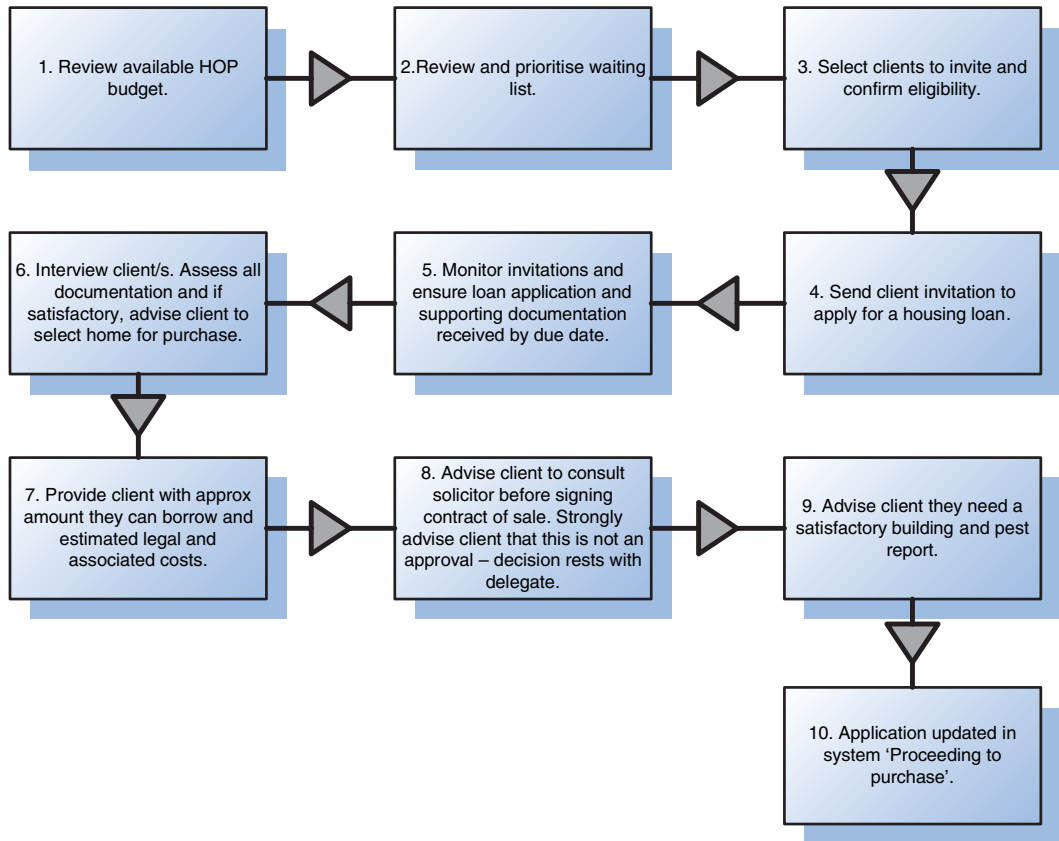
3.65 An ANAO review of a sample of files found that not all files included calculations concerning the Equity and Deposit criterion for manual entry into the loans system.

3.66 The ANAO considers that the information required in the RFP process could be better aligned with HOP policy on the 'points system', especially concerning points awarded for housing non-dependent Indigenous Australians. As a result, this could affect the order in which applicants are placed on the Housing Loans Application Waiting list. It would be advisable for HOP management to review the operation of the 'points system' and the role it plays in decision-making, especially with regard to placement on the waiting list. This would limit the risk associated with the inequitable treatment of clients.

3.67 The ANAO suggests that HOP management review and reconcile the information sought in these initial forms to ensure that all of its sources of guidance to decision-makers establish a clear 'line of sight' with HOP policy providing for equitable treatment of HOP clients in this initial stage of the process.

HOP loan invitation process

3.68 The HOP invitation process is outlined in Figure 3.2.

Figure 3.2**HOP invitation process**

Source: ANAO, based on HOP information

3.69 In this section, the ANAO considered compliance with HOP policy in the invitation process, in particular, whether applicants were consistently assessed against the relevant standard eligibility criteria. As well, the ANAO identified a number of risks to HOP in the loan invitation process and assessed HOP treatment of these risks.

3.70 The risk areas identified by the ANAO in the invitation process are:

- regional management of the waiting list;
- credit checks;
- HOP's duty of care to borrowers in the preliminary assessment phase;
- managing the risk of fraud, and
- the use of Purchasing Price Limits.

Management of the HOP Waiting List

3.71 The following table is the HOP waiting list as at 30 September 2004, by regional Housing Loans Unit.

Table 3.5

HOP Waiting List

Region	Eligible clients
Sydney	37
Coffs Harbour	78
Tamworth	23
Wagga Wagga	24
Brisbane	213
Rockhampton	54
Townsville	4
Melbourne	24
Hobart	10
Adelaide	2
Perth	8
Darwin	6
Alice Springs	1
TOTAL	484

Source: Home Ownership Programme Summary Report, 1 July 2004 to 30 June 2005.

3.72 HOP management of waiting lists involves regular contact between regional Housing Loans officers and Indigenous clients to ensure their continued interest in applying for a loan and to monitor any change in circumstances, such as increased consumer debt, which may affect their eligibility.

3.73 Effective management of the waiting lists would ensure that funds are expended in a timely manner and also that clients on the waiting list, who may have priority needs, receive consideration.

Regional management of the waiting list

3.74 Phased approval budgets are established for regional Housing Loans Units based on the projected availability of funds over the year. This in turn determines the number of applicants that can be drawn from each Housing Loans Unit's waiting list and invited to apply for a housing loan.

3.75 A key feature of managing the HOP lending budget is regional management of the waiting list and invitation process. National Office may set

priorities, from time to time, for inviting applications from clients on the waiting lists. For example, National Office may require the targeting of housing loan applicants who have been on the waiting list for 18 or more months.

3.76 Waiting lists are handled at the regional level and:

Due to limitations on funding, a priority system is needed to allow an orderly process for the issue of loan invitations. The ranking order on invitations is reviewed on a local basis from time to time to take into account funding and regional priorities.⁴³

3.77 The role of the points score as a guide to who should be invited to apply for a housing loan was considered by the ANAO earlier in this chapter. The points score is only one of a number of considerations taken into account when decisions are made concerning which applicants to invite from the local waiting list. Others include Housing Loans Units' knowledge of their client base and the particular circumstances of individual applicants.

3.78 The ANAO found that Housing Loans Units do not manage their waiting lists uniformly. Apart from the HOP policy advice referred to above, other sources of procedural guidance do not cover circumstances that warrant an applicant being given priority in the invitation process. The invitation process is largely at the discretion of the regional Senior Housing Loans Officer (SHLO).

3.79 The ANAO considers that there is scope for improvement in the level of procedural assistance provided to Housing Loans officers to assist decision-making concerning which clients to invite from the waiting list to apply for a loan. This would support transparency in the process.

3.80 This could be mitigated to a degree by ensuring that Housing Loans officers are provided with a consistent set of procedures regarding:

- circumstances that warrant priority treatment in the invitation process;
- the provision of support for clients on the list;
- the provision of advice to clients of the approximate length of time they can expect to be on the waiting list; and
- the establishment of a Quality Assurance process to review and monitor applications.

3.81 The ANAO also suggests that the Housing Loans Section in National Office monitors and reports on the waiting list and the invitation process to ensure its effective and transparent management.

⁴³ ATSI, 2000, op cit, p. B15.

Credit checks

3.82 Standard eligibility **criterion K** requires clients to provide ATSIC with a satisfactory, up-to-date credit report. As illustrated in step 4 of Figure 3.2, regional Housing Loans Units send a Housing Loans Application form to selected clients from the waiting list. This form includes a credit information authority. When signed by the client, this authorises Housing Loans officers to obtain credit information about the client relevant to their loan application.

3.83 ATSIC/ATSIS has been determined as a credit provider under the Privacy Act and, therefore, is able to utilise the services provided by credit reference agencies to check on individual credit records.

3.84 This determination potentially reduces the risk to HOP of bad debts as it allows current information, on the level of a client's financial commitments and consequently their capacity to manage home loan repayments, to be considered in the loan application process.

3.85 Section 4 of the Housing Loan application form requires the disclosure of all liabilities including car loans, credit card debt, finance company debt and other debts. The credit provider determination enables Housing Loans officers to check this level of disclosure by accessing the credit reference agency's database for the credit history of the applicant.

3.86 The ANAO found that there were regional differences in how the credit reference information was used. An ANAO review of a sample of files found that in all instances the credit reference agency's search results were placed on the applicant's paper file. However, there were variations in the degree to which the information the results contained was used to assess the level of consumer debt that was disclosed in both the RFP form and the Housing Loan Application form. At one of the Housing Loans Units visited during audit fieldwork, the ANAO found that, while the credit reference agency's results were noted in the file, there was no further documentary evidence that action had been taken concerning the results of the credit search. Whereas in another Housing Loans Unit, the ANAO found that Housing Loans officers had followed-up with clients the additional debt information that came to light as a result of the credit search with file notes to that effect.

3.87 The ANAO considers that the variable use of the information supplied by a credit reference agency across the Housing Loans Units exposes HOP to the financial risk that the utilisation of this information was originally intended to treat.

3.88 The ANAO notes that a one-day training session is mandatory for Housing Loans officers in accessing and using the credit reference agency's database. However, to complement and refresh this initial training, it would be advisable that, as part of an on-going training programme, HOP management

ensures that all Housing Loans officers are proficient in the use of and interpretation of this credit information and that HOP management conducts compliance checks in this regard on a regular basis.

The role of credit checks in the housing loan assessment process

3.89 Housing Loans officers assist applicants to receive a HOP loan, consistent with the aims and philosophy of the programme. Many applicants with poor credit histories and who would be unable to access finance from mainstream lenders are still able to apply for and receive a HOP loan.

3.90 The standard credit checks performed by Housing Loans officers often return issues with credit repayment histories that may well be considered unsatisfactory according to standard lending principles.

3.91 While the HOP Funding Procedures manual provides some guidance, decision-makers consulted during the audit highlighted a lack of standard criteria they could use to identify at which point poor results on credit checks would be considered as unsuitable for HOP. This determination is left to the discretion of loans officers.

3.92 In a number of cases, where the assessment is borderline or unclear, advice is sought from the HOP Manager. This improves the consistency of treatment across regions where consultation occurs.

3.93 The ANAO found that at one Housing Loans Unit that clients who did not satisfy the initial Request for Placement Form criteria were advised their application was unsuccessful, whereas at another Housing Loans Unit they were placed on the waiting list on the understanding that they had more work to do before they could be invited to apply for a housing loan. In circumstances such as this, standardised advice concerning what constitutes a satisfactory credit check would assist decision-makers.

3.94 When HOP management updates its Funding Procedures manual, there is an opportunity to include the provision of additional guidance to Housing Loans staff as to what constitutes a satisfactory credit check in line with HOP objectives.

HOP's duty of care to borrowers in the preliminary assessment phase

3.95 Step 6 of Figure 3.2 refers to the interview conducted between the Housing Loans officer and the client about their application and supporting documents.

3.96 HOP's duty of care to borrowers is outlined in legal advice to the HOP Manager. To meet a standard of care, HOP management is advised to, *inter alia*:

- ensure that the borrower has a capacity to meet loan repayments and understands that there are other commitments incidental to home ownership which must be managed, i.e. insurance, service facilities and local authority rates and service charges; and
- assess each borrower on an individual basis, to determine the level of understanding in that borrower as to the nature of the transaction and their ability to understand same and again, where appropriate, take action to ensure that that level of understanding is achieved.⁴⁴

3.97 Housing Loans officers are advised in the draft Funding Procedures manual to:

- ensure that all documentation as required in the loan application is supplied;
- explain the importance of disclosing all debts, obligations and financial commitments to minimise the risk of over-commitment when meeting normal living costs combined with the additional costs of home ownership;
- advise the client of home ownership assistance provided by other government sources such as the First Home Owners Grant.⁴⁵

3.98 The draft Funding Procedures manual identifies a number of requirements for inclusion in home loan expenditure. The relevant application in the HOP loans system—the Quote and Application Tracking System (QATS)—currently provides a facility to calculate expenditure through the use of a drop down list containing many common expenditure items to be considered for inclusion. These include credit cards, vehicles and so on. This enables the system to automatically calculate the monthly consumer debt repayments that the applicant needs to service.

