

Assuring Centrelink Payments – The Role of the Random Sample Survey Programme

**Department of Families, Community Services and
Indigenous Affairs**

Department of Employment and Workplace Relations

Department of Education, Science and Training

Centrelink

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Canberra ACT
31 May 2006

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in the Department of Families, Community Services and Indigenous Affairs, Department of Employment and Workplace Relations, Department of Education, Science and Training and Centrelink 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 *Assuring Centrelink Payments – The Role of the Random Sample Survey 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 'Ian McPhee', is positioned above the printed name.

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

ANAO	Australian National Audit Office
ASO	Area Support Office
BAF	Business Assurance Framework
BPA	Business Partnership Agreement
CEO	Chief Executive Officer
CSC	Customer Service Centre
CSO	Customer Service Officer
DEST	Department of Education, Science and Training
DEWR	Department of Employment and Workplace Relations
DOC	On-line Documentation
FaCS	Department of Family and Community Services, the predecessor department to FaCSIA.
FaCS PBS	Portfolio Budget Statements for the Family and Community Services Portfolio
FaCSIA	Department of Families, Community Services and Indigenous Affairs
IRS	Integrated Review System
KPI	Key Performance Indicator
MLR	Marriage-like Relationship
MoG	Machinery of Government
NSO	National Support Office

PA	Performance Assessment
PBS	Portfolio Budget Statements
PCR	Payment Correctness Report
PWC	PriceWaterhouseCoopers Actuarial
QOL	Quality On-line
RSS	Random Sample Survey
SLA	Service Level Agreement

Glossary

Administrative Error	This type of error includes error caused by Centrelink staff, systems or ambiguous rules.
Customer Error	Error or omission by the customer in providing information to Centrelink.
Customer Non-disclosure	Where a customer does not inform Centrelink of changed circumstances which may affect his/her entitlement.
Compliance/Control Framework	To confirm that customers are receiving their correct entitlements, Centrelink's compliance/control framework is specifically aimed at the prevention, detection and deterrence of incorrect payments and fraud.
Inaccuracy of outlays	The inaccuracy of outlays figure is calculated by dividing the sum of fortnightly dollar amounts of variations (upward variation, downward variation, cancellation/suspension) by the sum of the fortnightly payments to all sampled customers, the percentage figure is then calculated. To get the accuracy of outlays this figure is subtracted from 100 per cent.
Non-verifiable Error	When there is insufficient information to determine whether a decision is correct or not.
Payment 'Accuracy' in the BAF	Under the Business Assurance Framework a payment is considered 'accurate' if: the right person is paid; under the right programme; at the right rate; for the right date; and every time a payment is made. The last requirement recognises the obligation of the customer to advise of changes in circumstances that may affect their payment entitlements.

Payment 'Accuracy' in the RSS	Payment accuracy is calculated by subtracting the percentage of reviews where the payment was found to be inaccurate from 100 per cent. Payment inaccuracy is the percentage of reviews which have errors which have a dollar impact on payments, irrespective of the source of error, that is customer error or Centrelink administrative error. That is, accuracy also includes customer error which, using the BAF definition, is outside Centrelink's decision-making control.
Payment 'Correctness' in the BAF	Under the Business Assurance Framework, a payment is considered 'correct' if: the right person is paid; under the right programme; at the right rate; and for the right date(s). 'Correctness' is considered, in the context of the Business Assurance Framework, to relate only to decision-making processes within Centrelink's control.
Payment 'correctness' in the RSS	Centrelink advised the ANAO that payment correctness in the RSS is: the percentage of reviews without a dollar impact error based on information provided by the customer. This definition clarifies that customer error is excluded from the calculation of payment correctness. Centrelink procedural errors that do not impact on the customer's payment are also excluded.
Payment 'correctness' in the RSS – ANAO definition	The percentage of payment correctness is found by subtracting the percentage of reviews found to be incorrect from 100 per cent. Payment incorrectness, as identified by the ANAO using RSS data, is the percentage of customers in the RSS sample who have an error in their record, which leads to an error in their payment, that has a dollar impact.
Purchaser departments	This refers to FaCSIA, DEWR and DEST, each of which purchases service delivery services from Centrelink.

Quality On-line (QOL)	Centrelink's on-line quality assurance tool, where either 5 per cent or 100 per cent of a CSO's work, depending on his/her experience, is referred to a qualified officer, who checks for completeness and correctness.
Rolling Random Sample Survey	The Rolling Random Sample Survey is a point-in-time analysis of sampled customers' circumstances, designed to establish whether customers are being correctly paid.
RRS Coordinator	The RSS coordinators head the RSS teams in each Area. They are responsible for managing the RSS process and for liaison with Centrelink's National Support Office.
RRS Reviewer	RSS Reviewers, situated in each Centrelink Area, are responsible for conducting the RSS review.

Summary and Recommendations

Summary

Background

1. In 2004–05, Centrelink was responsible for the administration of more than \$63 billion in programme payments delivered on behalf of 25 purchaser departments. The vast majority of these outlays on programme payments (some 95 per cent) relate to three key purchaser departments, the Department of Families, Community Services and Indigenous Affairs (FaCSIA), the Department of Employment and Workplace Relations (DEWR) and the Department of Education, Science and Training (DEST).
2. A key element of the strategy used by FaCSIA, DEWR and DEST to assure the integrity of the significant Australian Government outlays on the various Centrelink payments for which they are respectively responsible¹ is the Random Sample Survey Programme. The Random Sample Survey (RSS) is a point-in-time analysis of sampled customers' circumstances, designed to establish whether customers are being correctly paid.²
3. Under *Social Security Law*³, customers are required to disclose to Centrelink information about changes in their personal and financial circumstances that affect their entitlement. However, there are risks associated with a reliance on disclosure by customers because individuals can fail to report relevant changes when they occur either through lack of understanding of their obligations, omissions, mistakes, or deliberately misrepresenting their circumstances. Centrelink uses powers under the *Social Security (Administration) Act 1999* to compel randomly selected customers to participate in a RSS review, and to provide information on their circumstances.⁴
4. The RSS sample design involves stratified sampling⁵ across the 15 Centrelink Areas. Centrelink RSS Reviewers situated within each Area conduct the RSS reviews in face-to-face interviews with selected customers. However,

¹ Until October 2004, the former Department of Family and Community Services was responsible for all of the programme payments covered by the RSS Programme. Following major machinery of government (MoG) changes that occurred at that time, DEWR and DEST now each are responsible for some of these programme payments. See Chapter 1 for further information.

² Department of Family and Community Services, *Annual Report 2004–05*, p. 277.

³ The *Social Security Law* comprises the *Social Security Act 1991*, the *Social Security (Administration) Act 1999* and the *Social Security (International Agreements) Act 1999*.

⁴ *Social Security (Administration) Act 1999*, in particular section 63 and section 192.

⁵ The population is divided into subpopulations (strata) and random samples are taken of each stratum.

file reviews are conducted in cases where a face-to-face interview is not possible, or if customers voluntarily cancel their payments before the interview can be conducted.

5. Customers are required to provide detailed evidence on their current circumstances during an RSS review. The Reviewer may also undertake third party verification of the information provided by the customer, such as checking with banks and employers. An RSS review may confirm that a customer is receiving a correct payment or result in a cancellation or variation of the customer's payment and/or identification of a debt or under payment.

6. Centrelink currently runs the RSS on behalf of the three purchaser departments. The RSS is run annually for all major Centrelink payments⁶, and minor payments are covered over a three-year cycle. Agencies advised the ANAO that, to date, the RSS Programme costs some \$4.5 million a year to conduct.

How the RSS is used

7. The purchaser departments use the RSS Programme primarily to measure the level of accuracy of outlays on income support payments delivered by Centrelink. Other purposes for which the departments use the RSS Programme are to provide a measure of the effectiveness of compliance and other review activity and to measure the level of Centrelink's administrative error, against a target agreed between the purchaser departments and Centrelink under the individual agencies' Business Partnership Agreements (BPAs).

8. At the time of the audit, a replacement programme for the RSS Programme was being developed by DEWR and DEST. DEWR informed the ANAO on 16 December 2005 that:

At the same time as the fieldwork was conducted for this audit, a review of the lapsing RSS budget measure was undertaken, led by DEWR. This review was completed in October and has informed thinking in DEWR and DEST about arrangements that might apply from 1 July 2006. These matters are being considered.

⁶ Major payments are Age Pension, Youth Allowance, Parenting Payment (Single and Partnered), Disability Support Pension, and Newstart Allowance.

9. The ANAO notes that DEWR and DEST both received additional funding to expand the RSS programme, under a fraud and compliance measure in the 2006–07 Budget.

Business Assurance Framework

10. The BAF provides ‘performance assurance to the Australian Government, Centrelink’s key stakeholders, purchaser departments, the Board⁷ and customers.’⁸ BAFs are included in all key Centrelink BPAs to provide assurance on the integrity of outlays, to identify risks and the control frameworks that mitigate those risks. RSS results are the primary quality assurance tool for the BAF.⁹

11. In addition to the RSS, Centrelink also undertakes a broader assurance programme as part of its control framework. This programme includes a number of prevention and review activities including data matching and other risk reviews. The other review activities are targeted towards specific customers, whereas the RSS Programme is sampled across the entire Centrelink customer population for a particular payment.¹⁰ These other prevention and review activities are detailed in Appendix 1.

12. Under the BAF, a payment is considered ‘correct’ if: the right person is paid; under the right programme; at the right rate; and for the right date(s). ‘Correctness’ is considered, in the context of the BAF, to relate only to decision-making processes within Centrelink’s control. The payment correctness target contained in the individual agencies’ BPAs is a measure of Centrelink’s administrative errors that have an impact on payment; it does not take into account customer error.

13. The RSS takes a sample of customers and identifies errors in the information held by Centrelink compared with the information obtained from the RSS interview and follow-up procedures.

14. RSS error data for the full year 2004–05 are shown in the following table.

⁷ The Centrelink Board of Management was abolished upon commencement of amendments to the *Commonwealth Service Delivery Agency Act 1997* on 1 October 2005. The authority which formerly rested with the Board now rests with the Chief Executive Officer (CEO) of Centrelink.

⁸ Centrelink, *Annual Report 2004–05*, pp. 37–39.

⁹ *ibid.*

¹⁰ A range of customers are excluded from selection in the RSS, including those who are currently being reviewed in another Centrelink process and those who reside in remote areas.

Table 1**RSS error results for the full year 2004–05**

Type of error	Number	Percentage
Reviews with no error	5 496	54.7
Reviews with error		
Reviews with an error with no dollar impact	1 562	15.5
Reviews with Centrelink administrative error with no dollar impact ^{AB}	944	9.4
Reviews with an error with dollar impact	2 990	29.8
Reviews with Centrelink administrative error with dollar impact ^{ABC}	342	3.4
Total reviews with error	4 552	45.3
Total number of reviews	10 048	100.0

Notes: A) Additional data supplied to the ANAO by Centrelink not included in report from which the remaining results reported in this table were sourced.

B) The number of reviews with a customer error with or without a dollar impact cannot be calculated by subtracting administrative error from the total number of reviews with an error with or without a dollar impact. This is because a review can have multiple errors. Centrelink also advised the ANAO that it could not provide the break down of reviews with a customer error with and without a dollar impact, without significant additional work.

C) The payment correctness figure of 96.6 per cent discussed in paragraphs 20 to 22 is calculated by subtracting the figure for reviews with Centrelink administrative error with dollar impact (3.4 per cent) from 100 per cent.

Source: Rolling Random Sample Surveys, Final Results Quarter 4 of 2004–2005, including full year, Compliance and Review, Centrelink, February 2006.

15. As can be seen from Table 1, some 45 per cent of Centrelink customers surveyed in the full year 2004–05 had at least one error in their record. Over a third (1 661 cases) of these had multiple errors.¹¹ For errors with a dollar impact on payment, 18.8 per cent resulted in a cancellation or variation to payment, 54.5 per cent resulted in a debt, and 26.7 per cent resulted in a cancellation or variation and a debt.

16. For the full year 2004–05, the total value of customer debts raised as a result of all RSS reviews was \$3 213 810. The average value of all debts was

¹¹ Centrelink, *Rolling Random Sample Surveys, Final Results Quarter 4 of 2004–2005, including full year, Compliance and Review*, February 2006, p. 11.

\$1 034. Around a third of debts were under \$50.¹² Approximately 20 per cent of debts were over \$1 000, including 4.3 per cent of debts which were over \$5 000.

17. The RSS further categorises reviews with an error into those with a Centrelink administrative error and/or a customer error with no dollar impact and those with a Centrelink administrative error and/or a customer error with a dollar impact.

18. In 2004–05, Centrelink identified one or more errors in 4 552 of the 10 048 RSS reviews conducted, with the total number of 7 037 errors distributed across these 4 552 reviews. Centrelink RSS Reviewers determined that 78 per cent of these errors were due to customer error (that is customer action or inaction). The remaining 22 per cent were categorised as due to Centrelink administrative error (predominately incomplete processing), albeit that only 5.1 per cent of these errors (or 3.4 per cent of reviews) had an immediate impact on the customer's payment.

19. This information is used to calculate payment correctness. The definition agreed between Centrelink and purchaser departments for payment correctness is calculated only taking into account reviews with a Centrelink administrative error with a dollar impact. Any error attributed to customer action or inaction, and any administrative error with no dollar impact is excluded.

20. Centrelink reported in its 2004–05 Annual Report that:

Since [this] random sampling process began in July 2002, Centrelink's payment correctness figures have exceeded 95 per cent [the BPA target] every quarter, with an annual figure for 2004–05 of 96.8 per cent.¹³

21. The payment correctness figure reported in Centrelink's annual report is based on preliminary data from the RSS collected in the first three quarters of 2004–05.¹⁴ The figure is derived by taking the number of reviews with a

¹² Centrelink automatically waives debts of less than \$50, as it is not cost effective to recover these debts. The power to waive in this circumstance is provided under section 1237AAA(1) of the *Social Security Act 1991*.

¹³ Centrelink, *Annual Report 2004–05*, p. 39.

¹⁴ The final validated results of the RSS for 2004–05 were not available until February 2006. Accordingly, these results were not available for inclusion in agencies' 2004–05 Annual Reports. Centrelink advised the ANAO in April 2006 that the purchaser departments had agreed that the Centrelink's CEO's Statements of Assurance for 2004–05 be based on the first three quarters of data for 2004–05 as the fourth quarter data would not be available by the time the Statements of Assurance were required.

Centrelink administrative error with a dollar impact as a percentage of the sampled population, and subtracting this number from 100 per cent.¹⁵

22. Centrelink's 96.8 per cent reported payment correctness for 2004–05 does not mean that 96.8 per cent of customers received a correct payment in that year. As identified in Table 1, the RSS showed that in 2004–05 some 30 per cent of customers had an error that had a dollar impact on their payment, meaning that payment correctness (using the ordinary meaning of the term) was around 70 per cent.

23. While the proportion of payments that were incorrect was around 30 per cent, many of the individual payment variations are small. Given that the RSS is a point in time analysis, the variations relate to a fortnightly payment. The largest variation will occur in the case of a payment cancellation, that is, the largest variation will equal the customer's entire fortnightly payment. However, given that many variations are small, then the impact on outlays is not large. Nevertheless, even a small variation will have economic and other impacts on an individual customer.

Calculation of the accuracy of outlays

24. As noted in paragraph 7, the primary use to which the three purchaser departments put the RSS programme is to measure the level of accuracy of outlays on income support payments delivered by Centrelink.

25. To do this, the purchaser departments have to first identify the 'total payment inaccuracy'. That is the percentage of RSS reviews that have errors which have a dollar impact on payments, irrespective of the source of the error (that is customer error or Centrelink administrative error).

26. The inaccuracy of outlays is then calculated by dividing the sum of fortnightly dollar amounts of variations (upward variation, downward variation, cancellation/suspension) by the sum of the fortnightly payments to all sampled customers, the percentage figure is then calculated. To get the accuracy of outlays the purchaser departments then subtract this figure from 100 per cent.

27. FaCSIA advised the ANAO that, based on the RSS data, the accuracy of outlays for 2004–05 was 97.9 per cent for those major social security payments

¹⁵ The relevant final validated results for 2004–05 are set out in Table 1 and using these figures it can be seen that the final payment correctness figure for 2004–05 is 96.6 per cent, within 0.2 per cent of the preliminary figure reported in Centrelink's 2004–05 Annual Report.

made by Centrelink on behalf of FaCSIA.¹⁶ DEWR advised the ANAO on 9 December 2005 that its assessment of the results of the RSS between 1 July 2004 and 31 March 2005 show that the average inaccuracy rate for working age payments was 4.2 per cent. This equates to 95.8 per cent of outlays on Centrelink payments for which DEWR is responsible being accurate.

Audit Approach

28. The overall objective of the audit was to assess whether the RSS Programme is effective and efficient in providing assurance on the levels of payment error and the resultant risks to the integrity of Australian Government outlays for payments administered by Centrelink.

29. Specifically, the audit assessed whether:

- the RSS Programme meets the objectives outlined for it in the Portfolio Budget Statements under which funding was provided;
- there is an adequate methodology underpinning the RSS reviews;
- the RSS reviews are conducted effectively and efficiently, and adequate quality assurance mechanisms exist to assure the results obtained from the RSS reviews; and
- reporting by the agencies of the results of the RSS Programme is adequate and takes into consideration the issues identified in Audit Report No. 44 2002–03 *Review of the Parenting Payment Single Program*, and Audit Report No. 17 2002–03 *Age Pension Entitlements*.

Key Findings

Meeting the Major Objective of the RSS Programme (Chapter 3)

30. The ANAO examined the extent to which the RSS meets the major objective of the RSS Programme, that is, to measure the level of incorrect payment. The ANAO also examined the related objective to detect undeclared changed circumstances.¹⁷

Importance of error

31. The figure for the accuracy of outlays is the most visible output of the RSS process. However, the data on error collected by the RSS is also of

¹⁶ These payments are Age Pension, Carers Payment and Child Disability Allowance.

¹⁷ *Portfolio Budget Statements 2001–02, Family and Community Services Portfolio*, p. 188.

importance in identifying the size and nature of error. The data provide information regarding the quality of administration of Centrelink payments, and ultimately, the quality of service delivered to customers. The impact of error on the cost of providing services is also of importance.

32. Two studies have highlighted the importance of error (both customer and administrative error) for Centrelink's effective and efficient administration of payments. First, the 2004 Allen Consulting Group report *FaCS and Centrelink: Compliance Review* raised the impact of error. Secondly, an internal study conducted by Centrelink in 2004, Project Charlotte, highlighted the importance of identifying error. Previous ANAO performance audits have also raised issues relating to error.¹⁸

33. The Allen Consulting Group report stated that:

while an [administrative] error may be immaterial to payment today – such as a coding error – it represents the possibility that compliance controls could be precluded from identifying future payment inaccuracy...From this perspective, administrative errors –whether material to outlays or not – may contribute to underlying inaccuracy.¹⁹

34. Centrelink's Project Charlotte looked at determining the cause of customer error. The Analysis Report from the project stated that:

Customer error creates an amount of rework or additional work which impacts on staff's capacity. It is also costly in both administration and program expenditure.²⁰

Robustness of RSS estimates

35. There are a range of issues which impact on the robustness of the estimates of incorrect payment²¹ calculated from the RSS data (and hence the

¹⁸ ANAO Audit Report No.44 2002–03, *Review of the Parenting Payment Single Program*; and ANAO Audit Report No.17 2002–03, *Age Pension Entitlements*.

¹⁹ The Allen Consulting Group, *FaCS and Centrelink: Compliance Review, Final Report*, January 2004, p.43.

²⁰ Centrelink, "*Charlotte*" – *the Web Unfurls, Analysis Report*, December 2004, p. 7.

²¹ Incorrect payment, as identified in the RSS, is the number of customers in the RSS sample who have an error in their record, which leads to an error in their payment, that has a dollar impact.

accuracy of outlays estimate²²). But the ANAO found that the major issue affecting the robustness of the RSS estimates is the inability of the RSS to uncover all incorrect payments due to the inherent problem that not all customers will disclose all of their circumstances and/or all of the changes in their circumstances, even when asked in a face-to-face interview. Customer non-disclosure is a form of non-sampling error and, therefore, cannot be addressed through a greater sample size.

36. Accordingly, no survey method to identify the level of Centrelink payments affected by error will be 100 per cent accurate. In addition, the cost of uncovering all customer non-disclosure, even if a robust methodology to achieve this was identified, is likely to be prohibitive.

37. However, current reporting by agencies based on the RSS programme data does not reflect the limitations of the data. The current reporting of the estimates of the accuracy of outlays on Centrelink payments suggests a level of precision that is not able to be supported by data from the RSS Programme.²³

Information on the potential extent of customer non-disclosure of all circumstances and/or changes in circumstances

38. The extent of customer non-disclosure of all their circumstances and/or changes in circumstances is unknown. However, there is some research which provides some information on the potential extent of non-disclosure in general, and in relation to cash-in-hand payments in particular.

39. In early 2005, FaCSIA, DEWR and DEST commissioned research to be undertaken to inform the development of the *Keeping the System Fair* Campaign (badged as *Support the System that Supports You* when released in September 2005).

40. The research found that there was 'a high level of tolerance of and acceptance of non-compliant behaviours and practices. There was widespread sympathy and empathy with individuals who did not report certain changes in

²² To calculate the accuracy of outlays, the purchaser departments first have to calculate the level of inaccuracy of outlays. The inaccuracy of outlays is calculated by dividing the sum of fortnightly dollar amounts of variations (upward variation, downward variation, cancellation/suspension) identified in the RSS by the sum of the fortnightly payments to all sampled customers, the percentage figure is then calculated. To derive the estimate of the accuracy of outlays, this figure is subtracted from 100 per cent. So from the 2004–05 RSS results, FaCSIA calculated that the 2.1 per cent of outlays on Centrelink payments for which FaCSIA is responsible had been inaccurate in that year. Subtracting 2.1 per cent from 100 per cent gives 97.9 per cent as the accuracy of outlays estimate for FaCSIA payments in 2004–05.

²³ For example, FaCSIA, in its 2004–05 Annual Report reported the accuracy of outlays in respect of those Centrelink payments for the department is responsible at 97.9 per cent.

their circumstances.’²⁴ The research suggested that ‘non-reporting is increasingly becoming normalised behaviour’.²⁵

41. In 2003, the Regulatory Institutions Network at the Australian National University conducted a national survey, part of which related to the cash economy. The survey was anonymous and respondents were selected from a stratified random sample of Australian households. The survey found that 9.4 per cent of respondents had worked for cash-in-hand payments (cash-in-hand was defined as cash money that tax is not paid on).²⁶

42. Importantly, in the context of the RSS, the survey found that those who were in receipt of a government benefit were more likely to be engaging in cash economy activities (11 per cent of beneficiaries, compared with 8 per cent of non-beneficiaries), although there were no significant differences in the amount of money earned.²⁷ This reinforced a similar finding from surveys conducted in 2000 and 2002.²⁸

Limitations of steps taken in the RSS process to detect customer non-disclosure of all circumstances or changes in circumstances

43. The RSS has a two-part methodology. First, the selected customer is required to participate in a face-to-face interview with an RSS Reviewer²⁹ using a structured questionnaire. Secondly, the RSS Reviewer undertakes follow-up procedures to obtain information from third parties (such as employers and banks) and from other sources (for example Centrelink’s own database and the electoral roll).

44. As a means of going some way to overcoming non-disclosure by non-compliant customers, the RSS questionnaire has been designed to include a number of ‘trigger’ questions. Depending on the customer’s answer to any of these questions, there may be an indicator prompting further inquiry into an aspect of their circumstances. However, during fieldwork for this audit, Centrelink staff interviewed by the ANAO advised that while these ‘triggers’

²⁴ Orima Research, *Report on the Developmental Research for the Keeping the System Fair Campaign*, March 2005, p. 19.

²⁵ *ibid.*, p. 5.

