

The Auditor-General  
Audit Report No.26 2006–07  
Performance Audit

## **Administration of Complex Age Pension Assessments**

**Centrelink**

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of Australia 2007

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Canberra ACT  
20 February 2007

Dear Mr President  
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in Centrelink in accordance with the authority contained in the *Auditor-General Act 1997*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit and the accompanying brochure. The report is titled *Administration of Complex Age Pension Assessments*.

Following its presentation and receipt, 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

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ANAO	Australian National Audit Office
CAO	Complex Assessment Officer
CSC	Customer Service Centre
CSO	Customer Service Officer
DEST	Department of Education, Science and Training
DEWR	Department of Employment and Workplace Relations
DSP	Disability Support Pension
FaCSIA	Department of Families, Community Services and Indigenous Affairs
KPI	Key Performance Indicator
NSO	National Support Office
ODM	Original Decision Maker
PPP	Parenting Payment Partnered
PPS	Parenting Payment Single
QOL	Quality On-Line
RSS	Random Sample Survey

# Glossary

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Business Alliance Agreement (BAA)	<i>FaCSIA/Centrelink Business Alliance Agreement 2004–2008.</i> This document provided the basis for the relationship between FaCSIA and Centrelink during the period of fieldwork for this audit.
Business Partnership Agreement (BPA)	<i>FaCSIA/Centrelink Business Partnership Agreement 2006–2010.</i> This new BPA replaces the BAA 2004–2008 and redefines the relationship, objectives, principles, mechanisms and respective roles and responsibilities of both organisations in delivering government outcomes.
Complex Assessment	A social security assessment, whether it be a new claim for payment, or a re-assessment of an existing entitlement, where the claimant has involvement in business or other income generating structures, or has ownership of assets, which are classified as complex by Centrelink guidelines. The assessment must be referred to a Complex Assessment Officer for processing.
Complex Assessment Officer (CAO)	A specialist Centrelink officer responsible for processing the complex component of social security assessments.
CAO Toolbox	An on-line internal Centrelink database which measures the performance and activities of CAOs.
Customer Service Officer (CSO)	A Centrelink officer responsible for providing service to Centrelink's customers in both Customer Service Centres and Call Centres. This includes processing the non-complex components of new claims and re-assessments for social security programmes, as well as answering customer queries.
Original Decision Maker (ODM)	The Centrelink officer who undertook the initial assessment or re-assessment of a customer's claim for entitlement for a social security payment.

Quality On-Line (QOL)	Centrelink's on-line quality control tool, where either five per cent or 100 per cent of a CAO's work, depending on their experience, is referred to a qualified officer, who checks for accuracy.
Random Sample Survey (RSS)	A mechanism for measuring the accuracy of Australian Government outlays, used by the Department of Families, Community Services and Indigenous Affairs, through Centrelink, where a sample of customer records is drawn to verify the customer's entitlements.
Scriptor	A work-flow tool developed by Centrelink which aims to standardise and automate processes used by Centrelink officers to enter customer data into the Centrelink on-line systems. A scriptor can also assist Centrelink officers with producing pre-scripted documents to be placed on the customer's record.

## **Summary and Recommendations**



# Summary

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## Background

1. The Age Pension is Australia's largest social security programme delivering approximately \$22 billion to 1.9 million Australians in 2005–06. The Age Pension programme is administered by Centrelink on behalf of its client agency the Department of Families, Community Services and Indigenous Affairs.
2. The Age Pension is available to people of Age Pension age<sup>1</sup>, if they meet a range of eligibility criteria established in social security legislation.<sup>2</sup> It can be a complex task for Centrelink to determine whether an individual has met these eligibility criteria, and what their level of payment should be.
3. Typically the complexity of assessing an individual's claim<sup>3</sup> to an Age Pension payment is related to his or her level of income and assets, and in particular whether they have any involvement in business structures such as trusts and companies. Centrelink often refers to assessments of people with income generating assets, or income from business holdings, as complex assessments. These types of assessments represented 7.8 per cent of total Age Pension assessments undertaken over the period 1 July 2005 to 31 July 2006.
4. Complex Assessments require processing by a specialist Centrelink officer known as a Complex Assessment Officer (CAO). CAOs are expected to possess advanced knowledge of business structures and general-purpose financial reports, and to be able to apply their knowledge of these issues to Social Security Law to assist in determining a customer's entitlement. Accordingly, they are experienced officers with a skill-set that allows them to undertake often complex analytical work.
5. There are four elements to the role of CAOs within the Centrelink network: assessing and processing complex customer cases; providing

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<sup>1</sup> In the financial year 2006–07, the qualifying age for men was 65, and for women 63 years. On 1 July 2007, the qualifying age for women will increase to 63.5 years and will progressively increase to 65 years by 2014.

<sup>2</sup> *Social Security Act 1991* (Cth), *Social Security Administration Act 1999* (Cth), and *Social Security (International Agreements Act) 1999* (Cth).

<sup>3</sup> Age Pension claims include new claims and re-assessments. New Claims are claims for an Age Pension payment by an individual who has never previously received such a payment. A re-assessment involves Centrelink staff considering how an Age Pensioner's changed circumstances may affect their level of entitlement.

leadership within the offices where they are located; providing a consultancy service to other Centrelink staff; and training other Centrelink staff to identify, refer or assess complex entitlements. Technical assessment is the CAOs' major role, accounting for approximately 75 per cent of their workload.

6. As of October 2006, there were 166 CAOs distributed throughout the Centrelink network. CAOs processed around 93 000 cases between 1 July 2005 and 31 May 2006, of which nearly half (46 000) were complex Age Pension assessments. CAOs typically assess cases across social security programmes, rather than specialising in a particular programme, such as Age Pension. This is because the core assessment requirements (especially calculation of income from companies and trusts) are common across programmes.

7. The ANAO has identified in previous audits of social security payments that complex assessments pose a significant business risk to Centrelink in terms of ensuring the correctness of payments to customers.<sup>4</sup> The ANAO has also identified previously, that CAOs can make a positive contribution to mitigating this business risk, by ensuring a correct calculation of the customer's entitlement through the application of their specialist knowledge of business structures and social security legislation.<sup>5</sup>

## Audit Approach

8. The objective of the audit was to examine the effectiveness of Centrelink's administration of complex assessments of customer entitlements for the Age Pension programme, particularly through the use of Complex Assessment Officers.

9. The audit focused on Centrelink's ability to effectively manage its current level of Age Pension customers requiring complex assessments, as well as its ability to plan for the projected future increases in this type of customer. The audit considered Centrelink's administration of complex Age Pension assessments across the Centrelink network, however, there was a greater focus on Areas with higher levels of Age Pension customers.<sup>6</sup>

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<sup>4</sup> ANAO Audit Report No. 34 2000–2001 *Assessment of New Claims for the Age Pension by Centrelink* and ANAO Audit Report No. 17 2002–2003 *Age Pension Entitlements*.

<sup>5</sup> ANAO Audit Report No.34 2000–01 op., cit. pp. 79–80.

<sup>6</sup> Fieldwork was conducted between March and May 2006, in Area East Coast (NSW), Area Hunter (NSW), Area Western Australia, Area South Australia and Area Brisbane. The audit team also visited Area Tasmania to interview the National CAO Coordinator.

10. The audit focused on complex assessments for the Age Pension programme for two main reasons. Firstly, the ANAO had previously undertaken audits on the processing of Age Pension claims, and sought to examine Centrelink's progress towards rectifying issues identified in these audits relating to the processing of complex assessments. Second, the Age Pension programme presents Centrelink with a number of challenges relating to the processing of complex claims in the future, due to Australia's ageing population.<sup>7</sup>

## Overall audit conclusion

11. In 2005–06, Centrelink processed around 50 000 complex Age Pension assessments, consisting of both new claims for the Age Pension and re-assessments of existing entitlements, involving annual payments of approximately \$400 million. These assessments pose a significant business risk to the integrity of related outlays administered by Centrelink. To mitigate this risk, Centrelink uses specialist officers known as CAOs to process these claims.

12. Monitoring the effectiveness of treatments to mitigate risk is a key element in the application of risk management.<sup>8</sup> To allow Centrelink (and others) to reach an informed and accurate assessment of the effectiveness of CAOs in reducing the risk that complex Age Pension assessments will not be undertaken correctly, it is important for Centrelink to have access to reliable performance information regarding the work of CAOs, and the contribution they are making to the accurate processing of complex Age Pension assessments.

13. However, due to deficiencies in mechanisms for measuring payment correctness, timeliness and efficiency of complex Age Pension assessments, limited reliable performance information about the effectiveness of CAO's is currently available. In this circumstance, Centrelink's capacity to monitor the effectiveness of its risk management approach to these assessments is reduced.