3.99 QATS also contains the facility to identify other loan related expenditure items that were not predefined in the system. These include land and water rates and insurance coverage.

3.100 The ANAO identified that Housing Loans officers were taking these items into account in assessments. However, Housing Loans Units had varying approaches to estimating the future expense of a home loan, ranging from an approximation of local rates to contacting the local council and seeking a more definitive estimate. These expenditure items are not predefined in QATS and need to be specifically entered as ‘other’ expenditure items.

3.101 The ANAO observed lead practices such as ensuring that customers were fully acquainted with the additional costs of home ownership through

⁴⁴ The Australian Government Solicitor, November 2000, *ATSIC — Duty of Care to Borrowers*, p. 5.

⁴⁵ ATSIC, October 2003, *Home Ownership Programme Funding Procedures Manual*, (draft) p. 3.

the development of mini spreadsheets to illustrate these 'other' expenditure items and the effect on the applicant's budget.

3.102 Earlier in this chapter the ANAO noted HOP management's initiative to provide HOP with a consistent national focus. The ANAO considers that HOP management could improve on this initiative by the provision of a set of clear policies to guide HOP decision-makers by identifying:

- mandatory items to be included as expenditure for all loan applications;
- processes for estimating and assigning an amount to future expenditure, enabling a realistic assessment of the borrower's capacity to pay; and
- improving system controls to reflect the policy, such as enforcing the inclusion of mandatory expenditure items and including these items as predefined values to make entry and processing easier and more consistent for Housing Loans officers.

3.103 Overall, the ANAO considers that Housing Loans officers are meeting their duty of care requirements to HOP clients through informing them of the additional expenses involved in home ownership and assessing their capacity to meet them. However, there are HOP loan system improvements that could be made to further support Housing Loans officers in this regard, for instance by predefining mandatory expenditure items such as local council rates, water rates and insurance coverage.

Managing the risk of fraud

3.104 Commonwealth fraud control guidelines define fraud against the Australian Government as: 'dishonestly obtaining a benefit by deception or other means.'⁴⁶

3.105 Fraud against the Australian Government includes:

- fraud perpetrated by an employee against an Australian Government agency or its programmes;
- fraud perpetrated by an agency client or external individual against such an agency or its programmes; and
- fraud perpetrated by a contractor or service provider against an agency or its programmes.⁴⁷

⁴⁶ Attorney-General's Department, May 2002, *Commonwealth Fraud Control Guidelines*, p. 4.

⁴⁷ Australian National Audit Office/Attorney-General's Department-Better Practice Guide, August 2004, *Fraud Control in Australian Government Agencies*, p. 12.

3.106 Fraud control is the effective use of systems and resources to minimise deceit or other dishonest conduct against the Australian Government by members of the community, employees or external providers. The ability to detect and prevent fraud is fundamental to good corporate governance.

3.107 AT SIS management determined that the AT SIC Fraud Control Plan 2001–03 would apply to both AT SIS and AT SIC for the financial year 2003–04. This plan was based on a fraud risk assessment, conducted in 2000, which rated the risk of fraud with Housing Loans as low and consequently did not recommend any treatments to address this perceived low level of risk.⁴⁸

3.108 The ANAO notes that a fraud assessment specific to HOP has not been conducted since 2000. Commonwealth fraud control guidelines require that fraud control plans are updated every two years. Importantly, there have been substantial changes in HOP's operating environment since the 2000 assessment, which may leave HOP exposed to additional fraud risks. Better practice suggests that updated fraud risk assessments are advisable in circumstances where agencies are undergoing a significant change in structure.⁴⁹ This applies to HOP as it transits from AT SIC through AT SIS to the DEWR portfolio.

3.109 The ANAO noted that a small number of instances of alleged fraud by clients were detected in the mid 1990s. More recently, AT SIS's Fraud Investigation Unit has investigated three cases of alleged fraud—one in 2002–03 and two in 2003–04.

3.110 Each of the more recent cases referred to the Fraud Investigation Unit by regional Housing Loans Units has characteristics which, the ANAO considers, could be moderated through a tightening of the control environment in the following areas:

- ownership of a rental or investment property; and
- the First Home Owners Grant.

Ownership of a rental or investment property

3.111 Standard eligibility **Criterion M** requires that an applicant must not already own, or be paying off, a rental or investment property.

3.112 There are HOP loans system procedures in place that enable Housing Loans officers to check if a client has previously purchased a home using Housing Fund finance. Evidence of these checks was included on the files reviewed as part of the audit.

⁴⁸ Aboriginal and Torres Strait Islander Commission, 2001, *Fraud Control Plan 2001–03*, p. 16.

⁴⁹ ANAO/Attorney-General's Department–Better Practice Guide, op cit, p. 24.

3.113 Title searches can identify when additional properties are held. They are a standard feature of the conveyancing process undertaken by HOP's external legal services in the final approval stage of the loan application process. Title searches are conducted after a client has been invited to apply for a loan and an assessment has been made of the application.

3.114 In one of the recent cases of alleged fraud, the title search process resulted in the identification of several additional properties owned by the applicant for HOP funds. However, the loan had already been assessed and approved.

3.115 The ANAO considers that the title search process is an effective means of fraud detection.

3.116 The ANAO suggests that HOP management undertakes a fraud risk assessment to identify treatments appropriate to managing the risk of potential fraud arising from client non-disclosure of rental or investment property assets.

The First Home Owners Grant (FHOG)

3.117 The First Home Owners Grant (FHOG) is another area where the ANAO considers that the risk of fraud requires the attention of HOP management.

3.118 Standard Eligibility **Criterion D** requires the loan applicant to be able to contribute a minimum equity/deposit of \$3 000 or 5 per cent of the cost of the home, whichever is the lesser. Where the annual family income is not more than \$30 000, a reduced equity/deposit requirement of \$1 500 or 5 per cent of the cost of the home whichever is the lesser may apply. This includes, where necessary, accessing the First Home Owners Grant (FHOG) to meet equity/deposit requirements.

3.119 The FHOG came into effect on 1 July 2000. While the Australian Government funds the FHOG, it is administered through State and Territory Revenue Offices. Deeds of agreement have been signed between ATSIC and the State and Territory Revenue Offices enabling ATSIC and its authorised agent—ATSIS—to act as approved agents for the FHOG. This means that HOP loan applicants are able to apply for the FHOG at the same time as applying for a HOP loan. Housing Loans officers are authorised to take applications from eligible clients for the FHOG, input application data into the relevant Revenue Office database and have the FHOG funds applied at settlement.

3.120 The FHOG application has a 100 point check-list to verify the identification of the applicant. Using this verification, FHOG systems have the capacity to check for any other property owned by the applicant, which would automatically make them ineligible for the FHOG.

3.121 The ATSIC Annual Report for 2003–04 notes:

Governments' continued support of the First Home Owners Grant, while being a major boost for low-income applicants, has placed demands upon the HOP.⁵⁰

3.122 The ANAO was advised that no risk assessment was conducted concerning the introduction of the FHOG and ATSI's role as an authorised agent. In one case of alleged fraud, the ANAO was advised that the loan application was approved before the result of the FHOG application was known.

3.123 In situations where HOP borrowers use the FHOG as their sole equity in the property, it would be advisable for HOP management to develop further controls to limit potential fraud against the Housing Fund.

The use of Purchasing Price Limits

3.124 Standard eligibility **Criterion L** requires the housing loan applicant to buy a standard home in accordance with the former Commission's area purchase price limits.

3.125 HOP has developed a system of zone purchase price limits (PPLs) that are the median sale price of homes for the zone and are based on the Real Estate Institute of Australia's statistical data. PPLs are upgraded in the ALS on a quarterly basis and form a standard control over the amount of money the housing loan applicant can borrow.

3.126 When clients are advised by the Housing Loans officer to look for a suitable home to purchase, they are provided with the Purchasing Price Limit for the specific area they wish to look in.

3.127 HOP's use of PPLs goes towards ensuring the integrity of the Housing Fund as it limits the risk of homes being purchased at inflated values.

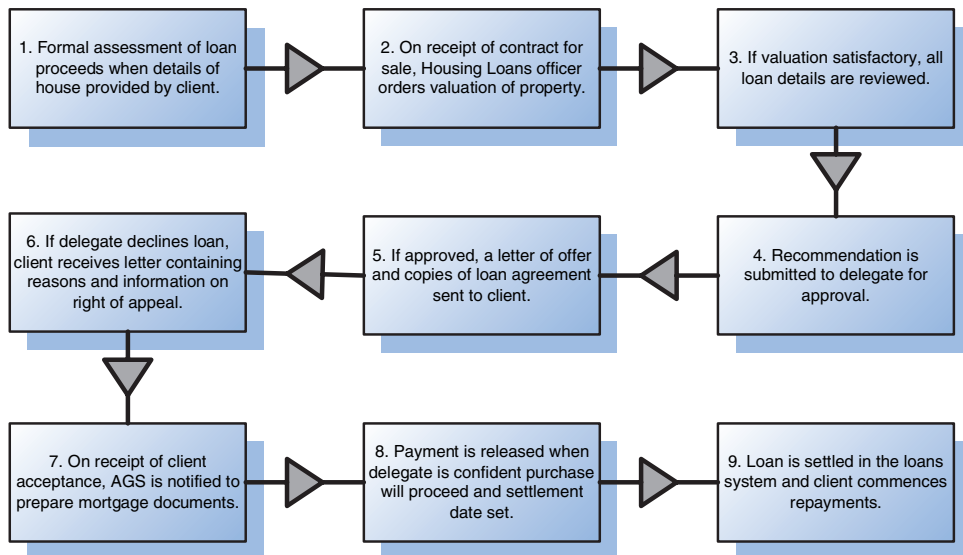
The formal assessment, approval and settlement of the loan

3.128 The final stage of the HOP loan application process involves the formal assessment, approval and settlement of the loan. This process is illustrated in Figure 3.3.

3.129 The risks identified by the ANAO and considered in this section include whether HOP decision-makers paid attention to:

⁵⁰ ATSIC, October 2004, *Annual Report 2003–04*, p. 84.

- a sufficient level of home insurance to protect both the interest of the mortgagee and the HOP client;
- an appropriate valuation of the property to be purchased;
- conformity with the standard home loan eligibility criteria set out in HOP policy; and
- the risk of ensuring that funds are available in a timely manner to enable settlement.

Figure 3.3**Formally assessing, approving and settling the loan**

Source: ANAO, based on HOP information.

Home insurance

3.130 The draft Funding Procedures manual states that once contracts are exchanged, the client is deemed to have an ‘insurable interest’ in the home. Standard HOP procedures require clients to take out a home building insurance policy effective the day contracts are exchanged.

3.131 The ANAO found that this requirement is adhered to in the regional Housing Loans Units and that once the loan is approved a copy of the insurance policy, noting ATSIC’s interest, is placed on the applicant’s file.

3.132 This risk is treated in an appropriate manner. Additional matters concerning on-going property insurance are discussed in Chapter 5—Managing individual loans.

Valuation

3.133 HOP maintains a panel of registered valuers. On receipt of the contract for sale, the Housing Loans Unit contacts a panel member and orders a valuation to be carried out providing both a market value and a replacement value appraisal.

3.134 The draft Funding Procedures manual requires that, as all loan approvals are subject to a 'satisfactory' valuation⁵¹, a copy of the valuation report must be received before the processing of the approval is completed.

3.135 The ANAO found that close attention was paid to the findings in the valuation report and any adverse findings were investigated. If found to be of significance, the client was advised to either select another home to purchase, or negotiate rectification of the deficiencies.

3.136 Any risk to the Housing Fund or HOP clients from adverse valuations is appropriately treated through HOP processes.

Conforming with the standard home loan eligibility criteria set out in HOP Policy

3.137 At the final step in the assessment process, Housing Loans officers prepare a submission to be considered by the delegate, usually the Senior Housing Loans Officer, for either the approval or decline of a loan offer.

3.138 A review of a selection of these submissions was carried out and the ANAO found that in a majority of cases not all of the 14 standard eligibility criterion, contained in HOP policy, were considered.

3.139 The ANAO recognises that HOP has been operating in a decentralised environment for some time. However, this lack of conformity with the requirements set out in the key HOP policy document is significant.

3.140 HOP's lack of adherence to policy and the lack of comprehensiveness and currency in the information sources that guide decision-making place it at risk in its endeavours to meet its future business requirements.