²⁶ Regulatory Institutions Network, Australian National University Monika Reinhart, Jenny Job and Valerie Braithwaite, *Untaxed Cash Work: Feeding Mouths, Lining Wallets*. Report for the Department of Family and Community Services, March 2004, p. 30.

²⁷ *ibid.*, p. 56.

²⁸ *ibid.*, p. 54.

²⁹ This is not always the case. In some Areas, staff who are not RSS staff conduct the interview. This is examined in further detail in Chapter 5.

uncovered some cases of non-disclosure, they were unsuccessful in identifying other cases.

45. Further, while some Reviewers advised the ANAO that they followed up on doubts that the customer was disclosing relevant information regarding his/her circumstances, others indicated that they did not, stating they believed they did not have the evidence to allow the conduct of such follow-up action. A number of RSS staff interviewed also stated that, due to time pressures, follow-up work was not always undertaken.

Use of RSS data

46. The accuracy of outlays figure is used by agencies to provide assurance to the Parliament and the community that Centrelink payments are accurate and that, ultimately, public funds are appropriately expended. There are two issues related to how agencies have been using the RSS data as set out below.

Transparency

47. As discussed in paragraph 37, the accuracy of outlays figure derived from RSS data has been reported by agencies with no reference to its inherent limitations. In addition, a reported accuracy of 97.9 per cent³⁰, which is very high and goes to one decimal point, suggests a level of precision that the RSS data cannot provide. Users of the information may be given a false sense of confidence regarding both the robustness of the figure and the accuracy of outlays.

48. This finding mirrors the recommendation of Audit Report No. 44 2002–03 *Review of the Parenting Payment Single Program* which stated that ‘FaCS should ensure that the limitations of the RSS methodology are transparent to relevant stakeholders and that all stakeholders are made aware of the degree of confidence FaCS has in the methodology’.³¹

Unclear reporting

49. As discussed in paragraphs 17–21, while the RSS figure generally cited is the measure of the accuracy of outlays, Centrelink also reports a figure for the correctness of payments in its Annual Report and to the purchaser departments. In Centrelink’s 2004–05 Annual Report payment correctness was

³⁰ FaCSIA’s estimate of the accuracy of outlays in 2004–05 for those major social security payments made by Centrelink on behalf of FaCSIA. Similarly, DEWR’s estimate for the accuracy of the outlays in 2004–05 for those major social security payments made by Centrelink on behalf of DEWR was 95.8 per cent.

³¹ ANAO Audit Report No. 44 2002–03, op. cit., p.72.

reported as 96.8 per cent. Centrelink's payment correctness figure, which is also derived from RSS data, is a measure of a target contained in the individual agencies' BPAs.³² The payment correctness figure contained in the BPAs is actually a measure of Centrelink's administrative errors which have an impact on payment.

50. This figure of 96.8 per cent 'payment correctness' compares with for example the 97.9 per cent accuracy of outlays figure reported by FaCSIA for those major social security payments made by Centrelink on behalf of FaCSIA. However, they are measures of very different factors. Given these figures are of similar magnitude, this in itself may cause some confusion regarding what this payment correctness figure is measuring.

51. While the definition of payment correctness may be agreed and understood between Centrelink and the purchaser departments, external reports quoting payment correctness may be misleading to the outside reader. The statement that Centrelink payment correctness in 2004–05 was 96.8 per cent, given the ordinary meaning of the words 'payment correctness', would suggest that 96.8 per cent of customers receive a correct payment. However, the RSS data show that it is actually around 70 per cent of customers who receive a correct payment (see Table 1), albeit that the variations required to make correct the some 30 per cent of payments which had been found to be incorrect were mostly small, given it relates only to a single fortnight's payment.

52. It is useful for the purchaser departments to use the RSS data to gain an insight into the level of Centrelink administrative error and its impact on both the number of customers receiving a correct payment and also the overall accuracy of outlays. However, in the absence of readers of Centrelink's Annual Report being provided with a definition of what Centrelink means by payment correctness, a reader may not understand that the only errors included in calculating the payment correctness figure reported related to Centrelink administrative errors with an impact on payment, and that customer errors are excluded. The ANAO suggests that future external reporting of Centrelink's

³² Centrelink's *Annual Report 2004–05* states (p. 39): 'To ensure effective delivery of government programs, random sample survey results are used to assure the correctness and accuracy of social security program outlays and are the primary quality assurance tool for the Business Assurance Framework.....The target for payment correctness is set at 95 per cent. Since this random sampling process began in July 2002, Centrelink's payment correctness figures have exceeded 95 per cent every quarter, with an annual figure for 2004–05 of 96.8 per cent.' This is opposed to the 97.9 per cent accuracy of outlays result for 2004–05 for FaCSIA payments only.

performance against this target in the BPAs would be clearer if it were to convey a focus on administrative correctness rather than payment correctness.

Meeting the Other Objectives of RSS Programme (Chapter 4)

53. The following sections examine the extent to which the RSS Programme meets the remaining objectives for the Programme as articulated in annual reports and relevant FaCS Portfolio Budget Statements.

Measure the reasons for incorrect payment and rigorous information on how incorrect payment occurs

54. Part of the purpose for which the RSS was originally funded was to measure the reasons for incorrect payment and to provide rigorous information on how incorrect payment occurs (particularly the circumstances in which customers do not fulfil their obligations to advise of changes in their personal and financial circumstances).³³

55. The RSS does provide information on the reasons for payment incorrectness to the extent that it detects this. However, the RSS does not provide rigorous 'information on the circumstances under which customers do not fulfil their obligations to advise of changes in their personal and financial circumstances', that is, the RSS does not provide information on why customers do not fulfil their obligations.

56. In any case, the ANAO notes that Centrelink already holds detailed information on the reasons for payment incorrectness, caused by customer error, collected through its review and compliance activities. However, this information is not recorded in Centrelink's Integrated Review System³⁴, and is consequently not easily aggregated and analysed.

Effectiveness of the compliance framework/control framework and identification of emerging risks

57. The RSS does not provide a direct measure of the effectiveness of the compliance/control framework because it does not directly test this. Rather, there is an inference that positive results in the RSS equate with the compliance/control framework being effective.

³³ *Portfolio Budget Statements 1999–2000, Family and Community Services Portfolio*, op. cit., p.137.

³⁴ The Integrated Review System (IRS) is Centrelink's computer system for recording the outcomes of review activity, including outcomes from the compliance and fraud teams, programme and service profiling reviews.

58. The RSS questionnaire does not include any questions regarding the outcomes of any compliance/control activity a customer may have been subjected to prior to selection in the RSS. There is also no follow-up during the RSS process to match back to any compliance activity the customer may have been involved in to see if it was effective. That is, where an error is identified during the RSS process, there is no checking back in the customer record to see if there was any previous compliance activity that had failed to identify the error.

59. Using the identification of incorrect payment from the RSS as a proxy for the effectiveness of the compliance/control framework may lead to an overestimate of the level of effectiveness, due to the potential that the RSS is not detecting all cases of payment errors, particularly in relation to the most non-compliant customers.

60. While some emerging risks may be identified in the RSS, those relating to the most non-compliant may not be identified, leading to skewed data. In this circumstance, if compliance activity is targeted on the basis of risks identified through the RSS, there is also a risk that compliance activity will not be directed to the most non-compliant customers, and therefore, may not be the most cost effective.

Operation of the Random Sample Survey (Chapter 5)

61. The ANAO examined the operation of the RSS Programme and concluded that there were a range of issues with the operation of the RSS Programme. These issues ultimately affect the quality of data produced from the RSS. Accordingly, addressing the opportunities to improve the operation of the RSS programme will improve the quality of the data produced. However, these improvements will not address the inherent problem of customer non-disclosure.

62. The ANAO considers that purchaser department should implement improvements to the governance of the RSS programme to gain a greater level of assurance regarding the operation of the programme and to allow them to better assess the efficiency, effectiveness and independence³⁵ of Centrelink's

³⁵ Independence in this context involves, first, that the RSS teams are not in the position of reviewing decisions they may have themselves made. Secondly, that RSS teams are independent of Centrelink staff who make payment decisions, given that RSS Reviewers conduct interviews with customers in CSCs among Centrelink Officers who made the decisions being reviewed. Thirdly, that the RSS teams are independent of the Area Management, given that Area Management are responsible for the quality of work in their Area and the quality of Area performance is monitored.

operation of the RSS Programme. There are also a range of operational issues which affect the identification of non-disclosure by customers of changes in their circumstances, including differences amongst RSS Reviewers in approaches to probing and following up on doubts.

63. The ANAO found that the quality of the data collection for the RSS was also affected by issues with:

- quality assurance of the conduct and results of the RSS;
- recruitment, training and performance management of RSS staff;
- questionnaire design;
- Centrelink staff other than RSS Reviewers conducting the interview; and
- the attribution of error between Centrelink and its customers.

Overall audit conclusion

64. The RSS Programme is a tool used by FaCSIA, DEWR and DEST primarily for the purpose of measuring the level of accuracy of some \$63 billion in Australian Government outlays on income support payments delivered by Centrelink. These purchaser departments also use the RSS Programme to provide a measure of the effectiveness of compliance and other review activity, and to measure the level of Centrelink's administrative error.

65. The ANAO acknowledges the purchaser departments' efforts to find a method to measure the accuracy of outlays, and to monitor the level of Centrelink's administrative error, and the value of such information. However, the RSS is unable to uncover all incorrect payments due to the inherent limitation that not all customers will disclose all of their circumstances and/or all of the changes in their circumstances, even when asked in a face-to-face interview.

66. The ANAO recognises that no survey method to identify the level of Centrelink payments affected by error will be 100 per cent accurate. In addition, the cost of uncovering all customer non-disclosure, even if a robust methodology to achieve this was identified, is likely to be prohibitive.

67. Notwithstanding this, the RSS programme has been relied upon by the purchaser departments and Centrelink to provide a measure of Centrelink's achievement against an agreed target in the individual agencies' BPAs for Centrelink's payment correctness, and is the key plank in the assurance of around one-third of Australian Government outlays.

68. While an internal definition of payment correctness may be agreed and understood between Centrelink and the purchaser departments, external reports quoting payment correctness based on this definition may be misleading to the outside reader. Centrelink reported in its 2004–05 Annual Report payment correctness of 96.8 per cent. Using the ordinary meaning of the words ‘payment correctness’, this would suggest to a reader that 96.8 per cent of customers receive a correct payment. However, the RSS data show that it is around 70 per cent of customers who receive a correct payment.

69. The ANAO suggests that future external reporting of Centrelink’s performance against this target in the BPAs would be clearer if it were to convey a focus on administrative correctness rather than payment correctness.

70. The figure reported by agencies for the accuracy of outlays (for example, 97.9 per cent for FaCSIA payments in 2004–05, and 95.8 per cent for DEWR payments) suggests a level of precision that is not able to be supported by data from the RSS Programme due to the inherent limitation that not all customers will disclose all of their circumstances to Centrelink.

71. The purchaser departments have received additional Budget funding to increase the sample sizes for the RSS programme. While there may be other benefits realisable from the increase in the sample size, this will not address the non-sampling error associated with customer non-disclosure. As noted in paragraph 35, customer non-disclosure is a form of non-sampling error and, therefore, cannot be addressed through a greater sample size. The purchaser departments are also proposing enhancements to the RSS programme to uncover further non-disclosure, however, these will not, in themselves, uncover all non-disclosure.

72. The ANAO considers that it is important that agencies use the accuracy of outlays figure calculated from RSS data as an indicative measure of the level of accuracy of outlays on Centrelink payments, recognising its inherent limitations. The indicative RSS measure would need to be appropriately supplemented by, and used in conjunction with, other relevant information collected by Centrelink and the purchaser departments to provide the required level of assurance for these significant Australian Government outlays.

Recommendations

73. The ANAO made nine recommendations aimed at, first, ensuring the RSS data were appropriately used and reported, and secondly, improving the operation of the RSS programme.

Agency Responses

FaCSIA

74. Assurance on the accuracy of payments made on FaCSIA's behalf by Centrelink is an important issue. We welcome the ANAO's recommendations as they will enhance FaCSIA's reporting of RSS data and strengthen the governance and management of the RSS programme. FaCSIA agrees with the recommendations contained in the report.

DEWR

75. The Department of Employment and Workplace Relations (DEWR) recognises the important role of the Random Sample Survey in providing assurance on the accuracy of outlays, and in enabling improvements to payment accuracy, including measurement of transactional error. The commitment to this measure is reflected in the recent budget announcement to extend Random Sample Surveys for all working age payments for a further four years. DEWR support the ANAO audit findings and agrees with the recommendations.

DEST

76. The Department of Education, Science and Training (DEST) agrees with the audit report's overall findings and supports its recommendations. The implementation of the recommendations will enhance the governance and operation of the Random Sample Survey (RSS) Programme and DEST's reporting of the RSS data.

Centrelink

77. Centrelink welcomes this report and considers that implementation of its recommendations will enhance administration of the random sample survey and reporting of its data and the correctness of Centrelink's decision making. Centrelink agrees with the recommendations in the report.

Recommendations

Use and Reporting of RSS data

Recommendation No.1

Para 3.137

The ANAO recommends that Centrelink make transparent, in its Annual Report and any other documents where the agency reports on its level of payment correctness, how the payment correctness figure is derived and in particular that the figure reported relates only to Centrelink administrative error identified by the RSS and does not include error identified in the RSS but attributed to customer action or inaction.

Centrelink response: Agreed.

Recommendation No.2

Para 3.142

The ANAO recommends that when reporting data from the RSS, Centrelink, FaCSIA, DEWR and DEST ensure that:

- (a) the source and limitations of the data are transparent, to enable readers to properly interpret the data and have confidence in the results; and
- (b) statistics indicating the proportion of customers correctly paid are clearly distinguished from statistics indicating the net effect of incorrect payments on government outlays.

Agency responses: All four agencies agreed with the recommendation.

**Recommendation
No.3**

Para 4.27

The ANAO recommends that, following review and compliance activities, Centrelink aggregates and analyses information regarding the reasons identified for payment incorrectness to enable robust review, by both Centrelink and the purchaser departments, of the data collected through these activities.

Centrelink response: Agreed.

**Recommendation
No.4**

Para 4.52

The ANAO recommends that Centrelink, FaCSIA, DEWR and DEST, when using the results of the RSS to measure the effectiveness of the control/compliance framework and to identify any emerging risks, take into account the possible skewing of data due to unidentified non-disclosure by customers of all their circumstances or relevant changes in their circumstances.

Agency responses: All four agencies agreed with the recommendation.

Operational Improvements

**Recommendation
No.5**

Para 5.15

The ANAO recommends that FaCSIA, DEWR and DEST put in place procedures to assure themselves that Centrelink's operation of the RSS is efficient, effective and conducted independently within Centrelink.

Agency responses: FaCSIA, DEWR and DEST all agreed with the recommendation.

**Recommendation
No.6**

Para 5.31

The ANAO recommends that Centrelink include information on the purpose of the RSS in recruitment and training materials for RSS Reviewers, and that Area RSS staff are provided with information on the outcomes of the RSS, given that it is the final product of their work.

Centrelink response: Agreed.

**Recommendation
No.7**

Para 5.66

The ANAO recommends that Centrelink, DEWR, DEST and FaCSIA review the design of the RSS questionnaire in order to:

- (a) reduce the complexity of the questionnaire;
- (b) improve sequencing through the questionnaire; and
- (c) limit question repetition when using additional specialised modules.

Agency responses: All four agencies agreed with the recommendation.

**Recommendation
No.8**

Para 5.74

The ANAO recommends that Centrelink review the RSS Team Room database, with a view to improving its useability, and that the information it contains is both current and relevant to RSS staff.

Centrelink response: Agreed.

**Recommendation
No.9**

Para 5.113

The ANAO recommends that Centrelink:

- (a) develop and implement national selection criteria for RSS Reviewers;
- (b) develop and implement a national training package for all RSS staff; and
- (c) ensure appropriate Performance Assessment procedures are in place for all RSS Reviewers.

Centrelink response: Agreed.

Audit Findings and Conclusions

1. Introduction

This chapter provides an overview of the Random Sample Survey (RSS) Programme, including the role of the RSS Programme as set out in relevant department's annual reports and in relevant Portfolio Budget Statements for the Family and Community Services Portfolio (FaCS PBS); and the approach to the audit.

Background

1.1 In 2004–05, Centrelink was responsible for the administration of more than \$63 billion in programme payments³⁶ delivered on behalf of 25 purchaser departments.³⁷ The vast majority of these outlays on programme payments (some 95 per cent) relate to three key purchaser departments, the Department of Families, Community Services and Indigenous Affairs (FaCSIA)³⁸, the Department of Employment and Workplace Relations (DEWR) and the Department of Education, Science and Training (DEST).

1.2 A key element of the strategy used by FaCSIA, DEWR and DEST to assure the integrity of the significant Australian Government outlays on the various Centrelink payments for which they are respectively responsible³⁹, is the Random Sample Survey Programme. The Random Sample Survey (RSS) is a point-in-time analysis of sampled customers' circumstances, designed to establish whether customers are being correctly paid.⁴⁰

1.3 For the financial year 2004–05, FaCSIA reported accuracy of outlays as 97.9 per cent⁴¹ for those major social security payments made by Centrelink on

³⁶ Centrelink, *Annual Report 2004–05*, p. 5.

³⁷ *ibid.*, p.11.

³⁸ Until 24 January 2006, this department was known as the Department of Family and Community Services (FaCS). However, following changes announced by the Prime Minister on that day the Office of Indigenous Policy Coordination will become part of a new Families, Community Services and Indigenous Affairs Portfolio and the department is now known as FaCSIA. For simplicity, the department's new name is used throughout this report except where documents produced by the department under its former name are quoted.

³⁹ Until October 2004, the former Department of Family and Community Services was responsible for all of the programme payments covered by the RSS Programme. Following major machinery of government (MoG) changes that occurred at that time, DEWR and DEST now each are responsible for some of these programme payments. See paragraphs 1.5 and 1.6 for further information.

⁴⁰ Department of Family and Community Services, *Annual Report 2004–05*, p. 277. Random Sample Surveys form part of Stage One of the Business Assurance Framework (BAF), assuring the correctness and accuracy of social security outlays. The BAF is the reporting mechanism designed to provide an integrated and comprehensive set of assurances about Centrelink's performances.

⁴¹ FaCS inaccuracy Table 2004–05, provided to the ANAO on 1 September 2005.

behalf of FaCSIA.⁴² DEWR advised the ANAO on 9 December 2005 that its assessment of the results of the RSS between 1 July 2004 and 31 March 2005 show that the average inaccuracy rate for working age payments was 4.2 per cent. This equates to 95.8 per cent of outlays being accurate.

1.4 Centrelink currently runs the RSS on behalf of the three purchaser departments.⁴³ Agencies advised the ANAO that, to date, the RSS Programme costs in total some \$4.5 million a year to conduct.⁴⁴

October 2004 Machinery of Government changes

1.5 On 22 October 2004, the Prime Minister announced machinery of government (MoG) changes affecting, among other things, the administration of policy relating to income support payments and related programmes. Previously, Centrelink was located in the Family and Community Services Portfolio and, while it had agreements in place with other agencies such as DEWR and DEST for the delivery of some services, the overwhelming bulk of Centrelink's activities related to its delivery of services on behalf of the then Department of Family and Community Services.

1.6 As a result of the changes announced by the Prime Minister, Centrelink is now an agency of the Department of Human Services within the Finance and Administration Portfolio. In addition, DEWR now has policy responsibility, and accountability for expenditure, for the delivery of working age income support payments (major working age payments include Newstart, Parenting Payment Partnered and Single, Youth Allowance for non-students, Disability Support Pension and Mature Age Allowance). DEST, similarly, now has policy responsibility, and accountability for expenditure, for income support payments for students, including Youth Allowance for students.

1.7 The following section provides an overview of the RSS.

Overview of the Random Sample Survey

1.8 According to the FaCS Annual Report 2004–05:

Rolling random sample surveys provide a key measure of the effectiveness of compliance and other review activity. The surveys provide a measure for

⁴² These payments are Age Pension, Carers Payment and Child Disability Allowance.

⁴³ The October 2004 machinery of government changes impacted on the governance of the RSS Programme. These issues are analysed in more detail in Chapter 5 (see paragraphs 5.1 to 5.14).

⁴⁴ Advice contained in FaCSIA email to the ANAO dated 20 October 2005.

accuracy of outlays, and are a means to facilitate external assurance as required under the business assurance framework.⁴⁵

1.9 The RSS is run annually for all major Centrelink payments⁴⁶, and for minor payments are covered over a three-year cycle. During 2004–05 Centrelink undertook, on FaCSIA’s behalf, the RSS reviews of 2 200 randomly selected customers receiving benefits, including the Age Pension (1 500), Carer Payment (350) and Carer Allowance (350).

1.10 During 2004–05, Centrelink undertook, on DEWR’s behalf, the RSS of 6 350 payment recipients including, Parenting Payment Partnered (1 500), Parenting Payment Single (1 500), Disability Support Pension (1 500), Newstart Allowance (1 500), and Mature Age Allowance (350). In addition, Centrelink undertook 1 500 Youth Allowance reviews on behalf of DEWR and DEST.

1.11 FaCSIA, and more recently DEWR and DEST, through Centrelink, review customers selected in the particular RSS sample to ascertain if they have notified Centrelink of changes to their circumstances in a timely manner, as well as ensuring that decisions made by Centrelink staff in relation to the payment have been correct. The level of incorrect payment is determined for the sample by identifying cases with either increases, decreases or cancellations to fortnightly customer payments in the recipient population. Chapter 2 provides more detail on the RSS process.

Significance of the RSS Programme

1.12 The 2004–05 Annual Assurance Statement provided by Centrelink to FaCSIA places a great deal of importance on the role of RSS:

The control and assurance framework used to report the 2004–05 PCR [Payment Correctness Report] is very similar to that used in the 2003–04 PCR. The Rolling Random Sample Survey (RRSS) results form an integral and important assurance for four of the five Risks.⁴⁷

1.13 DEWR and DEST also receive similar Annual Assurance Statements from Centrelink in respect of those payments that Centrelink delivers on their behalf. The extent of reliance that the purchaser departments and Centrelink place on the data generated by the RSS Programme, and contained in the

⁴⁵ FaCS, *Annual Report 2004–05*, Vol. 2, p. 277.

⁴⁶ Major payments are Age Pension, Youth Allowance, Parenting Payment (Single and Partnered), Disability Support Pension, and Newstart Allowance.

⁴⁷ Department of Family and Community Services, Risk and Assessment Audit Committee Meeting, *Agenda Item 3: Centrelink Assurance Statement*, 2 August 2005, p. 1.

annual Payment Correctness Reports Centrelink provides to each of the purchaser departments, is illustrated below in Figure 1.1.

Figure 1.1

Risks and the relevant assurance as set out in Centrelink's 2004–05 Payment Correctness Reports to the purchaser departments^A

Risk	Assurance
1. Centrelink incorrectly assess customer eligibility for income support	Rolling Random Sample Reviews Assurance also from Centrelink's Internal Audit, and Risk Reviews
2. Centrelink makes incorrect decisions about customers payment rate	Rolling Random Sample Reviews Assurance also from Centrelink's Internal Audit, and Risk Reviews
3. Systems pay customer incorrectly	Rolling Random Sample Reviews Assurance also provided by Systems Security and Centrelink Internal Audit
4. Systems are not available to pay customers	Centrelink's Chief Financial Officer Mainframe Disaster Recovery tests Disaster Recovery Plans Data Security Refresh ^B
5. Customers are not providing the correct information either at claim or when circumstances change	Rolling Random Sample Reviews

Notes: A) The same risks and assurance are set out in each of the Payment Correctness Reports Centrelink provided to the three purchaser departments.

B) 'Refresh' refers to the IT Refresh group of projects currently underway in Centrelink that aim to improve and modernise the current systems used within Centrelink to meet the demands of modern Government policy and service delivery. IT Refresh is a Government-funded initiative for which \$364.9 million in funding was approved in the 2003–04 Budget.