14. Ongoing review is essential to ensure that the risk management approach of using CAOs remains relevant<sup>9</sup> in supporting the efficient, effective

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<sup>7</sup> In the future, Centrelink will face a steadily increasing stream of Age Pension customers requiring complex assessments of their claims, due to an increase in the number of people reaching Age Pension age, and the proportion of these people possessing income generating assets and superannuation.

<sup>8</sup> See Australian/New Zealand Standard: *Risk Management*, AS/NZS 4360:2004, Standards Australia/Standards New Zealand, p. 22.

<sup>9</sup> *ibid.*

and timely processing of complex Age Pension assessments. The ANAO noted that:

- Centrelink could not determine whether the use of specialist CAOs was a more cost effective means of assessing complex entitlements than the previous approach of using generalist CSOs, which was criticised by the ANAO in a previous audit tabled in June 2001;<sup>10</sup>
- while the role of CAOs is similar throughout Centrelink, there are a number of different structures for administering CAOs in its network, and it is not clear which model best suits particular circumstances; and
- there is expected to be a strong growth in the number of complex Age Pension assessments in the near future but none of Centrelink's Area Offices has developed succession planning strategies to ensure adequate numbers of CAOs in the future.

15. Notwithstanding that limited reliable performance information is currently maintained, the ANAO considers it likely that CAOs are contributing to more accurate processing of complex Age Pension assessments. Throughout the ANAO's programme of fieldwork interviews, CAOs impressed as being knowledgeable in their field, and were highly regarded by other Centrelink staff for their expertise and contribution to processing complex assessments, as well as providing training and internal consulting services.

## Key Findings

### Monitoring the performance of Complex Assessment Officers (Chapter 2)

16. Centrelink had limited data to measure the effectiveness and efficiency of complex assessment processing by CAOs. Limitations in monitoring the performance of CAOs undertaking complex Age Pension assessments mainly comprised:

- a lack of adequate measures of the level of payment correctness for claims assessed by CAOs as compared to claims processed by CSOs;
- a lack of timeliness data for complex Age Pension assessments that could gauge the contribution of CAOs to Centrelink's achievement of

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<sup>10</sup> ANAO Audit Report No. 34 2000–2001, op. cit.

internal timeliness key performance indicators (KPIs) for the Age Pension programme; and

- an absence of measures of CAO's efficiency or productivity.

17. There are opportunities available to improve Centrelink's capacity to determine the impact CAOs have on the processing of complex assessments, through improvements to the agency's performance measurement systems, especially the CAO Toolbox<sup>11</sup> and the Random Sample Survey.<sup>12</sup> Such improvements could allow for the accurate measurement and reporting at a national level on the quality, timeliness, and efficiency of CAOs.

18. Centrelink advised the ANAO that it intends to introduce a new version of the CAO Toolbox in March 2007. The new version should be able to produce national level reports on CAO performance relating to timeliness, and efficiency. However, the ANAO notes that improvements to the system of this kind cannot by themselves address the separate issue identified in this audit related to inaccuracy of data in the system caused by CAOs failing to enter performance data into the Toolbox, or incorrectly entering data. Further work is needed to improve the controls around the capture of this data.

19. The Random Sample Survey (RSS) is the primary mechanism established by Centrelink's key purchaser departments (FaCSIA, the Department of Employment and Workplace Relations and the Department of Education, Science and Training) to measure the accuracy of outlays on social security payments administered by Centrelink. The RSS provides point-in-time analysis of a sample of customers' circumstances designed to establish whether customers are being correctly paid across programmes delivered by Centrelink, including the Age Pension programme.<sup>13</sup> However, the sample does not distinguish between complex and non-complex cases for any programme. Therefore, it is not possible to separately gauge the correctness of complex Age Pension entitlements that CAOs had assessed using RSS data.

20. The ANAO examined the latest full year RSS data available for the Age Pension programme as a whole. This related to the 2004–05 financial year. The RSS results indicated that around half of all Age Pension cases checked as part

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<sup>11</sup> The CAO Toolbox is an on-line data system that consists of a number of data variables that aim to measure both activity and performance of CAOs.

<sup>12</sup> Paragraph 19 describes the Random Sample Survey.

<sup>13</sup> The ANAO conducted a performance audit of the Random Sample Survey Programme in 2005–06. See Audit Report No.43 2005–06, *Assuring Centrelink Payments – the Role of the Random Sample Survey Programme*, May 2006.

of the RSS process in 2004–05 contained one or more errors, with 30 per cent of all cases having an error that resulted in an incorrect payment. These findings were similar to those from the 2000–01 Age Pension RSS. ANAO Audit Report No. 17 2002–2003 *Age Pension Entitlements* reported that ‘according to the 2000–01 Age Pension RSS undertaken by FaCS and Centrelink, 28 per cent of Age Pensioners were receiving an incorrect entitlement.’<sup>14</sup> The findings of similar high rates of incorrect payment for both periods suggests that Centrelink would benefit from further analysis of errors in Age Pension assessment, including for complex cases.<sup>15</sup>

**21.** Centrelink classifies error into two main categories; customer error and administrative error. Error identified as a result of the RSS is attributed to customer error where the incorrect rate paid to the customer, or the incorrect information recorded on the customer file, can be shown to be the result of action or inaction by the customer. Administrative error is attributed to three categories: Centrelink staff error<sup>16</sup>, Systems error<sup>17</sup> and Legislation/Guide error.<sup>18</sup>

**22.** In the 2004–05 RSS, the 745 reviews with error contained 1 212 errors.<sup>19</sup> Of the 1 212 errors, 91 (7.5 per cent) were administrative errors which resulted in an incorrect payment to the customer. The remainder of errors which resulted in incorrect payments to customers (497) were due to customer error.<sup>20</sup>

**23.** The ANAO has identified in previous audits that ‘Centrelink is responsible for the integrity of its outlays as a whole, and should not adopt a narrow definition of its responsibilities through attributing error.’<sup>21</sup> As well, the Allen Consulting Group, in conducting a 2004 review of Centrelink’s

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<sup>14</sup> ANAO Audit Report No. 17 2002–03, op. cit., p. 41.

<sup>15</sup> If the accuracy of complex cases increased between 2000–01 and 2004–05, then the accuracy of less complex cases must have dropped.

<sup>16</sup> Where the incorrect rate paid to the customer, or the incorrect information recorded on the customer file, can be shown to be the result of action or inaction by Centrelink staff.

<sup>17</sup> Where the incorrect rate paid to the customer, or the incorrect information recorded on the customer file, can be shown to be the result of a computer system error.

<sup>18</sup> Where the incorrect rate can be shown to be the result of anomalies in the legislation and/or the Guide that Centrelink staff have access to.

<sup>19</sup> A customer can have more than one error in his/her record, hence the total number of errors (1 212) is greater than the number of reviews with error (745).

<sup>20</sup> The median value of customer debt for the Age Pension programme was \$27, with an average value of \$926.

<sup>21</sup> ANAO Audit Report No. 17 2002–03, op. cit., p. 56, and ANAO Audit Report No.43 2005–06, op. cit., p. 58.

compliance processes for the then Department of Family and Community Services, advised Centrelink against discounting the importance of administrative error that does not contain a dollar impact.<sup>22</sup>

24. In this context, the ANAO notes that Centrelink has taken steps aimed at addressing the issue of customer error across its programmes, including for complex Age Pension assessments, notably:

- the introduction of regular account statements sent to customers outlining Centrelink's records of their income and assets;
- on-line services which allow customers to view, and in some cases update, their income and asset information held by Centrelink;
- an automated review of customers' income streams from financial institutions; and
- seminars on financial planning and articles in relevant newsletters.

### **Business processes supporting complex Age Pension assessments (Chapter 3)**

25. In order to accurately assess the increasing number of complex Age Pension assessments, Centrelink requires efficient and effective business processes, which support CAOs to apply the various legislation and policy guidelines governing the payment of Age Pension entitlements.

26. Centrelink has developed, and made available to relevant staff, a list of circumstances that it defines as complex and which staff were advised must be referred to a CAO. CSOs follow the guidance on this list and appropriately refer complex cases to CAOs in most instances, especially the most common cases, such as those involving companies and trusts. However, the ANAO found that some of the less common complex cases are often not being referred to CAOs as required by National Support Office guidelines, or are not adequately covered by supplementary guidelines that Centrelink's Area Support Offices are responsible for providing.

27. The ANAO found that Centrelink had made significant improvements in the referral processes for complex assessments since the ANAO had previously examined the issue in 2000–01 and 2002–03.<sup>23</sup> The main process

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<sup>22</sup> The Allen Consulting Group, *FACS and Centrelink: Compliance Review, Final Report*, January 2004, p. 43.

<sup>23</sup> ANAO Audit Report No. 34 2000–2001, op. cit., and Audit Report No. 17 2002–03, op. cit.

improvement was the introduction of a referral scriptor. The scriptor is an on-line workflow tool developed by Centrelink to standardise and automate processes used by CSOs to refer complex claims to CAOs.