⁵¹

In the procedures manual a satisfactory valuation is defined in the following terms:

- the value of the home is not less than the loan amount;
- where the value is lower than the purchase price, it is not more than five per cent below the purchase price;
- there are no adverse comments on the valuation report regarding structure, long term saleability, zoning, boundaries, habitability, building authorisations, unapproved structures, site contamination, the property is adequate in that it will provide suitable accommodation for the customer's needs.

Recommendation No.5

3.141 The ANAO recommends that HOP management undertakes a systematic review of HOP funding procedures, forms and sources of decision-making guidance to better enable:

- alignment with overall HOP policy goals and objectives;
- transparent documentation of decisions and processes, and
- identification and effective treatment of fraud risks.

IBA response

3.142 Agreed.

3.143 As noted in the report, a project is currently underway to overhaul of the programme's procedures manual. ANAO's specific findings in relation to decision-making will be addressed as part of the project.

Ensuring that funds are available in a timely manner to enable settlement

3.144 HOP has no internal legal staff and purchases external legal services for settlement and debt recovery purposes.

3.145 Steps 7 and 8 in Figure 3.3 illustrate the process that is set in train when the client accepts the HOP loan offer. The Housing Loans Unit instructs the legal service provider to prepare the mortgage documents. A key feature of the settlement process involves confirming with the legal service provider the anticipated settlement date and ensuring that all requisite documentation is available for settlement.

3.146 The legal service provider then requests the funds for disbursement to be released. HOP management has instructed Housing Loans Units that funds are to be released into the legal service provider's Trust Account one week prior to settlement.⁵² This is to safeguard the interests of the client by ensuring the smooth completion of settlement.

3.147 The transfer of funds into the legal service provider's Trust Account is called 'Cash at Agents' and is a common commercial practice where lenders do not have in-house lawyers acting for them in the conveyancing process. HOP management monitors the amount of funds held in the legal service provider's Trust Account on a monthly basis.

⁵² Minute to all Housing Loans officers, April 1999, *Disbursement of Loan Funds*.

3.148 The ANAO found that at 21 September 2004—around \$3 409 000 had been in the legal service provider’s Trust Account for more than 90 days.⁵³ There is no agreement with the legal service provider as to the length of time funds remain with them before they are returned to HOP.

3.149 Whilst it is important to ensure that funds are available in a timely manner in the legal service provider’s Trust Account for settlement purposes, it is equally important to ensure that funds which are there for any substantial period of time are returned to the Housing Fund to maximise cash flow and to accrue interest for lending purposes.

3.150 The ANAO suggests that a service standard for the timely return of unexpended funds is developed. This is an area for consideration when HOP determines its future legal arrangements (see Chapter 2).

⁵³ Home Ownership Programme, 21 September 2004, *Cash At Agents* report.

4. Support for HOP Decision-makers

This chapter examines the level of support for HOP decision-makers provided by the HOP loans system. This includes the procedural guidance provided to decision-makers, system support in assessing loan applications, system controls, the use of decision-making checklists, system performance and availability and Housing Loans officer training.

Introduction

4.1 An appropriate and reliable information system is an important support mechanism for decision-making enabling consistency and transparency in process across regional decision-makers.

4.2 An overview of the ATSIC Loan System (ALS) was provided at the beginning of this report. In this chapter, the capabilities of ALS that support regional decision-making are examined. First, the ANAO examined the degree to which HOP business requirements are adequately specified and documented to ensure Housing Loans officers are able to take the correct steps in decision-making. Secondly, system support arrangements for HOP decision-makers were assessed, including issues concerned with the performance and availability of ALS.

Specification and documentation of system requirements

4.3 The ANAO reviewed system specification and documentation files concerning the selection, development and deployment of the ALS and found that substantial implementation documentation existed. This included configuration changes and enhancements provided by the supplier in order for the system configuration to better provide for HOP processing. While this demonstrates that analysis had been undertaken of business requirements with respect to processing in line with the practices outlined in HOP's 1994 Funding Procedures manual, consolidated system business requirements were not identified and documented as part of the system selection and implementation project and system controls have not been established that support all the procedural requirements of the time.

4.4 The ANAO notes that HOP management is reviewing and updating its Funding Procedures manual to reflect current practices in loans processing. The proposed revision of HOP Funding Procedures manual is an opportunity to develop an updated and consolidated set of business requirements for ALS. This will support the integrity of processing by enabling the review and improvement, where required, of existing controls in ALS.

System support for HOP decision-making

4.5 The ANAO examined the following system support arrangements for HOP decision-makers:

- HOP operating and procedural guidance;
- system support in assessing loan applications;
- system controls including the enforcement of delegations and data quality;
- decision-making checklists;
- performance and availability of ALS; and
- Housing Loans officer training.

HOP operating and procedural guidance

4.6 Flow-charted processes in HOP's Funding Procedures manual were designed to align with housing loan processing steps to be taken in ALS, including the generation of standardised forms and letters.

4.7 HOP management recognises that the existing HOP Funding Procedures manual—promulgated in September 1994—is outdated and, while still the key source for policy and procedural requirements, has been superseded in many areas by local work practices that have evolved over time and through updated policy advice provided by the HOP Manager.

4.8 In addition to the 1994 manual, a draft Funding Procedures manual was released in April 2004. This updated version is currently being used in at least one of the regional Housing Loans Units visited during the audit. Other Housing Loans Units were still using the 1994 manual with loose-leaf updates.

4.9 The ANAO found that practices differed between Housing Loans Units with respect to key decision-making steps in the lifecycle of HOP loans. Because of the close interrelationship between processes outlined in the Funding Procedures manual and steps to be taken in ALS that are not necessarily enforced or controlled by the system, the ANAO considers that there is a risk that ALS processing requirements will not be correctly followed where local practices have evolved and are being used.

4.10 HOP management has advised the ANAO that a staff member will be dedicated to finalising the draft Funding Procedures manual. This should reduce inconsistent processing across the Housing Loans Units.

4.11 The ANAO notes that the ability to better define business requirements with respect to ALS processing fully supporting business rules is dependent upon the completion of the procedural update and any changes that emerge.

System support in assessing loan applications

4.12 Procedures for assessing the suitability of the housing loan applicant require specific mandatory processing tasks to be recorded in ALS. These mandatory tasks include credit assessment items such as credit reference, rental history, employment history and property valuation and pest and building reports. Subject to a 'satisfactory' check, the application will progress to the next checkpoint, until the loan is approved or rejected.

4.13 The ANAO found that the existing Funding Procedures manual lacks specific guidance at key decision points and has contributed to the disparities between regional practices. This has the potential to impact upon the equitable treatment of applicants across regions. For example, the ANAO noted during fieldwork that in at least one Housing Loans Unit that applicants who were considered to have substantial levels of consumer debt were not successful in being placed on the Housing Loans Application Waiting List, while another Housing Loans Unit placed them on the list on the understanding that more work was required to reduce their debt level before they could proceed to the housing loan application stage.

4.14 While procedural guidance existed HOP business users consulted by the ANAO identified a lack of standard processes in ALS. This often meant that final determination was left to the discretion of Housing Loans officers.

4.15 This lack of specific guidance to decision-makers increases the risk that Indigenous clients could be treated inequitably across the Housing Loans Unit network.

4.16 The ANAO considers that more standardised processes concerning what constitutes a 'satisfactory' check in ALS would provide for greater transparency in the process.

System controls—the enforcement of delegations and data quality

4.17 The ATSIC Loans System has a number of controls to assist decision-makers involved in assessing loan application. These controls were designed to ensure that loans approved are within HOP lending guidelines that are set out in HOP policy.

4.18 Controls include checks against key parameters that influence the ability of the applicant to receive a loan and the associated loan amount, including setting maximum purchase price limits for areas where the applicant wants to purchase a property; calculating the maximum loan amount the applicant can apply for; the percentage of equity the applicant can provide and calculating the repayment amount.

Enforcement of delegations

4.19 The ATSIC Loans System checks all loan application details against predefined HOP guidelines. The system has been updated over time to reflect changes in policy and procedures. A warning message is generated when the application is outside of HOP guidelines. This enables the easy identification and review of the specific exceptions.

4.20 The delegate reviews the exceptions to identify whether they are within their allowed variance for approval.⁵⁴ If not within the allowable variance, they are forwarded to the HOP Manager for consideration.

4.21 The ANAO found that there is a very high level of awareness of delegation limits⁵⁵ and the associated requirements for decision-making outside of guidelines. This was reinforced by a Quote and Application Tracking System (QATS) upgrade in 2002 requiring delegate approval of the processing of applications outside of delegations.

Data quality—Quote and Application Tracking System (QATS) data

4.22 Current procedures require the recording of details of all people who enquire about HOP as a 'lead'. Should these 'leads' then submit an application, or enquire again at a later date, decision-makers are required to identify the person's existing lead record for processing so as to ensure people are not recorded twice for statistical reporting purposes. The ANAO found that where data had been incorrectly entered and where these people enquire again or submit an application, there is no means to identify their original record providing a duplicate enquiry. A review of QATS data by the ANAO identified 29 records where no name had been recorded and 24 records where a partial name was the only data that had been recorded.

4.23 The Quote and Application Tracking System currently provides a mechanism to indicate whether an applicant is determined to be ineligible and an associated field to record the reasons for ineligibility. The ANAO found that this field was not consistently used by regional Housing Loans Units to record ineligibility. Other indicators such as application status were relied upon. Such a reliance compromises the accuracy and completeness of records concerning decision-making.

Data quality—Loan Administration System (LAS) data

4.24 A review of LAS data by the ANAO identified a number of inconsistencies in the completeness and accuracy of data holdings. The ANAO

⁵⁴ Regional Senior Housing Loans officers can approve or decline the making of a housing loan up to a five per cent variation of the area purchasing price limits.

⁵⁵ Delegations are kept up to date and distributed to staff as required. The last set of delegations was released in August 2004 prior to the transfer of HOP to Indigenous Business Australia.

tested critical data fields in LAS such as interest rates and loan periods for completeness and tested these fields for validity against the defined limits for HOP. The setting, review and approval of these values are key components in HOP processing and are supported by checks and alerts within ALS. On-going maintenance of these fields is controlled by automated system calculations within LAS. The ANAO found no exceptions with these critical data fields.

4.25 An ANAO review of home insurance records indicated that the majority were not current and that the Housing Loans Units' monitoring process, designed to keep insurance up to date and entered in LAS, was not being performed on a regular basis across the regional Housing Loans Units. Issues concerned with on-going insurance are discussed further in Chapter 5.

4.26 Exceptions in LAS data quality were noted with less critical fields—examples include the postcodes field accepting invalid values or characters, inconsistent street address information, and other typographical errors. Data entry screens and facilities for these fields are provided by LAS. For many data fields there are no associated entry controls. Instead, the Housing Loans officer is solely responsible for the entry of complete and accurate data in all of the required fields.

4.27 The ANAO considers that HOP management should review data entry controls, with a view to ensuring that data entry requirements are specified in procedural documentation and relayed to all staff to limit the risk that data are entered incorrectly.

4.28 The ANAO also noted that HOP systems planning includes an upgrade to a new Graphical User Interface (GUI) for LAS. This provides an opportunity to investigate any potential for improved data entry control provided by this GUI.

Decision-making checklists

4.29 The use of checklists—identifying key points in the decision-making process—provides assurance that all essential processes are completed and that source documents are kept relating to these key decision-making points.

4.30 Checklists were kept in all the paper files reviewed as part of the audit. However, regional Housing Loans Units had developed individual checklists to assist them in processing applications and managing loan accounts, providing no overall programme assurance that key points in the process were uniformly completed by all Housing Loans Units.

4.31 The ANAO considers that the proposed revision of HOP's Funding Procedures manual would benefit from the inclusion of a consolidated checklist, common across the Housing Loans Units. This common checklist could be developed and maintained in paper files.

4.32 The checklist would identify each major decision-making point and cross-reference it with the evidence to be retained confirming the accuracy of the decision. This is an important accountability requirement supporting transparency in process.

4.33 QATS includes a similar electronic checklist mechanism when Housing Loans officers are entering information relevant to a particular loan application. It includes key steps that must be undertaken to support the loan assessment process and provides a facility to record the paper file reference of the supporting records.