Sources: Centrelink/FaCS Payment Correctness Report 2004–05, Centrelink/DEWR Payment Correctness Report 2004–05, Centrelink/DEST Payment Correctness Report 2004–05.

1.14 The significance of the RSS data was further emphasised by DEWR in comments the agency provided to the ANAO in December 2005. DEWR advised that the RSS provides important information for the agencies, not readily obtained by alternative means and commented that:

It is important that there are robust estimates, with identified limitations, to the extent necessary, of the level of outlay accuracy and how that level is changing over time.

1.15 Comments provided to the ANAO on 7 December 2005 by FaCSIA also emphasise the importance of the RSS Programme:

The RSS samples customers across the major income support programmes for FaCS[IA], DEWR and DEST. As a result, the data from the RSS is more representative than data from reviews which are targeted at specific risks.

How the RSS is different to other Centrelink review activity

1.16 Under *Social Security Law*⁴⁸, customers are required to disclose to Centrelink information about changes in their personal and financial circumstances that affect their entitlement. However, there are risks associated with a reliance on disclosure by customers because individuals can fail to report relevant changes when they occur either through lack of understanding of their obligations, omissions, mistakes, or deliberately misrepresenting their circumstances. Centrelink uses powers under the *Social Security (Administration) Act 1999* to compel randomly selected customers to participate in a RSS review, and to provide information on their circumstances.⁴⁹

1.17 Centrelink has a risk management strategy to minimise the potential for incorrect payments by involving customers in a variety of review processes. The risk management strategy focuses on three objectives—prevention, detection and deterrence.⁵⁰

1.18 In addition to the RSS, Centrelink also undertakes a broader assurance programme as part of its control framework. This programme includes a number of prevention and review activities including data matching and other risk reviews. The other review activities are targeted towards specific customers, whereas the RSS Programme is sampled across the entire Centrelink customer population for a particular payment.⁵¹ These other prevention and review activities are detailed in Appendix 1.

⁴⁸ The *Social Security Law* comprises the *Social Security Act 1991*, the *Social Security (Administration) Act 1999* and the *Social Security (International Agreements) Act 1999*.

⁴⁹ *Social Security (Administration) Act 1999*, in particular section 63 and section 192.

⁵⁰ The Business Partnership Agreement 2001–04 between FaCS (as it was then) and Centrelink defines these as:

- Prevention—having systems and procedures in place to minimise the risk of incorrect payment occurring.
- Detection—having processes aimed at detecting incorrect payments as soon as possible and promptly correcting any incorrect payments that have occurred.
- Deterrence—promoting voluntary compliance through creating a public recognition of the risks and penalties involved in attempting to defraud Centrelink, including the likelihood of detection, recovery of debts and possible prosecution.

⁵¹ A range of customers are excluded from selection in the RSS, including those who are currently being reviewed in another Centrelink process and those who reside in remote areas.

Previous ANAO Audits

1.19 Previous audits conducted by the ANAO have examined various aspects of the RSS Programme. The 2002–03 performance audit of the *Parenting Payment Single Program* sought to examine:

the effectiveness of FaCS' methodology for estimating the levels of risk of incorrect payment to PPS customers and the impact of these incorrect payments on the integrity of program outlays, as measured through the 2001–02 RSS of the Parenting Payment Single payment.⁵²

1.20 ANAO Audit Report No.17 2002–03 *Age Pension Entitlements*, examined:

whether the source of error was correctly attributed in customer records assessed by FaCS and Centrelink as containing an error in the 2000–01 Age Pension RSS.⁵³

1.21 The ANAO Audit on the *Parenting Payment Single Program* found: 'that the RSS methodology was incomplete and that there were problems with its implementation'.⁵⁴ The ANAO Audit on *Age Pension Entitlements* recommended that: 'In order to ensure the reliability of performance information obtained through the Random Sample Survey ... both FaCS and Centrelink strengthen their quality assurance checks on the attribution of errors identified through the Surveys'.⁵⁵

1.22 While previous audits have examined the RSS, in particular the estimation methodology⁵⁶, the current audit looked at the RSS more broadly. The following sections provide more detail on the scope and methodology of this audit.

Audit approach

1.23 The overall objective of the audit was to assess whether the RSS Programme is effective and efficient in providing assurance on the levels of payment error and the resultant risks to the integrity of Australian Government outlays for payments administered by Centrelink.

⁵² ANAO Audit Report No.44 2002–03, op. cit., p. 15.

⁵³ ANAO Audit Report No.17 2002–03, op. cit., p. 15.

⁵⁴ ANAO Audit Report No.44 2002–03, op. cit., pp. 21–22.

⁵⁵ ANAO Audit Report No.17 2002–03, op. cit., p. 24.

⁵⁶ That is, the methodology used to estimate the accuracy of outlays using the estimate of error identified in the RSS.

1.24 Specifically, the audit assessed whether:

- the RSS Programme meets the objectives outlined for it in the Portfolio Budget Statement(s) under which funding was provided;
- there is an adequate methodology underpinning the RSS reviews;
- the RSS reviews are conducted effectively and efficiently, and adequate quality assurance mechanisms exist to assure the results obtained from the RSS reviews; and
- reporting by the agencies of the results of the RSS Programme is adequate and takes into consideration the issues identified in Audit Report No. 44 2002–03 *Review of the Parenting Payment Single Program*, and Audit Report No. 17 2002–03 *Age Pension Entitlements*.

1.25 Originally, the audit approach was intended to have a wider scope. That is, the audit team planned to assess whether the estimation methodology (used by agencies to calculate, from the results of the RSS, an estimate of the accuracy of outlays) operated effectively and efficiently and the resultant estimate of the level of payment error was robust. The need to examine the estimation methodology was identified, in part, due to findings in Audit Report No. 44 2002–03 *Review of the Parenting Payment Single Program*, related to the use of the so called ‘residual’ methodology.⁵⁷

1.26 At the start of the audit, FaCSIA advised it did not intend to report in future on the level of payment accuracy using the residual methodology. Instead, it would report the ‘raw’ level of accuracy. That is, the level of accuracy estimated by using the RSS error estimate, with no further manipulation of the data to take account of Centrelink’s compliance activities. In addition, during the audit, the ANAO’s audit fieldwork and analysis established that the raw RSS data is affected by an unknown level of non-disclosure by participating customers (see Chapter 3 for more detail) as well as a number of operational issues.

1.27 Accordingly, given the discontinuance of the use of the residual methodology by FaCSIA, coupled with the identification of issues relating to the quality of the raw RSS data, the ANAO re-scoped the audit and did not pursue the estimation methodology.

⁵⁷ The RSS methodology estimated controlled and residual levels of incorrectness and was based on a series of assumptions, designed to simulate the workings of specific elements of the existing control framework.

1.28 Subsequently, DEWR reported in its 2004–05 Annual Report using the residual methodology. However, the ANAO notes the advice from DEWR discussed further in paragraph 1.30 concerning development of a replacement programme.

1.29 All four agencies involved in the RSS Programme also have other payment assurance mechanisms.⁵⁸ However, the scope of the audit did not extend to these mechanisms, other than to note and acknowledge these mechanisms as part of the context in which the RSS Programme operates.

1.30 At the time of the audit, a replacement programme for the RSS Programme was being developed by DEWR and DEST. DEWR informed the ANAO on 16 December 2005 that:

At the same time as the fieldwork was conducted for this audit, a review of the lapsing RSS budget measure was undertaken, led by DEWR. This review was completed in October and has informed thinking in DEWR and DEST about arrangements that might apply from 1 July 2006. These matters are being considered.

1.31 In addition, comments provided by FaCSIA to the ANAO on 7 December 2005 stated that:

At the time of the audit, FaCS was, and still is, developing a new approach to assurance that acknowledges the limitations of the RSS data and places an increased emphasis on a broader range of assurance mechanisms.

1.32 The ANAO conducted the fieldwork for the audit and made the audit findings in this context.

1.33 The ANAO notes that DEWR and DEST both received additional funding to expand the RSS programme, under a fraud and compliance measure in the 2006–07 Budget.

Audit methodology

1.34 Fieldwork for this audit was primarily conducted between June and October 2005. The methodology for the audit included:

- examining the extent to which the RSS has met the PBS funding objectives for the Programme;
- examining the operation of the RSS reviews by Centrelink;

⁵⁸ For example compliance and review activity.

- assessing the quality assurance mechanisms used by Centrelink and the purchaser departments;
- assessing the effectiveness of the reporting of the results of the RSS and the consequent assessed level of payment accuracy;
- assessing the governance of the RSS between Centrelink and the purchaser departments; and
- assessing other relevant RSS policies and procedures.

1.35 To obtain audit evidence, the audit team:

- analysed key agency hard and soft copy documentation, files, agency Intranet and discussion databases;
- examined Centrelink's policies and procedures to administer the RSS;
- interviewed RSS teams (responsible for the operation of the RSS reviews) using a standard questionnaire for consistency. The interviews were conducted in National Support Office (NSO) and in four of the 15 Centrelink Areas;
- interviewed FaCSIA, DEWR and DEST staff responsible for RSS oversight, monitoring and coordination with Centrelink; and
- conducted general research into the administration and reporting of the RSS and the level of payment accuracy.

Structure of the report

1.36 This report contains five chapters. Chapter 2 provides an overview of the RSS process. Chapters 3 and 4 examine the extent to which the RSS Programme meets the objectives for the programme, as set out in the various relevant department's annual reports and Portfolio Budget Statements. Chapter 5 covers the operational aspects of the RSS including the governance of the RSS operations, operational issues relating to customer non-disclosure, the RSS questionnaire, timing and resource issues in conducting RSS interviews, the quality of RSS interviews, and quality assurance issues.

2. The RSS process

This chapter discusses the RSS process including the sample, the review and quality assurance procedures.

Background

2.1 The purchaser departments use the RSS Programme primarily to measure the level of accuracy of outlays on income support payments delivered by Centrelink. Other purposes for which the departments use the RSS Programme are to provide a measure of the effectiveness of compliance and other review activity and to measure the level of Centrelink's administrative error, against a target agreed between the purchaser departments and Centrelink under the individual agencies' Business Partnership Agreements (BPAs).

2.2 The RSS Programme was first mentioned as a Budget measure in the 1999–2000 Portfolio Budget Statements for the Family and Community Services Portfolio (FaCS PBS). The FaCS PBS for 1999–2000 state the following under the heading of 'Survey of the Level and Reasons for Incorrect Payments for Major Income Support Payments':

This measure provided for the entitlement of a random sample of Centrelink customers to be reviewed to measure the level of and reasons for incorrect payment ... Measurement of the level of and reasons for incorrect payment will contribute to a greater appreciation of the extent to which the overall compliance strategy is effective and a better understanding of emerging risks which are not currently adequately addressed in the strategy.⁵⁹

2.3 The 1999–2000 FaCS PBS details the impact of the Budget measure as follows:

Data gathered in this survey will provide more rigorous information on how incorrect payment occurs (particularly the circumstances in which customers do not fulfil their obligations to advise of changes in their personal and financial circumstances) and allow for better targeting of compliance activity and resources, with downstream benefits in controlling programme outlays.⁶⁰

2.4 Funding for the RSS Programme was also provided in the Budgets of 2001–02 and 2002–03. RSS were undertaken as individual Budget initiatives

⁵⁹ *Portfolio Budget Statements 1999–2000, Family and Community Services Portfolio*, p. 137.

⁶⁰ *ibid.*

and were targeted at individual payments, until the rolling samples⁶¹ were introduced in 2002–03.

2.5 Prior to the major MoG changes in October 2004, FaCSIA and Centrelink entered into detailed negotiations on the specific outputs required from the conduct of the RSS. FaCSIA provided the detailed specifications for the sample selection methodology, the data requirements and the specific tests for quality of the RSS output. FaCSIA also participated in the development of the review packages used by Centrelink to conduct the RSS reviews. Specifications, including tests to assure on data quality, were detailed in a project plan signed off by both parties.

2.6 As a result of the October 2004 MoG changes, both DEST and DEWR are now involved in the operation of the RSS Programme for student income support payments, and working age income support payments respectively. Given that these agencies have only recently become involved in the RSS Programme, much of the analysis of this report focuses on how Centrelink and FaCSIA have managed and used the RSS Programme and results.

The sample

2.7 The sample design involves stratified sampling⁶² across the 15 Centrelink Areas.⁶³ Exclusions to the sample both before and after sampling are decided on by FaCSIA, DEWR, DEST and Centrelink, and are made explicit in the project plan for each RSS undertaken. Examples of pre-sampling exclusions are customers who are currently involved in another Centrelink review or live in a remote area. Post-sampling reasons for exclusion could include such events as the death of a customer after being selected for the review, or identification that a customer has had an RSS review in the past 12 months. Centrelink also reports to FaCSIA, DEWR and DEST on the demographic information on the sample.

The review

2.8 Centrelink RSS Reviewers situated within each Area conduct the RSS reviews in face-to-face interviews with selected customers. However, file

⁶¹ Rolling samples are conducted every week across 12 months of the year (excluding Christmas/New Year). The sample is provided on a quarterly basis.

⁶² The population is divided into subpopulations (strata) and random samples are taken of each stratum.

⁶³ Centrelink's Customer Service Centres (CSCs) and various services are grouped together into 15 geographical areas across Australia, each with an Area Support Office (ASO) headed by an Area Manager. These ASOs provide management, administrative and operational support for CSCs.

reviews are conducted in cases where a face-to-face interview is not possible, or if customers voluntarily cancel their payments before the interview can be conducted.

2.9 FaCSIA, DEWR and DEST, as the purchaser departments, retain the primary responsibility for the RSS Programme, while the Compliance and Review Branch of Centrelink National Support Office (NSO) provides the operational management of the programme. NSO provides funding for the conduct of the RSS reviews to each Area Support Office (ASO). However, the number of RSS Reviewers employed in each Area and the processes followed for their selection and training are at each ASO's discretion.

2.10 Centrelink RSS Reviewers use paper-based review packages to collect and record information from customers. Information collected includes customers' personal circumstances, such as income, assets, and dependants. Reviewers then complete a checklist to identify any anomalies between the information provided by the customer during the RSS interview and the data held by Centrelink.

2.11 The review generally requires the customers to provide detailed evidence on their current circumstances. The Reviewer may also undertake third party verification of the information provided by the customer, such as checking with banks and employers.

2.12 If the review uncovers an error, it may result in a cancellation or variation of the customer's payment and may also result in a debt or under payment.

Results recording

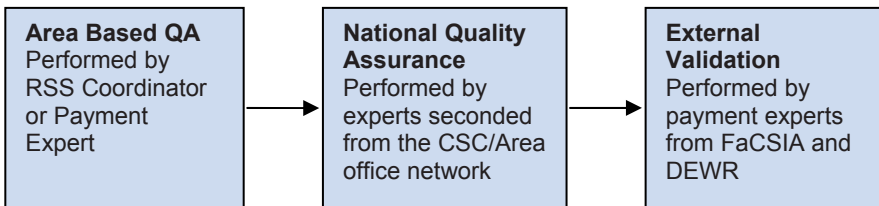
2.13 In addition to completion of the paper review packages the results of the review are also recorded in several Centrelink information systems, namely the Payment System, the Integrated Review System, the Random Review Results System and the Debt Management and Information System.

Quality assurance

2.14 Quality assurance occurs at three levels including the Area and NSO levels within Centrelink and by payment experts in FaCSIA and DEWR. DEST will shortly commence conducting its own quality assurance process, in the meantime DEST has relied on FaCSIA to conduct its part in the RSS process. The diagram below outlines the process.

Figure 2.1

The Quality Assurance Process



Source: Centrelink.

2.15 Quality assurance checks of 100 per cent of cases are undertaken by Area RSS Coordinators. A random selection of cases for all Areas is checked by NSO, including cases where the review results in a debt, cancellation, variation and present rate to continue. As the quality assurance checks take place, NSO provides ongoing feedback to the Areas. A Quality Control report is provided to Areas at the end of the process.

2.16 FaCSIA, DEWR and now DEST conduct their own quality assurance on copies of the paper-based review packages for those cases where the review results in a variation to payment; and a sample of cases without payment variation. DEWR's quality assurance process also includes validating the results against the electronic payment and review systems to ensure that results have been recorded correctly. Issues with the quality assurance process are examined in more detail in Chapter 5.

How agencies use the Random Sample Survey

2.17 Centrelink outlined how it uses the RSS information in its 2004–05 Annual Report as follows:

To ensure effective delivery of government programs, random sample survey results are used to assure and improve the correctness and accuracy of social

security program outlays and are the primary quality assurance tool for the Business Assurance Framework.⁶⁴

2.18 DEST, DEWR and FaCSIA also use the results of the RSS in their financial statements and annual reports. In addition, DEWR informed the ANAO in December 2005 that the RSS result is reported in DEWR's monthly internal Employment Services Summary Report. The purchaser departments and Centrelink also use the data to feed into compliance programmes, such as service profiling.⁶⁵

⁶⁴ Centrelink, *Annual Report 2004–05*, p. 39.

⁶⁵ Service profiling is a method of selectively targeting Centrelink services and assistance to its customers. Profiling is supported by an information technology tool that checks a customer's record for the predictors or characteristics which are relevant to the service being provided. It then determines the most appropriate pattern of actions, recognising that not all customers require the same level of service.

3. Meeting the Major Objective of the RSS Programme

This chapter examines the extent to which the Random Sample Survey Programme meets the major objective for the programme, as set out in departmental annual reports and the various relevant Portfolio Budget Statements.

Background

3.1 Centrelink's 2004–05 Annual Assurance Statement to the Secretary of FaCSIA in respect of the Centrelink payments for which FaCSIA is responsible stated that:

The rolling Random Sample Surveys commenced on 1 July 2002 to provide a measure for the accuracy of outlays.

3.2 Both FaCSIA's and DEWR's Annual Reports for 2004–05 state that the RSS Programme provides information on the accuracy of outlays and are designed to establish whether customers are being correctly paid.⁶⁶ Therefore, the RSS Programme seeks to identify incorrect payments. Budget funding for the programme reflects this purpose, as can be seen from the various FaCS PBS under which funding was provided.

3.3 As outlined in Chapter 1, Budget funding for the Random Sample Survey Programme (RSS) was provided in the Budgets of 1999–2000, 2001–02, and 2002–03, with the 2002–03 Budget measure providing funding for the RSS until the end of the financial year 2005–06.

3.4 FaCSIA acquired funding in the 2004–05 Budget for the continued operation of the RSS post-1 July 2006, in respect of those payments for which it has policy responsibility.⁶⁷ As discussed in Chapter 1, DEWR and DEST undertook a review of the RSS, the findings of which have informed thinking about new arrangements (see paragraph 1.30). The ANAO notes that DEWR and DEST both received additional funding to expand the RSS programme, under a fraud and compliance measure in the 2006–07 Budget.

⁶⁶ FaCS, *Annual Report 2004–05*, p. 277; and DEWR, *Annual Report 2004–05*, p. 39.

⁶⁷ FaCSIA's samples for the RSS will include:

- 5 000 Age Pension, 250 Carer Allowance and 750 Carer Payment customers in 2006–07;
- 10 000 Rent Assistance customers in each of 2005–06 and 2006–07; and
- 1 200 Family Tax Benefit recipients and 2 000 Child Care Benefit recipients in 2005–06.

3.5 The objectives of the RSS, as articulated over time in relevant annual FaCS PBS, are as follow:

- measure the level of incorrect payment;⁶⁸
- detect undeclared changed circumstances;⁶⁹
- measure the reasons for incorrect payment;⁷⁰
- provide more rigorous information on how incorrect payment occurs (particularly the circumstances in which customers do not fulfil their obligations to advise of changes in their personal and financial circumstances);⁷¹
- contribute to a greater appreciation of the extent to which the overall compliance strategy is effective and a better understanding of emerging risks not currently adequately addressed in the strategy;⁷² and
- provide continuous data on the effectiveness of the overall control framework for managing payments.⁷³

3.6 This chapter will examine the extent to which the RSS meets the first of these objectives, that is, to measure the level of incorrect payment, as well as the objective to detect undeclared changed circumstances, as this is linked to the first objective. The chapter also examines the data produced from the RSS, how the accuracy of outlays is calculated and the inherent and other limitations of the programme.

⁶⁸ *Portfolio Budget Statements 1999–2000, Family and Community Services Portfolio*, op. cit., p. 137.

⁶⁹ *Portfolio Budget Statements 2001–02, Family and Community Services Portfolio*, p. 188.

⁷⁰ *Portfolio Budget Statements 1999–2000, Family and Community Services Portfolio*, op. cit., p. 137.

⁷¹ *ibid.*

⁷² *ibid.*

⁷³ *Portfolio Budget Statements 2002–03, Family and Community Services Portfolio*, p. 186.

Purpose of the RSS

3.7 In its 2004–05 Annual Report, FaCS stated that the RSS ‘provide a measure for accuracy of outlays, and are a means to facilitate external assurance as required under the Business Assurance Framework (BAF⁷⁴)’.⁷⁵

3.8 FaCSIA, and now DEWR and DEST (since the October 2004 MoG changes), report the RSS data in their financial statements, and in their annual reports, as providing assurance as to the accuracy of Australian Government outlays on social security payments. In 2004–05, these outlays amounted to some \$63 billion or around one-third of government outlays. Definitions of, and issues related to, payment accuracy are discussed further in the following section.

3.9 Centrelink also places heavy reliance on the RSS data in providing its Annual Assurance Statements to FaCSIA, DEWR and DEST. Each Annual Assurance Statement from the CEO of Centrelink to the respective purchaser departments forms part of the overall Financial Statement Assurance Process. It contributes to the assurance to each departmental Secretary in signing off their department’s Financial Statements as being materially correct in respect of payments delivered by Centrelink on behalf of the department.⁷⁶

3.10 Centrelink also uses the RSS data in its annual reports, and in media releases, to evidence Centrelink’s level of achievement in terms of payment correctness.

3.11 For the financial year 2004–05, FaCSIA reported accuracy of outlays as 97.9 per cent⁷⁷ for those major social security payments made by Centrelink on behalf of FaCSIA.⁷⁸ This means that FaCSIA considers that the results of the RSS in 2004–05 demonstrated that 97.9 per cent of the dollars paid out in that financial year, for those major social security payments made by Centrelink on

⁷⁴ The Business Assurance Framework (BAF) is the reporting mechanism agreed between Centrelink and FaCSIA that is designed to provide an integrated and comprehensive set of assurances about Centrelink’s performances. Pending the development of revised Business Partnership Agreements between Centrelink and FaCSIA and DEWR, the relevant parts of the FaCS/Centrelink *Business Alliance Agreement 2004–2008* (which commenced from 1 July 2004), including the BAF, continue to apply in relation to the social security payments covered by that agreement. DEST and Centrelink have signed a BPA which expires on 30 June 2008.

⁷⁵ FaCS, *Annual Report 2004–05*, p. 277.

⁷⁶ FaCS, Risk and Assessment Audit Committee Meeting, op. cit.

⁷⁷ FaCS inaccuracy Table 2004–05, provided to the ANAO on 1 September 2005.

⁷⁸ These payments are Age Pension, Carers Payment and Child Disability Allowance.

behalf of FaCSIA, were correctly paid to customers who were entitled to receive those payments.⁷⁹

3.12 DEWR advised the ANAO on 9 December 2005 that the results of the RSS between 1 July 2004 and 31 March 2005 show that the average inaccuracy rate for working age payments was 4.2 per cent. This equates to 95.8 per cent of outlays being accurate. How the RSS data are derived and how the estimates of accuracy of outlays are calculated are examined in the next section.

RSS data and calculating the accuracy of outlays

RSS data—identification of error

3.13 The RSS takes a sample of customers and identifies errors in the information held by Centrelink compared with the information obtained from the interview and follow-up procedures.

3.14 Once all information from the interview and follow-up procedures has been collected, the RSS Reviewer takes the information and identifies cases with an error in the record. The RSS Reviewer's next step is to identify the source of the error (that is the customer or Centrelink) and then to determine whether the customer's payment needs to be amended. Changes to the customer's payment may be a cancellation, an upward or downward variation and/or a debt or an underpayment. The 'dollar impact' of the error is then calculated.