**28.** Throughout 2005–06, Centrelink introduced a new business model that significantly reformed the way it delivers services. The model divides Centrelink’s operations into four business lines: Working Age Participation; Families and Child Care; Business Integrity; and Seniors, Carers and Rural, which includes the Age Pension programme. Each of Centrelink’s Area Support Offices<sup>24</sup> have adopted structures to support the operation of these business lines that the management of the particular Area considers best suited their Area’s individual needs.

**29.** The introduction of Centrelink’s new business model resulted in changes to the management of CAOs, with four distinct models evident in the five Areas visited by the ANAO during fieldwork for this audit. The ANAO noted that each of the Area structures adopted for processing complex Age Pension assessments had advantages and disadvantages for the successful operation of CAOs. Centrelink has not analysed each structure to determine whether there would be benefits in introducing standardised arrangements to facilitate efficient processing of complex assessments, having regard to the operating environment of each Area.

**30.** The main internal control mechanism for CAOs is the Quality On-Line (QOL) checking system. The QOL system is an on-line quality tool which automatically selects a sample<sup>25</sup> of each CAO’s work.<sup>26</sup> The sampled work is then referred to a qualified QOL checker<sup>27</sup> to have its quality assessed. If an error is identified, the work is referred back to the CAO for rectification, and feedback is provided to the CAO by the QOL checker.

**31.** The ANAO found that while Centrelink has introduced changes to the QOL checking process in recent years, there remain some shortcomings in its

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<sup>24</sup> Centrelink has a total of 15 Area Support Offices.

<sup>25</sup> For an inexperienced CAO, 100 per cent of their work is selected for QOL checking. For an experienced CAO, five per cent of their work is selected for QOL checking.

<sup>26</sup> The QOL system is not limited in its use to CAOs. It is the main quality control tool for all Centrelink staff processing customer casework.

<sup>27</sup> In the case of CAOs, a QOL checker is an experienced CAO who has undergone the appropriate training in applying the QOL tool. They are located in same Centrelink Area as those they are checking, and depending on the business model, may be located in the same CSC, group of CSCs, cluster of CSCs or Area Office.

capacity to provide adequate quality control over complex Age Pension assessments. In particular:

- QOL is still not easily applied to specialist tasks such as complex Age Pension assessments, as it does not cover all of the major tasks undertaken by CAOs.<sup>28</sup> As a result, QOL checkers must voluntarily check the processes that QOL does not cover. This approach is likely to lead to inconsistent effectiveness of QOL as an internal quality control tool for complex Age Pension assessments; and
- there was an absence of 'check the checking' procedures<sup>29</sup> for complex Age Pension assessments, which test the adequacy and accuracy of QOL checks conducted by CAOs.

32. In light of these findings, the ANAO considers that Centrelink should review how QOL is applied to complex Age Pension assessments, and introduce any identified improvements that would strengthen controls to the correctness of complex Age Pension assessments.

## **Resourcing Complex Assessment Officers (Chapter 4)**

33. To support efficient, effective and timely processing of complex Age Pension assessments, Centrelink requires adequate numbers of CAOs to be appropriately positioned throughout its network. CAOs in the Centrelink network are managed primarily through individual Area Support Offices. Each Area Office is responsible for developing the resource strategies that determine the number of CAOs to be employed in the Area and their distribution. As each Area contains different numbers of customers requiring a complex assessment, the resourcing of CAOs differs between Areas.

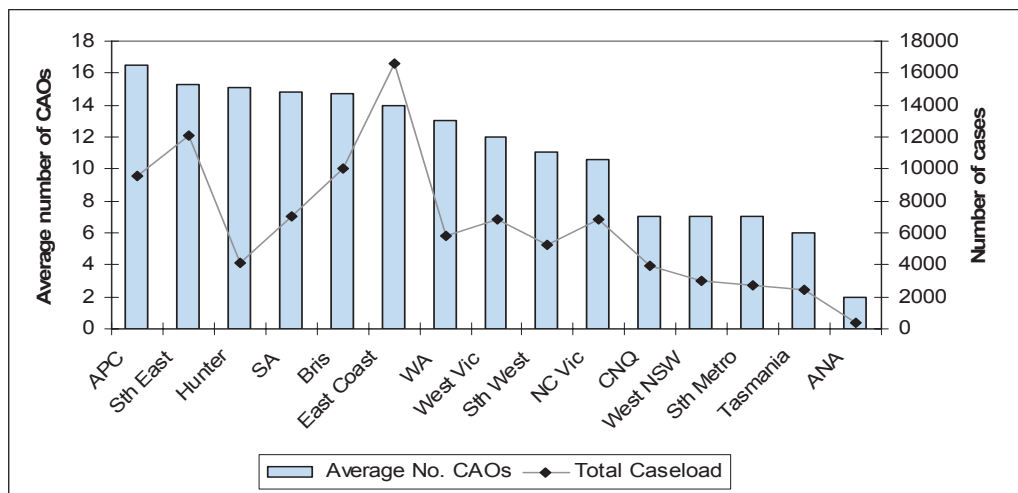
34. Figure 1 demonstrates that there was considerable variation in the numbers of CAOs employed per Area, even after adjusting for differences in the number of complex assessments processed within each individual Area for all programmes.

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<sup>28</sup> Examples of processes undertaken by CAOs which are not covered by the QOL tool include: ensuring the appropriate financial statements of a trust and/or company have been applied; the correct information has been drawn from these statements; and the appropriate documentation has been examined when assessing a customer who holds interests in a self-managed superannuation fund.

<sup>29</sup> 'Check the checking' is a control mechanism applied to CSO work, where a sample of work that has been QOL checked, is re-checked to assure the integrity of the QOL process.

**Figure 1**  
**Number of CAOs compared to caseload of complex assessments<sup>A</sup> per Area 2005–06**



Notes: A) Includes all complex assessments, not just Age Pension programme complex assessments as Centrelink advises that it is currently unable to disaggregate this data to the programme level.

B) East Coast–Area East Coast (NSW); SE Vic–Area South East Victoria; Bris–Area Brisbane; SA–Area South Australia; APC–Area Pacific Central (NSW); West Vic–Area West Victoria; NC Vic–Area North Central Victoria; WA–Area Western Australia; Sth West–Area South West (NSW); Hunter–Area Hunter (NSW); CNQ–Area Central and North Queensland; West NSW–Area West (NSW); Sth Metro–Area South Metro (NSW), ANA–Area North Australia (WA and NT).

Source: ANAO analysis and data provided by Centrelink.

35. During fieldwork, the five Area Support Offices visited by the ANAO advised that they determined the number of CAOs for the forthcoming year mainly on the basis of existing numbers, sometimes reduced in line with achieving an efficiency dividend.<sup>30</sup>
36. After a peak of around 223 CAOs in the Centrelink network during 2002–03, the number of CAOs remained relatively stable at around 180 until mid–2005, when the number began to decrease. The current number of CAOs is 166.
37. The circumstances of Age Pensioners who receive less than the maximum rate are generally more complex to assess than the circumstances of those customers who qualify for the full rate of pension. There is evidence that

<sup>30</sup> An efficiency dividend for CAOs involves reducing the overall number of CAOs for an Area, while increasing the workload for the remaining CAOs. Efficiency dividends can be applied by Areas where there has been a reduction in overall funding for that Area for the next financial year.

Centrelink's complex Age Pension entitlements assessment caseload will increase substantially in coming years as the overall numbers of recipients of Age Pension payments increases while the proportion of Age Pension recipients who qualify for the maximum rate of pension decreases.

38. The Treasurer highlighted this expected future trend in the *Intergenerational Report 2002–03*, where he stated:

In the future, the key driver of Age Pension spending is likely to continue to be the increase in the population in the eligible age range..... In addition, the proportion of pensioners receiving a full Age Pension is also projected to decline, while the proportion with a part Age Pension will increase significantly. These restraining factors reflect the impact of the maturing superannuation system, which both encourages and requires greater self provision for retirement.<sup>31</sup>

39. From 20 September 2007, the pension assets test taper rate will be halved.<sup>32</sup> These changes are expected to significantly increase the number of people eligible for a part Age Pension. The ANAO considers that the trends identified by the Treasurer in the *2002–03 Intergenerational Report* are likely to be accelerated by these policy changes announced in the 2006–07 Federal Budget as part of the Government's *A Plan to Simplify and Streamline Superannuation*.<sup>33</sup>

40. Despite this likely trend, none of Centrelink's 15 Area Support Offices has developed succession planning strategies for CAOs. It would be prudent for all Centrelink Area Support Offices to implement a succession planning regime that considers the likely number of CAOs required, their continuing role and the best sources for the recruitment of CAOs.

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<sup>31</sup> The Honourable Peter Costello MP, *2002–03 Budget Paper No.5, Intergenerational Report 2002–03*, p. 42.