4.34 One of the Housing Loans Units visited during audit fieldwork retained detailed records of all interactions with the client, others were less comprehensive. Key inconsistencies included:

- at what stage in the process records were formally kept, with particular reference to recording Requests For Placement as a formal record;
- registration within the Records Management System (RMS), and
- the approach to evidencing compliance with application assessment and management processes.⁵⁶

4.35 The ANAO considers there is value in HOP management standardising manual process checklists with QATS checklists and in reviewing and strengthening the level of control the QATS checklists provide over adherence to procedures. Assurance that all documentation and processes are carried out, recorded and reconciled between the paper and electronic systems needs the support of Housing Loans officer training and regular monitoring by National Office.

Performance and availability of the ALS

4.36 While ALS users consulted during the audit expressed overall satisfaction with the levels of service being provided by the Housing Loans sub-section in National Office, the ANAO found that there was no formal identification of required ALS performance standards such as availability and response times.

4.37 As part of its transition to the DEWR portfolio, the ANAO suggests that HOP management builds on its initiative to review and upgrade HOP's Funding Procedures manual by undertaking ALS improvements where

⁵⁶ For example, as part of the loan assessment process, Housing Loans staff often make telephone contact with the applicant's employer to confirm employment details. The ANAO found that in one Housing Loans Unit, the substance of these conversations was recorded in a file note attached to the paper file. In others, there was no record of the substance of the conversation, however, confirming employment was ticked off in the QATS loan assessment checklist.

identified, including the specification of ALS performance standards. Performance standards should be used to develop agreed service level agreements for the provision and performance of infrastructure required to adequately support HOP processing. Such a process will ensure that the business needs of HOP decision-makers in regional Housing Loans Units are identified. The formalisation of these performance standards through service level agreements with the IT provider, which is now DEWR, should ensure that the business needs of HOP decision-makers will continue to be met.

Housing Loans officer training

4.38 Appropriate training is critical in ensuring HOP staff use ALS capabilities and provide the best possible service to Indigenous clients.

4.39 Lending and loan management skills are now part of the selection criteria for Housing Loans officers and a number of current loans staff have previous private sector experience in the lending environment.

4.40 The ANAO found that, historically, there has been little formal training and education of loans officers by HOP. Knowledge has been gained through working with more experienced loans officers and learning the local lending practices of the region.

4.41 The ANAO notes that the provision of a training budget dedicated to staff involved in lending was not forthcoming in the ATSIC environment and that training courses remained as 'one-off' occurrences and not part of a structured approach addressing identified training needs.

4.42 HOP business users consulted identified a need for further training to be provided in the areas of general lending principles and practices and the specific procedures for HOP.

4.43 An updated ATSIC Loans System operating guide was released in March 2003 and provides information for loans officers on how to use the ALS to process housing loans and manage and administer these loans.

4.44 While the ANAO found the existing ALS guide is comprehensive and of a high quality, HOP business users consulted reported that there was little formal training in the use of ALS.

4.45 With the proposed update of HOP's Funding Procedures manual, there will be a need to further revise the ALS operating guide and to provide training to loans officers in the specific application of the revised HOP policies and procedures. The provision of such training will also provide an opportunity to assist in the implementation of the revised HOP policies and procedures.

5. Managing Individual Loans

This chapter examines the support and after care services provided to Indigenous clients by Housing Loans officers over the life of the loan. It considers service issues such as on-going property insurance; facilitation of regular home loan repayments; repayment options and the management of accounts in arrears from the perspective of programme risk and compliance with policy guidelines. The benefits of structured fieldwork are also considered.

Introduction

5.1 The Australian Government Solicitor (AGS) advised ATSIC of its duty of care to Indigenous borrowers in 2000. This advice also included HOP clients.⁵⁷

5.2 The duty of care that arises between HOP and its Indigenous clients extends from the first contact, through the application and approval stage to the contractual relationship, where there is an expectation of ongoing support.

5.3 The ANAO assessed the degree to which HOP met its obligations in the following key areas of loan management:

- on-going property insurance;
- facilitation of regular home loan repayments;
- managing accounts in arrears (including legal action-recovery); and
- fieldwork.

5.4 Figure 5.1 illustrates the national distribution of the 3 559 housing loans managed by Housing Loans Units as at 30 June 2004.

⁵⁷ ATSIC had a statutory function and the requisite power to provide housing loans to Indigenous Australians for the purpose of furthering the social, economic and cultural development of Indigenous Australians. To facilitate the performance of that function, the Commission had formulated its Home Ownership Programme Policy 2000–03. This statutory background distinguished the Commission from mainstream financiers.

Figure 5.1**National distribution of housing loans at 30 June 2004.**

Source: Housing Loans Section.

On-going property insurance

5.5 Ensuring borrowers have on-going property insurance in place is part of HOP's fiduciary responsibility to the Housing Fund. HOP's duty of care responsibility to its Indigenous clients also encompasses on-going property insurance as it manages the risk of the loss of the property through an insurable event, such as fire. In this situation, the client would lose an asset and still be responsible to the mortgagee—that is the Housing Fund—for any outstanding debt.

5.6 HOP's approach to managing the risk of a significant proportion of its portfolio being either under or uninsured is examined.

Borrower responsibilities

5.7 HOP policy requires the following of borrowers:

- During the currency of an ATSIC housing loan the property securing the loan must be kept insured by the borrowers for the full replacement value of the house and other improvements. The insurance policy is to be with a company acceptable to ATSIC, in the names of the borrowers as owners and ATSIC is to be noted on the policy as mortgagee. Failure to maintain adequate insurance cover is an event of default.⁵⁸

5.8 Borrowers responsibilities are set out in an attachment to the official loan agreement and consequently form part of the legal agreement between the mortgagee and the borrower. Failure to renew insurance cover is an event of default under the Loan Agreement.

5.9 The level of insurance over security properties has been the subject of internal audit reports of HOP as well as being of concern to programme managers for some considerable time.

5.10 The ANAO noted differing practices for managing insurance across the Housing Loans Units and that on-going monitoring of insurance was patchy and awarded different levels of importance depending on Housing Loans Units work priorities and staffing levels.

5.11 As discussed in Chapter 4, one issue identified by the ANAO is that HOP's Loans Administration System (LAS) controls do not enforce the requirement for insurance to be up-to-date and recorded on an on-going basis. Housing Loans officers use LAS to automatically identify expired insurance information and to produce renewal letters to borrowers. HOP management advised the ANAO that there would be little value in further automation of the process and, as a result, manual processes are preferred to review and action expired insurance reports. The management of on-going property insurance is one of the functions that HOP management centralised in 2004.

5.12 Towards the end of 2004, a National Office review of housing loan accounts identified account holders with expired insurance coverage. A mail-out to these account holders resulted in a 66 per cent response rate which translated to increasing the currency of insurance records for active loans from 38 per cent to 59 per cent. These percentages reflect the currency of HOP insurance records and not necessarily the level of uninsured properties as borrowers may keep their insurance up-to-date but forget to notify the

⁵⁸ ATSIC, 2000, *Home Ownership Programme Policy 2000-03*, p. B21.

regional Housing Loans Unit. HOP management estimates that 80 per cent of this group of clients are currently insured.

5.13 HOP has procedures in place to update the insurance information of borrowers and alert the borrower to their uninsured status.

5.14 To further reduce the Housing Fund's exposure, HOP management has taken out a portfolio risk insurance policy to apply in situations where borrowers have failed to maintain adequate home insurance. The policy covers the mortgagee for the residual loss on an uninsured mortgage property that occurs because of an insurable event. The HOP insurance policy does not cover borrower losses in the case of an insurable event, which can leave the borrower exposed.

5.15 The ANAO considered that HOP is meeting both its fiduciary responsibilities to the Housing Fund and its duty of care responsibilities to its clients through its management of property insurance.

Facilitation of regular home loan repayments

5.16 Early notification of an increase in home loan interest rates is important to enable Indigenous clients to build the increased costs into their budget on a regular basis and therefore meet their repayment schedule. The Housing Loans Section in National Office contacts customers before their new interest rate is to fall due and advises of the timing of this rate increase.

5.17 HOP policy determines that:

The commencing concessional interest rate for families designated as low income is from 3 per cent and for moderate income families, the commencing interest rate is from 4.5 per cent.

Loans commencing at a concessional interest rate will increase by 0.5 per cent per year, commencing on 1 January following the end of the first full year after the loan advance. They will continue to increase at this yearly rate until they reach the ATSIC Home Loan Rate, which is set at 1 per cent below the Commonwealth Bank's standard variable rate for owner occupied home loans.⁵⁹

5.18 Regular and on-going repayments are critical to the ability of the Housing Fund to remain self-funding and to generate funds for new loans for Indigenous Australians.

5.19 The current HOP home loan rate for owner occupied homes, set in November 2003 by the CEO of ATSIS, is 6.07 per cent.

⁵⁹ ATSIC, 2000, *ibid*, p. B17.

5.20 The ANAO examined HOP loans that were current at 17 December 2004. The criteria used to determine which loans were current were those that had not matured as at 17.12.04 and those which did not have a loan payout date. Table 5.1 illustrates the distribution of the interest rate applying to these loans.

Table 5.1

Loans at varying interest rates at 17 December 2004.

Interest Rate	< 3 per cent	3 per cent	>3 and <4.5 per cent	4.5 per cent	>4.5 and < 6.07 per cent	6.07 per cent	>6.07 per cent	TOTAL
Number of loans	17	199	231	748	847	1 416	34	3 492

Note: Of the 34 loans, which were set at rates greater than 6.07 per cent, the majority were set at 7.21 per cent, which is the ATSIC Leased Home Loan Rate.⁶⁰

Source: ANAO, based on ALS data.

5.21 Around forty per cent of home loans, current at 17 December 2004, were set at the HOP home loan rate of 6.07 per cent.

5.22 HOP has developed a number of repayment options, including a repayment book⁶¹, direct debit and salary deduction, to both facilitate regular repayments and reduce the cost to the programme of more outmoded forms of repayment, such as manual across the counter repayments. Housing Loans officers encourage HOP clients to use automated repayment facilities where possible. HOP loan repayments fall due on the 15th day of each month. After settlement, a Housing Loans Repayment advice letter is sent to the customer indicating the date of the first repayment and the amount of the monthly repayment. For the past several years, Housing Loans officers have encouraged clients to pay on a more frequent basis to help reduce their loan.

5.23 An enhancement to HOP direct debit facilities is the repayment facility established with Centrelink through Centrepay. This free service enables people who are receiving a range of Centrelink payments to pay bills from their Centrelink entitlements. The extension of this facility to HOP clients means that funds are deducted from a borrower's Centrelink fortnightly

⁶⁰ This rate applies when approval is granted to allow a client to rent out their property. This is usually in circumstances where the client is required to move temporarily to another city or region for work or other purposes.

⁶¹ Following settlement of the loan, if the borrower has not organised direct debit or salary deduction as their repayment facility, they are sent a Housing Loan Repayment Book to present at a branch of HOP's bank with their monthly repayments.

benefit via a repayment account held currently by Indigenous Business Australia. Repayments are subsequently transferred to the Housing Fund.

5.24 An ANAO review of current and settled HOP loans at 17 December 2004 showed that 63 per cent of clients had used or were using the repayment book; just under 36 per cent were using direct debit facilities and the remaining 1 per cent were using the Centrepay facility.⁶²

5.25 The results indicate that the number of clients choosing to use the direct debit facility has increased substantially since it was introduced in June 2002. This reduces the risk to the Housing Fund of loan default as it regularises repayments. It also puts HOP on par with repayment procedures in the commercial lending sector and reduces transaction costs.

Managing arrears

5.26 Arrears management is an important aspect of any loan portfolio. HOP management takes into account commercial practices concerning arrears management and the self-funding nature of HOP. HOP management also has regard to the intent of HOP policy, which is aimed at increasing the rate of Indigenous home ownership and assisting Indigenous Australians to remain in their homes.

5.27 The ANAO examined:

- HOP's monitoring of loan accounts;
- HOP arrears process;
- negotiated arrangements with borrowers; and
- available legal options where all else fails.

Monitoring of loan accounts

5.28 In order that HOP clients have the best possible chance of servicing their loan and staying in home ownership, frequent monitoring of loan contracts is advised so that any problems can be identified and assistance provided once a problem is detected.⁶³

5.29 The draft Funding Procedures manual requires each Housing Loans Unit to run an arrears report on the 20th day of each month to determine what, if any, action should be taken. This allows five days grace for those borrowers

⁶² Repayment methods are not necessarily mutually exclusive, for example Centrepay can be used in addition to coupon book and direct debit. Consequently, the number using Centrepay facilities are likely to be under-reported.