3.15 RSS error data for the full year 2004–05 are shown in the following table.

⁷⁹ This is not the same as 97.9 per cent of Centrelink customers having accurate payments. The accuracy of outlays figure refers to the estimate of the proportion of the total amount of dollars paid that was correctly paid to entitled customers while the inaccuracy of payments, (which equates to the term incorrect payment as used in this report) as identified in the RSS is the percentage of customers in the RSS sample who have an error in their record, which leads to an error in their payment, that has a dollar impact. This figure was some 30 per cent in the full year 2004–05. This is examined further in the section on identification of error.

Table 3.1**RSS error results for the full year 2004–05**

Type of error	Number	Percentage
Reviews with no error	5 496	54.7
Reviews with error		
Reviews with an error with no dollar impact	1 562	15.5
Reviews with Centrelink administrative error with no dollar impact ^{AB}	944	9.4
Reviews with an error with dollar impact	2 990	29.8
Reviews with Centrelink administrative error with dollar impact ^{ABC}	342	3.4
Total reviews with error	4 552	45.3
Total number of reviews	10 048	100.0

Notes: A) Additional data supplied to the ANAO by Centrelink not included in report from which the remaining results reported in this table were sourced.

B) The number of reviews with a customer error with or without a dollar impact cannot be calculated by subtracting administrative error from the total number of reviews with an error with or without a dollar impact. This is because a review can have multiple errors. Centrelink also advised the ANAO that it could not provide the break down of reviews with a customer error with and without a dollar impact, without significant additional work.

C) The payment correctness figure of 96.6 per cent is calculated by subtracting this figure (3.4 per cent) from 100 per cent.

Source: Rolling Random Sample Surveys, Final Results Quarter 4 of 2004–2005, including full year, Compliance and Review, Centrelink, February 2006.

3.16 As can be seen from the Table 3.1, some 45 per cent of customers surveyed in the full year 2004–05 had at least one error in their record. Over a third (1 661 cases) of these had multiple errors.⁸⁰

3.17 Almost 30 per cent of customers had an error that had a dollar impact on payment, meaning that payment incorrectness (in the ordinary meaning of the words) was 30 per cent. How this translates to FaCSIA's conclusion that the full year results of the RSS for 2004–05 indicates that there was 97.9 per cent accuracy of outlays for Centrelink payments for which FaCSIA is responsible is analysed below (see paragraphs 3.46–3.57).

⁸⁰ Centrelink, *Rolling Random Sample Surveys, Final Results Quarter 4 of 2004–2005, including full year, Compliance and Review*, February 2006, p. 11.

3.18 In 2004–05, Centrelink identified one or more errors in 4 552 of the 10 048 RSS reviews conducted, with the total number of 7 037 errors distributed across these 4 552 reviews. Centrelink RSS Reviewers determined that 78 per cent of these errors were due to customer error (that is customer action or inaction). The remaining 22 per cent were categorised as due to Centrelink administrative error (predominately incomplete processing), albeit that only 5.1 per cent of these errors (or 3.4 per cent of reviews) had an immediate impact on the customer’s payment. Problems with the attribution of error between Centrelink and its customers are examined in Chapter 5.

3.19 For errors with a dollar impact on payment, 18.8 per cent resulted in a cancellation or variation to payment, 54.5 per cent resulted in a debt, and 26.7 per cent resulted in a cancellation or variation and a debt.

3.20 For the full year 2004–05, the total value of customer debts raised as a result of all RSS reviews was \$3 213 810. The average value of all debts was \$1 034. Around a third of debts were under \$50.⁸¹ Approximately 20 per cent of debts were over \$1 000, including 4.3 per cent of debts which were over \$5 000. The total value of partner debts⁸² was \$564 140.

3.21 The RSS also identifies a range of underpayments, that is, cases where customers are receiving less than their entitlement and where Centrelink owes the customer money. Of those customers surveyed in the full year 2004–05, 6.8 per cent had an underpayment, with the total value of customer underpayments in the year calculated as \$57 563 and partner underpayments with a total value of \$9 011.

Payment correctness

3.22 Centrelink and the purchaser departments have agreed different definitions of ‘payment correctness’ and ‘payment accuracy’, and Centrelink has provided the following information on ‘payment correctness’:

Payment correctness is the percentage of [RSS] reviews without a dollar impact error based on information provided by the customer. This definition clarifies that customer error is excluded from the calculation of payment

⁸¹ Centrelink automatically waives debts of less than \$50.00, as it is not cost effective to recover these debts. The power to waive in this circumstance is provided under section 1237AAA(1) of the *Social Security Act 1991*.

⁸² Centrelink advised the ANAO on 8 November 2005 that ‘Partners in receipt of an Income Support payment are required to attend the RSS interview, complete their section of the Questionnaire and their entitlement is reviewed. This includes verification of their circumstances. These partners are involved from the time the review commences.’ Therefore partner debt is calculated separately from the customer debt.

correctness. Centrelink procedural errors that do not impact on the customer's payment are also excluded.⁸³

3.23 Under the Business Assurance Framework (BAF), developed in conjunction with FaCSIA, a payment is considered 'correct' if: the right person is paid; under the right programme; at the right rate; and for the right date(s). 'Correctness' is considered, in the context of the BAF, to relate only to decision-making processes within Centrelink's control. The payment correctness target contained in the individual agencies' BPAs is a measure of Centrelink's administrative errors that have an impact on customers' payments, it does not take into account customer error.

3.24 The relevant final validated RSS results for 2004–05 are set out in Table 3.1 and, using these figures, it can be seen that the final BPA payment correctness figure for 2004–05 is 96.6 per cent. This is found by taking the number of reviews with an administrative error with a dollar impact (342 from Table 3.1) as a percentage of the total number of reviews completed (10 048), giving 3.4 per cent payment incorrectness and subtracting that number from 100.⁸⁴

3.25 Centrelink advised the ANAO on 3 February 2006, that 'Centrelink will not in future report or refer to payment accuracy, Centrelink will continue to report on payment correctness and will continue to provide all relevant data to each policy department to enable their reporting of payment accuracy'.

3.26 Centrelink has advised the ANAO that the policy departments that purchase Centrelink's services to deliver programme payments are responsible for reporting payment accuracy. Payment accuracy is calculated by subtracting the percentage of reviews where the payment was found to be inaccurate from 100 per cent. Payment inaccuracy is the percentage of reviews which have errors which have a dollar impact on payments, irrespective of the source of error, that is customer error or Centrelink administrative error. Accordingly, the calculation of payment accuracy also includes customer error, which under the BAF is considered outside Centrelink's decision-making control.

3.27 The ANAO notes, however, that Centrelink and the purchaser departments both have a responsibility for maintaining the integrity of the

⁸³ Centrelink advice to the ANAO, 20 January 2006.

⁸⁴ This figure is within 0.2 per cent of the preliminary figure for payment correctness reported in Centrelink's 2004–05 Annual Report which had been calculated on the basis of preliminary data based on the results of the first three quarters of the RSS in 2004–05. The final validated results for the 2004–05 RSS were not available until February 2006.

social security system, and meeting the wider outcomes that the government is seeking. While the purchaser departments have overall responsibility, Centrelink, as the service deliverer, is the agency which has direct contact with customers, and is therefore in the best position to assess and limit payment inaccuracy, in consultation with the purchaser departments.

3.28 Centrelink's service delivery responsibilities include assisting customers to comply with their obligations. Centrelink is also responsible for ensuring staff are properly trained, to minimise administrative error. The ANAO also notes that Centrelink has well developed fraud detection, debt prevention and compliance activities designed to limit payment inaccuracy, as well as education activities and information products designed to assist customers to comply with their responsibilities.

3.29 Centrelink acknowledged these responsibilities in respect of programme payments in its 2003–04 Annual Report, which stated:

These payments come with clear boundaries and Centrelink staff have a responsibility to make correct decisions and to help citizens keep information about their circumstances up to date. During the year, ensuring the integrity of outlays by controlling fraud and incorrect payments continued to be a major priority. To confirm that customers are receiving their correct entitlements, Centrelink's compliance activities are specifically aimed at the prevention, detection and deterrence of [incorrect] payments and fraud.⁸⁵

3.30 The ANAO previously noted in Audit Report No.17 2002–03, *Age Pension Entitlements* that:

...FaCS and Centrelink are responsible for the integrity of outlays as a whole. In this light, the agencies should not interpret their responsibilities narrowly, through attributing errors.⁸⁶

3.31 The ANAO would expect Centrelink's internal reporting to include a focus on payment accuracy to facilitate remedial action where necessary. The importance of error is examined in more detail in paragraphs 3.33–3.45.

3.32 For the rest of this report the ANAO uses the term 'payment incorrectness' to mean the number of customers in the RSS sample who have an error in their record, which leads to an error in their payment, that has a dollar impact. This reflects the ordinary meaning of the words, and the meaning as used in the relevant FaCS PBS which provided funding for the

⁸⁵ Centrelink, *Annual Report 2003–04*, p. 5.

⁸⁶ ANAO Audit Report No.17 2002–03, op. cit., p. 56.

RSS, but is different to the definition ascribed by Centrelink to this term, that is the percentage of RSS reviews with a Centrelink administrative error which has a dollar impact on payment.

Importance of error

3.33 The figure for the accuracy of outlays is the most visible output of the RSS process. However, the data on error collected by the RSS is of importance in identifying the size and nature of error. The data provide information regarding the quality of administration of Centrelink payments, and ultimately, the quality of service delivered to customers. The impact of error on the cost of providing services is also of importance.

3.34 Two studies have highlighted the importance of error (both customer and administrative error) for Centrelink's effective and efficient administration of payments. First, the 2004 Allen Consulting Group report *FaCS and Centrelink: Compliance Review*⁸⁷ raised the impact of error, and, secondly, an internal study conducted by Centrelink in 2004, Project Charlotte, highlighted the importance of identifying error. Previous ANAO performance audits have also raised issues relating to error.⁸⁸

Non-ANAO studies

3.35 The Allen Consulting Group report stated that:

while an [administrative] error may be immaterial to payment today – such as a coding error – it represents the possibility that compliance controls could be precluded from identifying future payment inaccuracy...From this perspective, administrative errors – whether material to outlays or not – may contribute to underlying inaccuracy.⁸⁹

⁸⁷ The Allen Consulting Group was engaged by the then Department of Family and Community Services to undertake a review requested by the then Minister for Family and Community Services for which the terms of reference were:

- 'to provide an independent assessment of the nature, scope, efficiency and effectiveness of current compliance activities undertaken by FaCS and Centrelink; and
- to outline the scope for taking a more systematic approach to compliance, including cost effective measures or strategies to;
 - improve the accuracy of payments, reduce the level of Commonwealth outlays or inaccurate benefit entitlements; and
 - improve the efficiency and effectiveness of compliance arrangements.'

The Allen Consulting Group, *FaCS and Centrelink: Compliance Review, Final Report*, January 2004, p. xvi.

⁸⁸ ANAO Audit Report No.44 2002–03, op. cit.; and ANAO Audit Report No.17 2002–03, op. cit.

⁸⁹ The Allen Consulting Group, op. cit., p. 43

3.36 The report goes on to state:

For customer error to be minimised, clients need to understand the rules to which they must comply, be able to comply with the rules and be motivated to comply. This relies on administrative accuracy and professionalism, as well as appropriate payment design and customer education.⁹⁰

3.37 Centrelink's Project Charlotte looked at determining the cause of customer error. The Analysis Report from the project stated that:

Customer error creates an amount of rework or additional work which impacts on staff's capacity. It is also costly in both administration and program expenditure.⁹¹

3.38 Centrelink administrative error, to the extent that it occurs, will have similar impacts notwithstanding that the 2004–05 results of the RSS attributed 78 per cent of errors to customers and 22 per cent to Centrelink administrative error.

ANAO Audit Reports

3.39 Error, regardless of whether it is as a result of customer error or Centrelink error, and whether or not it has an impact on payment, represents a cost to Centrelink, and impacts on the quality of service.

3.40 In recognition of this, ANAO Audit Report No.17 2002–03, *Age Pension Entitlements* stated in relation to administrative errors that:

- they represent a risk to outlays;
- they represent an evidentiary risk, since correct procedures are needed to ensure that FaCS and Centrelink can conduct appeals and prosecutions (with consequential impact on outlays);
- they represent a community perception risk, in that correct procedures are needed to ensure that the community perceives that there is accountability for public monies; and
- they can assist in identifying areas where [Customer Service Officers (CSOs)] are experiencing difficulty in applying legislation, policy or procedures, since the cause of the error is the failure of the CSO to apply correct procedures, rather than the impact on outlays.⁹²

3.41 However, the report also went on to say that:

⁹⁰ *ibid.*, p. 44.

⁹¹ Centrelink, *"Charlotte" – the Web Unfurls, Analysis Report*, *op. cit.*, p. 7.

⁹² ANAO Audit Report No.17 2002–03, *op. cit.*, p. 55.

...Centrelink and the customer interact in a complex and dynamic manner. While it is useful to determine a source for errors [customer or administrative error], in order to focus efforts to prevent or correct them, FaCS and Centrelink are responsible for the integrity of outlays as a whole. In this light, the agencies should not interpret their responsibilities narrowly, through attributing errors.⁹³

3.42 These findings and comments remain valid not only for FaCSIA and Centrelink but also for DEWR and DEST given their current responsibilities.

3.43 The importance of error was further highlighted in ANAO Audit Report No.44 2002–03, *Review of the Parenting Payment Single Program*, which stated that:

In reporting on payment errors, all errors should be reported, whether they are made by Centrelink or the customer. FaCS, and ultimately the Parliament, should be able to easily assess the accuracy of program outlays, and the range and number of errors made, irrespective of their source.⁹⁴

3.44 The audit report also stated that errors found in the conduct of new child reviews were:

...a departure from expected practice, which represents a risk to quality customer service, the efficiency of program delivery and Centrelink's ability to conduct compliance activity, all of which have associated costs.⁹⁵

3.45 Reporting of RSS data is examined further in the section on use of the RSS data (see paragraphs 3.119–3.141).

Calculation of accuracy of outlays

3.46 To measure the level of accuracy of outlays on income support payments delivered by Centrelink, the purchaser departments have to first identify the 'total payment inaccuracy'. That is the percentage of RSS reviews that have errors which have a dollar impact on payments, irrespective of the source of the error (that is customer error or Centrelink administrative error).

3.47 The accuracy of outlays is calculated by subtracting the percentage of inaccuracy of outlays from 100 per cent. The inaccuracy of outlays is calculated by dividing the sum of fortnightly dollar amounts of variations (upward variation, downward variation, cancellation/suspension) by the sum of the

⁹³ *ibid.*, p. 56.

⁹⁴ ANAO Audit Report No.44 2002–03, *op. cit.*, p. 54.

⁹⁵ *ibid.*, p. 91.

fortnightly payments to all sampled customers, the percentage figure is then calculated.⁹⁶

3.48 FaCSIA's calculation for 2004–05 found an inaccuracy of 2.1 per cent for those major social security payments made by Centrelink on behalf of FaCSIA. Based on this, FaCSIA claims 97.9 per cent accuracy of outlays in 2004–05, that is that 97.9 per cent of outlays on social security payments made by Centrelink on behalf of FaCSIA were correctly paid. The comparable figure for DEWR was 4.2 per cent inaccuracy, or 95.8 per cent accuracy of outlays.

3.49 This compares with the data reported in paragraph 3.17 that around 30 per cent of those customers sampled in the RSS had an incorrect payment. FaCSIA asked the ANAO to note that nearly 30 per cent payment incorrectness is not inconsistent with 2 per cent outlay inaccuracy, given that many of the individual payment variations are very small.⁹⁷

3.50 The ANAO accepts that this is correct and that many of the incorrect payments detected through the RSS process are very small. Given that the RSS is a point in time analysis, the variations relate to a fortnightly payment. The largest variation will occur in the case of a payment cancellation, that is, the largest variation will equal the customer's entire fortnightly payment. Therefore, given that many variations are small, then the impact on outlays is not large. Nevertheless, even a small variation will have economic and other impacts on an individual customer.

3.51 However, as outlined later in this chapter, the ANAO has found that the RSS process does not have the capacity to identify all cases of non-disclosure (and so all incorrect payments) particularly where a customer is determined not to disclose information that will affect their payment. Accordingly, the potential exists that the payment variations not detected by the RSS process, being those applying to the most non-compliant customers, may be larger than the variations detected in the RSS.

3.52 For the first time in 2004–05, FaCSIA included confidence intervals⁹⁸ for the inaccuracy figure reported by the department. Table 3.2 shows FaCSIA's estimates of inaccuracy of outlays and confidence bounds for the Age Pension (the largest FaCSIA payment), for 2003–2005.

⁹⁶ FaCSIA advice to the ANAO, 7 December 2005.

⁹⁷ *ibid.*

⁹⁸ The confidence interval gives a range of values which are likely to cover the true but unknown value. A study which quotes a confidence interval of 95 per cent, is stating that should that study be repeated 100 times, the results will fall within the range of the confidence interval 95 times.

Table 3.2**FaCS estimates of inaccuracy of outlays and confidence bounds for the Age Pension for 2003–2005**

	Estimate \$m (%)	Estimate \$m (%)	Estimate \$m (%)
	<i>Lower</i>	<i>95% confidence bounds</i>	<i>Upper</i>
2003	267.4 (1.52)	\$351.5 (2.00)	\$435.6 (2.47)
2004	253.6 (1.36)	\$331.5 (1.76)	\$409.3 (2.17)
2005	291.2 (1.49)	\$401.3 (2.04)	\$511.5 (2.60)

Source: FaCS, Risk Assessment and Audit Committee Meeting 2 August 2005, Agenda Item 2, Rolling Random Sample Results.

3.53 Table 3.2 shows that for the Age Pension, the estimated range for the amount of inaccuracy of outlays for 2005 was \$291.2 million to \$511.5 million. However, the confidence interval reported here only provides a measure of the sampling error⁹⁹ associated with the RSS. The confidence interval does not account for non-sampling error.¹⁰⁰

3.54 The RSS does not pick up all cases of non-disclosure. This is because:

- even when asked in a face-to-face interview, not all customers will declare all of their circumstances and/or changes in their circumstances (non-sampling error through customer response bias);
- the follow-up procedures used by the RSS Reviewers do not work effectively in all cases (non-sampling error through method); and

⁹⁹ In any survey there are two sources of error, sampling error and non-sampling error. Sampling error occurs when data are collected from a sample rather than the entire population. Estimates of sampling error, such as standard error, can be calculated mathematically. See <http://www.qgm.qld.gov.au/00_downloads/spp_1991/ptd_s7.pdf>.

¹⁰⁰ Non-sampling error consists of systematic and variable error. This is harder to measure. Systematic error or bias can result from of a number of sources, including:

- biased sample selection (for example, data from which the sample is obtained excludes members of the population);
- inappropriate survey method (for example, using a mail back survey to obtain complex information);
- interviewers' behaviours (such as, leading respondents or mis-recording answers);
- respondents' behaviours (such as, refusals, poor recall or protecting personal interests); and
- poor questionnaire design (for example, misleading or ambiguous questions, or poor sequencing).

See <http://www.qgm.qld.gov.au/00_downloads/spp_1991/ptd_s7.pdf>.

- RSS Reviewers do not review uniformly (non-sampling error through interviewer behaviour).

3.55 These limitations are discussed in later sections of this chapter. The non-sampling error outlined in paragraph 3.54 is not measured (and is difficult to measure) but it is important to keep in mind when using the data and in interpreting the results of the RSS as it can introduce a systematic bias.

3.56 FaCSIA has been provided additional Budget funding¹⁰¹ to allow an increased sample size for RSS reviews for FaCSIA payments from 1 July 2006. This is to allow for a greater level of statistical validity for the RSS results. However, an increased sample size will not overcome the problem of non-sampling error.

3.57 The ANAO also notes that any increase in the sample size requires a concomitant increase in Centrelink's capability to undertake RSS interviews. The issue regarding the ability of Centrelink to recruit and train additional RSS staff with the requisite skills and experience to undertake this increased workload is examined in Chapter 5.

3.58 The following section examines the limitations of the programme in meeting the major objective to measure the level of incorrect payment, and the allied limitations in uncovering customer non-disclosure of all circumstances and/or changed circumstances.

Inherent limitation of the programme

3.59 There are a range of issues which impact on the robustness of the estimates of incorrect payment¹⁰² calculated from the RSS data (and hence the accuracy of outlays estimate¹⁰³) but the ANAO found that the major issue

¹⁰¹ FaCSIA has obtained funding for the RSS under the Debt Prevention Research and Development Measure outlined in the *Portfolio Budget Statements 2004–05, Family and Community Services Portfolio*. In 2006–07, FaCSIA samples for the RSS will include 5 000 Age Pension, 250 Carer Allowance, 750 Carer Payment, and 10 000 Rent Assistance customers.

¹⁰² Incorrect payment, as identified in the RSS, is the number of customers in the RSS sample who have an error in their record, which leads to an error in their payment, that has a dollar impact.

¹⁰³ To calculate the accuracy of outlays, the purchaser departments first have to calculate the level of inaccuracy of outlays. The inaccuracy of outlays is calculated by dividing the sum of fortnightly dollar amounts of variations (upward variation, downward variation, cancellation/suspension) identified in the RSS by the sum of the fortnightly payments to all sampled customers, the percentage figure is then calculated. To derive the estimate of the accuracy of outlays, this figure is subtracted from 100 per cent. So from the 2004–05 RSS results, FaCSIA calculated that the 2.1 per cent of outlays on Centrelink payments for which FaCSIA is responsible had been inaccurate in that year. Subtracting 2.1 per cent from 100 per cent gives 97.9 per cent as the accuracy of outlays estimate for FaCSIA payments in 2004–05.

affecting the robustness of the RSS estimates is the inability of the RSS to uncover all incorrect payments due to the inherent problem that not all customers will disclose all of their circumstances and/or all of the changes in their circumstances, even when asked in a face-to-face interview.

3.60 Accordingly, no survey method to identify the level of Centrelink payments affected by error will be 100 per cent accurate. In addition, the cost of uncovering all customer non-disclosure, even if a robust methodology to achieve this was identified, is likely to be prohibitive. The following sections examine the inherent problem of customer non-disclosure of all circumstances and/or changes in circumstances, and provide some indicative information on the possible extent of customer non-disclosure.

Customer non-disclosure of all circumstances or changed circumstances

3.61 The RSS provides an estimate of incorrect payments. It does this by identifying cases where the information secured through the RSS review process on customers' circumstances is different from that held by Centrelink, and detecting if there is a financial impact on the customer's payment arising from this difference.

3.62 Differences may be due to identification in the RSS Review process of:

- non-declaration and/or under-declaration by the customer of income or assets;
- the customer not having previously reported all circumstances and/or changes in their circumstances at the time they occurred;
- a change of circumstances occurring within the reporting period¹⁰⁴; and/or
- Centrelink administrative error.

3.63 Therefore, to fully meet its objective to measure the level of incorrect payment, the RSS process must involve detection of undeclared circumstances and/or changes in circumstances (and any allied financial impact).

¹⁰⁴ Customers are given a period of time to report changes in their circumstances. The RSS review may occur within this period and before the customer has reported the change. In this case the change is not 'undeclared'.

Capacity of the RSS to detect non-disclosure of all or changed circumstances

3.64 Because the RSS Review process involves calling in a customer and completely reviewing his/her entitlement, it has the capacity to detect where a customer's payment is incorrect in a range of cases such as where:

- customers may have overlooked their responsibility to report all their circumstances and/or changes in their circumstances but are willing to disclose these when asked in an RSS interview;
- customers did not fully understand their obligations to disclose but are happy to do so when these are explained again during the RSS interview;
- customers provide information at the RSS interview which, on further investigation by Centrelink—such as contact with employers or educational institutions, leads to the detection of an incorrect payment; or
- on review, a Centrelink administrative error is detected which has impacted on a customer's payment.