<sup>32</sup> Under the existing pension assets test taper rate, \$3 per fortnight in pension is withdrawn for every \$1 000 in assets above the relevant threshold. Under the new pension assets test taper rate to apply from 20 September 2007, recipients only lose \$1.50 per fortnight of pension for every \$1 000 in assets above the relevant threshold. This would allow a single retiree homeowner to have around an additional \$165 000 of assets before losing the Age Pension, while a couple could have around \$275 000 of additional assets (not including the family home) before losing the Age Pension.

<sup>33</sup> Accessed on Treasury website, 21 November 2006 at, <<http://simplersuper.treasury.gov.au/default.asp>>.

## Recommendations

41. The ANAO made four recommendations aimed at improving Centrelink's administration of complex Age Pension assessments. These recommendations are also relevant to complex assessments undertaken for other programmes delivered by Centrelink.

## Centrelink response

42. Centrelink welcomes the report and agrees with the four recommendations. Implementation of these recommendations will strengthen the management of CAOs and enhance the administration of complex Age Pension assessments.

# Recommendations

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## **Recommendation No. 1**

### **Para. 2.43**

The ANAO recommends that Centrelink further improves its performance measurement system so that it accurately measures the key elements of CAO performance in undertaking complex Age Pension assessments, including payment correctness, timeliness, and efficiency.

**Centrelink response: Agreed.**

## **Recommendation No. 2**

### **Para. 3.15**

The ANAO recommends that Centrelink takes further steps to assist relevant staff in applying a consistent definition of complex assessments when deciding whether complex elements of Age Pension assessments should be referred to a CAO for processing by:

- (a) emphasising to CSOs of the need to follow relevant guidelines that have been set by Centrelink's National Support Office; and
- (b) overseeing the development by Area Support Offices of appropriate directions to CSOs for those potentially complex assessments that are not covered by National Support Office guidelines.

**Centrelink response: Agreed.**

## **Recommendation No. 3**

### **Para. 3.31**

The ANAO recommends that Centrelink analyse the range of current Area business structures in place for processing complex Age Pension assessments, to determine whether there are benefits in introducing standardised arrangements to facilitate efficient processing of complex assessments, having regard to the operating environment of each Area.

**Centrelink response: Agreed.**

**Recommendation  
No. 4**

**Para. 4.27**

Given the expected growth in complex Age Pension cases, the ANAO recommends that Centrelink develops and implements strategies to ensure that there will be sufficient suitably trained and skilled staff available to undertake the CAO role across the Centrelink network.

**Centrelink response: Agreed.**

## **Audit Findings and Conclusions**



# 1. Introduction

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*This chapter provides an overview of complex customer assessments for the Age Pension Programme, the potential for growth in complex Age Pension assessments, the audit approach, and the structure of the report.*

## Background

**1.1** The Age Pension programme is Australia's largest social security programme and represents around one third of all social security payments provided by the Australian Government. In 2005–06, approximately 1.9 million Australians received an Age Pension payment, at a total cost of approximately \$20.7 billion.<sup>34</sup> The Age Pension programme is delivered by Centrelink on behalf of its client agency, the Department of Families, Community Services and Indigenous Affairs (FaCSIA), through a Business Partnership Agreement.<sup>35</sup>

**1.2** The Age Pension is available to people of Age Pension age<sup>36</sup>, if they meet a range of eligibility criteria established in social security legislation.<sup>37</sup> It can be a complex task for Centrelink to determine whether an individual has met these eligibility criteria, and what his/her level of payment should be.

**1.3** The complexity of assessing an individual's claim<sup>38</sup> to an Age Pension payment is generally related to his/her level of income and assets, and in particular whether he/she has any involvement in business structures such as trusts and companies. In such cases, Centrelink officers must thoroughly examine the customer's circumstances, and sometimes calculate the customer's rate<sup>39</sup>, to ensure that he/she receives the correct payment under the legislation.

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<sup>34</sup> FaCSIA, *Annual Report, 2005–06*, p. 104.

<sup>35</sup> The *FaCSIA/Centrelink Business Partnership Agreement 2006–2010* was signed on 5 October 2006. Prior to this, the relationship between FaCSIA and Centrelink was defined through the *FaCSIA/Centrelink Business Alliance Agreement 2004–2008*.

<sup>36</sup> In the financial year 2006–07, the qualifying age for men is 65, and for women 63 years. On July 1 2007, the qualifying age for women will increase to 63.5 years and will progressively increase to 65 years by 2014.

<sup>37</sup> *Social Security Act 1991* (Cth), *Social Security Administration Act 1999* (Cth), and *Social Security (International Agreements Act) 1999* (Cth).

<sup>38</sup> Age Pension claims include new claims and re-assessments. New Claims are claims for an Age Pension payment by a person who has never previously received such a payment. A reassessment involves Centrelink staff considering how an Age Pensioner's changed circumstances may affect their level of entitlement.

<sup>39</sup> As opposed to automatic assessment by Centrelink's payment system.

**1.4** Centrelink often refers to assessments of people with income generating assets, or income from business holdings, as complex assessments. Appendix 1 lists the main types of assessments that Centrelink classifies as complex.

**1.5** Centrelink advised the ANAO that over the period 1 July 2005 to 31 May 2006, 46 000 complex Age Pension assessments were undertaken by the agency representing some 8.5 per cent of all Age Pension assessments undertaken during that period. This means that the vast majority of Age Pension assessments were considered relatively straightforward and able to be processed by Customer Service Officers (CSOs) located in Customer Service Centres and Call Centres.

**1.6** Previous ANAO audits of social security payments by Centrelink identified that the more complex a customer's circumstances, the greater the likelihood that Centrelink will make an incorrect assessment of the customer's claim.<sup>40</sup> An incorrect assessment of a new claim, or a change in a customer's circumstances, can have one of two main consequences. The customer can be underpaid (that is, Centrelink owes them money) or the customer can be overpaid (that is, the customer incurs a debt to Centrelink). In either case, rectifying incorrect assessments involves rework, which can be costly for both Centrelink and the customer.

**1.7** Centrelink has recognised the risks to quality service delivery arising from the ongoing challenge of correctly assessing customers' circumstances. Accordingly, the agency has invested in approaches that seek to maximise the potential that a correct assessment will be achieved at the outset for all customers, including those with complex circumstances. A key element of Centrelink's approach to undertaking complex assessments in the Age Pension programme is the Complex Assessment Officer (CAO) role. CAOs are specialist Centrelink officers whose responsibility is to process the complex component of social security assessments, including Age Pension assessments.

## **Complex Assessment Officers**

**1.8** CAOs are expected to possess advanced knowledge of business structures and general-purpose financial reports, and to be able to apply their knowledge of these issues to Social Security Law to assist in determining a

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<sup>40</sup> ANAO Audit Report No. 34 2000–2001, op. cit., and Audit Report No. 17 2002–03, op. cit.

customer's entitlement. Accordingly, they are experienced officers with a skill-set that allows them to undertake often complex analytical work.

**1.9** There are four elements to the role of CAOs within the Centrelink network including:

- **assessment**—to process complex customer cases, including conducting customer interviews;
- **leadership**—to provide leadership within the Customer Service Centres and Area Offices where they are located;
- **consultancy role**—to provide a consultancy service to other Centrelink staff such as Authorised Review Officers and Financial Information Service Officers, as well as liaising with the financial services sector on the interpretation of policy; and
- **training**—to train Centrelink network staff and provide input into the development of training materials.

**1.10** Of these, the technical assessment role is the CAOs' major role, accounting for an average 74 per cent of their workload according to current available data in Centrelink.<sup>41</sup>

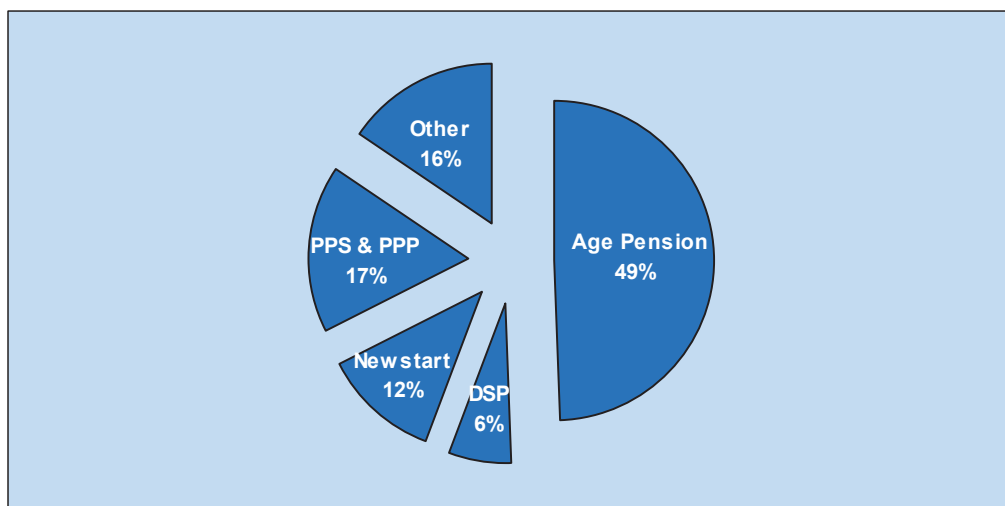
**1.11** As of October 2006, there were 166 CAOs distributed throughout the Centrelink network. Figure 1.1 reflects the distribution of complex casework across the various programmes that Centrelink administers. Figure 1.1 also shows that the Age Pension programme is the major programme generating work for CAOs with complex Age Pension assessments comprising 49 per cent (47 160) of the 96 246 cases processed by CAOs between 1 July 2005 and 30 June 2006.