⁶³ ATSIC, March 2003, *Home Ownership Programme Funding Procedures Manual (draft)–Monitoring Repayments and Contract Arrears*, p. 1.

who may be late with their monthly repayment due on the 15th day of each month. Where accounts are in arrears, the manual requires that personal contact is made with the borrower to establish the reason for the arrears and what action can be taken to correct the situation.

5.30 As well as the loans system enabling early detection of arrears, the ANAO found that in many instances, this was supplemented by more rigorous measures, at the Housing Loans Units, to detect problems. For example, several Housing Loans Units run arrears reports on a regular basis, such as every Monday morning, to more closely monitor the loan accounts in their portfolio.

5.31 For accountability purposes, notes of any communication with the account holder, either oral or in writing, are kept on Loans Notes in the HOP loans system. The ANAO found that this record-keeping requirement was not consistently complied with across the Housing Loans Units visited as part of the audit fieldwork.

HOP arrears process

5.32 HOP loan accounts in arrears are monitored in two ways. Firstly, reportable arrears are identified, that is, where two or more payments are overdue and secondly non-reportable arrears are identified, that is, where one or two payments are overdue.

5.33 HOP policy guides arrears management and states the following:

- If borrowers fall behind with loan payments and no satisfactory repayment arrangements are made or borrowers fail to comply with any condition contained in the Agreement For Loan, mortgage document or any other relevant security document, the balance of the loan shall, at the option of the Commission become due immediately.
- Prior to the commencement of any formal legal action the Commission will, pursuant to Section 20 of the ATSIC Act, give notice to the borrowers that they have failed to fulfil a term or condition of the loan.
- If, after the issue of the relevant notice the loan balance remains unpaid, the Commission may exercise its power as mortgagee and sell the security property to recover all monies owed.
- The Commission reserves the right as a 'mortgagee in possession' to rent any property it has gained possession of until it determines that a reasonable price can be obtained from its sale.⁶⁴

⁶⁴ ATSIC, 2000, op cit, p. B22.

5.34 There is a defined order of process, requiring a sequence of automated letters of demand to HOP clients that must be carried out before HOP can repossess a property. The sequence is presented in Table 5.2.

Table 5.2

HOP Arrears action

Time frame	Arrears action
22 nd day of the month.	As payments are generally due on the 15 th day of the month, an initial letter would be sent after a seven-day grace period.
29 th day of the month.	A reminder letter would be issued if the borrower is still in arrears.
Two weeks following the 29 th day of the month.	A notice of demand (including a 14 day notice of repossession) would be sent if the borrower is still in arrears.
Following the 14 day notice of repossession.	Legal action for recovery is commenced.

Source: HOP management.

5.35 At any stage during this process, the borrower can negotiate an arrangement to pay the outstanding arrears in full or in stages. This can result in the cancellation of the recovery process. If the client again defaults the process outlined above is re-commenced.

5.36 Where the borrower comes to an arrangement with HOP to repay the outstanding arrears either in total or through staged payments, the arrangement is entered into the LAS with a review date so that compliance with the arrangement can be monitored. The Funding Procedures manual advises that where a borrower breaches the arrangement and remains continuously in arrears for three months then HOP should, as a general rule, proceed with legal action.

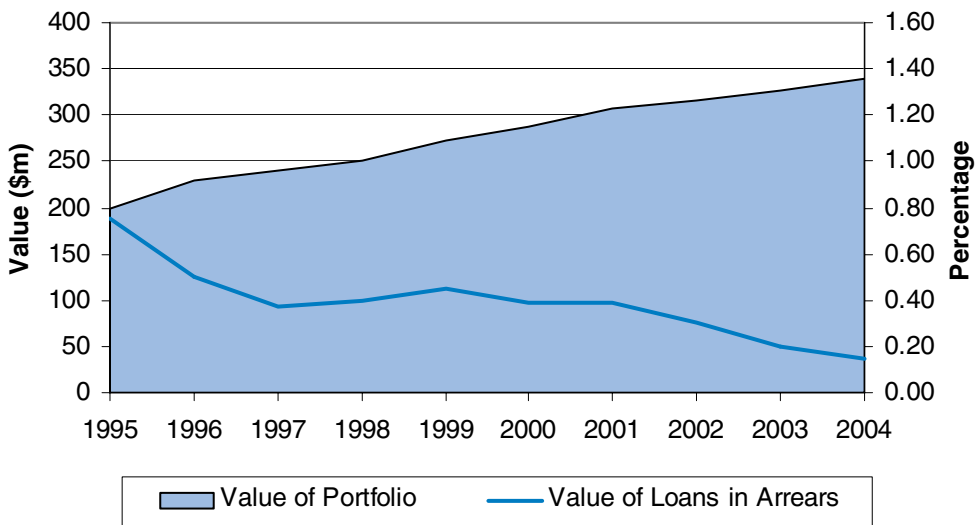
5.37 The ANAO considered the relationship between the trend increase in the value of the HOP portfolio with the movement in the value of loans in arrears and found the relationship to be an inverse one. While the portfolio has been increasing steadily, the dollar value of the loans in arrears compared with the current balance of the loans portfolio has been steadily decreasing.⁶⁵ At 30 September 2004, there were 145 housing loans in arrears across the HOP portfolio. This represented 4.1 per cent of the total number of loans and around \$441 000. This dollar value equalled 0.12 per cent of the current balance of the loan portfolio.

5.38 Figure 5.2 contrasts the growth in the HOP portfolio with the decreasing value of loans in arrears.

⁶⁵ The ANAO did not analyse the age of the loans in arrears.

Figure 5.2

HOP Portfolio Growth and Arrears Decline



Source: Housing Loans Section.

5.39 The Housing Loans Section in National Office regularly carries out compliance checks of HOP operations at the Housing Loans Unit level. A National Office compliance check of arrears monitoring, conducted in October 2004, found that there was an uneven approach to the monitoring of contracts in arrears across the Housing Loans Units. The report indicated that references to the actions the account holder agreed to take concerning their arrears were not recorded in LAS or in paper files uniformly across the Housing Loans Units.

5.40 As discussed in Chapter 1, when HOP management assumed administrative responsibility for the regional Housing Loans Units in August 2004, it centralised a number of functions previously carried out at the regional level. One of these functions was the monitoring of serious loan arrears situations. This took place towards the end of 2004.

5.41 Despite the uneven management of housing loans in arrears across the Housing Loans Units, the ANAO observed sound arrears management practice and found, in at least one Housing Loans Unit, that the close monitoring of the process set in train by standard procedures outlined in Table 5.2 coupled with on-going communication with the account holder were proving successful. This particular Housing Loans Unit, at 30 September 2004, had reportable arrears at 0.03 per cent of the dollar value of its current

portfolio balance compared with an average of 0.12 per cent for the current balance of the entire HOP portfolio.

5.42 To support the monitoring of loans in arrears to further reduce the value of loans in arrears, the ANAO suggests that HOP management systematically reviews arrears practices across the Housing Loans Units to identify better practice in this regard.

Negotiated arrangements with borrowers

5.43 The Home Ownership Program's draft Funding Procedures manual includes a number of options designed to allow borrowers to enter into an arrangement at the local level to repay arrears, while remaining in home ownership. These arrangements are formalised and entered into the loans system so they can be monitored. They include a write-back facility and a formal home loan review process. Their use is discussed below.

5.44 The draft manual indicates that individual circumstances are to be taken into account when reaching such arrangements.

Write-backs

5.45 The draft Funding Procedures manual states that where borrowers have kept strictly to their arrears repayment arrangements for six months or more, HOP may write back repayment arrears—the amount written back being offset by an increase in the loan term. Seventy nine loan accounts were written back during 2003–04.

5.46 The use of this facility, as an interim measure, enables Indigenous families to stay in home ownership. The ANAO found no evidence of formal monitoring and reporting on the write-back process. Monitoring of the writing back of arrears could alert HOP to any negative effects resulting from the use of this facility.

5.47 The ANAO considers there is benefit in clients being made fully aware of the effect of a write back on their loan term, loan repayments and interest payable.

Home Loan Reviews

5.48 HOP policy determines that:

Where borrowers show that an inability to maintain repayments is caused by unemployment, illness or other genuine financial hardship, a delegate of the Commission may, subject to the policy and procedural requirements set out in the Home Ownership Programme's Funding Procedures Manual and

programme sub delegations, vary the level of required loan repayments, by adjusting the loan term and, if applicable, the loan interest rate.⁶⁶

5.49 Generally home loan reviews come about when borrowers are unable to maintain their loan repayments because of unemployment, illness, death of a spouse or other financial hardships. In situations such as this, the borrower may be asked to complete a Request for Review form.

5.50 The ANAO examined the type of arrangements that can be entered into to assist Indigenous clients in these circumstances and monitoring of these arrangements. Possible options arising from the loan review process are described in Table 5.3.

Table 5.3

Home loan review options

Possible option	Characteristics
Extension of the loan term	The extension of the loan term is the first option considered if no alternative options for refinancing exist elsewhere in the borrower's financial situation. Extending the loan term beyond the maximum loan term of 32 years requires the approval of the HOP Manager and is subject to a six-month review process. This enables the delegate to determine if the borrower's circumstances have changed and if any on-going need for the adjustment still exists.
An interest rate reduction	A reduction in the interest rate is also subject to a six-month review. The HOP Funding Procedures manual suggests this option is undertaken in conjunction with an extension of the loan term.
An interest only repayment	An interest only repayment schedule is considered where borrowers are unable to afford principal and interest loan repayments. This is also subject to a six-month review. The HOP Funding Procedures manual requires that this is only a short-term solution (up to 12 months) and the interest should be set at the highest affordable rate.
A loan restructure	Where borrowers demonstrate that their situation is unlikely to change in the foreseeable future it may be appropriate to restructure the loan, by a loan term extension, reducing the interest rate and applying a fixed interest rate. HOP policy suggests that this should not exceed two years. At the end of a six-month period, the delegate may consider the write back of arrears if the client has not breached the review agreement.

Source: HOP Funding Procedures manual (draft), September 1994.

5.51 An ANAO review of HOP loans current at 17 December 2004 found that 151 contracts were under negotiated review.

⁶⁶ ATSIC, 2000, op cit, p. B24.

5.52 Housing Loans Units monitor the agreed outcomes through a local 'contracts for review' report. An ANAO review of a selection of these reports found the contracts were closely monitored.

5.53 HOP management advised that it does not currently review Housing Loans Unit performance in this regard but that the review process may fall within the scope of enhanced compliance activity to be carried out by National Office in the near future.

5.54 The ANAO concluded that Housing Loans Units had established appropriate monitoring arrangements for contracts under review and that it would be advisable if HOP management established a process to review Housing Loans Unit performance in this regard.

Legal Action–recovery

5.55 As discussed earlier in this chapter, if there is no response from the borrower to HOP's letters of demand the draft Funding Procedures manual advises the Housing Loans officer to commence legal recovery action through HOP's external legal provider.⁶⁷

5.56 HOP's external legal provider issues a Letter of Demand followed by a Notice of Demand appropriate under the relevant State legislation. This process gives the mortgagee the right to sell the property but not to evict the borrowers.

5.57 HOP's draft Funding Procedures manual recommends that options be discussed with the borrower including voluntary sale of the property or arrangements to pay the outstanding arrears. Where borrowers pay an acceptable level of the arrears and come to a satisfactory arrangement to pay the balance, HOP's external legal provider can be advised to hold the legal action in abeyance. If the borrower breaches this agreement, legal action can be resumed. If the conditions set out in the Notice of Demand are not met, HOP's external legal provider proceeds to take possession of the property. Since 1990, 365 properties have been repossessed and sold.

5.58 Currently, there are 64 properties listed as Mortgagee in Possession (MIP). The ANAO examined a sample of files dealing with such cases and concluded that they met with HOP policy.

⁶⁷ ATSIC, January 2004, *Home Ownership Programme Funding Procedures Manual (draft)–Monitoring Repayments and Contract Arrears*, p. 3.

Shortfalls after sale

5.59 HOP policy states:

- Where, after the sale of the property there is a residual loan balance owing, the Commission shall recover the funds from the borrower where possible or instruct its solicitors to obtain judgement for recovery of the debt, provided that legal action is economically justified.
- If there is little likelihood of a shortfall being recovered after all the necessary steps have been taken the shortfall can be approved for write-off.⁶⁸

5.60 HOP policy determines that every effort is to be made to collect outstanding funds where it is economically justifiable.