3.65 However, the ANAO found that there are significant limitations in the capacity of the RSS Programme to detect undeclared circumstances and/or changes in circumstances, and so identify all errors. This, therefore, leads to an underestimate of the level of payment incorrectness and limits the capacity of the programme to measure the accuracy of outlays.

3.66 This is because if a customer attends an RSS review but does not, for whatever reason, provide accurate information on their circumstances the RSS process may not otherwise detect a change in the customer's circumstances affecting their entitlement.

3.67 The problem of undetected non-disclosure of all customers' circumstances and/or changes in circumstances occurs as a result of the reliance in the RSS process on customers' complete disclosure regarding their circumstances. This is exacerbated to an extent as a result of problems with how Centrelink carries out the RSS (these are analysed further in Chapter 5).

3.68 The undetected non-disclosure is of importance as it leads to an underestimate of the level of incorrect payment, and in turn undermines the robustness of the RSS data used to calculate the accuracy of outlays. This brings into question the very high and precise levels of accuracy reported

(in 2004–05 97.9 per cent in the case of FaCSIA, and 95.8 per cent for DEWR), and also the way the accuracy level is reported.

3.69 Most of the RSS Coordinators and Reviewers the ANAO interviewed during this audit, that is the people collecting the data, saw non-disclosure as a problem. Examples of RSS Coordinators' and Reviewers' comments in relation to non-disclosure are listed in Figure 3.1 below.

Figure 3.1.

RSS Reviewers' comments highlighting the problem of non-disclosure

- If people are honest we will find out changes. If they haven't told us elsewhere, then you have to wonder if they'll tell you at [an RSS] interview. You may have suspicions, but triggers rely on honesty.
- People who won't tell you the truth won't tell you anyway [method] you do it.
- Some cover their tracks well, others don't.
- Finding non-disclosure is sometimes a matter of luck, sometimes a matter of investigation. But how deep you can go is limited due to time and resources.
- If earnings have never been recorded you'd have no idea if they were employed.
- We won't pick up cash-in-hand payments unless they are found in the customer's bank account. We are solely dependent on customers to be honest in this regard.
- We can't always prove an MLR [Marriage-like Relationship]. I can have a sense that something is not right, but can't prove it. Cash-in-hand is also difficult.
- Regarding MLRs, if they don't tell us we won't know.

Source: ANAO Fieldwork.

3.70 In the course of the audit, all four agencies involved advised the ANAO that they were aware that non-disclosure would necessarily occur. However, FaCSIA advised the ANAO on 7 December 2005 that the potential for non-disclosure in a RSS interview is no greater than for other Centrelink interviews.

The ANAO accepts that no estimate will be completely accurate. However, the RSS is designed to find the error in other Centrelink processes.

3.71 In response to issues papers from this audit, Centrelink advised the ANAO on 3 February 2006 that:

In relation to the Random Sample Programme and the identification of non disclosure Centrelink is not currently asked in its Business Partnership Agreement with the policy departments to use the RSS Programme for this purpose. However, all staff are expected to exercise duty of care in all aspects of the administration of Government outlays. The use of the RSS for the additional purpose of non declaration detection could be renegotiated by the policy departments with Centrelink when issues such as cost, timeliness and performance indicators would be taken into account.

3.72 However, the ANAO notes that the purchaser departments state that the RSS is designed to establish whether customers are being correctly paid (see paragraph 3.2). The most prevalent cause of incorrect payment is non-compliance by customers with their obligation to notify Centrelink of changes in their circumstances.¹⁰⁵ Therefore, if the RSS is to identify anything other than Centrelink administrative error or customer mistakes, then it must necessarily aim to identify customer non-disclosure. This is why the RSS includes a number of procedures to identify such non-disclosure (for example, trigger questions¹⁰⁶ and follow-up procedures¹⁰⁷).

3.73 The importance of identifying non-disclosure is reinforced given the role of the RSS as a tool to measure the effectiveness of the compliance framework.¹⁰⁸ To perform this role, the RSS would need to identify non-disclosure which has escaped the compliance net. More information on this FaCS PBS objective for the RSS Programme is at paragraphs 4.40–4.48.

¹⁰⁵ The final results of the RSS in 2004–05 indicate that of all customer errors, 53.7 per cent were the result of customers' failure to update Centrelink of changes in circumstances and 35.8 per cent were because of customers' failure to declare circumstances fully.

¹⁰⁶ A 'trigger question' is a question which may indicate the possibility of a change in circumstances, for example a the identification of a new person in the household may lead to additional questions regarding the existence of a marriage-like relationship.

¹⁰⁷ Follow-up procedures include contacting employers for further information or banks for bank account details.

¹⁰⁸ Namely to '[provide] a greater appreciation of the extent to which the overall compliance strategy is effective and a better understanding of emerging risks not currently adequately addressed in the strategy'. *Portfolio Budget Statements 1999–2000, Family and Community Services Portfolio*, op. cit., p. 137

3.74 While the actual level of non-disclosure is unknown, there is some information available which gives an indication of the potential extent of non-disclosure. This is examined in more detail below (see paragraphs 3.75 – 3.87).

Information on the potential extent of non-disclosure

3.75 The following sections outline, first, recent research commissioned by FaCSIA, DEWR and DEST, involving a small study of customers and others in the community, which has provided some information about customer tolerance levels for non-disclosure. Secondly, the results are examined of research on the size of the cash economy, which provides some indicative information on the possible impact of non-disclosure of cash-in-hand payments, and also on the participation of welfare payment recipients in the cash economy.

Tolerance for non-disclosure

3.76 In early 2005, FaCSIA, DEWR and DEST commissioned research to be undertaken to inform the development of the *Keeping the System Fair* Campaign (badged as *Support the System that Supports You* when released in September 2005). The research was based on focus groups with a small number of people (119 in total), including both Centrelink payment recipients and non-recipients. Participation was anonymous with no penalties for disclosure. While the research may still underestimate non-disclosure (because of the possible perception of penalties), it provides good indicative information.

3.77 The research provides a range of information on community attitudes to disclosing information to Centrelink on customers' circumstances, and highlights the potential for non-disclosure of changed circumstances. This provides some supporting information on the potential for non-disclosure in the RSS, with a concomitant under-identification of cases where the information provided to Centrelink to support payments is not correct and consequent underestimation of the level of incorrect payments occurs.

3.78 The research found that there was 'a high level of tolerance of and acceptance of non-compliant behaviours and practices. There was widespread sympathy and empathy with individuals who did not report certain changes in their circumstances.'¹⁰⁹ The research suggested that 'non-reporting is increasingly becoming normalised behaviour'.¹¹⁰

¹⁰⁹ Orima Research, *Report on the Developmental Research for the Keeping the System Fair Campaign*, March 2005, p. 19.

¹¹⁰ *ibid.*, p. 5.

3.79 Research was also undertaken into the motivators of non-compliance. This information provides another layer that supports the premise that non-disclosure will occur in the RSS. Figure 3.2 sets out these motivators, which were found to be varied and complex.

Figure 3.2

Centrelink customer motivators for non-compliance

- A belief among some payment recipients that it was their “right” to receive and maximise their benefits;
- A belief that non-compliant behaviour is beneficial for the economy as it generates more income (and hence more spending);
- A view of non-compliance as a “victimless crime”;
- A perception that the cost associated with welfare non-compliance was insignificant in value compared to that of corporate non-compliance;
- A lack of desire to “do the right thing” toward Centrelink—there was a perception that insufficiency of payments and poor customer service from Centrelink did not warrant reciprocating through compliant behaviour; and
- A desire to protect a third party from the impact of notifying Centrelink of changes in circumstances (e.g. not wanting to get an employer in trouble for paying cash-in-hand or not wanting a partner to disclose his/her personal details to Centrelink as a result of reporting changes in living arrangements).¹¹¹

Source: Orima Research, *Report on the Developmental Research for the Keeping the System Fair Campaign*, March 2005.

3.80 The research reported that types of non-reporting, which were considered acceptable by focus group participants, included changes in circumstances that were irregular (for example irregular cash-in-hand jobs) and changes in circumstances that were uncertain or unstable (for example not knowing whether a new marriage-like relationship would be permanent or long term).¹¹²

3.81 In addition to finding that there was tolerance for not reporting cash-in-hand payments, the study also looked at the levels of income earned that were considered acceptable to not report. The research found that not reporting earnings of \$100 a week was generally perceived as not being serious. Not until earnings were more than \$300 a week did some study participants consider that not reporting was very serious.

¹¹¹ Orima Research, op. cit., p. 6 and p. 25.

¹¹² Orima Research, op. cit., p. 20.

3.82 The ANAO accepts that this research was conducted with focus groups involving a small group of people (119 in total), including both Centrelink payment recipients and non-recipients. However, given that participation was anonymous with no penalties for disclosure, the ANAO considers that the conditions were right to prompt frank responses from participants and that the results of the research are indicative that both non-reporting of all circumstances and/or changes in circumstances by some customers participating in the RSS is likely to occur, and that the associated levels of unreported income may be substantial. This has implications for the robustness of the RSS accuracy data.

Cash economy

3.83 The size of the cash economy is difficult to estimate. The Cash Economy Task Force (set up by the Commissioner for Taxation in 1996) has stated:

Currently, there is no official or reliable estimate of the size of the Australian cash economy or the revenue foregone. Academic studies estimate the cash economy to be between 3.5 % and 13.4 % of GDP. Using 1995/96 GDP figures as a base and an effective average tax rate of 23%, these studies suggest that the annual amount of income tax revenue foregone could be between \$3.9 billion and \$15.1 billion.¹¹³

3.84 In 2003, the Regulatory Institutions Network at the Australian National University conducted a national survey¹¹⁴, part of which related to the cash economy. The survey was anonymous and respondents were selected from a stratified random sample of Australian households. The survey found that 9.4 per cent of respondents had worked for cash-in-hand payments (cash-in-hand was defined as cash money that tax is not paid on).¹¹⁵

3.85 Importantly, in the context of the RSS, the survey found that those who were in receipt of a government benefit were more likely to be engaging in cash economy activities (11 per cent of beneficiaries, compared with 8 per cent of non-beneficiaries), although there were no significant differences in the

¹¹³ <<http://www.ato.gov.au/businesses/content.asp?doc=/content/39065.htm&page=13&H13>>.

¹¹⁴ The survey used a stratified random sample, with 80 000 questionnaires delivered to households. The analysis referred to in this audit report relates to data from 3 323 respondents.

¹¹⁵ Regulatory Institutions Network, Australian National University Monika Reinhart, Jenny Job and Valerie Braithwaite, *Untaxed Cash Work: Feeding Mouths, Lining Wallets*. Report for the Department of Family and Community Services, March 2004, p. 30.

amount of money earned.¹¹⁶ This reinforced a similar finding from surveys conducted in 2000 and 2002.¹¹⁷

3.86 A 2002–03 survey¹¹⁸ of Australian taxpayers found that 23 per cent of respondents indicated that they were paid income in cash. Of those, 12 per cent said they declared none of this income in their tax return.¹¹⁹

3.87 The above data give some indication that the size of the cash economy is significant, that those in receipt of government benefits are more likely to be engaging in cash economy activities, and that there is a propensity to not declare cash-in-hand income. This indicative information, coupled with the findings of ANAO field work, is important in identifying that non-disclosure is likely to be an issue for the RSS, even though there are processes within the RSS designed to uncover such non-disclosure. This has implications for the robustness of the RSS accuracy data.

Other limitations of the programme

Limitations in the steps taken in the RSS process to detect customer non-disclosure of all circumstances or changes in circumstances

3.88 The following section examines the limitations of the RSS processes designed to identify customer non-disclosure, and raises some operational issues. Issues related to the operation of the RSS (including non-disclosure) are examined in detail in Chapter 5.

Methodology

3.89 The RSS has a two-part methodology. First, the selected customer is required to participate in a face-to-face interview with an RSS Reviewer¹²⁰ using a structured questionnaire. Questions, similar to those in a new claim process, are asked to ascertain the customer's current circumstances and, hence, his/her eligibility and payment rate. The interview uses a set

¹¹⁶ *ibid.*, p. 56.

¹¹⁷ *ibid.*, p. 54.

¹¹⁸ The survey elicited responses from a representative sample of 965 taxpayers.

¹¹⁹ Michael Wenzel, Kristina Murphy, Eliza Ahmed and Malcolm Mearns, Preliminary Findings from 'The what's fair and what's unfair survey about justice issues in the Australian tax context', Centre for Tax System Integrity Working Paper 59, April 2004, p. 35.

¹²⁰ This is not always the case. In some Areas, staff who are not RSS staff conduct the interview. This is examined in further detail in Chapter 5.

questionnaire, which is developed by Centrelink and the three purchaser departments. This questionnaire is tested before going into the field.

3.90 Secondly, the RSS Reviewer undertakes follow-up procedures to obtain information from third parties (such as employers and banks) and from other sources (for example Centrelink's own database and the electoral roll), to confirm the customer's circumstances and/or to identify possible non-disclosure of changed customer circumstances. The information from the two parts of the methodology is then used to identify error, its source and any allied changes to payment.

Interview

3.91 There is the potential for non-disclosure to occur in the interview because, to an extent, it relies on the customer's complete disclosure of his/her circumstances, that is, his/her earnings, assets, marital status and other circumstances related to eligibility for receiving Centrelink payments. Centrelink acknowledged this limitation in 2000, in an internal Minute to the then CEO. The Minute stated that:

Identification of undeclared income in cases where no triggers, or evidence of earnings is provided by the customers is difficult in the [RSS] interview alone.¹²¹

3.92 The Minute goes on to say that the process to identify undeclared income 'relies on the suite of controls provided by data matching routines and other targeted review processes'.¹²² However, this creates a circular argument, as one objective of the RSS is to measure the effectiveness of these controls.

3.93 A project plan developed in 2000 for the Age Pension RSS included a section on project risks. The identified risks were as follows: political issues; project management; systems issues; teams/resources; and review staff experience/knowledge.¹²³ However, the potential for non-disclosure by customers in the RSS process was not identified as a risk.

3.94 The potential for identifying non-disclosure in the RSS process is further limited due to variations in the level of probing undertaken by the various RSS Reviewers to identify all customer circumstances. Such probing may uncover non-disclosure. During fieldwork for the audit, the ANAO

¹²¹ Centrelink, *Minute on Random Sample Survey Results to the CEO from the Deputy General Manager, Performance Assurance and Evaluation*, March 2000.

¹²² *ibid.*

¹²³ Centrelink, *Project Plan – Age Pension Random Sample Survey*, August 2000, p. 7.

identified variations in the extent of probing undertaken by various RSS Reviewers and this is examined in more detail in Chapter 5.

3.95 The 1999–2000 FaCS PBS, under which funding was first provided for the RSS Programme, states one of the objectives of the RSS is to provide more rigorous information on how incorrect payment occurs (particularly the circumstances in which customers do not fulfil their obligations to advise of changes in their personal and financial circumstances).¹²⁴ The ANAO found that, where a customer does disclose a previously unreported change in his/her circumstances during the RSS review, questions to uncover why they did not report the change are not asked and, therefore, not answered. In this circumstance, the RSS interview cannot uncover the reasons why customers have not complied with their obligations.

3.96 Further, in December 2005, FaCSIA provided the ANAO with internal legal advice¹²⁵ that it had obtained in response to this audit. This advice suggests that RSS Reviewers may in fact be unable to ask customers questions relating to why they are non-compliant. The chief reason given for this is due to the possibility of self-incrimination (see paragraph 4.17 for further information).

3.97 This issue and others related to reasons for incorrect payment are analysed further in Chapter 4 in the section on ‘reasons for incorrect payment and rigorous information on how incorrect payment occurs’ (see paragraphs 4.4 – 4.26).

3.98 Experience since the commencement of the RSS Programme has demonstrated that going through the RSS questionnaire with a random sample of customers who have been called in for an interview will elicit a range of information regarding previously unreported circumstances and/or changed circumstances. Some customers, those who did not fully understand their obligations previously, once they have had their obligations explained to them again face-to-face, will disclose previously undisclosed circumstances. Some other customers may disclose previously undisclosed circumstances during an RSS interview because they will be uncomfortable in continuing to not disclose in a face-to-face interview with a Centrelink employee. However, going through the process of a face-to-face RSS interview cannot elicit disclosure if the customer is determined not to do so.

¹²⁴ *Portfolio Budget Statements 1999–2000, Family and Community Services Portfolio*, op. cit., p. 137.

¹²⁵ Contained in an email to the ANAO on 20 December 2005.

Triggers for further inquiry

3.99 As a means of going some way to overcoming non-disclosure by non-compliant customers, the RSS questionnaire has been designed to include a number of 'trigger' questions. Depending on the customer's answer to any of these questions, there may be an indicator prompting further inquiry into an aspect of their circumstances. This may lead to the use of additional 'modules' of questions for certain circumstances (for example, marriage-like relationships or assets).

3.100 However, during fieldwork for this audit, Centrelink staff interviewed by the ANAO advised that these 'triggers' were not completely effective. Other issues related to the questionnaire and additional modules are examined in more detail in Chapter 5.

3.101 The ANAO identified that cash-in-hand payments for work and marriage-like relationships (MLRs) are two aspects of a Centrelink customer's circumstances which are particularly difficult to detect, if the customer does not comply with their obligation to disclose information about them. The follow-up procedures, carried out by RSS Reviewers after an RSS interview with a customer, have the capacity to identify some cash-in-hand payments (through, for example, unusual bank deposits) and some MLRs (through, for example, the identification of another person registered on the electoral role at the same address). However, these procedures will not identify all of these cases. This is examined further below.

Follow-up procedures

3.102 When the customers selected for the RSS are first contacted regarding the requirement to attend an RSS interview, they are asked to bring a range of information to verify their circumstances. These include bank statements, proof of identity information and statements of earnings. As part of follow-up procedures undertaken following an RSS interview, Reviewers may contact a range of people for corroboration of customer information, or to obtain information in cases where customers do not provide it.

3.103 The ANAO has identified a number of issues regarding the operation of the follow-up procedures and these are examined in more detail in Chapter 5. However, of interest here is the ability of the follow-up procedures to identify non-disclosure.

3.104 Figure 3.1 sets out a range of comments made by RSS Reviewers and Coordinators interviewed by the ANAO on the problem of identifying non-

disclosure and weaknesses in the follow-up procedures. The follow-up procedures employed in the RSS are designed for the sole purpose of uncovering non-disclosure. The weaknesses in the follow-up procedures become more pronounced if there is inconsistency in the degree to which RSS interviewers seek to follow-up on any doubts that the customer is disclosing relevant information regarding his/her circumstances. A number of RSS Reviewers advised that they did not follow up on such concerns as they believed they did not have the evidence to allow the conduct of such follow-up action. A number of RSS staff interviewed also stated that, due to time pressures, follow-up work was not always undertaken.

3.105 The ANAO found that non-disclosure of circumstances such as cash-in-hand payments for work and MLRs are particularly problematic. If a customer does not disclose such information during the RSS interview, then the Reviewer relies on using the information Centrelink already has to conduct the RSS follow-up procedures. For example, the Reviewer will use information on the customer's Centrelink record regarding current employers and bank account details.

3.106 However, if a customer does not provide all relevant information regarding their personal circumstances during an RSS interview, then Centrelink's follow-up procedures will be constrained in their effectiveness. For example, if the customer has not disclosed work with a new employer, then this new employer will not be contacted to confirm earnings. During fieldwork the ANAO uncovered other specific examples of changed circumstances which may not necessarily be detected during the RSS process including the follow-up procedures.¹²⁶

3.107 The finding that the identification of MLRs is problematic in the context of the RSS is consistent with the findings of Audit Report No.44 2002–03, *Review of the Parenting Payment Single Program*. This audit found that most Customer Service Officers (CSOs) interviewed, who conducted new child reviews¹²⁷:

¹²⁶ Centrelink advised the ANAO on 8 May 2006 that Centrelink does employ an extensive and wide range of compliance activities some of which are specifically designed to catch non-disclosure issues.

¹²⁷ A new child review was a risk based program review carried out if a Parenting Payment Single customer had a child more than 40 weeks after the start date of receiving Parenting Payment Single benefits.

believed they were unable to identify MLRs unless the customer admitted to it. However, they did believe that in some circumstances a MLR existed which was not disclosed.¹²⁸

3.108 The birth of a new child is an indicator that a MLR may exist. However, even in this circumstance, CSOs advised the ANAO that identification of a MLR is difficult. The RSS interview process, which will often be undertaken in the absence of any obvious indicator of an MLR, may be even less successful at identifying non-disclosure of MLRs than targeted processes such as the new child reviews for Parenting Payment Single recipients.

Impact on the RSS of exclusions from the sample

3.109 There are a number of customers excluded from the possibility of being selected for a RSS review, including customers who are currently under review through another Centrelink process, and those who live in remote areas (see paragraph 2.7). This may impact on the ability of the RSS to estimate the accuracy of outlays, if the characteristics (including the propensity for error) of those customers excluded is different from that of those who complete the review.

3.110 FaCSIA engaged PriceWaterhouseCoopers Actuarial (PWC) to undertake a review of the random sampling for the RSS. In particular, the review examined the exclusion of customers currently under review, and those in remote areas.

3.111 The PWC review found that:

Customers are excluded if they are currently under review.¹²⁹ While this seems logical given the intrusiveness of the reviews, one would expect that customers with data matching or risk profiling reviews, for example, would be more likely to have a payment variation or debt than all customers not currently undergoing such a review. Therefore, by excluding these customers it seems likely that the payment incorrectness result from the [RSS] is an understatement of the true position. It is possible to partially correct for this by including customers under review in the [RSS] sample but using the result of the original non-[RSS] review. However, this assumes that the non-[RSS] reviews are totally effective which is unlikely to be true.

¹²⁸ ANAO Audit Report No. 44 2002–03, op. cit., p. 88.

¹²⁹ Centrelink advised the ANAO on 9 May 2006 that customers are excluded from the RSS if they are undergoing another review and have been contacted by the review officer or they have an outstanding tip off registered on the system.

We have been given no information on how many customers are excluded for this reason but note that this is potentially a significant issue and deserves further thought and analysis.¹³⁰

3.112 In relation to exclusions due to remoteness, the PWC review found that:

Generally speaking, the customers excluded due to remoteness are reasonably similar to the general population, except that they have less total income and assets, and there are more customers with partners on benefits. This makes them more likely to be receiving incorrect benefits. However, there are offsetting factors also. Overall, we do not believe that we have sufficient evidence to quantify the likely effect of the remoteness exclusion on the overall assessed level of benefit incorrectness.

If a definitive conclusion is required then we suggest that a targeted review exercise is carried out, perhaps in a particular remote area.

Effect of underpayments and voluntary cancellations

3.113 In calculating the dollar impact of payment error, there are two areas which may lead to an underestimate of the size of the dollar impact. These are the calculation of under payments, and the calculation of the dollar impact in cases where the customer voluntarily cancels his/her payment.

Underpayments

3.114 In cases where a customer has been underpaid, and the underpayment has been for more than 13 weeks duration, the calculation of the underpayment will be limited to 13 weeks. This occurs because the legislation limits the payment of arrears to 13 weeks, notwithstanding the duration of the underpayment. The incorrect payments that occurred prior to the 13 weeks are also not calculated for the purposes of the RSS. This leads to an underestimate of the value of actual underpayment error detected by the RSS.

3.115 In any case where the underpayment has occurred because the customer failed to advise Centrelink of a change in their circumstances which increased their entitlement, then the legislation is clear that arrears are only payable for 13 weeks.¹³¹ Accordingly, not counting the value of underpayments

¹³⁰ PriceWaterhouseCoopers Actuarial, *Family and Community Services Random Sampling Review*, 19 October 2004, p.10.