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<sup>41</sup> Data provided by Centrelink sourced from the CAO Toolbox database.

**Figure 1.1**

**Distribution of casework undertaken by CAOs between 1 July 2005 and 30 June 2006**



Notes: DSP – Disability Support Pension, PPP – Parenting Payment Partnered, PPS – Parenting Payment Single.

Source: ANAO analysis and data provided by Centrelink.

## **Potential for growth in complex Age Pension assessments**

**1.12** In the *Intergenerational Report 2002–2003*<sup>42</sup>, the Treasurer projected substantial growth in the number of persons reaching the Age Pension age<sup>43</sup>, and consequently, the amount of expenditure on the Age Pension programme over the next 30 years.<sup>44</sup> Figure 1.2 illustrates the future trends over the period 2006–2042 for the total number of persons of Age Pension age<sup>45</sup>, and the

<sup>42</sup> The Honourable Peter Costello MP, *2002–03 Budget Paper No.5, Intergenerational Report 2002–03*, pp. 44 – 45.

<sup>43</sup> In the financial year 2006–07, the qualifying age for men was 65, and for women 63 years. On July 1 2007, the qualifying age for women will increase to 63.5 years and will progressively increase to 65 years by 2014.

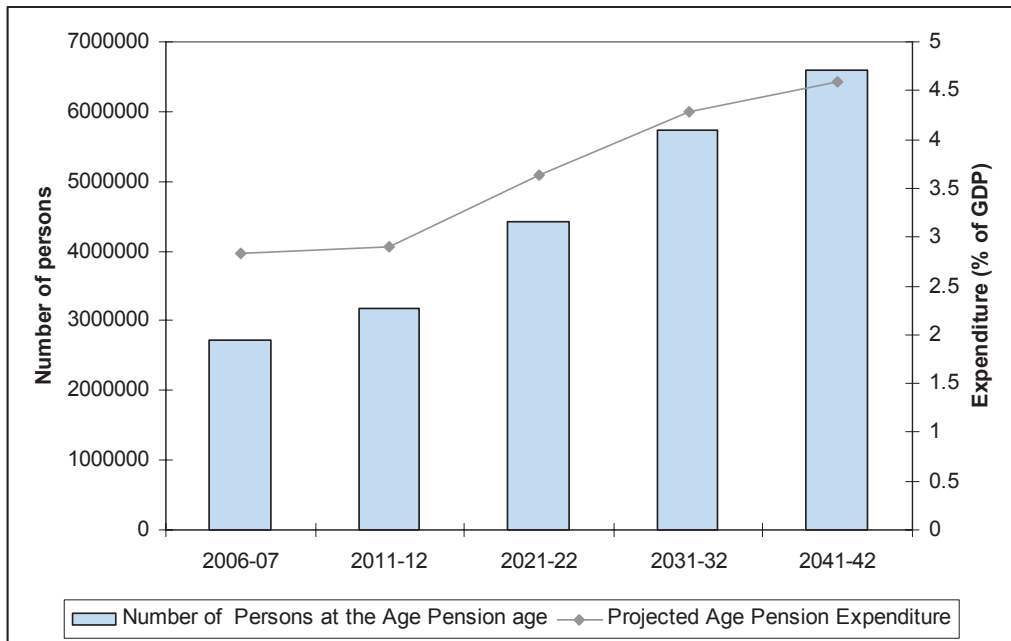
<sup>44</sup> When a person is of Age Pension age, they are not automatically entitled to receive the Age Pension, however, they are entitled to apply. A person's entitlement to the Age Pension is subject to a means test.

<sup>45</sup> Australian Bureau of Statistics, 2005, *Population Projections Australia 2004–2101* (Series B Data) p. 87. Based on population policies in place in 2005.

forecasted expenditure on the Age Pension programme as a proportion of Gross Domestic Product (GDP).<sup>46</sup>

**Figure 1.2**

**Projected number of persons of Age Pension age, and Age Pension expenditure (% of GDP based on 2003 policy settings), 2006–2042**



Source: Australian Bureau of Statistics, 2005, *Population Projections Australia 2004–2101* (Series B Data) p. 87; and; The Honourable Peter Costello MP, 2002–03 *Budget Paper No.5, Intergenerational Report 2002–03*, p. 44.

**1.13** The circumstances of Age Pensioners who receive less than the maximum rate are generally more complex to assess than the circumstances of those customers who qualify for the full rate of pension. There is evidence that Centrelink’s complex Age Pension entitlements assessment caseload will increase substantially in coming years as the overall numbers of recipients of Age Pension payments increases, while the proportion of Age Pension recipients who qualify for the maximum rate of pension decreases.

**1.14** The Treasurer highlighted this expected future trend in the *Intergenerational Report 2002–03*, where he stated:

<sup>46</sup> The projections take into account the application of the Age Pension means test to applicants holding savings in the maturing superannuation system which will result in higher retirement incomes for Australians over time, subsequently restraining Commonwealth spending on the Age Pension programme. The Honourable Peter Costello MP, op. cit., pp. 44–45.

In the future, the key driver of Age Pension spending is likely to continue to be the increase in the population in the eligible age range..... In addition, the proportion of pensioners receiving a full Age Pension is also projected to decline, while the proportion with a part Age Pension will increase significantly. These restraining factors reflect the impact of the maturing superannuation system, which both encourages and requires greater self provision for retirement.<sup>47</sup>

**1.15** The ANAO considers that the trends identified by the Treasurer in the 2002–03 *Intergenerational Report* are likely to be accelerated by policy changes announced in the 2006–07 Federal Budget as part of the Government's *A Plan to Simplify and Streamline Superannuation*.<sup>48</sup>

**1.16** From 20 September 2007, the pension assets test taper rate will be halved. Under the existing pension assets test taper rate, \$3 per fortnight in pension is withdrawn for every \$1 000 in assets above the relevant threshold.<sup>49</sup> Under the new pension assets test taper rate to apply from 20 September 2007, recipients only lose \$1.50 per fortnight of pension for every \$1 000 in assets above the relevant threshold. This would allow a single retiree homeowner to have around an additional \$165 000 of assets before losing the Age Pension, while a couple could have around \$275 000 of additional assets (not including the family home) before losing the Age Pension.<sup>50</sup> These changes are expected to significantly increase the number of people eligible for a part Age Pension.

## Audit approach

**1.17** The objective of the audit was to examine the effectiveness of Centrelink's administration of complex assessments of customer entitlements for the Age Pension programme, particularly through the use of Complex Assessment Officers.

**1.18** The audit focussed on Centrelink's ability to effectively manage its current level of Age Pension customers requiring complex assessments, as well

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<sup>47</sup> *ibid*, p. 42.

<sup>48</sup> Accessed on Treasury website, 21 November 2006 at, <<http://simplersuper.treasury.gov.au/default.asp>>.

<sup>49</sup> The threshold referred to here is the allowable asset limit applying to an individual's circumstances, up to which a full pension is payable. The allowable asset limit varies depending on a person's circumstances including whether or not he/she is a home-owner or has a partner. Further details are available on Centrelink's website <[www.centrelink.gov.au](http://www.centrelink.gov.au)>.

<sup>50</sup> The Hon. Peter Costello MP, Treasurer of the Commonwealth of Australia, *A Plan to Simplify and Streamline Superannuation*, 9 May 2006. Accessed on Treasury website, 21 November 2006 at <<http://www.treasurer.gov.au/tsr/content/pressreleases/2006/042.asp>>.

as its ability to plan for the projected future increases in this type of customer. The audit considered Centrelink's administration of complex Age Pension assessments across the Centrelink network, however, there was a greater focus on Areas with higher levels of Age Pension customers.

**1.19** The audit focused on complex assessments for the Age Pension programme for two main reasons. Firstly, the ANAO had previously undertaken audits on the processing of Age Pension claims, and sought to examine Centrelink's progress towards rectifying issues identified in these audits relating to the processing of complex assessments.