5.61 A residual loan balance schedule is provided as part of ATSIC's financial statements each year. This comprised the outstanding amount, following the sale of the property, where there is a possibility that some or all of the remaining debt is likely to be recovered. These accounts are recorded under Loss Recovery-Salvage.

5.62 At 30 June 2004, this amount was just in excess of \$1.7 million, arising from the sale of 85 properties.

5.63 The residual debt on sale of a MIP is determined prior to the sale, and if a repayment arrangement can be made, it is normally done so at this point. Hence any subsequent debt collection activity would take into account any previous legal action and the borrower's financial circumstances.

5.64 To monitor these arrangements, each of the Housing Loans Units has a salvage ledger indicating the original salvage, the arrangement entered into for repayment of the outstanding amount and payments collected.

5.65 The ANAO found that no procedures were in place to monitor and report, in a timely way, on actions taken at the Housing Loans Unit level concerning these outstanding amounts. The ANAO suggests that the Housing Loans Section in National Office develops, in conjunction with the regional Housing Loans Units, a process to monitor and report on progress with the management of the salvage ledgers.

Write-offs

5.66 Write-off of a debt is a standard accounting practice that recognises that the value of the loan asset no longer exists. It does not indicate

⁶⁸ ATSIC, 2000, op cit, p. B24.

abandonment of recovery attempts or forgiving the debt. Attempts to recover continue after write-off if circumstances indicate any chance of success.⁶⁹

5.67 In May 2004, the Minister for Immigration and Multicultural and Indigenous Affairs issued the *Aboriginal and Torres Strait Islander Commission (Forgiveness of Debt) Directions 2004*. These Directions set out certain requirements that must be met in order for ATSI to accept an arrangement for the repayment of all or part of the debt owing to ATSI.

5.68 The ANAO found that, in accord with the Minister's Directions, ATSI appointed a suitably qualified auditor to assess the debts to be written off and the Housing Loans Section in National Office has notified the Minister of its intent to write-off a number of residual housing loan debts. Delegation to execute write-offs is now centralised with the HOP Manager.

Loss Recovery of written-off debts

5.69 Between 1 July 1995 and 30 June 2004, 276 loans were transferred to loss recovery. The value of the loans written-off during this period was \$2.5 million.

5.70 Since 1 July 2004, National Office has managed loss recovery accounts and a dedicated resource has been assigned to the debt recovery role. Renewed recovery action for written-off debts is only initiated when it is economically justifiable—to try and trace the borrower can be an expensive exercise. However, as part of the recovery process, HOP normally obtains a court judgement against the borrower. This judgement would be reported to credit reference agencies and make it difficult for the HOP debtor to borrow further finances until the debt to the Housing Fund was repaid. At no stage in the recovery process is the debt waived.

5.71 HOP management advises that around \$2 million has been recovered from debts written-off since 1990.

Fieldwork

5.72 HOP fieldwork is a set of planned activities including programme promotion, site visits to newly purchased homes, discussions with clients if arrears become a problem and discussions when Home Loan Reviews might be appropriate.

5.73 Fieldwork is an important component of the work of Housing Loans officers as the regions they service are often large with a diverse client base. For example, the Rockhampton Housing Loans Unit services a region from Hervey Bay in the South to Mackay in the North to Winton and Longreach in

⁶⁹ ATSI, January 2004, *Home Ownership Programme Funding Procedures Manual (draft)—Monitoring Repayments and Contract Arrears*, p. 8.

the West of Queensland. The Perth Housing Loans Unit now services all of Western Australia.

5.74 Servicing such geographically diverse regions requires a cost effective approach to fieldwork. This includes leveraging opportunities with other relevant community/State or Territory organisations to maximise the promotion of HOP. Such an approach can also ensure that appropriate facilities are available to meet with clients face-to-face to provide information on HOP and monitor existing loan accounts where required.

5.75 The ANAO found that there were varying approaches to fieldwork activities and the promotion of HOP within the regional Housing Loans Units. This ranged from programme promotion by word of mouth to actively promoting HOP through structured fieldwork.

5.76 Sound fieldwork planning is integral to the active promotion model and is essential in circumstances where HOP staff only visit towns in less populated areas once a quarter or at less frequent intervals.

5.77 The ANAO reviewed a number of fieldwork plans as well as outcome reports. These indicated that the opportunity to meet with applicants or existing borrowers in a neutral environment and to provide them with current and reliable information enabled clients to make an informed decision about their financial situation and their housing loan application.

5.78 Additionally there are other benefits from structured fieldwork including the opportunity to:

- inspect recently purchased properties to ensure that HOP borrowers were aware of and acting on the maintenance requirements highlighted in their pest or building reports; and
- interview clients whose accounts were in arrears to discuss the options open to them.

5.79 The ANAO considered there would be benefit in HOP management developing with the Housing Loans Units a structured fieldwork approach appropriate to each of the regions where HOP is located.

6. Programme Performance Reporting

This chapter examines the performance information and reporting framework for HOP, including its internal and external financial and performance reporting arrangements.

Introduction

6.1 Performance information and reporting provides agency staff with timely feedback on performance and assists management and external stakeholders to draw well-informed conclusions about performance.⁷⁰ Routine monitoring of performance provides assurance that a programme is contributing to the achievement of its specified outputs.

6.2 It is important that performance information used for external reporting requirements, such as in an annual report, is consistent with, and integral to: internal planning; budgets; analysis; and other internal performance reporting.⁷¹

6.3 The ANAO assessed HOP's performance information framework, in particular:

- HOP's performance indicators in the Immigration and Multicultural and Indigenous Affairs' (IMIA) Portfolio Budget Statements (PBS);
- internal monitoring and reporting of programme performance; and
- analysis of performance data for programme improvement purposes.

Performance information in the Portfolio Budget Statement

6.4 Typically, Portfolio Budget Statements (PBS) include outcome statements, which provide Parliament and other stakeholders with a statement of agency goals and provide a basis for the development of the outputs that contribute to the achievement of the outcome. Outputs relate to the business-specific aspects of an agency's operations. They are the goods or services an agency produces and are measured in terms of price, quantity and quality. They provide the link to the agency's organisational structure and activities.⁷²

⁷⁰ ANAO Better Practice Guide, May 2002, *Performance Information in Portfolio Budget Statements*, p.17.

⁷¹ ANAO/Department of Finance and Administration, Better Practice Guide, 2004, *Better Practice in Annual Performance Reporting*, p. 3.

⁷² ANAO Better Practice Guide, op cit, p. 12.

6.5 The ANAO did not seek to assess the contribution of HOP outputs to the achievement of a broader Indigenous outcome. However, the relevance of the reported output measures to the achievement of HOP policy objectives was considered.

6.6 Performance measures for Output 4.3—Home Loans, listed in IMIA's Portfolio Budget Statements (PBS) 2004–05, include the following quantity and quality indicators:

- **quantity**
 - increase Indigenous home ownership to 40 per cent by 2010;
 - cost effective and efficient provision of development and support services;
- **quality**
 - reportable arrears maintained at or below 0.20 per cent of Portfolio Balance;
 - issue more than 75 per cent of all home loans to applicants with a combined adjusted household income of less than the ATSI Income Amount (AIA).⁷³

HOP quantity and quality indicators

6.7 The ANAO assessed whether the quantity and quality performance indicators in IMIA's PBS contained measurable information.

6.8 Quantity indicators are generally straight-forward and specify the number of units that are being purchased for the price. For example, the number of loans made, on an annual basis, by HOP. The quantity measure 'Increase Indigenous home ownership to 40 per cent by 2010' is the long term HOP policy objective and does not contain measurable data for the PBS year 2004–05.

6.9 The inclusion of annual milestones would enable HOP to track its progress over the reporting year and indicate its contribution to the longer-term goal of increasing Indigenous home ownership to 40 per cent by 2010.

6.10 Quality indicators can be more difficult to define. Better practice suggests that quality indicators should relate to tangible objective criteria. Some examples of quality indicators include: timeliness, coverage and accuracy.⁷⁴ Other less tangible but equally important quality indicators include

⁷³ IMIA, 2004–05, *Portfolio Budget Statements*, p. 148.

⁷⁴ ANAO Better Practice Guide, op cit, p. 21.

client satisfaction. Quality indicators are also important from the perspective that they can indicate to stakeholders and Parliament the capacity of the organisation to deliver services to agreed standards.

6.11 The ANAO found that the quality measures listed above are actually quantity measures and that more detailed information should desirably be provided in the output description to enable the reader to understand the significance of the measures.

6.12 The ANAO suggests that HOP redesigns its output measures ensuring that its quantity and quality indicators are aligned with its internal programme performance measures and allow stakeholders and others to assess HOP performance over the financial year.

Internal monitoring and reporting of programme performance

6.13 Systematic programme oversight through monitoring is important from an agency perspective to ensure the effective running of the business. Day-to-day operations can be tracked against planned targets and levels of expenditure.

6.14 HOP policy includes a number of programme output performance measures to guide programme operations. These are: the number of enquiries; the number of applications; the number of loans made; the number of Aboriginal and Torres Strait Islander peoples housed; the number of current loans; the number of loans discharged; and the number of loans in default.

6.15 In this section the ANAO reviews HOP's internal financial monitoring arrangements and the quality of its reporting against its programme performance measures.

Management reports

6.16 HOP management closely tracks three key financial measures—commitment, expenditure and the level of arrears. These measures apply across all Housing Loans Unit operations and are discussed below.

Quarterly reports

6.17 Housing Loans Unit commitment levels are tracked on a cumulative quarterly commitment basis aligned with Housing Loans Unit budget allocation. Expenditure levels lag behind commitment levels and can be influenced by other factors. For example, a particular Housing Loans Unit may have a disproportionate number of home construction loans in its portfolio. In this case, progress payments are disbursed over a period of time, often 18 to 24 months.

6.18 Routine tracking of expenditure levels indicates the flow of funds out of the Housing Fund and the finalisation of the initial enquiry/loan application process, which was discussed in Chapter 3.

6.19 Arrears tracking by individual Housing Loans Units is an important measurement for HOP, owing to the self-funding nature of the programme.

6.20 An ANAO review of a number of programme performance reports found that they provided appropriate overall programme performance information and comparative Housing Loans Unit performance against the three measures outlined above.

6.21 The ANAO suggests that HOP management investigates the adoption of additional non-financial performance measures outlined in HOP policy—such as the number of enquiries, the number of applications, the number of loans made and the number of Indigenous Australians housed. There may also be scope to develop measures for other key aspects of HOP regional work, such as programme promotion and client contact.

6.22 HOP management provided quarterly progress reports to the Chief Executive Officer, ATSI on progress against a set of key indicators including the number of enquiries; the number of eligible applicants; commitment levels; expenditure levels; programme revenue; programme support funds; arrears; and internal benchmarks. The ANAO found these reports provided appropriate information to gauge performance against HOP programme performance measures.

Monthly reports

6.23 HOP management produces additional monthly reports to enable it to track expenditure and review regional operations from different perspectives. These reports are run at the Housing Loans Unit level to assist with day-to-day management of lending and form the basis for information used for monitoring at National Office. These reports are also used to assist with identifying problems with compliance and quality assurance at the Housing Loans Unit level.

6.24 They include:

- *review eligible applicants report*—potential applicants for invitation;
- *an invitation register*—applicants who have been invited to apply for a loan but have not yet been approved;
- *review budgets and commitments report*—approvals made against budget, along with expenditure and outstanding commitment;
- *applicants equity report*—applications in terms of gross cost of property being purchased, HOP loan amount, deposit and external funding;

- *funds required report*—projects forward expenditure based on entered disbursements and their proposed future settlement date;
- *amounts held by settlement agent report*—amounts disbursed to agent which have not yet been recorded as settled in the loan;
- *identify overdue task report*—shows loan origination and settlement tasks which are past due for an application;
- *new contracts register*—shows new loans settled—added to portfolio;
- *arrears by Housing Loans Unit report*—reportable and non-reportable arrears; and
- *cumulative transaction report*—produced as part of monthly processing, showing cumulative transactions for reconciliation to finance system.

6.25 A review of a selection of these reports by the ANAO indicated that they provided a broad spectrum of performance information enabling HOP management to accurately monitor financial commitments and expenditure levels against regional budget allocations and make adjustments on a timely basis. This level of on-going financial monitoring enables HOP management to identify variations in performance across the regional Housing Loans Units, indicating where management attention may be required to enhance Housing Loans Unit performance. This has resulted in the internal reallocation of quarterly lending budgets amongst the Housing Loans Units where an underspend is identified.