¹³¹ If the error, leading to the underpayment, is clearly identifiable as due to Centrelink administrative error, then, while the legislation precludes the payment of arrears for more than 13 weeks, the customer may be entitled to seek compensation under the Australian Government *Compensation for Detriment Caused by Defective Administration* scheme. Such payments would generally be funded through other means than the Administered Appropriations related to the programme payments administered by Centrelink.

made more than 13 weeks before the RSS point in time review in the calculation of the accuracy of outlays is correct. However, the ANAO notes that they represent errors in payments at the time. If the error had been identified earlier, then the customer would have been entitled to recover the monies.

3.116 This means that the reported results of the RSS underpayments do not include an accurate estimate of the dollars paid incorrectly in these cases, albeit that this does not affect the calculation of the accuracy of outlays.

Customer voluntary cancellation

3.117 One possible outcome of an RSS review is the cancellation of benefit. In a number of cases, customers contacted regarding their selection for participation in a RSS interview, choose to voluntarily give up their benefit. This may be due to the customers' knowledge that they are no longer eligible. Where a customer cancels his/her payment, the RSS review continues as a file review because the customer can no longer be compelled under the Social Security Law to attend for an interview.

3.118 While RSS Reviewers see these cancellations as a positive outcome, the data related to the extent of any debt in these cases will be limited to that the Reviewers can identify from existing information held in Centrelink's records. A debt may be raised, but this may not reflect the actual size of the incorrect payment and this impacts on the robustness of the RSS debt data. However, this does not impact on the estimate of the accuracy of outlays.

Use of RSS data

3.119 The preceding analysis shows that there is an inherent limitation in the RSS process regarding its capacity to identify all customer non-disclosure, leading to concerns regarding the robustness of the data produced. This in turn brings into question the high and precise figure for the accuracy of outlays derived and reported from the RSS data.

3.120 As noted in paragraph 3.8, the accuracy of outlays figure, as calculated using RSS data, is used by FaCSIA, and now DEWR and DEST (since the October 2004 MoG changes) in their financial statements, and in their annual reports, to provide assurance of the accuracy of outlays on social security payments. In 2004–05, these outlays were some \$63 billion. Centrelink relied heavily on the RSS data in its 2004–05 Annual Assurance Statements to FaCSIA, DEWR and DEST. Centrelink has also used the RSS data in its annual reports, and in media releases in regard to Centrelink payment correctness.

3.121 There are two issues related to how agencies have been using the RSS data, and these are discussed in the next sections.

Transparency

3.122 The accuracy of outlays figure is used to provide assurance to the Parliament and the community that Centrelink payments are accurate and that, ultimately, taxpayers' dollars are appropriately expended.

3.123 The accuracy of outlays figure derived from RSS data has been reported by agencies with no reference to its inherent and other limitations. In addition, a reported accuracy of 97.9 per cent suggests a level of precision that is not able to be supported by data from the RSS Programme. Users of the information may be given a false sense of confidence regarding both the robustness of the figure and the accuracy of outlays.

3.124 Given the important uses for which the RSS data, and estimation of the accuracy of outlays derived from this data, are used, the ANAO considers that it is important that the method of collection, the allied calculation, and the limitations of the data are transparent in reports using the data. This would enable readers of the data to properly interpret the data and have confidence in the results, particularly in cases where the data are used to inform decision making.

3.125 This finding mirrors the recommendation of Audit Report No. 44 2002–03 *Review of the Parenting Payment Single Program* which stated that FaCS should 'ensure that the limitations of the RSS methodology are transparent to relevant stakeholders and that all stakeholders are made aware of the degree of confidence FaCS has in the methodology'.¹³²

Unclear reporting

3.126 As well as concerns regarding the lack of transparency of the limitations of the data, there are concerns about how the data are reported. While the RSS figure generally cited is the measure of the accuracy of outlays, Centrelink also reports a figure for the correctness of payments in its Annual Report and to the purchaser departments. These are very similar numbers in magnitude, however, they are measures of very different factors.

¹³² ANAO Audit Report No. 44 2002–03, op. cit., p. 72.

3.127 The accuracy of outlays figure derived from RSS data has also been reported as a measure of the accuracy of payments.¹³³ These are two different concepts, and reporting the accuracy of outlays as accuracy of payments is misleading. These two issues are analysed further in the following sections.

Accuracy of outlays and payment correctness

3.128 Centrelink's *Annual Report 2004–05* states (p. 39):

To ensure effective delivery of government programs, random sample survey results are used to assure the correctness and accuracy of social security program outlays and are the primary quality assurance tool for the Business Assurance Framework.....The target for payment correctness is set at 95 per cent. Since this random sampling process began in July 2002, Centrelink's payment correctness figures have exceeded 95 per cent every quarter, with an annual figure for 2004–05 of 96.8 per cent.

3.129 This figure of 96.8 per cent 'payment correctness' compares with, for example, the 97.9 per cent accuracy of outlays figure reported by FaCSIA for those major social security payments made by Centrelink on behalf of FaCSIA. Given these figures are of similar magnitude, this in itself may cause some confusion regarding what this payment correctness figure is measuring.

3.130 Centrelink's payment correctness figure is also derived from RSS data and is a measure of a target contained in the individual agencies' BPAs. The payment correctness figure contained in the BPAs is actually a measure of Centrelink's administrative errors which have an impact on payment.

3.131 As examined above (see paragraphs 3.22 to 3.31), Centrelink uses different definitions of correctness and accuracy as agreed under the BAF, and the BAF definition of payment correctness is different from the ordinary meaning of the words.

3.132 Using Centrelink and the purchaser departments' definition of payment correctness (see paragraph 3.22), and the percentage of reviews with

¹³³ For example, in a letter to *The Border Mail* by the then National Manager Communications for Centrelink, published in that newspaper on 16 December 2004, stated that: 'An independently verified report found that in 2003–04 Centrelink achieved 97 per cent accuracy in payments. That report also found that the overwhelming majority (80 per cent) of the 3 per cent of payments with inaccuracies were caused by customer not advising Centrelink of changes in circumstances'.

an administrative error with a dollar impact from Table 3.1 (that is 3.4 per cent), it can be seen that the final payment correctness figure is 96.6 per cent.¹³⁴

3.133 While this definition may be agreed and understood between Centrelink and the purchaser departments, external reports quoting payment correctness may be misleading to the outside reader. As noted in paragraphs 3.22 to 3.31, Centrelink reported in its 2004–05 Annual Report payment correctness of 96.8 per cent. Using the ordinary meaning of the words of ‘payment correctness’ this would suggest to a reader that 96.8 per cent of customers receive a correct payment.

3.134 As shown earlier (in the section on the identification of error), the definition of payment incorrectness used by the ANAO (based on the ordinary meaning of the term) is the percentage of customers in the RSS sample who have an error in their record, which leads to an error in their payment, that has a dollar impact. The percentage of payment correctness is found by subtracting the payment incorrectness figure from 100 per cent. For the full year 2004–05, almost 30 per cent of customers in the RSS sample had an error with a dollar impact. That is, the RSS data show that it is around 70 per cent of customers who receive a correct payment.

3.135 It is useful for the purchaser departments to use the RSS data to gain an insight into the level of Centrelink administrative error and its impact on both the number of customers receiving a correct payment and also the overall accuracy of outlays. However, in the absence of readers being provided with a definition of what Centrelink means by payment correctness, a reader may not understand that the only errors included in calculating the payment correctness figure reported in Centrelink’s annual report related to Centrelink administrative errors with an impact on payment, and that customer errors are excluded. The ANAO suggests that future external reporting of Centrelink’s performance against this target in the BPAs would be clearer if it were to convey a focus on administrative correctness rather than payment correctness.

3.136 In addition, the ANAO notes that while the payment correctness figure reported in Centrelink’s 2004–05 Annual Report is a preliminary figure based

¹³⁴ This figure is within 0.2 per cent of the preliminary figure for payment correctness reported in Centrelink’s 2004–05 Annual Report which had been calculated on the basis of preliminary data based on the results of the first three quarters of the RSS in 2004–05. The final validated results for the 2004–05 RSS were not available until February 2006.

on three quarters of 2004–05 RSS data, which had not undergone final quality assurance validation, this is not noted in the annual report.¹³⁵

Recommendation No.1

3.137 The ANAO recommends that Centrelink make transparent, in its Annual Report and any other documents where the agency reports on its level of payment correctness, how the payment correctness figure is derived and in particular that the figure reported relates only to Centrelink administrative error identified by the RSS and does not include error identified in the RSS but attributed to customer action or inaction.

Centrelink's response

3.138 Agreed. Centrelink will explain clearly how payment correctness is derived, what it describes and what it excludes.

Accuracy of outlays and accuracy of payments

3.139 There is also some interchange of the terms accuracy of outlays and accuracy of payments. As analysed above, the inaccuracy of outlays is calculated by dividing the sum of fortnightly dollar amounts of variations (upward variation, downward variation, cancellation/suspension) by the sum of the fortnightly payments to all sampled customers, the percentage figure is then calculated. This inaccuracy figure is then subtracted from 100 per cent to provide a figure for the accuracy of outlays.

3.140 However, the inaccuracy of payments equates to the term incorrect payment as used in this report. Hence, the RSS data indicate that payment accuracy is around 70 per cent, keeping in mind the underestimate of error in these data due to customer non-disclosure of changed circumstances and other reasons (see paragraphs 3.61–3.74).

3.141 The unclear reporting that has occurred may have led readers to believe that, for example, 97.9 per cent of Centrelink customers receive an accurate payment, while the RSS data in fact indicate that it is 70 per cent of customers who receive an accurate payment, albeit that many of the payment variations required to make these payments correct are small, given it relates only to a single fortnight's payment.

¹³⁵ The ANAO notes Centrelink advice of March 2006 that validation of results occurs when all samples are completed, quality checked and externally verified by the three policy departments, FaCSIA, DEWR and DEST. This process was completed for the 2004–05 data in February 2006.

Recommendation No.2

3.142 The ANAO recommends that when reporting data from the RSS, Centrelink, FaCSIA, DEWR and DEST ensure that:

- (a) the source and limitations of the data are transparent, to enable readers to properly interpret the data and have confidence in the results; and
- (b) statistics indicating the proportion of customers correctly paid are clearly distinguished from statistics indicating the net effect of incorrect payments on government outlays.

FaCSIA's response

3.143 Agreed.

DEWR's response

3.144 Agreed.

DEST's response

3.145 Agreed.

Centrelink's response

3.146 Agreed.

Conclusion

3.147 The purpose of the RSS is to measure the level of incorrect payment to Centrelink customers, allied to this is the objective to detect undeclared customer circumstances and/or changed circumstances. The ANAO found that the RSS measures the level of incorrect payment to some extent, but that there are a number of inherent limitations and limitations in the process which lead to an underestimate of the actual level of incorrect payment.

3.148 There are a range of issues which impact on the robustness of the estimate of incorrect payment¹³⁶ calculated from the RSS data (and hence the

¹³⁶ Incorrect payment, as identified in the RSS, is the number of customers in the RSS sample who have an error in their record, which leads to an error in their payment, that has a dollar impact.

accuracy of outlays estimate¹³⁷) but the ANAO found that the major issue affecting the robustness of the RSS estimates is the inability of the RSS to uncover all incorrect payments due to the inherent problem that not all customers will disclose all of their circumstances and/or all of the changes in their circumstances, even when asked in a face-to-face interview. Customer non-disclosure is a form of non-sampling error, and therefore cannot be addressed through a greater sample size.

3.149 Accordingly, no survey method to identify the level of Centrelink payments affected by error will be 100 per cent accurate. In addition, the cost of uncovering all customer non-disclosure, even if a robust methodology to achieve this was identified, is likely to be prohibitive.

3.150 However, current reporting by agencies based on the RSS programme data does not reflect the limitations of the data. The current reporting of the estimates of the accuracy of outlays on Centrelink payments suggests a level of precision that is not able to be supported by data from the RSS Programme.

¹³⁷ To calculate the accuracy of outlays, the purchaser departments first have to calculate the level of inaccuracy of outlays. The inaccuracy of outlays is calculated by dividing the sum of fortnightly dollar amounts of variations (upward variation, downward variation, cancellation/suspension) identified in the RSS by the sum of the fortnightly payments to all sampled customers, the percentage figure is then calculated. To derive the estimate of the accuracy of outlays, this figure is subtracted from 100 per cent. So from the 2004–05 RSS results, FaCSIA calculated that the 2.1 per cent of outlays on Centrelink payments for which FaCSIA is responsible had been inaccurate in that year. Subtracting 2.1 per cent from 100 per cent gives 97.9 per cent as the accuracy of outlays estimate for FaCSIA payments in 2004–05.

4. Meeting the Other Objectives of the Programme

This chapter examines the extent to which the Random Sample Survey Programme meets the other objectives for the programme, as set out in departmental annual reports and the various relevant Portfolio Budget Statements.

Background

4.1 The 2004–05 FaCS Annual Report stated that:

FaCS continually monitors performance to measure the success of the control framework and service provider performance...Rolling random sample surveys provide a key measure of the effectiveness of compliance and other review activity...The ongoing programme of random sample surveys will provide continuous information on the level of, and reasons for, incorrect payment as well as the effectiveness of the overall control framework for managing payment accuracy.¹³⁸

4.2 These objectives mirror the objectives of the RSS articulated over time in relevant annual FaCS PBS (see paragraph 3.5). The extent to which the RSS meets the first two of these objectives was analysed in the previous chapter. The remaining objectives are as follow:

- measure the reasons for incorrect payment;¹³⁹
- provide more rigorous information on how incorrect payment occurs (particularly the circumstances in which customers do not fulfil their obligations to advise of changes in their personal and financial circumstances);¹⁴⁰
- contribute to a greater appreciation of the extent to which the overall compliance strategy is effective and a better understanding of emerging risks not currently adequately addressed in the strategy;¹⁴¹ and
- provide continuous data on the effectiveness of the overall control framework for managing payments.¹⁴²

¹³⁸ FaCS, *Annual Report 2004–05*, pp. 277–8.

¹³⁹ *Portfolio Budget Statements 1999–2000, Family and Community Services Portfolio*, op. cit., p. 137.

¹⁴⁰ *ibid.*

¹⁴¹ *ibid.*

¹⁴² *Portfolio Budget Statements 2002–03, Family and Community Services Portfolio*, p. 186.

4.3 This chapter examines the extent to which the RSS meets these remaining objectives.

Measure the reasons for incorrect payment and rigorous information on how incorrect payment occurs

4.4 FaCSIA and Centrelink each advised the ANAO that a major purpose of the RSS was to identify the reasons for incorrect payments. This is also reflected in relevant FaCS PBS, which stated that a primary purpose of the programme was to ‘measure the reasons for incorrect payment’.¹⁴³ Allied to this is the requirement set out in the 1999–2000 FaCS PBS for the RSS Programme to provide ‘rigorous information on how incorrect payment occurs (particularly the circumstances in which customers do not fulfil their obligations to advise of changes in their personal and financial circumstances)’.¹⁴⁴

4.5 The ANAO has identified two issues regarding the extent to which the RSS meets these objectives. First, there are concerns regarding the ability of the RSS to correctly measure the reasons for incorrect payment. Secondly, that the information collected by the RSS does not provide rigorous reasons for how incorrect payment occurs, particularly the circumstances in which customer do not advise of changes in circumstances, rather it identifies the extent of each of a series of known reasons.

4.6 The capacity of the RSS to meet these objectives is also affected by the potential for skewed information being produced by the RSS on the reasons for incorrect payment and how it occurs due to the unknown level of non-disclosure by customers participating in the RSS of all their circumstances or relevant changes in their circumstances as examined in Chapter 3.

4.7 A related issue concerns the extent to which Centrelink records information on the reasons for incorrect payment collected through its other review and compliance activity in its Integrated Review System (IRS).¹⁴⁵

¹⁴³ *Portfolio Budget Statements 1999–2000, Family and Community Services Portfolio*, p. 137; *Portfolio Budget Statements 2001–02, Family and Community Services Portfolio*, p. 188; and *Portfolio Budget Statements 2002–03, Family and Community Services Portfolio*, p. 186.

¹⁴⁴ *Portfolio Budget Statements 1999–2000, Family and Community Services Portfolio*, op. cit., p. 137.

¹⁴⁵ The Integrated Review System (IRS) is Centrelink’s computer system for recording the outcomes of review activity, including outcomes from the compliance and fraud teams, programme and service profiling reviews.

Reasons for incorrect payment

4.8 There are a series of conditions (or circumstances) that a customer must meet to be eligible for a Centrelink payment, and which will determine the rate at which the customer will be paid. These conditions are defined in legislation. Therefore, the reasons for an incorrect payment are known, as these will be aligned with changes in the eligibility conditions. These are built into the RSS process, as the questions and the follow-up procedures are directly linked to the conditions of the particular payment the customer is receiving. The RSS does not identify any new information or reasons, as the reasons are finite.

4.9 Therefore, the RSS uses a pre-existing list of reasons for error. This list can have variations depending on the payment, for example, the need for a care giver to have a care receiver in Carers Payment, or for Newstart Allowance recipients to satisfy the Activity Test.¹⁴⁶

4.10 The RSS collects information on the extent to which each of these reasons occur for the sample of customers included in the RSS. As is analysed further (at paragraphs 4.29–4.31), the most common reason for incorrect payment is changes in income or assets.

4.11 However, given that there is an unknown level of non-disclosure by non-compliant customers in the RSS, then the ability of the RSS to measure the extent of each reason for incorrect payment will be imperfect, and may in fact lead to skewed information regarding the reasons. Skewing of information could occur due to the possible under-representation of information related to the most non-compliant customers. For these reasons, the data on the distribution of reasons for incorrect payment should be used with some caution.

¹⁴⁶ Newstart and Youth Allowance recipients must meet an Activity Test to receive payment. The Activity Test is part of the customer's Mutual Obligation responsibilities. To meet the Activity Test customers must:

- demonstrate that they are actively looking for suitable paid work;
- accept suitable work offers;
- attend all job interviews;
- agree to attend approved training courses or programs;
- never leave a job, training course or program without a good reason;
- give Centrelink accurate details about any income they have earned; and
- enter into and carry out a Preparing for Work Agreement if asked.

Customers must meet all the Activity Test requirements to continue receiving payment. If they do not meet these requirements, they may get an Activity Test penalty.

Rigorous information on incorrect payment

4.12 The ANAO considers that to satisfy the FaCS PBS objective for the RSS of providing ‘rigorous information on how incorrect payment occurs (particularly the circumstances in which customers do not fulfil their obligations to advise of changes in their personal and financial circumstances)’ would require the RSS to identify not only which condition/circumstance had changed, but also how and why this occurred.

4.13 For example, if a Parenting Payment Single customer selected in the RSS sample is found to be in a MLR, which has previously been undisclosed, then this leads to an error being recorded for the RSS. However, the RSS process does not involve either asking or recording the reasons why the customer has not previously disclosed the MLR. There may be a range of reasons for this, such as a lack of understanding by the customer of the reporting requirements, that he/she may not consider the relationship an MLR, or that he/she may have been deliberately withholding the information.

4.14 Accordingly, while the RSS does provide some information on the reasons for customer error, such as: failure to comply with obligations for continuous entitlement; one-off instance where customer provides incorrect information in good faith; or failure to update Centrelink of changes in circumstances, it does not provide information on why this has occurred.

4.15 For example, information in the Random Review Results System¹⁴⁷ records responses to the question ‘the reason for the cancellation or variation to the rate of the Primary Payment’.¹⁴⁸ The responses include 70 possible reasons such as ‘Return to full-time work’ or ‘No longer partnered’. However, the reasons underlying why these circumstances have occurred are not explored or recorded in the system.

4.16 The information collected by the RSS, therefore, does not address the objective for the RSS Programme set out in the 1999–2000 FaCS PBS to provide information on the circumstances in which customers do not fulfil their obligations to advise of changes in their personal and financial circumstances. It only provides the information that this does occur (which is already known). The most common reason for error identified in the RSS is the customer failing

¹⁴⁷ The Random Review Results System is a web-based application that is used to capture information about RSS reviews including errors detected as part of the review, and reasons for variation to the customer’s payment.

¹⁴⁸ Centrelink, *RRRS Questions and Answers for Combined Payment Types (Newstart Allowance)*, Quarter 1, 2005–06, July 2005 Release, pp. 1–2.

to update Centrelink of changes in circumstances—the very issue the FaCS PBS identifies, but why this occurs is unexamined by the RSS process.

4.17 FaCSIA has received legal advice regarding whether, in compelling customers to participate in the RSS using the *Social Security Law*¹⁴⁹, questions can be asked of non-compliant customers, such as why they did not comply. The legal advice provided stated that:

This is a complicated issue ... However, [as discussed within FaCS], an information gathering interview may not necessarily be the most appropriate way of handling these matters, particularly as Centrelink has experienced officers who are trained to deal specifically with these issues. In addition, there may be other issues involved, such as possible self-incrimination by the person.¹⁵⁰

4.18 In light of this advice, it would be prudent for FaCSIA, DEWR and DEST to consider approaches to resolving this issue to inform their administration of the RSS programme.

4.19 Rigorous information on payment incorrectness was collected in the research undertaken to inform the development of the *Keeping the System Fair* Campaign, as examined in Chapter 3 (see paragraphs 3.76–3.82). This research provided in-depth information on the reasons for non-disclosure.

4.20 The ANAO found that the RSS does not provide new information on types of payment incorrectness (as these are known and limited by eligibility criteria), and does not provide rigorous reasons for how it occurs. Compared with the information collected in the *Keeping the System Fair* research, the RSS may not be an efficient, effective or appropriate way to collect such information.

Centrelink information on reasons for payment incorrectness

4.21 During ANAO fieldwork, officers of FaCSIA informed the audit team that the RSS was the only way that FaCSIA could obtain detailed information on the reasons for incorrect payment. FaCSIA provided information showing the difference between existing Centrelink information (on the IRS) on reasons for payment variation from other Centrelink review activity, compared with information from the RSS.

¹⁴⁹ In particular, section 63 and section 192.

¹⁵⁰ Advice to the ANAO, FaCSIA email 20 December 2005.

4.22 For example, in one Age Pension case where the IRS reason for variation was recorded as Change in Circumstances, two, more specific, reasons were recorded on the RSS system, these being investment income from banks/building societies and income from foreign pension.¹⁵¹

4.23 The ANAO discussed this issue further with Centrelink, particularly in regard to what information is collected and recorded on IRS regarding reasons for changes in payment.

4.24 Centrelink informed the ANAO that during review and compliance processes, detailed information on reasons for payment incorrectness are collected and recorded. However, the detailed reasons are held in the customers' DOCs, not coded in the IRS.

4.25 DOCs are on-line documentation. This is a free text part of each customer's computer record that a Centrelink officer can use to record information on a range of issues related to the customer. Given the free text nature of the DOCs, isolating, identifying and capturing data on reasons for incorrect payment across DOCs would not be easy.

4.26 The ANAO accepts that the RSS is based on a random sample of customers, while review and compliance activity tends to be targeted. However, there is a wealth of information collected during these activities, including reasons for incorrect payment. The ANAO considers that better utilisation of the information collected through these activities would provide significant insight into the reasons why and how incorrect payment occurs. In contrast, the RSS notwithstanding that it is based on a random sample of all customers, is a less effective mechanism for collecting this information.

Recommendation No.3

4.27 The ANAO recommends that, following review and compliance activities, Centrelink aggregates and analyses information regarding the reasons identified for payment incorrectness to enable robust review, by both Centrelink and the purchaser departments, of the data collected through these activities.

Centrelink's response

4.28 Agreed.

¹⁵¹ Advice to the ANAO, FaCSIA email 22 September 2005.

Change in reasons for incorrect payment

4.29 The reasons for payment incorrectness, identified through the RSS, change little over time. Invariably, as could be expected, the most common reason is incorrect payments due to undeclared changes in income and assets.