**1.20** Second, the Age Pension programme presents Centrelink with a number of challenges relating to the processing of complex claims in the future, not least because of Australia's ageing population. In the future, Centrelink will face a steadily increasing stream of Age Pension customers requiring complex assessments of their claims, due to an increase in the number of people reaching Age Pension age, and the proportion of these people possessing income generating assets and superannuation.

**1.21** In order to accurately assess the increasing number of complex Age Pension assessments, Centrelink requires highly skilled specialist staff and efficient and effective business processes, which support these staff to apply the various legislation and policy guidelines governing the payment of Age Pension entitlements.

**1.22** The audit methodology included:

- an examination of Centrelink's internal documents relating to the processing of complex Age Pension entitlements;
- interviewing CAOs, Customer Service Officers, Area Managers and Business Managers within the network to collect data on a range of issues, including their views on the effectiveness of CAOs;
- an examination of the current staffing levels and staffing profiles of CAOs across the Centrelink network;
- an examination of any analysis undertaken by Centrelink to identify the current and future numbers of customers requiring a complex assessment; and
- an examination of the workforce planning and training strategies to ensure adequate numbers of CAOs, both currently and into the future.

**1.23** Fieldwork was conducted between March and May 2006, in Area East Coast (NSW), Area Hunter (NSW), Area Western Australia, Area South Australia and Area Brisbane. The audit team also visited Area Tasmania to interview the National CAO Coordinator.

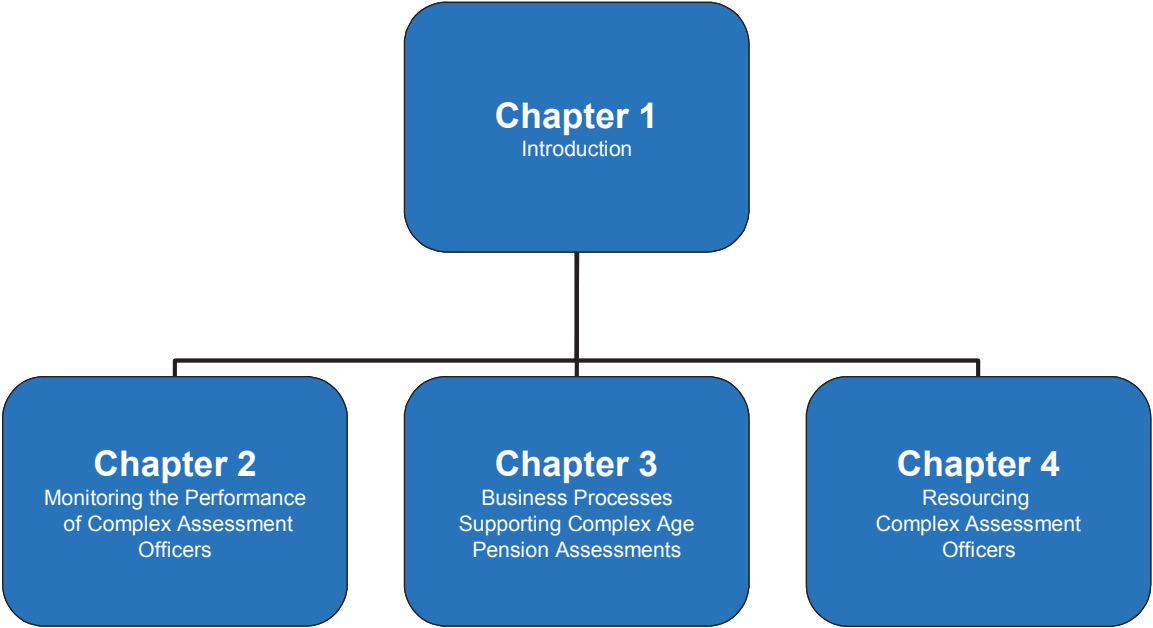
**1.24** This audit was conducted in accordance with the ANAO Auditing Standards, at a cost to the ANAO of \$310 000.

**Structure of the report**

**1.25** Figure 1.3 outlines the structure of the audit report.

**Figure 1.3**

**Structure of the report**



## 2. Monitoring the Performance of Complex Assessment Officers

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*This chapter examines the performance of Complex Assessment Officers and their contribution to processing complex assessments for the Age Pension programme.*

### Introduction

**2.1** The use of CAOs forms an integral part of Centrelink's risk-based strategy for managing complexity in the Age Pension programme. CAOs are not only responsible for processing complex components of a customer's claim or re-assessment, but are also responsible for providing training and expert support to network staff including CSOs and other specialist officers who deal with complex assessments.

**2.2** Ongoing review is essential to ensure that the risk management approach of using CAOs remains relevant<sup>51</sup> in supporting the efficient, effective and timely processing of complex Age Pension assessments. Effective review requires that Centrelink has access to reliable performance information regarding the work of CAOs, and the contribution they are making to the accurate processing of complex Age Pension assessments.

**2.3** The main source of data that Centrelink uses to measure the performance of CAOs, other than the correctness of their assessments<sup>52</sup>, is an on-line data system called the CAO Toolbox. The CAO Toolbox is located in the Centrelink Intranet system and can be accessed by all CAOs and authorised Area Support Office staff.

**2.4** The CAO Toolbox consists of a number of data variables that aim to measure both activity and performance. The system allows the user to drill down from grouped performance and activity measurements to individual CAO activity and performance measurements.

**2.5** The ANAO examined whether Centrelink adequately measured the performance of CAOs, and established the impact of CAOs on the processing of complex assessments. From this analysis, the ANAO sought to establish

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<sup>51</sup> See Australian/New Zealand Standard: Risk Management, AS/NZS 4360:2004, Standards Australia/Standards New Zealand, p. 22.

<sup>52</sup> Centrelink measures the correctness of CAOs' assessments through its Quality On-Line (QOL) system. QOL is discussed in paragraphs 2.12 – 2.18.

whether CAOs had achieved their key objectives, and contributed to high levels of accuracy and efficiency in processing complex Age Pension claims.

## Complex Assessment Officer performance

**2.6** The ANAO examined whether Centrelink had indicators which measure the performance of CAOs in processing complex assessments for the Age Pension programme. In particular, the ANAO sought to identify whether Centrelink had indicators for the level of correctness of complex Age Pension assessments and the timeliness and efficiency of CAOs' processing.

### Correctness of CAO processing

**2.7** The integrity of payments to customers within the social security system relies heavily on the correct processing of customers' assessments by Centrelink staff. The consequence of an incorrect assessment can be an overpayment or underpayment to the customer, potentially combined with the cost to the Commonwealth of having to waive any debt incurred by the customer if the incorrect assessment was due to Centrelink error. There is also an administrative burden on both Centrelink and the customer relating to the rework required to rectify payments that were for the wrong amount.

**2.8** ANAO Audit Report No. 34 2000–2001, *Assessment of New Claims for the Age Pension by Centrelink*, identified relatively high rates of incorrect processing for complex Age Pension new claim assessments.<sup>53</sup> However, the ANAO also found in that audit that when a complex assessment was referred to a CAO, the rate of incorrectness significantly declined.<sup>54</sup>

**2.9** In the current audit, the ANAO sought to examine the contribution CAOs were making to the correct processing of complex Age Pension assessments referred to them. Specifically, the ANAO sought to examine: what performance indicators were in place to measure the correctness of complex assessments; and whether CAOs were achieving their required benchmarks regarding the correctness of complex assessments.

**2.10** The main system currently used for measuring the quality of complex CAO work is the Quality On-Line (QOL) system. The main purpose of QOL is to provide a control of the quality of decisions, prior to the decision being

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<sup>53</sup> ANAO Audit Report No.34 2000–2001, op. cit., found that 52.1 per cent of Age Pension new claims had at least one actionable error, p. 26.

<sup>54</sup> *ibid.*, p. 31.

finalised. However, it can be used to provide information on the correctness of decision making.

**2.11** The Random Sample Survey (RSS) is the primary mechanism used by Centrelink's three key purchaser departments (that is, FaCSIA, the Department of Employment and Workplace Relations and the Department of Education, Science and Training) to measure the accuracy of outlays across programmes delivered by Centrelink, including the Age Pension programme.<sup>55</sup> The RSS provides point-in-time analysis of a sample of customers' circumstances designed to establish whether customers are being correctly paid. However, the RSS does not separately identify the extent of error relating to customers with complex assessments (see paragraph 2.19). Thus, QOL provides the major available information on the correctness of decision making for complex assessments.

### *Recent QOL results for complex assessments*

**2.12** The QOL system is an on-line quality tool which automatically selects a sample of CAO work. The sampled work is then referred to a qualified QOL checker, which in the case of CAOs, is another CAO within the same Customer Service Centre or Area. The work is then checked for quality.<sup>56</sup> If an error is identified, the work is referred back to the original CAO for rectification, and feedback is provided to them by the QOL checker. Thus, QOL is a quality control mechanism which is intended to ensure that any identified errors are rectified before Centrelink completes the assessment.