Feedback to regional Housing Loans Units

6.26 The Housing Loans Section–National Office also provides the regional Housing Loans Units with a programme summary report on a monthly basis. These regular reports perform an important function in that they provide regular feedback to Housing Loans officers on their performance and the performance of the other Units.

6.27 Performance measures used in these reports are closely aligned with HOP programme performance measures and include financial information such as current allocation, approvals and expenditure. They also include the number of enquiries; the size of the waiting list; the number drawn from the waiting list for invitations, new loans for the month and the number of loans paid out for the month.

6.28 The ANAO concluded that HOP's internal monitoring and reporting of the programme's financial performance is systematic and complete.

Analysis of performance data for programme improvement purposes

6.29 Effective review and use of existing programme data can assist in identifying areas for programme enhancement. The ANAO identified a number of areas where further data analysis could identify ways of further enhancing HOP performance. These include:

- analysis of key HOP data;
- a client service charter including a provision for the analysis of complaints data and client feedback; and
- benchmarking of select HOP activities.

Each of these is discussed below.

Analysis of key HOP data

6.30 The ATSIC Loans System (ALS) contains large amounts of information related to client characteristics.

6.31 As highlighted in Chapter 1, loan discharges are an important indicator of HOP's progress in achieving its key policy objective of increasing the level of Indigenous home ownership to 40 per cent by 2010. HOP management advised the ANAO that information on loan discharges is largely anecdotal and is drawn from detailed knowledge of HOP's client base managed through the HOP regional network.

6.32 The ANAO considers that regular monitoring of the 'leap frog' effect where HOP clients are able to move into the commercial sector after successfully managing a HOP loan and, as a result, free up HOP funds to allow additional Indigenous clients to borrow to purchase a home would be beneficial. Monitoring and reporting on such a movement could demonstrate the contribution that HOP is making to a key government policy objective, that is, increasing the level of Indigenous home ownership to 40 per cent by 2010.

6.33 At one of the Housing Loans Units visited, the Senior Housing Loans Officer analysed total discharges over sequential financial years within the portfolio.

6.34 Loan discharge data was broken down into:

- clients who refinanced with other lending institutions;
- clients who paid out their loan in full; and
- clients who sold their property.

6.35 An ANAO analysis of these data found that, over the three financial years, there had been a significant increase in the number of Indigenous clients who had refinanced with external financial institutions. In 2003–04, 49 per cent of discharges in this portfolio resulted from clients refinancing with other lenders.

6.36 The ANAO considers that HOP management should investigate analysing loan discharge data on a national basis.

6.37 The ANAO concluded that there is benefit in HOP being able to identify which of its clients can refinance their home loan with the commercial sector and at what point in the home loan cycle they feel they are able to make this move. This would provide a sound and measurable indicator of the contribution made by HOP to increasing Indigenous home ownership to 40 per cent by 2010.

A client service charter

6.38 Service charters are a powerful tool for departments, agencies, management and staff to continuously improve service delivery to the general public and other stakeholders, whether it be across the counter, via the telephone or through electronic means. They demonstrate an organisation's commitment to improving service by measuring performance against set service standards and reporting that assessment.

6.39 In 1996, the Australian Government launched the framework for Government client service charters to facilitate efficient and reliable client services. This was as part of the government's reform agenda to promote a more open, client-focussed Australian Public Service.

6.40 The former ATSIC/ATSI had a service charter which set out the services and standards of service that an Indigenous person or client could expect to receive when dealing with ATSIC/ATSI. Functional responsibility for the service charter ceased with the mainstreaming of Indigenous services in July 2004 as receiving Australian Government agencies had their own service charters. HOP remained with ATSI until the passage of the ATSIC Amendment Bill in March 2005 and as a result did not have a framework client service charter.

6.41 In its 2003–04 Annual Report in relation to the performance of its home loans output, ATSIC reported against one of its quantity performance measures 'cost effective and efficient provision of development and support services' that:

All offices in the home loans network have also met the target of providing advice on the outcome of a completed application within three days of receiving it.⁷⁵

6.42 Commercial lending institutions produce customer charter annual reports, which publicly provide results against standards and identify areas where further improvements can be made.⁷⁶

6.43 The ANAO considers that it would be appropriate for HOP management to develop a client service charter, which sets out its services and the service standards that its Indigenous clients can expect and reports against it annually.

Analysis of feedback including complaints

6.44 Information derived from feedback including complaints data is important in highlighting areas where programme performance could be improved.

6.45 The feedback—complaints—section of the ATSIC/ATSIS service charter welcomed comments, suggestions and/or complaints about services supplied by ATSIC/ATSIS. Under monitoring and review:

ATSIC will monitor performance of all practices against the standards set out in this Charter. Monitoring will include the level and number of complaints and other feedback from Aboriginal and Torres Strait Islander people to improve service delivery.⁷⁷

6.46 On 1 July 2004, the complaints tracking system, previously held by ATSIC/ATSIS, was disbanded. This was because Indigenous specific services, except for HOP, were relocated with mainstream Australian Government agencies that had their own processes for responding to complaints. This resulted in HOP management having no mechanism to track or respond to client complaints.

6.47 The ANAO considers that a complaints management system would assist HOP management to identify areas for programme improvement.

Client feedback

6.48 Client feedback is another approach to identifying areas for improvement as well as gaining an appreciation of levels of client satisfaction with a programme. However, HOP does not have a structured approach to obtaining client feedback.

⁷⁵ ATSIC, 2004, *2003–04 Annual Report*, p. 85.

⁷⁶ ANZ, 2004, *Customer Charter Annual Report*, p. 2/3.

⁷⁷ ATSIC, *op cit*, p. 5.

6.49 Developing measures of client satisfaction would go towards addressing a number of the deficiencies in HOP performance reporting to the Parliament, stakeholders and others which were discussed at the beginning of this chapter, especially with regard to quality performance indicators.

6.50 The ANAO suggests that HOP management consider the merits of a process to obtain client feedback as an aid in assessing and reporting on the benefits provided by the programme and also as a means to determine levels of client satisfaction.

Benchmarking of select HOP activities

6.51 Benchmarking is a systematic process through which an agency process or activity compares its performance with alternatives. For example, it tests an agency's functions, particularly the efficiency and price of outputs, against a standardised function or set of achievements. The objective of benchmarking is to introduce and sustain best practice by making valid comparisons with processes or organisations, resulting in a continual improvement of activities.⁷⁸

6.52 HOP does not engage in formal benchmarking exercises. However, it does informally compare its performance with other lending institutions. For example, ATSIC's 2003–04 annual report states:

Loans arrears balances have again decreased during 2003–04, and now represent 0.22 per cent of the active loan portfolio. This result is very creditable and compares favourably with other specialist loan portfolios.⁷⁹

6.53 There is scope within the broad range of HOP activities to develop a more rigorous approach to making comparisons with external specialist home lending institutions. This proposed course of action is appropriate when HOP revises its output effectiveness measures for external reporting to Parliament and other stakeholders. For example, the development of a customer satisfaction performance measure could allow comparison with other lending institutions.

⁷⁸ ANAO/Department of Finance and Administration, op cit, p. vii.

⁷⁹ ATSIC, op cit, p. 85.

Recommendation No.6

6.54 The ANAO recommends that HOP management review its performance information to:

- ensure its output measures are aligned with its programme objectives and performance measures to allow stakeholders and others to assess HOP performance over the financial year;
- develop a process to collect and analyse feedback, including complaints; and
- identify suitable opportunities for benchmarking of its lending activities to support continuous programme improvement.

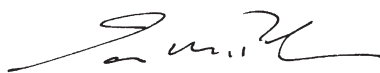
IBA response

6.55 Agreed.

6.56 IBA will review the performance and output measures for the programme to ensure they are aligned with the programme objectives. IBA notes however, that reporting against the primary outcome goal of Indigenous participation in Home Ownership is not possible on an annual basis as it requires access to census data.

Canberra ACT

21 June 2005



Ian McPhee

Auditor-General

Appendices

Appendix 1: Torres Strait Regional Authority Home Loans Scheme

Objective

To provide home ownership for the Indigenous residents of the Torres Strait region through home loans, thereby improving their economic status and social well-being.

Description

The Housing Loan Scheme provides home or land loans at concessionary interest rates to Torres Strait Islander and Aboriginal people living in the Torres Strait region who would not normally be able to obtain assistance from conventional lending institutions. The scheme is targeted at low income, first home-buyers, according to a point system based on family size and rental circumstances.

The scheme is self-funding.

If required, an additional service that the Housing Loan Scheme provides to clients is the organising and paying of insurance. The insurance cost is then charged back to the client's loan account.

Achievements

In 2002–03 the TSRA had 39 housing loans within its portfolio, with 3 new loans—valued at \$427 542—funded for the purchase for new homes and land. In addition to this, \$204 392 was released to 7 existing housing clients for renovations and extension of dwellings, which brings the total amount released for 2002–03 to \$631 934.

A total of \$358 320 in repayments was returned to the housing account. In addition to this, a total of \$3 313 in insurance costs was paid on behalf of housing clients, and then charged back to their loan account.⁸⁰

⁸⁰ Torres Strait Regional Authority 2004, Torres Strait, viewed 28 November 2004, <<http://www.tsra.gov.au/www/index.cfm>> .

Appendix 2: The Implementation Plan for the 2004–05 Budget capital injection

HOP has developed an implementation plan for the \$20 million capital injection made available in the 2004–05 Budget. The additional funds are provided to specifically target two HOP client groups:

- Indigenous families currently housed in public housing who wish to purchase the home they are currently renting from either an Indigenous Housing organisation or a relevant State/Territory Housing Authority; and
- higher income Indigenous families wishing to purchase their first home but are unable to meet the deposit and savings requirements of mainstream lenders.

The Plan identifies a number of key tasks critical to the success of the plan including:

- targeting of customers;
- programme promotion;
- liaison with Indigenous Housing organisations and State/Territory Housing Authorities;
- expanding Service Delivery Capability including monitoring and reporting capabilities; and
- staff recruitment.

The targeting of the budget measure client groups

HOP management has recognised the importance of this in its implementation plan and noted that effective targeting is likely to rely upon improved coordination arrangements between agencies involved in Indigenous Housing initiatives and programme promotion.

The Standing Committee on Indigenous Housing was formally established to coordinate the implementation of the Australian Housing Ministers' Ten Year Statement of New Directions for Indigenous Housing—*Building a Better Future: Indigenous Housing to 2010*. An issue that received attention was improving coordination between HOP and other Indigenous Housing programmes. A common reporting framework has been prepared to assist in the development of State, Territory and Australian Government Indigenous housing strategic and annual programme plans. Home ownership strategies are an important component of these annual plans.

One of the risks identified in the implementation plan for the 2004–05 budget measure is: 'that insufficient demand will be generated from initial target groups.'⁸¹ The ANAO examined a number of these coordination arrangements to determine whether they would moderate the risk of insufficient demand from the identified target groups.

Home Purchase Incentive Scheme (HPIS)

The Department of Family and Community Services (FaCS) has responsibility for the HPIS. Under the HPIS, Indigenous tenants are able to purchase properties from Community Housing Organisations at a discount to market rate.

Indigenous tenants are able to access HOP, subject to standard HOP eligibility criteria and funding guidelines, to purchase these properties.

HOP lending activities in relation to the purchase of rental properties from Community Housing Organisations are subject to an understanding that FaCS first has to agree to the sale of an Indigenous Housing Organisation property funded by Australian Government grant funds.

In this context, HOP's role in any purchase is as financier and therefore Housing Loans officers are not involved in establishing the details of the purchase—such as discount on purchase and conditions of sale. This is the responsibility of HPIS staff. Interaction in relation to the process undertaken by FaCS is managed at the National Office level through liaison between the programme managers.

Relationships with relevant State-based housing organisations

Under the current federal/State co-operative housing agreement, each State and Territory has responsibility for rental housing. This includes facilitating the housing of Indigenous Australians through either a specific Indigenous housing programme or through mainstream housing activities.

HOP has recently concluded a joint venture with the NSW Aboriginal Housing Office (NSWAHO) to assist Indigenous tenants purchase their rental properties. The ANAO considers that, despite initial teething difficulties associated with the joint-venture arrangement, once it is established it may form a model for HOP engagement with other such organisations.