4.30 The Newstart Allowance RSS pilot, conducted between February and May 1999, found that payment incorrectness was due mainly to customers' failure to notify of changes to income or assets.¹⁵² The report of the results of the RSS for Quarter 4 of 2004–05, found that the majority of errors were due to income or assets, with 72.5 per cent of errors due to these two factors.¹⁵³

4.31 In addition, error is overwhelmingly attributed to customer error. For the full year 2004–05 error attributed by Centrelink to customer error accounted for around 80 per cent of errors, and of these, the most common reasons was failure to update Centrelink of changes in circumstances.¹⁵⁴ However, RSS staff informed the ANAO during fieldwork that there would be cases where error would be incorrectly attributed to the customer. Issues regarding the attribution of error are analysed in more detail in Chapter 5.

Conclusion

4.32 Part of the purpose for which the RSS was originally funded was to measure the reasons for incorrect payment and to provide rigorous information on how incorrect payment occurs (particularly the circumstances in which customers do not fulfil their obligations to advise of changes in their personal and financial circumstances).¹⁵⁵

4.33 The RSS does provide information on the reasons for payment incorrectness, albeit that this information is not complete as it does not include undetected errors occurring where customers do not disclose all their circumstances or changes in their circumstances during an RSS interview. The RSS also provides some information on what particular statutory obligation the customer has not fulfilled where an error is detected during an RSS interview either through disclosure by the customer during the interview of a previously undisclosed change in circumstances, or through subsequent

¹⁵² Centrelink, Draft Minute, *Random Sample Survey Pilot – Newstart Allowance*, from Ms Sue Vardon, CEO of Centrelink to the then Minister for Community Services, September 1999.

¹⁵³ Centrelink, *Rolling Random Sample Surveys, Final Results Quarter 4 of 2004–2005, including full year, Compliance and Review*, February 2006, p. 17.

¹⁵⁴ *ibid.*, p. 4.

¹⁵⁵ *Portfolio Budget Statements 1999–2000, Family and Community Services Portfolio*, op. cit., p. 137.

detection of this by the RSS Reviewer (see paragraphs 3.102–3.108 on follow-up procedures).

4.34 However, the RSS does not provide rigorous ‘information on the circumstances under which customers do not fulfil their obligations to advise of changes in their personal and financial circumstances’. The reasons for payment incorrectness, as a result of customer error, include failure to comply with obligations for continuous entitlement, one-off instances where the customer provides incorrect information in good faith, or failure to update Centrelink of changes in circumstances. However, the RSS does not provide information on why these situations arose, for example because the customer did not understand or because he/she deliberately withheld information.

4.35 In any case, the ANAO notes that Centrelink already collects detailed information on the reasons for payment incorrectness, caused by customer error, through its review and compliance activities. However, this information is not recorded in Centrelink’s IRS system, and is consequently not easily aggregated and analysed.

Effectiveness of the compliance framework/control framework

4.36 Two of the stated objectives of the RSS set out in the various FaCS PBS are:

- a greater appreciation of the extent to which the overall compliance strategy is effective and a better understanding of emerging risks not currently adequately addressed in the strategy;¹⁵⁶ and
- effectiveness of the overall control framework for managing payments.¹⁵⁷

4.37 In line with these objectives, Centrelink used the RSS to provide assurance in its 2004–05 Assurance Statements to FaCS, DEWR and DEST in relation to risks to payment correctness. In particular, the RSS was used to provide assurance against Risk 5: ‘Customers not providing the correct information either at claim or when circumstances change’.

¹⁵⁶ *ibid.*

¹⁵⁷ *Portfolio Budget Statements 2002–03, Family and Community Services Portfolio*, op. cit., 186.

4.38 The assurance provided was that:

Rolling Random Sample Reviews provide a point-in-time analysis of the effectiveness of preventative and detective controls to maintain the four pillars of payment correctness (i.e. Right Person, Right Program, Right Rate, Right Date).

4.39 Analysis earlier in this chapter has shown that the RSS is limited in its ability to identify non-disclosure by customers of all and/or changed circumstances, and therefore, will be limited in relation to identifying previous non-disclosure. Of interest here is the ability of the RSS to provide assurance as to the effectiveness of the compliance/control framework, and identify emerging risks to the compliance framework.

Effectiveness of the compliance/control framework

4.40 The RSS does not provide a direct measure of the effectiveness of the compliance/control framework because it does not directly test this. Rather, there is an inference that positive results in the RSS equate with the compliance/control framework being effective.

4.41 The RSS questionnaire does not include any questions regarding the outcomes of any compliance/control activity a customer may have been subjected to prior to selection in the RSS. There is also no follow-up during the RSS process to match back to any compliance activity the customer may have been involved in to see if it was effective. That is, where an error is identified during the RSS process, there is no checking back in the customer record to see if there was any previous compliance activity that had failed to identify the error.

4.42 The RSS Reviewer does code whether the customer had a previous type of review, when this occurred and what type of review it was, but this is the limit of the information recorded.

4.43 In addition, the RSS specifically excludes customers who are currently being reviewed, or have had an IRS review in the two weeks prior to drawing the sample.¹⁵⁸ This group would provide the most up to date information on whether the compliance reviews had been successful, bearing in mind the issue of non-disclosure in the RSS.

4.44 The ANAO acknowledges that the RSS is a point-in-time review, and that an error identified at that point may not have existed at the time of

¹⁵⁸ Centrelink, *Rolling Random Sample Survey Guidelines*, February 2005, p. 12.

previous compliance activity. However, with no direct matching, whether this is the case is unknown. The converse situation may also exist, where there is no error in the customer's payment at the time of an RSS review, an error may have been undetected in previous compliance activity. For example, a customer may have been participating in an undetected cash-in-hand activity at the time of the compliance review. This activity may have ended at the time the RSS review took place and therefore will not be identified in the process.

4.45 To test the effectiveness of control activity (for example, preventive controls), the RSS would need to ask questions regarding whether customers were aware of these controls, and whether they changed their behaviour because of them. This also applies to compliance activities. However, these behavioural questions are not asked during the RSS process.

4.46 Centrelink has conducted some research into overpayments identified by the RSS, and assessed these against the compliance program. The research found that in 2003–04, approximately 57 per cent of cases would have been detected by the agency's current compliance activities.¹⁵⁹

4.47 This analysis may overestimate the total proportion of cases of incorrect payments that would have been identified by compliance activity, due to the potential that the RSS is not detecting all cases of payment errors, particularly in relation to the most non-compliant customers. Therefore, making assumptions regarding the effectiveness of the compliance framework using RSS data has a level of risk.

4.48 Using the RSS estimates of the accuracy of outlays as a proxy measure for the effectiveness of the compliance/control framework does not properly take account of the high level of error detected by the RSS. While the figures for the accuracy of outlays as measured by the RSS may be very high (currently 97.9 per cent for FaCSIA payments and 95.8 per cent for DEWR payments), the associated level of incorrect payment is also quite high, at 30 per cent for the full year 2004–05. In addition, one or more errors were detected in 45 per cent of reviews conducted in the full year 2004–05.

Emerging risks

4.49 Using the RSS as a method to identify emerging risks to the compliance strategy needs to be undertaken with some caution. While the RSS does

¹⁵⁹ Centrelink, *Overpayments Analysis: Random Sample Survey, Financial Year 2003/04, Evaluation Report*, December 2004, p. 5.

provide some information on the characteristics of customers who have error, and why the error has occurred, the data may be skewed.

4.50 As examined previously, the most non-compliant customers may not be identified in the RSS. Those customers who did not fully understand their obligations, or who will comply in a face-to-face interview may be more likely to disclose changed circumstances. However, those who have high tolerance for non-disclosure (as identified in the *Keeping the System Fair* research) may be the least likely to be identified in the RSS process.

4.51 Therefore, while some risks may be identified, those relating to the most non-compliant may not be identified. In this circumstance, if compliance activity is targeted on the basis of risks identified through the RSS, there is also a risk that compliance activity will not be directed to the most non-compliant customers, and therefore, may not be the most cost effective.

Recommendation No.4

4.52 The ANAO recommends that Centrelink, FaCSIA, DEWR and DEST, when using the results of the RSS to measure the effectiveness of the control/compliance framework and to identify any emerging risks, take into account the possible skewing of data due to unidentified non-disclosure by customers of all their circumstances or relevant changes in their circumstances.

FaCSIA's response

4.53 Agreed. It is suggested that this recommendation should also apply to the Department of Human Services when using the results of the RSS.

DEWR's response

4.54 Agreed.

DEST's response

4.55 Agreed.

Centrelink's response

4.56 Agreed. However, Centrelink believes that this recommendation is covered in recommendations 1 and 2.

Conclusion

4.57 RSS data need to be used with caution as a measure of the effectiveness of the compliance/control framework and to identify emerging risks to the compliance strategy. In both cases, customer non-disclosure may produce a skewed result.

5. Operation of the Random Sample Survey

This chapter covers the operational aspects of the Random Sample Survey (RSS) including the governance of the RSS operations, operational issues relating to customer non-disclosure, the RSS questionnaire, timing and resource issues in conducting RSS interviews, the quality of RSS interviews, and quality assurance issues.

Governance

5.1 As discussed in earlier chapters, Centrelink conducts the RSS on behalf of the three agencies (FaCSIA, DEWR and DEST), each of which purchase services from Centrelink to provide various programme payments to customers. The RSS is primarily a tool to assure the accuracy of social security outlays.

5.2 The three purchaser departments are responsible for the RSS methodology, approval of the sample and exclusions, providing advice to Centrelink on issues of policy and undertaking the final level of quality assurance of the RSS results.

5.3 Within Centrelink, National Support Office (NSO) is responsible for the liaison with the purchaser departments, drawing the sample, development of operational procedures and guidance material, and for another level of quality assurance. Staff in the 15 Centrelink Areas actually conduct the RSS. The funding for the conduct of the RSS is provided to NSO from the purchaser departments, and then allocated to each Area as part of the overall funding of their operations.

5.4 The Area Support Offices (ASOs) are responsible for allocation of funding to the RSS Programme operations in their own Area. ASOs are also responsible for recruiting, training and performance management of RSS Coordinators and Reviewers. The RSS Coordinators and Reviewers contact customers, conduct the interviews and follow-up procedures, attribute error, make the necessary payment variations and raise debts.¹⁶⁰ The RSS Coordinators also undertake the first level of quality assurance on the conduct

¹⁶⁰ Some of the RSS reviews are not conducted by RSS Reviewers, but by other Centrelink staff.

of the RSS. Quality assurance procedures are examined in more detail in paragraphs 5.79 to 5.89.

Purchaser Departments' accountability for operation of the RSS

5.5 The RSS is important for the purchaser departments in providing assurance on the accuracy of outlays (notwithstanding its limitations, as examined in Chapters 3 and 4), and costs some \$4.5 million a year to conduct. The RSS is also used to provide the measure of Centrelink's performance in relation to the target for payment correctness contained in the individual agencies' Business Partnership Agreements (BPAs).

5.6 Therefore, the purchaser departments should be assured that good governance procedures are in place to allow confidence that the RSS is conducted appropriately and impartially by Centrelink, as well as to provide assurance to the purchaser departments with regard to the value for money of the programme.

5.7 Previously, Centrelink conducted the RSS on behalf of FaCS to guidelines that were outlined in a Service Level Agreement (SLA). At the time of audit fieldwork, new SLAs were being negotiated between Centrelink and the three purchaser departments.

5.8 However, FaCSIA, DEWR¹⁶¹ and Centrelink, informed the ANAO during fieldwork interviews that the operational aspects of the RSS were Centrelink's 'business'. All aspects of the RSS up to the delivery of the data to the purchaser departments, is Centrelink's responsibility. The purchaser departments advised they had no role in the operation of the RSS, including in relation to monitoring the allocation of resources to Areas, the training of staff or the conduct of the RSS reviews.

5.9 While the purchaser departments undertake quality assurance procedures on around 10 per cent of the reviews undertaken each quarter, this is a paper-based process. Given the quality assurance process is predominantly paper-based, it cannot provide assurance regarding the performance of the RSS Reviewers, particularly their interview performance. Yet the quality of the reviews impacts on the overall quality of the RSS data.

5.10 The quality of the reviews is dependent on a number of factors. These include that sufficient resources are allocated to the conduct of the RSS, that

¹⁶¹ DEST had not assumed an active role in the RSS at the time of audit fieldwork which was undertaken between May 2005 and October 2005.

Reviewers are appropriately trained and that their performance is effectively monitored, as well as assurances that interviews are conducted properly.

5.11 The RSS is also unusual because the purchasing departments are asking Centrelink to collect and process the data used by those purchasing its services to assess both the accuracy of outlays and its own performance under the individual agencies' BPAs. In these circumstances, the purchaser departments need assurance that the RSS Programme is being conducted independently within Centrelink.

5.12 That is, first, that the RSS teams are not in the position of reviewing decisions they may have themselves made. Secondly, that RSS teams are independent of Centrelink staff who make payment decisions, given that RSS Reviewers conduct interviews with customers in CSCs among Centrelink Officers who made the decisions being reviewed. Thirdly, that the RSS teams are independent of the Area Management, given that Area Management are responsible for the quality of work in their Area and the quality of Area performance is monitored.

5.13 Given the three purchaser departments are the owners of the RSS Programme, that it is an important assurance tool, and it costs some \$4.5m per annum to conduct, then the ANAO would expect that the purchaser departments would ensure that good governance procedures are in place to assure themselves that the operation of the programme is effective, efficient and independent. However, this is not currently the case.

5.14 According to DEWR, in comments provided to the ANAO on 9 December 2005:

DEWR agrees that good governance procedures are required to assure ourselves that the programme is effective, efficient and independent. DEWR is enhancing procedures accordingly.

Recommendation No.5

5.15 The ANAO recommends that FaCSIA, DEWR and DEST put in place procedures to assure themselves that Centrelink's operation of the RSS is efficient, effective and conducted independently within Centrelink.

FaCSIA's response

5.16 Agreed. The issues raised by this recommendation will be addressed in a new *Business Partnership Agreement* between FaCSIA and Centrelink.

DEWR's response

5.17 Agreed.

DEST's response

5.18 Agreed. Issues raised in the report related to this and related recommendations will be addressed through the Service Level Agreement for the new Random Sample Survey budget measure commencing in 2006–07.

Operational issues affecting identification of non-disclosure

5.19 As analysed in Chapter 3, the RSS process allows for the possibility of non-disclosure of all and/or changes in circumstances. There is also a range of operational issues which may impact on the identification of non-disclosure.

Probing

5.20 The ANAO found during fieldwork that RSS Reviewers had differences in their approach to asking additional questions to those set out in the various RSS questionnaires and modules in order to probe for potential non-disclosure by customers. This was so, even where a customer's response to some aspect of the questionnaire raised doubts in the Reviewer's mind that the customer was disclosing relevant information regarding his/her circumstances. There were also differences in whether Reviewers would follow-up on these doubts of customer non-disclosure after the interview.

5.21 During fieldwork in the Centrelink Areas¹⁶², some RSS Reviewers stated that they did probe if they felt it necessary, and that they would act on doubts about whether the customer had fully disclosed relevant information in the follow-up procedures. However, other RSS Reviewers the ANAO interviewed said they would not act on such doubts.

5.22 Figure 5.1 provides a sample of the range of RSS Reviewer attitudes to probing and acting on concerns, encountered by the ANAO during fieldwork.

¹⁶² To obtain audit evidence, the audit team interviewed RSS teams in four of the 15 Centrelink Areas.

Figure 5.1

RSS Reviewer attitudes to probing and acting on doubts

- You can ask extra questions; you do the gut instinct thing, and make a note to check later. Given my experience I would recognise non-disclosure.
- If I thought I needed to pursue an issue I would.
- If I suspect something then I probe, especially if I think they are in an MLR. If I'm suspicious I'll come back and investigate.
- I have to look at the facts in front of me.
- I don't ask questions not in the questionnaire. I may translate the question, or simplify, but I don't ask questions not in the package.

Source: ANAO Fieldwork

5.23 In another Area, an RSS Coordinator informed the ANAO that the RSS questionnaire's effectiveness in detecting MLRs or undeclared income depends largely on the interview skills of the RSS interviewer. That is, staff have to decide whether they will drill down to the next level on the basis of the available 'triggers', or doubts they have about the customer's responses. If the interviewer is not suspicious, or does not identify a trigger, they will not follow-up an issue with further investigation as this is seen as an invasion of the customer's privacy.

5.24 During fieldwork, a number of the RSS Reviewers the ANAO interviewed said they did probe for more information during the interview based on their doubts that the customer is disclosing all relevant information regarding his/her circumstances. Other Reviewers only probed if evidence was available, while others forwarded cases to specialists within Centrelink for further investigation such as the Cash Economy Team or the Tip Off Team. Although the ANAO acknowledges that judgments made in each case will vary according to circumstances, the ANAO observed during fieldwork that the probing in the interviews varied also because of the different skill levels of the RSS Reviewers, and lack of clear guidance from Centrelink's NSO for Reviewers.

5.25 This difference in behaviour amongst RSS Reviewers impacts on the quality of the information collected, and undermines the quality of the national data. The ANAO suggests that this inconsistent approach is an issue which could be addressed by appropriate training.

5.26 DEWR informed the ANAO on 9 December 2005 that:

DEWR is looking to make enhancements in this area. For example, DEWR plan to interrogate cases which may not have had a change of circumstances at the time of review but which subsequently did have a change. Interrogating these cases may assist in identifying triggers which may assist in the review process.

5.27 As well, FaCSIA advised the ANAO on 12 May 2006 that it has directed Centrelink to implement sound interactive interview techniques for all RSS interviews.

Compliance focus

5.28 That some RSS Reviewers probe and act on doubts that the customer is disclosing all relevant information regarding his/her circumstances also reflects the fact that most RSS Reviewers interviewed by the ANAO had a compliance background. Additionally, most RSS Reviewers the ANAO interviewed indicated that they consider the RSS a compliance activity, rather than a national survey. However, officers from NSO stated to the ANAO that: 'We tell staff that they are not compliance officers'. This is an issue because it affects the uniform execution of the RSS, which is an important requirement for the conduct of any survey in order to collect data in a consistent way.

5.29 Most RSS Reviewers interviewed by the ANAO during fieldwork stated that they do not see the final outcome of their work. That is, the national results of the RSS and the accuracy of outlays figure. They receive information on their Area's performance in meeting the SLA review completion standard that 98 per cent of all cases are completed within the scheduled quarter¹⁶³, and on their individual quality assurance results. Given many RSS Reviewers have a compliance background, and lack a broader understanding of the RSS, it is not surprising that they do not view the RSS as a 'survey' which needs to be conducted uniformly.

5.30 The ANAO does not suggest that staff with a compliance background be excluded from selection in an RSS team, given that these staff will often have valuable skills and experience to bring to the conduct of the RSS. However, staff working in RSS teams could be better informed of the purpose of the RSS in order to improve their performance in the role. Training issues are further examined later in paragraphs 5.97 to 5.108.

¹⁶³ Department of Family and Community Services, *The Rolling Program of Random Sample Surveys Service Level Agreement*, p.15.

Recommendation 6

5.31 The ANAO recommends that Centrelink include information on the purpose of the RSS in recruitment and training materials for RSS Reviewers, and that Area RSS staff are provided with information on the outcomes of the RSS, given that it is the final product of their work.

Centrelink's response

5.32 Agreed. Centrelink provides Area RSS staff with information on the outcomes of the RSS via reports posted on the team room. Centrelink has commenced work to include information on the purpose of the RSS in recruitment and training material.

Conduct of the interviews

5.33 During fieldwork, the ANAO noted another variation in the conduct of the RSS, in relation to who conducts the RSS interviews. In one Area the ANAO visited, the RSS interviews were conducted by Centrelink staff who were not RSS Reviewers. However, the RSS Reviewers in that Area conducted all the other RSS processes. The ANAO was advised that the use of staff other than RSS Reviewers to conduct RSS interviews occurred because of the pressure to meet the 98 per cent review completion standard.

5.34 As noted previously, the interview is a critical part of the process in regards to identifying non-disclosure, and in informing follow-up procedures. In this Area, one RSS Reviewer commented that there were quality issues with the interview being conducted by someone else, and this also introduced a level of rework due to insufficient information being collected at interview. The split between the interviewer and the processor also impacted upon the quality of the follow-up procedures after the interview.

Attribution of error

5.35 As shown in Chapters 3 and 4, part of the purpose of the RSS is to identify errors which may lead to payment incorrectness. The errors are ascribed to customer error (that is, customer action or inaction), or Centrelink administrative error (predominately incomplete processing).

5.36 The most common customer error recorded is the 'failure to update Centrelink of changes in circumstances'. However, in discussing the attribution of error with RSS Reviewers, the ANAO found that there is the potential for Centrelink administrative error to be incorrectly attributed to customer error.

This can occur because Centrelink has not recorded the customer's previously updated information.

5.37 Customers have a range of options for updating their circumstances. For example, they can call a Centrelink call centre, or provide some information on-line, or provide information to a Customer Service Officer at a CSC.

5.38 When RSS Reviewers attribute error, this occurs after the interview. In some cases, customers will have the opportunity to say at interview that they had already provided information, or after the interview, perhaps when a debt is raised. In these cases the RSS Reviewer can check the customers' records to see if there is evidence that they had contacted Centrelink. In other cases, the customers will not have the opportunity to inform Centrelink that they have previously provided information.

5.39 The difficulty with attribution occurs where Reviewers check on cases where the customer claims they have updated information at the CSC. A customer may report changes at the CSC, and/or leave documents, and these may not be recorded. Hence, a customer may state that they have updated their circumstances, but there may be no Centrelink record of this having occurred.

5.40 During ANAO fieldwork, RSS Reviewers stated that they have had many cases where customers have claimed to have updated their circumstances. Some RSS Reviewers advised the ANAO that they saw this as unlikely. For example, one RSS Reviewer stated that 'Customers often say that 'I told you that', but often they haven't'. Another stated 'If it's not on the system, then 99 per cent of the time they didn't provide it'.

5.41 Other RSS Reviewers the ANAO interviewed saw this as being a legitimate claim by customers. For example, one RSS Reviewer stated: 'There are definitely cases where things aren't DOC'd'.¹⁶⁴ This is because of the time constraints in the CSCs, it's not deliberate'.

5.42 As another RSS Reviewer stated: 'Reception [at the CSC] is a hard place. There are long queues and CSOs get abused, etc'.

5.43 With information provided to a call centre, there is a log of the call and some evidence that the customer made contact. With information provided to

¹⁶⁴ DOCs are on-line documentation. This is a free text part of each customer's computer record that a Centrelink officer can use to record information on a range of issues related to the customer.

the CSC, which may not have been recorded, there is no recourse for the customer to prove that they had provided the information.

5.44 In the absence of evidence regarding the previous provision of information, the ANAO was advised that an error identified during the RSS process will be attributed to the customer. This may lead to debts being raised incorrectly, and an underestimate of Centrelink administrative error. This is an issue identified in Centrelink's own research into overpayments: 'During the analysis it was identified that some debts were attributed to Customer Error but upon further investigation were found to be Administrative Error'.¹⁶⁵

5.45 Issues with the attribution of error have been raised previously by the ANAO. In Audit Report No. 17 2002–03 *Age Pension Entitlements* the ANAO recommended that:

In order to ensure the reliability of performance information obtained through the Random Sample Survey, the ANAO recommends that both FaCS and Centrelink strengthen their quality assurance checks on the attribution of errors identified through the Surveys.¹⁶⁶

5.46 As shown in Chapter 3, error represents a cost to Centrelink. Information on error provides an opportunity to identify problems and develop solutions, particularly in relation to administrative error.

5.47 According to Centrelink, in comments provided to the ANAO on 9 December 2005:

Centrelink will be implementing a nationwide receipting procedure to receipt and record advice from customers every time contact is made. This will provide evidence of the transaction to customers and Centrelink alike.

Timing and resources issues

5.48 Competing quality and timeliness goals is an issue which has been identified generally in Centrelink operations at the front line:

While a number of findings have been uncovered, a number of them can be summarised by saying that staff actions are sometimes focused on KPIs [Key Performance Indicators] at the expense of full correctness. There is an issue of quality vs timeliness and meeting of individual KPIs. These measures driving

¹⁶⁵ Centrelink, *Overpayments Analysis: Random Sample Survey, Financial Year 2003–04*, p. 3.