**2.13** The amount of work sampled for QOL checking is dependent on the experience of the CAO. New CAOs are required to provide 100 per cent of their work for QOL checking, while experienced CAOs have five per cent of their work sampled.<sup>57</sup>

**2.14** The ANAO sought to ascertain how effective CAOs were in meeting their quality targets, by examining the results of QOL checking for CAOs.

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<sup>55</sup> The ANAO conducted a performance audit of the Random Sample Survey Programme in 2005–06. See Audit Report No.43 2005–06, *Assuring Centrelink Payments – the Role of the Random Sample Survey Programme*, May 2006.

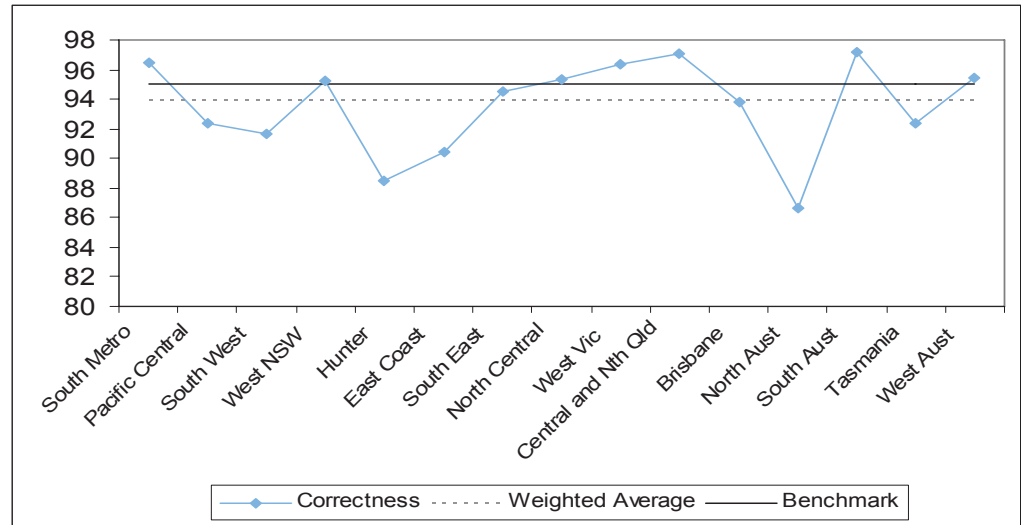
<sup>56</sup> The check for quality for complex Age Pension assessments involves the QOL checker examining each stage of the assessment process, and ensuring that the customer's details have been coded correctly in the Centrelink database. CAOs interviewed during this audit advised that when QOL checking, they try to approach the checking process as if they were processing the case from the start themselves.

<sup>57</sup> CAOs on five per cent QOL checking undergo a re-verification process annually where 100 per cent of assessments involving trusts and companies are checked. Re-verification is obtained when staff have achieved a 95 per cent correctness level over 20 different assessments which must include 10 new claim assessments.

Centrelink was unable to provide QOL data specifically for complex Age Pension assessments. Rather, the only available QOL data for complex assessments was across all programmes. As complex Age Pension assessments represent around half of all complex assessments (see Figure 1.1), it is possible that the results for all complex assessments presented in Figure 2.1 vary from those for complex Age Pension assessments.

**Figure 2.1**

**Correctness of processing all complex assessments by CAOs across Centrelink Areas (per cent correct), 1 January 2006 to 31 May 2006**



Source: ANAO analysis and data provided by Centrelink.

**2.15** Figure 2.1 demonstrates that only seven Areas met or exceeded the quality target of 95 per cent correct processing for the period 1 January 2006 to 31 May 2006. This is a good result for those Areas, as this internal Centrelink target rate for CAO processing of complex assessments is the same as the overall target for Centrelink processing that was specified in the *FaCSIA/Centrelink Business Alliance Agreement 2004–2008*<sup>58</sup>, which included many more straightforward processing tasks.

**2.16** However, eight of the 15 Areas did not meet this quality target, some by a considerable margin. Depending on the adequacy of QOL checking, the lower the assessed rate of correctness following the application of the QOL

<sup>58</sup> This document provided the basis for the relationship between FaCSIA and Centrelink during the period of fieldwork for this audit.

process, the greater the chance that incorrect assessments are ultimately being made, as not all assessments are QOL checked. Therefore, it is important that Centrelink takes steps to improve the correctness of the initial assessment of complex claims in Areas that considerably and/or consistently fail to achieve the benchmark rate of 95 per cent correctness.

**2.17** The ANAO notes that on average Centrelink did not meet its target. The ANAO calculated a weighted average rate of correctness by taking into account the number of cases selected for QOL checking per Area and their corresponding rate of correctness as judged by the QOL process. The resultant weighted average rate of correctness across all 15 Areas was 93.9 per cent for the period 1 January 2006 to 31 May 2006.<sup>59</sup>

**2.18** The above results rely on the robustness of the QOL checking system, which both the ANAO and Centrelink have found in previous audits to be less than ideal for measuring quality. Further issues related to the adequacy of QOL checking for complex Age Pension assessments are discussed in Chapter 3 (see paragraphs 3.44 to 3.49).

### *Recent Random Sample Survey results for Age Pension assessments*

**2.19** As mentioned earlier, the RSS provides point-in-time analysis of customers' circumstances designed to establish whether customers are being correctly paid across programmes delivered by Centrelink, including the Age Pension programme. However, the sample does not distinguish between complex and non-complex cases for any programme. Table 2.1 details RSS results for the Age Pension programme for the 2004–05 financial year.<sup>60</sup>

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<sup>59</sup> Centrelink advised the ANAO that the weighted average rate of correctness for the period 1 September 2005 to 31 December 2005 was 95.9 per cent and for the period 1 June 2006 to 1 October 2006 was 95.1 per cent.

<sup>60</sup> This is the latest year for which final RSS annual results are available.

**Table 2.1****RSS error results for the Age Pension programme for 2004–05**

Type of error	Number	Percentage
<b>Reviews with no error</b>	<b>754</b>	<b>50.3</b>
<b>Reviews with error</b>		
• Reviews with an error with no dollar impact	288	19.2
• Reviews with an error with a dollar impact	457	30.5
<b>Total Reviews with error</b>	<b>745</b>	<b>49.7</b>
<b>Total number of reviews</b>	<b>1499</b>	<b>100.0</b>

Source: Rolling Random Sample Surveys, *Final Results*, Centrelink, February 2006.

**2.20** Table 2.1 demonstrates that around half of all Age Pension cases checked as part of the RSS process in 2004–05 had one or more errors, with 30 per cent of all cases having an error that impacted on payment.

**2.21** These error rates were similar to those identified by the RSS process for 2000–01. ANAO Audit Report No. 17 2002–2003 *Age Pension Entitlements* reported that ‘according to the 2000–01 Age Pension RSS undertaken by FaCS and Centrelink, 28 per cent of Age Pensioners were receiving an incorrect entitlement.’<sup>61</sup> The findings of similar high rates of incorrect payment for both periods suggests that Centrelink would benefit from further analysis of errors in Age Pension assessment, including for complex cases.<sup>62</sup>

**2.22** Centrelink classifies error into two main categories; customer error and administrative error. Error identified as a result of the RSS is attributed to customer error where the incorrect rate paid to the customer, or the incorrect information recorded on the customer file, can be shown to be the result of action or inaction by the customer. Administrative error is attributed to three categories:

- Centrelink staff error: where the incorrect rate paid to the customer, or the incorrect information recorded on the customer file, can be shown to be the result of action or inaction by Centrelink staff;

<sup>61</sup> ANAO Audit Report No. 17 2002–03, op. cit., p. 41.

<sup>62</sup> If the accuracy of complex cases increased between 2000–01 and 2004–05, then the accuracy of less complex cases must have dropped.

- Systems error: where the incorrect rate paid to the customer, or the incorrect information recorded on the customer file, can be shown to be the result of a computer system error; or
- Legislation/Guide error: where the incorrect rate can be shown to be the result of anomalies in the legislation and/or the Guide that Centrelink staff have access to.

**2.23** In the 2004–05 RSS, the 745 reviews with error contained 1 212 errors.<sup>63</sup> Of the 1 212 errors, 91 (7.5 per cent) were administrative errors which resulted in an incorrect payment to the customer. The remainder of errors which resulted in incorrect payments to customers (497) were due to customer error.<sup>64</sup>

**2.24** However, the ANAO has identified in previous audits that Centrelink is responsible for the integrity of its outlays as a whole, and should not adopt a narrow definition of its responsibilities through attributing error.<sup>65</sup> As well, the Allen Consulting Group, in conducting a 2004 review of Centrelink's compliance processes for the then Department of Family and Community Services, advised Centrelink against discounting the importance of administrative error that does not contain a dollar impact stating:

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.<sup>66</sup>

**2.25** In this context, the ANAO notes that Centrelink has taken steps aimed at addressing the issue of customer error across its programmes, including for complex Age Pension assessments, notably:

- the introduction of regular account statements sent to customers outlining Centrelink's records of their income and assets;
- on-line services which allow customers to view, and in some cases update, their income and asset information held by Centrelink;

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<sup>63</sup> A customer can have more than one error in his/her record, hence the total number of errors (1212) is greater than the number of reviews with error (745).