Programme promotion

Promotion is a central component of the Implementation Plan to expand HOP. Initiatives with State and Territory counterparts, involved in Indigenous Home Ownership, are likely to include joint marketing arrangements of the schemes

⁸¹ Housing Loans Section, 2004, *Expansion of ATSIC Home Ownership Programme—Implementation Plan*, p. 7.

available in each of the jurisdictions to further increase opportunities for Indigenous Australians to enter the home ownership market.

The HOP Manager and the CEO of Homestart Finance in South Australia are exploring possible synergies between the Nunga Loan Programme⁸² and HOP.

This has resulted in a proposal to jointly sponsor an Aboriginal Housing Seminar in South Australia in 2005. Cooperative working relationships with other housing organisations such as this will increase opportunities for Indigenous Australians to enter the home ownership market.

This approach could be extended nationally and facilitate the development of joint initiatives between HOP and State based Indigenous Housing Organisations to successfully target client groups identified in the budget measure.

⁸² The loan product is available for both Aboriginal Housing Authority tenants who want to buy their existing rental home and all South Australian Nunga people who are interested in home ownership.

Appendix 3: **PRIVACY ACT 1988 — SECT 14—Information Privacy Principles**

The Information Privacy Principles are as follows:

Principle 1

1. Personal information shall not be collected by a collector for inclusion in a record or in a generally available publication unless:

- (a) the information is collected for a purpose that is a lawful purpose directly related to a function or activity of the collector; and
- (b) the collection of the information is necessary for or directly related to that purpose.

2. Personal information shall not be collected by a collector by unlawful or unfair means.

Principle 2

Where:

(a) a collector collects personal information for inclusion in a record or in a generally available publication; and

(b) the information is solicited by the collector from the individual concerned;

the collector shall take such steps (if any) as are, in the circumstances, reasonable to ensure that, before the information is collected or, if that is not practicable, as soon as practicable after the information is collected, the individual concerned is generally aware of:

(c) the purpose for which the information is being collected;

(d) if the collection of the information is authorised or required by or under law—the fact that the collection of the information is so authorised or required; and

(e) any person to whom, or any body or agency to which, it is the collector's usual practice to disclose personal information of the kind so collected, and (if known by the collector) any person to whom, or any body or agency to which, it is the usual practice of that first-mentioned person, body or agency to pass on that information.

Principle 3

Where:

(a) a collector collects personal information for inclusion in a record or in a generally available publication; and

(b) the information is solicited by the collector;

the collector shall take such steps (if any) as are, in the circumstances, reasonable to ensure that, having regard to the purpose for which the information is collected:

(c) the information collected is relevant to that purpose and is up to date and complete; and

(d) the collection of the information does not intrude to an unreasonable extent upon the personal affairs of the individual concerned.

Principle 4

A record-keeper who has possession or control of a record that contains personal information shall ensure:

(a) that the record is protected, by such security safeguards as it is reasonable in the circumstances to take, against loss, against unauthorised access, use, modification or disclosure, and against other misuse; and

(b) that if it is necessary for the record to be given to a person in connection with the provision of a service to the record-keeper, everything reasonably within the power of the record-keeper is done to prevent unauthorised use or disclosure of information contained in the record.

Principle 5

1. A record-keeper who has possession or control of records that contain personal information shall, subject to clause 2 of this Principle, take such steps as are, in the circumstances, reasonable to enable any person to ascertain:

(a) whether the record-keeper has possession or control of any records that contain personal information; and

(b) if the record-keeper has possession or control of a record that contains such information:

(i) the nature of that information;

(ii) the main purposes for which that information is used; and

(iii) the steps that the person should take if the person wishes to obtain access to the record.

2. A record-keeper is not required under clause 1 of this Principle to give a person information if the record-keeper is required or authorised to refuse to give that information to the person under the applicable provisions of any law of the Commonwealth that provides for access by persons to documents.

3. A record-keeper shall maintain a record setting out:

- (a) the nature of the records of personal information kept by or on behalf of the record-keeper;
- (b) the purpose for which each type of record is kept;
- (c) the classes of individuals about whom records are kept;
- (d) the period for which each type of record is kept;
- (e) the persons who are entitled to have access to personal information contained in the records and the conditions under which they are entitled to have that access; and
- (f) the steps that should be taken by persons wishing to obtain access to that information.

4. A record-keeper shall:

- (a) make the record maintained under clause 3 of this Principle available for inspection by members of the public; and
- (b) give the Commissioner, in the month of June in each year, a copy of the record so maintained.

Principle 6

Where a record-keeper has possession or control of a record that contains personal information, the individual concerned shall be entitled to have access to that record, except to the extent that the record-keeper is required or authorised to refuse to provide the individual with access to that record under the applicable provisions of any law of the Commonwealth that provides for access by persons to documents.

Principle 7

1. A record-keeper who has possession or control of a record that contains personal information shall take such steps (if any), by way of making appropriate corrections, deletions and additions as are, in the circumstances, reasonable to ensure that the record:

- (a) is accurate; and
- (b) is, having regard to the purpose for which the information was collected or is to be used and to any purpose that is directly related to that purpose, relevant, up to date, complete and not misleading.

2. The obligation imposed on a record-keeper by clause 1 is subject to any applicable limitation in a law of the Commonwealth that provides a right to require the correction or amendment of documents.

3. Where:

(a) the record-keeper of a record containing personal information is not willing to amend that record, by making a correction, deletion or addition, in accordance with a request by the individual concerned; and

(b) no decision or recommendation to the effect that the record should be amended wholly or partly in accordance with that request has been made under the applicable provisions of a law of the Commonwealth;

the record-keeper shall, if so requested by the individual concerned, take such steps (if any) as are reasonable in the circumstances to attach to the record any statement provided by that individual of the correction, deletion or addition sought.

Principle 8

A record-keeper who has possession or control of a record that contains personal information shall not use that information without taking such steps (if any) as are, in the circumstances, reasonable to ensure that, having regard to the purpose for which the information is proposed to be used, the information is accurate, up to date and complete.

Principle 9

A record-keeper who has possession or control of a record that contains personal information shall not use the information except for a purpose to which the information is relevant.

Principle 10

1. A record-keeper who has possession or control of a record that contains personal information that was obtained for a particular purpose shall not use the information for any other purpose unless:

(a) the individual concerned has consented to use of the information for that other purpose;

(b) the record-keeper believes on reasonable grounds that use of the information for that other purpose is necessary to prevent or lessen a serious and imminent threat to the life or health of the individual concerned or another person;

(c) use of the information for that other purpose is required or authorised by or under law;

(d) use of the information for that other purpose is reasonably necessary for enforcement of the criminal law or of a law imposing a pecuniary penalty, or for the protection of the public revenue; or

(e) the purpose for which the information is used is directly related to the purpose for which the information was obtained.

2. Where personal information is used for enforcement of the criminal law or of a law imposing a pecuniary penalty, or for the protection of the public revenue, the record-keeper shall include in the record containing that information a note of that use.

Principle 11

1. A record-keeper who has possession or control of a record that contains personal information shall not disclose the information to a person, body or agency (other than the individual concerned) unless:

(a) the individual concerned is reasonably likely to have been aware, or made aware under Principle 2, that information of that kind is usually passed to that person, body or agency;

(b) the individual concerned has consented to the disclosure;

(c) the record-keeper believes on reasonable grounds that the disclosure is necessary to prevent or lessen a serious and imminent threat to the life or health of the individual concerned or of another person;

(d) the disclosure is required or authorised by or under law; or

(e) the disclosure is reasonably necessary for the enforcement of the criminal law or of a law imposing a pecuniary penalty, or for the protection of the public revenue.

2. Where personal information is disclosed for the purposes of enforcement of the criminal law or of a law imposing a pecuniary penalty, or for the purpose of the protection of the public revenue, the record-keeper shall include in the record containing that information a note of the disclosure.

3. A person, body or agency to whom personal information is disclosed under clause 1 of this Principle shall not use or disclose the information for a purpose other than the purpose for which the information was given to the person, body or agency.

Appendix 4: Requirements of the Designing and Implementing Recordkeeping Systems (DIRKS) methodology

- a) **Preliminary investigation.** Identify and document the role and purpose of the organisation, its structure, its legal, regulatory, business and political environment, critical factors and critical weaknesses associated with records management.
- b) **Analysis of business activity.** Identify and document each business function, activity and transaction and establish a business classification system and identify and document the flow of business processes and the transactions, which comprise them.
- c) **Identification of requirements for records.** Identify the requirements for evidence of and information about each business function, activity and transaction, which should be satisfied through records. The requirements can be derived from an analysis of the organisation's regulatory environment and the risk of not creating and maintaining the records. Determine how each requirement may be satisfied through records management processes, and articulate and document the requirements for records.
- d) **Assessment of existing systems.** Identify and analyse existing records systems and other information systems to measure their performance against the requirements for records.
- e) **Identification of strategies for satisfying records requirements.** Identify strategies for satisfying records requirements, which may include adopting policies, standards, procedures and practices, designing new systems and implementing systems in a way which satisfies a requirement for records. Strategies should be selected on the basis of the degree of risk involved through failure to satisfy a requirement, either within the business function which the records system is intended to support, the existing systems environment or the corporate culture in which the strategy should succeed.
- f) **Design of a records system.** Design a records system which incorporates the strategies, processes and practices described in this part of ISO 15489; ensure that the records system supports, and does not hinder, business processes;
- g) **Implementation of a records system.** Implementing a records system should be undertaken systematically using project planning and methodologies appropriate to the situation and with a view to integrating the operation of records systems with business processes and related systems.
- h) **Post-implementation review.** Gather information about the performance of the records system as an integral and ongoing process. Review and assess the performance of the system, initiate and monitor corrective action and establish a regime of continuous monitoring and regular evaluation.⁸³

⁸³ Australian/International Standard for Records Management, AS ISO 15489 (2002), 8.4 Design and Implementation Methodology, as summarised by the ANAO.

Appendix 5: Agency response

Mr Steven Lack

A/g Group Executive Director

Performance Audit Services Group

Australian National Audit Office

GPO Box 707

CANBERRA ACT 2601

Dear Mr Lack

Thank you for providing a copy of your proposed performance audit report, which examined the effectiveness of the Home Ownership Programme in meeting applicable Australian Government Policies, internal guidelines and programme performance reporting.

As noted in the report, the programme has undergone significant operational changes as part of the Government's initiative to restructure Indigenous Affairs. This has provided both opportunities and challenges for the programme both in terms of its overall management, as well as its regional network delivery arrangements.

Responsibility for the Home Ownership Programme was transferred to Indigenous Business Australia on the 24 March, following the passage of the ATSIC Amendment Bill. Indigenous Business Australia is committed to ensuring the programme continues to deliver positive outcomes for Indigenous Australians, both in terms of improving home ownership participation rates, but also in providing them with the economic independence and empowerment that comes from owning their own home.

Indigenous Business Australia agrees with the recommendations in the report, and believes they will assist in ensuring that its current business planning processes will address the report findings, particularly in relation to privacy, security and archive of information collected by the programme.

I would like to thank you and your team, who I understand conducted this audit in professional, positive and constructive manner.

Yours sincerely

Ron Morony

General Manager

31 May 2005

Response to Performance Audit Recommendations

Recommendation 1

Agreed.

IBA will undertake an assessment of the risk of inappropriate access or disclosure of information and take appropriate action to ensure that customer information is adequately protected.

Recommendation 2

Agreed.

IBA will incorporate purpose and authority statements on all forms which collect customer specific information. IBA will formally write to the Office of Indigenous Policy Coordination to reiterate the programme's requirements in relation to the Privacy Act and the need for programme staff to have appropriate facilities for the collection and storage of customer information.

Recommendation 3

Agreed.

IBA has assumed responsibility over accessing and dealing with loan securities following the transfer of programme responsibilities in March 2005. IBA is currently reviewing its requirements for the ongoing management of security documents, which may involve the establishment of new storage facilities.

Recommendation 4

Agreed.

IBA will consider the cost effectiveness of its banking and legal service arrangements in the broader context of its business operations.

Recommendation 5

Agreed.

As noted in the report, a project is currently underway to overhaul of the programmes procedures manual. ANAO's specific findings in relation to decision making will be addressed as part of the project.

Recommendation 6

Agreed.

IBA will review the performance and output measures for the programme to ensure they are aligned with the programme objectives. IBA notes however, that reporting against the primary outcome goal of Indigenous participation in Home Ownership is not possible on an annual basis as it requires access to census data.

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