¹⁶⁶ ANAO Audit Report No. 17 2002–03, op. cit., p. 48.

staff behaviour which can, at times, negatively impact on payment correctness.¹⁶⁷

5.49 Staff in the Centrelink RSS teams are guided by the review completion standard of 98 per cent of RSS cases per quarter. During fieldwork, Centrelink staff raised with the ANAO the issue of timing and resource pressures, indicating it affected the ability of staff to meet deadlines for the RSS, to a high standard.

Timing

5.50 The Centrelink staff from NSO and the Areas the ANAO interviewed during fieldwork consistently raised the impact of time constraints on Centrelink's ability to complete the RSS. Many of the RSS staff interviewed were of the opinion that if they had more time, they would be able to achieve a higher level of quality in their work, including a more detailed level of investigation into customer circumstances. This in turn could lead to the identification of further errors in customer payments.

5.51 Timing issues also impacted on the decisions RSS staff made on customer payments. Given the time pressures, a few staff informed the ANAO that they were forced to suspend some customers' payments in order to get the customer to come in for the RSS interview and allow the RSS Reviewer to complete his/her workload. Most of the RSS Reviewers interviewed by the ANAO advised that they would take time to explain the RSS process to difficult customers who initially refused to attend the RSS interview. But other RSS Reviewers advised that they would be quicker to suspend customers who refused to participate in the RSS interview, in order to ensure the customer's compliance and achievement of the required timeliness of the process.

5.52 A few of the RSS teams interviewed advised the ANAO that they occasionally use other Centrelink staff to conduct RSS interviews, in order to meet the review completion standard of 98 per cent of RSS interviews each quarter. However, as identified by some of the RSS staff during fieldwork, non-RSS staff interviewing customers impacts on the quality of the RSS process. Splitting the interviewing and the processing of the cases between different staff increases the possibility that fewer triggers will be identified and investigated during the follow-up processes after the customer interview.

¹⁶⁷ Centrelink, "*Charlotte*" – *The Web Unfurls: Analysis Report*, op. cit., p. 29.

Resourcing

5.53 Several RSS Coordinators the ANAO interviewed raised the issue of the limited staff resources available to undertake the RSS reviews, and commented that the lack of available staff led to difficulties in meeting the 98 per cent completion rate each quarter.

5.54 For example, in one Centrelink Area, funding had been supplied by NSO for two full-time staff in the RSS team. The Area itself had funded an additional two full-time roles, in order to meet RSS deadlines. Despite the additional staff, the Area was still having difficulty in completing its caseload in the required time period. Other RSS Coordinators and their staff also commented that time pressures due to limited staff resources impacted on their ability to meet the 98 per cent review completion standard.

5.55 In addition, the requirement to verify details with third parties, such as banks and employers, intrinsically involved unavoidable delays and made it difficult to meet the 98 per cent completion standard each quarter.

Questionnaire

5.56 In order to collect data for the RSS process, Centrelink and FaCSIA jointly developed a series of RSS packages, one for each payment type.

5.57 The package consists of a questionnaire to be completed during the interview with the customer, and a validation package to be completed after the interview process. The validation package involves confirming details with third parties which may include employers, banks, online credit checks and/or the Australian Valuation Office.

5.58 The questionnaires are developed within the Compliance and Review branch of Centrelink in consultation with the relevant programme branches in both Centrelink and policy departments.¹⁶⁸ Questionnaires are also reviewed and updated as a result of new or amended legislation, or following a stakeholder request.¹⁶⁹ The packages for major payments are reviewed six months after phased implementation. The RSS Programme Managers for FaCSIA and Centrelink are required to sign off on all requested changes to the questionnaire before production release.¹⁷⁰

¹⁶⁸ Centrelink; comments provided to the ANAO on 9 December 2005.

¹⁶⁹ *ibid.*

¹⁷⁰ *ibid.*

5.59 The RSS questionnaire impacts upon the ability of the RSS Reviewers to collect appropriate and robust data from Centrelink customers during the RSS interview. Therefore, a well-designed questionnaire is critical to the RSS process.

5.60 Reviewers are required to complete the questionnaire at the interview, and follow the prompts. Certain questions within the questionnaire are designed to trigger 'modules'. Modules involve a series of further questions on a specific topic that may not apply to all customers, for example a series of questions on a customer's assets. Where the questionnaire indicates that a module should be issued, the interviewer is required to ask the customer all questions on that module.

5.61 RSS staff interviewed by the ANAO advised that they considered that the questionnaires were comprehensive. However, many also indicated that they considered there could be some improvements to the questionnaires in terms of design, and that the questionnaires did not uncover all instances of customer non-disclosure.

Questionnaire design

5.62 Many of the staff interviewed by the ANAO raised repetition, and the sequence of questions, as issues with the questionnaire design. The different modules in the questionnaire often lead to duplication. In many instances adding one question to the questionnaire would eliminate the need to run the customer through another entire module. Staff also suggested that reducing the number of modules in the questionnaire would improve its usability. Some of the staff interviewed also suggested that changing the sequencing of the questions would also improve the questionnaire design, as it would eliminate the need to ask certain questions which are not applicable to the customer.

5.63 As a result of its design, some staff believed that the questionnaire had a high level of complexity, which could be confusing for new Reviewers. This may be an issue for inexperienced staff with limited training, or non-RSS staff who are employed to do the interviewing when there are timing or resourcing issues. This in turn may effect the accuracy of the data collection for the RSS process.

5.64 A number of RSS Reviewers and Coordinators interviewed by the ANAO suggested the idea of a generic questionnaire for all payment types, or a questionnaire with two parts, one with generic questions applicable to all customers, and another with payment specific questions. The RSS staff

considered that these changes would reduce the complexity of the questionnaire.

5.65 Although many of the RSS staff the ANAO interviewed advised that they had provided feedback to Centrelink NSO on the design of the questionnaire and how to improve it, they observed that little has been done to implement these suggestions.

Recommendation 7

5.66 The ANAO recommends that Centrelink, DEWR, DEST and FaCSIA review the design of the RSS questionnaire in order to:

- (a) reduce the complexity of the questionnaire;
- (b) improve sequencing through the questionnaire; and
- (c) limit question repetition when using additional specialised modules.

FaCSIA's response

5.67 Agreed. Centrelink, FaCSIA, DEWR and DEST are developing a new generic questionnaire and payment specific components and modules for the RSS. Centrelink is currently compiling and testing the generic questionnaire, components and modules with a view to implementation for all RSS reviews from 1 July 2006.

DEWR's response

5.68 Agreed.

DEST's response

5.69 Agreed. DEST is working toward addressing the issues [the recommendation] raises. To this end, DEST is working with Centrelink to streamline the questionnaires and to eliminate duplication of questions between the questionnaires and modules used for the RSS.

Centrelink's response

5.70 Agreed. Centrelink has commenced working with all policy departments to address the issues raised by the ANAO. A new generic questionnaire with payment specific attachments will be utilised from the 2006/07 financial year.

Sound practice

5.71 The following sections provide a brief overview of the better practice mechanisms available to the RSS teams.

RSS Team Room

5.72 The RSS ‘Team Room’ is an electronic database used to provide RSS Coordinators and their staff with information on IRS updates, NSO contacts, general issues and other reference material.¹⁷¹ Also available is information on payment specific issues, completion reports, progress reports, and Area reports containing the results of the previous RSS quarter.¹⁷² Some of the RSS staff, interviewed by the ANAO, found the Team Room to be a useful source of information about the RSS, including updates from Centrelink’s NSO on the process.

5.73 However, a greater number of RSS Coordinators and their staff informed the ANAO that the RSS Team Room has limitations, including a cumbersome design. That is, the database has no particular ordering or an index which is not logical or user-friendly, making it difficult to navigate. In addition, the information in the database is not routinely revised and as a result contains an over-abundance of information, including older and irrelevant information. Due to these limitations, many of the RSS staff do not use the RSS Team Room on a regular basis, with some staff not using the Team Room at all.

Recommendation 8

5.74 The ANAO recommends that Centrelink review the RSS Team Room database, with a view to improving its useability, and that the information it contains is both current and relevant to RSS staff.

Centrelink’s response

5.75 Agreed.

Other better practice mechanisms

5.76 There is also an annual conference for the RSS Coordinators. In some Areas RSS teams hold weekly team meetings to discuss progress and share ideas amongst team members.

¹⁷¹ Centrelink, *Rolling Random Sample Survey: Guidelines*, op. cit., p. 24.

¹⁷² *ibid.*

5.77 However, a majority of the RSS staff the ANAO interviewed were not aware of how other Areas complete the RSS process.

5.78 Centrelink informed the ANAO on 9 December 2005 that ‘this issue will be addressed through implementation of business lines¹⁷³, which will ensure consistent process’.

Quality assurance

5.79 As shown above, there are three separate quality assurance processes conducted on the data collected from the RSS. The first process is the Area check, generally conducted by the Area RSS Coordinator. This is to ensure that all appropriate information has been collected, and that the RSS Reviewer’s analysis and decisions are correct.

5.80 The second process is conducted by NSO. Previously, all cases where there was a variation or debt to the customer’s (or partner’s) payment had to be photocopied and sent to NSO for quality control. This quality control is now conducted instead on a 10 per cent sample of all cases.

5.81 The third process is a check by the purchaser department of the quality and consistency of reviews, and is called External Validation. Centrelink sends a sample of 10 per cent of cases to the appropriate agency for checking. As examined previously, these checks are all mostly paper-based apart from DEWR’s online check, and there is no check on the actual interview process.

5.82 The ANAO accepts that any process conducted by staff will have a degree of human error, and that there is a need for quality control processes. However, the cost effectiveness of three separate processes checking the quality of the completed questionnaires is doubted, particularly if the interview has failed to elicit all relevant information. The cost of this amount of quality assurance should be weighed against the limitations of the RSS data in its ability to meet its primary purpose (Refer to Chapter 3).

5.83 In comments provided to the ANAO on 9 December 2005, Centrelink stated that:

In August 2005, Centrelink introduced a streamlined checking process supported by tools and checklists to ensure quality is maintained. Quality guidelines will continue to be stressed and enforced.

¹⁷³ Business lines are groupings of agency programmes based on the result which they are primarily intended to achieve.

5.84 During fieldwork the ANAO requested data on the results of Centrelink's Area quality assurance checks. However, of the four Areas visited, none collected statistics on the number or type of Reviewer errors found in quality assurance checks. The ANAO was provided with a quality assurance spreadsheet from one Area, and the checking sheets from another, which identified reviewer error for a quarter, but did not aggregate the information.

5.85 As shown previously, error represents a cost to Centrelink. During ANAO fieldwork, the audit team observed the conduct of Area quality assurance procedures and saw a level of basic error in the conduct of the RSS reviews. The data collected by the ANAO from two Areas showed that there was a high level of Reviewer error in the processing of RSS reviews.

5.86 In observing Area quality assurance processes, the audit team saw examples of error in the collection of information during the RSS interview, including poor photocopying of documents (for example not including the photo on a copy of a passport) and insufficient proof of identity documentation. These types of errors require the customer to be contacted to provide the information again if the RSS review is to be successfully completed. This is a cost to both the customer and Centrelink, and may impact on the quality of data from the RSS if Reviewer errors are not identified and rectified.

5.87 These observations of the quality of collection of proof of identity information used in the RSS reinforces findings from ANAO Audit Report No.29 2005–06, *Integrity of Electronic Customer Records*, which found that up to 30 per cent of proof of identity information on ISIS¹⁷⁴ was insufficient or unreliable in terms of uniquely identifying or substantiating the identity of customers.¹⁷⁵

5.88 The ANAO's analysis of information provided on one Area's quality assurance process, showed that 84 per cent of RSS reviews were identified as having some kind of Reviewer error. These ranged from incorrect contact information being recorded, to information not being verified. In another Area, while the percentage of Reviewer error could not be calculated from data provided to the ANAO, the types of error recorded ranged from incorrect recording of information through to poor analysis of data collected.

¹⁷⁴ The Income Security Integrated System (ISIS) is Centrelink's main customer database.

¹⁷⁵ ANAO Audit Report No. 29 2005–06, *Integrity of Electronic Customer Records*, p. 15.

5.89 In ANAO discussions with staff from Centrelink NSO, the recruitment and training of RSS Reviewers was canvassed, and these staff stated that the RSS attracts a unique person who needs a broad skill set. NSO Documentation relating to the skills required for RSS Reviewers, reinforced this view.¹⁷⁶ However, ANAO fieldwork and interviews with RSS Reviewers identified a wide variation in skills and experience, and a level of basic error that would not be expected of experienced staff (recruitment and training of RSS staff is examined below in paragraphs 5.91 to 5.96).

RSS Reviewers

5.90 The ANAO interviewed RSS Coordinators and their teams in four different Areas of Centrelink. A number of issues specific to RSS Reviewers were identified by the ANAO during the fieldwork for the audit, particularly in relation to recruitment and retention, training and support, and performance assessments. The following sections provide further detail on these issues.

Recruitment and retention

5.91 During fieldwork, the RSS Coordinators interviewed informed the ANAO that RSS team roles were not advertised and instead people were ‘approached’, or moved there due to operational issues. There are no specific selection criteria for RSS Reviewers. However, RSS Coordinators informed the ANAO that they ‘know who we need’. Similarly, many RSS Reviewers advised that they had not applied through addressing selection criteria, and were unaware of any specific criteria for the role. Some had acquired the role as a result of expressing an interest in the position and requesting a transfer, or were approached by the unit manager. Others said they had ‘ended up’ in the role.

5.92 Many staff advised the ANAO they considered that they were selected for the RSS role because of their background in compliance, and consequently viewed the RSS as a compliance activity.

5.93 Despite this approach to recruiting staff, some RSS staff advised the ANAO that they were of the opinion that a formalised selection process would improve the quality of recruits for the RSS roles. This was because of the key skills which are required for the role, including attention to detail, knowledge of payments, logical thinking and the ability to calculate debts. In addition, one

¹⁷⁶ Centrelink, *Certification for Random Sample Staff*, January 2005.

RSS Coordinator informed the ANAO that 'it is important to have the right people with the right skills for the RSS role, as the RSS is integral to compliance and the integrity of outlays'. It is also crucial to retain staff as it takes a while to build up experience over the six payments covered by the RSS. Therefore, a formalised selection process would aid in the recruitment of staff with the appropriate skills.

5.94 The ANAO's fieldwork identified that retention appeared to be an issue with RSS teams. RSS Reviewers and Coordinators advised that this was due to the pressures of the role. This is confirmed in Centrelink documentation:

The level of staff rotation within the teams is certainly high, impacting upon their ongoing skills base and historically, there does appear to be a high level of volatility regarding the establishment and location of Random Sample Teams.¹⁷⁷

5.95 Several RSS Coordinators informed the ANAO that resourcing was a constant issue that impacted on their teams' ability to meet the review completion standard specified by the purchaser departments. This standard is that 98 per cent of all RSS reviews will be completed by the end of the relevant quarter. Many of the RSS team members interviewed during fieldwork had been in their role for less than 12 months. Several of the RSS staff also raised the issue of time pressures as one of the major difficulties of their role.

5.96 The issue of low retention of staff is another factor that impacts on the ability of the RSS teams to meet deadlines. High turnover of staff meant that some staff had limited knowledge of the RSS process and, as a result, lower skill levels. This in turn places greater pressure on staff who were more experienced and skilled in their roles, and impacted on the ability of the team to meet the major standard contained in the SLA.

Training and support

5.97 Centrelink has recognised that training for staff in the RSS role is crucial to the success of the RSS process:

Essentially, the job combines elements of interview and investigation, technical expertise to confirm and update customer records and quality checking. Skill levels in these areas need to be consistently high.¹⁷⁸

¹⁷⁷ *ibid.*

¹⁷⁸ *ibid.*

5.98 During fieldwork, the ANAO found a great deal of variation in the training provided to Reviewers amongst the various RSS teams. Those Centrelink RSS staff the ANAO interviewed advised that the RSS Reviewers were not required to undertake mandatory training for their role. In addition, they advised that no regular training is provided to the RSS teams by NSO.

5.99 Across the four Centrelink Areas the ANAO visited, it was generally assumed that staff already had the skills to perform the role, and therefore that they only needed to receive informal on-the-job training of the RSS process in order to perform the role. However, the ANAO observed a wide range of experience and skill levels in the RSS staff interviewed.

5.100 In Areas where staff did receive training, this took the form of one-on-one training and on-the-job training, assisted through manuals, and online Acts and procedures. Weekly meetings also provided guidance to some staff on their role. In a few Areas, RSS staff undertook debt and other technical training, but this was not mandatory. For example, in one particular Area, it was a requirement for RSS staff to complete a Certificate IV in Fraud, however in other areas it was only encouraged but not enforced.

5.101 Guidelines are provided to RSS staff when they first start their position. However, many staff advised that they had not referred to the guidelines on an ongoing basis to perform their role. In addition, some of the initial on-the-job training provided only took the form of a brief and informal overview of the role.

5.102 A number of RSS staff interviewed by the ANAO were of the opinion that the RSS Team Room database is a good source of training information. However, as previously mentioned in paragraphs 5.72 to 5.73, the RSS Team Room is not utilised by all RSS staff. Some RSS staff advised the ANAO that the Team Room was difficult to navigate and that it contained a great deal of redundant information.

5.103 The RSS staff interviewed by the ANAO were satisfied with the level of support provided by Centrelink NSO to perform their roles, in particular they felt that responses to questions were answered in a timely manner. However, many of the RSS staff interviewed by the ANAO felt they would appreciate more information about the results and the outcome of the RSS.

5.104 Also, many of the RSS staff considered it would be beneficial to their role to have more training provided on technical issues, for example, to increase their knowledge of payment types.

5.105 This is an issue that has been recognised by Centrelink:

The singular role of the Random Sample Teams, when combined with their growing importance as a component of the BAF, indicates a discrete training and accreditation package would be appropriate to enhance and maintain necessary skill levels within the teams. The package needs to address the specific requirements and nature of Random Samples.¹⁷⁹

5.106 In January 2005, Centrelink proposed that RSS staff be required to gain technical proficiency to the standard of a QOL checker¹⁸⁰ in at least one programme area, and complete up to four modules addressing investigation competencies, drawn from the Certificate IV in Fraud material.¹⁸¹

5.107 However, in comments provided to the ANAO on 9 December 2005, Centrelink advised:

Centrelink does not agree that Certificate IV in Fraud Material is appropriate for Random Sample staff. A tailored accreditation package is being developed.

5.108 DEWR also plans to address the issue of training for RSS staff. DEWR advised the ANAO on 9 December 2005 that:

DEWR plans to provide Centrelink with funding to undertake training including development of an accredited training programme. DEWR will take an active role in the development of this training. DEWR agree that the review staff should have an understanding of the RSS.

Performance assessment

5.109 During the fieldwork for this audit, the ANAO observed a wide variation in the four Areas visited in terms of Performance Assessments (PAs) for the RSS team members.

5.110 The sole common KPI included in the PAs across the Areas is that RSS Reviewers will strive to meet a 98 per cent completion standard of the RSS cases allocated to them per quarter, with 100 per cent accuracy. This KPI is consistent with the overall standard specified for Centrelink's conduct of the RSS by the purchaser departments. However, some of the RSS team members interviewed felt that the 98 per cent completion target was too difficult to meet, and should be changed to a more realistic figure of around 95 per cent.

¹⁷⁹ *ibid.*

¹⁸⁰ Quality On-Line (QOL) is Centrelink's on-line quality assurance tool, where either five per cent or 100 per cent of a CSO's work, depending on their experience, is referred to a qualified officer (QOL checker), who checks for completeness and correctness.

¹⁸¹ Centrelink, *Certification for Random Sample Staff*, op. cit.

5.111 The RSS Coordinators in these Areas informed the ANAO that PA reports were conducted roughly every four months. However, the ANAO found variation across the Areas in the frequency of PAs undertaken with individual RSS staff. Some of the more experienced RSS staff, when asked by the ANAO, could not recall when their last PA had taken place.

5.112 In some of the Areas, the RSS Coordinator attends the initial few interviews of new RSS Reviewers, however this was not consistent across Areas. The RSS interview is an integral part of the RSS process as it is central to good data collection in the process. Despite this, none of the Areas visited during fieldwork had a process in place to monitor the quality of RSS interviews on a regular basis, or observe the performance of RSS Reviewers during the interview.

Recommendation 9

5.113 The ANAO recommends that Centrelink:

- (a) develop and implement national selection criteria for RSS Reviewers;
- (b) develop and implement a national training package for all RSS staff; and
- (c) ensure appropriate Performance Assessment procedures are in place for all RSS Reviewers.

Centrelink's response

5.114 Agreed. Centrelink has already commenced development of a range of measures to address these three elements.

Conclusion

5.115 The ANAO examined the operation of the RSS Programme and concluded that there were a range of issues with the operation of the RSS Programme. These issues ultimately affect the quality of data produced from the RSS. Accordingly, addressing the opportunities to improve the operation of the RSS programme will improve the quality of the data produced. However, these improvements will not address the inherent problem of customer non-disclosure.

5.116 The ANAO considers that purchaser department should implement improvements to the governance of the RSS programme to gain a greater level of assurance regarding the operation of the programme and to allow them to better assess the efficiency, effectiveness and independence of Centrelink's

operation of the RSS Programme. There are also a range of operational issues which affect the identification of non-disclosure by customers of changes in their circumstances, including differences amongst RSS Reviewers in approaches to probing and following up.

5.117 In examining the quality assurance processes for the RSS Programme, the ANAO observed a number of simple errors in the conduct of the RSS reviews. The ANAO requested data on the results of the Area quality assurance checks from the four Areas visited during fieldwork, however, none collected statistics on the number or type of Reviewer errors found. The ANAO's analysis of information provided on one Area's quality assurance process, showed that 84 per cent of RSS reviews were identified as having some kind of Reviewer error. These errors represent a cost to Centrelink and if not corrected affect the quality of the data collected.

5.118 The ANAO found that the quality of the data collection for the RSS was also affected by issues with:

- recruitment, training and performance management of RSS staff;
 - questionnaire design;
 - Centrelink staff other than RSS Reviewers conducting the interview; and
 - the attribution of error between Centrelink and its customers.
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Auditor-General

Canberra ACT
31 May 2006

Appendix

Appendix 1: Centrelink's Prevention and Review Activities

Service Profiling Reviews

Service profiling is a method of selectively targeting Centrelink services and assistance to its customers. Profiling is supported by an information technology tool that checks a customer's record for the predictors or characteristics which are relevant to the service being provided. It then determines the most appropriate pattern of actions, recognising that not all customers require the same level of service.

Data Matching

Data matching is conducted by Centrelink in association with a number of Australian Government and State Government bodies, such as the Australian Taxation Office.

Child Care Service Operator Reviews

These reviews are conducted on child care centres that are no longer approved to pass the child care benefit on to families as a reduction in their fees; have ceased operations; as a result of a tip-off from the public, or as part of an outreach visit.

Accelerated Claimant Matching

The accelerated claimant matching is an automated weekly checking system that compares information provided by customers against records held by Centrelink.

Pensioner Entitlement Reviews

These reviews provide customers with an opportunity to update their income and asset details held by Centrelink to ensure that they are receiving their correct entitlements.

International Project Reviews

These reviews, conducted in Australia, are of customers living overseas and being paid by either the portability provisions, or under reciprocal agreement with another country.

Duration Reviews

Duration reviews are conducted at regular intervals to ensure a customer's ongoing entitlement to payment.

Other Risk Reviews

Centrelink also conducts other risk reviews to confirm a customer's ongoing entitlement to payment. This includes reviews resulting from tip-offs received from the public.

Other Prevention, Detection and Deterrence Mechanisms

Centrelink's other Prevention, Detection and Deterrence programs include one-off media campaigns such as the current 'Support the System that Supports You' media campaign, and debt and fraud prevention strategies and initiatives.

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Australian Taxation Office

Department of Health and Ageing

Medicare Australia

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