<sup>64</sup> The median value of customer debt for the Age Pension programme was \$27, with an average value of \$926.

<sup>65</sup> ANAO Audit Report No. 17 2002–03, op. cit., p. 56, and ANAO Audit Report No.43 2005–06 *Assuring Centrelink Payments, The Role of the Random Sample Survey Programme*, p. 58.

<sup>66</sup> The Allen Consulting Group, *FACS and Centrelink: Compliance Review, Final Report*, January 2004, p. 43.

- an automated review of customers' income streams held in financial institutions; and
- seminars on financial planning and articles in relevant newsletters.

## **Timeliness**

**2.26** Timeliness is important to Age Pension customers, who are often anxious to receive the appropriate payment as quickly as possible after submitting a new claim or notifying Centrelink of a change in their circumstances.

**2.27** The ANAO has also previously identified timeliness to be an important factor in the correct processing of complex assessments for the Age Pension programme. In the 2000–2001 audit of *New Claims for the Age Pension*, the ANAO identified that the perception by CSOs that referring an application for assessment by a CAO would take too long was a determining factor in the decisions of such CSOs not to refer complex assessments to CAOs for processing. The ANAO identified that this subsequently had an effect on the correctness of the processing of such complex assessments.

**2.28** Accordingly, in this audit the ANAO sought to establish the current timeliness of CAOs' processing of complex Age Pension assessments. To do this, the ANAO assessed whether appropriate internal performance indicators had been established for the timeliness of CAOs' processing of these assessments, and whether CAOs were meeting any related targets.

**2.29** Centrelink has internal performance indicators for the timeliness of CAOs' processing of Age Pension claims. These are:

- 85 per cent of new claims received by CAOs from CSOs with all the required documentation to be actioned within seven days of receipt;
- 85 per cent of new claims received from CSOs without all the required documentation to be actioned within 28 days; and
- 80 per cent of Age Pension reviews to be actioned within 28 days of receipt.

**2.30** Centrelink did not have readily available information for CAOs' compliance with the internal timeliness targets. This was mainly due to the shortcomings of the CAO Toolbox which did not allow for a collated

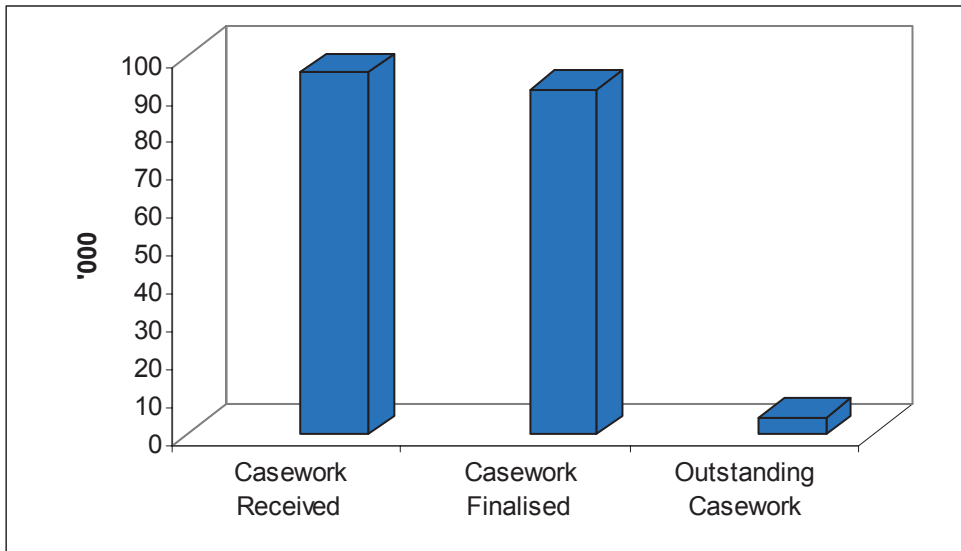
measurement of the timeliness indicators to the national level. Rather the Toolbox monitored each individual CAO's performance.<sup>67</sup>

**2.31** However, during fieldwork for the audit, the ANAO interviewed CAOs and other relevant staff<sup>68</sup> in five Areas. Staff in three of these Areas advised the ANAO that they believed CAOs in their Area were achieving the targets set by the timeliness indicators, while the staff in the remaining two Areas stated that they were having difficulty, mainly due to a large workload and relatively inexperienced CAOs.

**2.32** The only data Centrelink was able to provide the ANAO relating to the overall timeliness of CAOs in processing complex Age Pension assessments was a comparison between the amount of total casework received and the amount of casework processed by CAOs between 1 July 2005 and 31 May 2006. Figure 2.2 illustrates this data.

**Figure 2.2**

**Quantity of Age Pension casework for all CAOs, 1 July 2005 to 31 May 2006**



Source: Data provided by Centrelink.

<sup>67</sup> Centrelink advised the ANAO in October 2006 that enhancements to the CAO Toolbox, due to be implemented in December 2006, will allow for the national reporting of a number of variables, including timeliness.

<sup>68</sup> This included Area Business Managers, Business Line Managers within Customer Service Centres, and Area Programme Managers for the Age Pension programme.

**2.33** Figure 2.2 demonstrates that 96 per cent of casework received by CAOs during the period 1 July 2005 to 31 May 2006 was completed. However, this data relates to all casework received by CAOs, not just casework relating to the Age Pension programme. As Age Pension casework represents around 49 per cent of total CAO casework, this data suggests that CAOs are processing the majority of cases referred to them and that there is very little backlog. However, while this data demonstrates that CAOs are processing most cases being referred to them, it does not measure the time being taken to complete these cases, and provides Centrelink with no assurance that complex casework referred to CAOs is being completed within the internal timeliness targets.

**2.34** More accurate measurement of the timeliness of processing complex Age Pension assessments would allow Centrelink to monitor CAO's compliance with timeliness targets and better gauge the impact of complex assessments on the overall timeliness of the processing of Age Pension claims.

## **Efficiency**

**2.35** CAOs are relatively more expensive resources within the Centrelink network than CSOs. The expectation is that CAOs, with their greater skill and experience, will have the capacity to process complex assessments in a timely and cost effective manner. Accordingly, the justification put forward for the allocation of resources to maintain the availability of CAOs within the network is the contribution of CAOs to the efficient processing of complex assessments.

**2.36** The ANAO sought to determine how Centrelink measures and monitors the efficiency of CAOs in processing complex assessments. However, the ANAO identified that Centrelink did not have in place the information management systems to monitor the efficiency of the CAO function across the agency, although some ad hoc analysis was undertaken within individual Area Support Offices.<sup>69</sup>

**2.37** Although Centrelink does not routinely collect and analyse data to monitor the efficiency of the CAO function across the Centrelink network, the agency was able to provide some relevant data to the ANAO, indicating the overall workload of CAOs. The results of the ANAO's analysis of this data are reported in Table 2.2.

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<sup>69</sup> The ANAO found, in two Area Support Offices, that data from the CAO Toolbox were used to monitor the efficiency of individual CAOs.

**Table 2.2****Efficiency of the CAO function in processing complex assessments (all programmes) over the period 2002–03 to 2005–06<sup>A</sup>**

Year	Complex new claims	Complex reviews	Total CAO assessments	Number of CAOs	Average per CAO
2002–2003	49 097	85 783	134 880	192	703
2003–2004	36 732	79 184	115 916	180	644
2004–2005	34 990	77 105	112 095	181	619
2005–2006	25 415	70 831	96 246	166	579

Note: (A) Centrelink was unable to provide this data broken down by programme.

Source: ANAO analysis and data provided by Centrelink.

**2.38** Table 2.2 indicates that fewer assessments overall were undertaken by CAOs in each year since 2002–03 and, on average, individual CAOs have also completed fewer assessments each year as compared to the year before. Centrelink advised that there was no easily identifiable reason for this decline in efficiency, and given the shortcomings in the CAO Toolbox with regard to management information, it may not be possible to conclude with certainty that the efficiency of CAOs declined over the period.

## Limitations of performance information for CAOs

**2.39** At the commencement of this audit, the ANAO sought to assess the effectiveness and efficiency of complex assessment processing by CAOs, by examining Centrelink's data relating to the quality and quantity of work undertaken by CAOs. However, the ANAO found that there were limitations in terms of the data collected and also in the performance indicators and systems used by Centrelink to collate and report this data, including:

- a lack of adequate measures of payment correctness;
  - especially the inability of the RSS to separately identify and measure complex Age Pension assessments; and
  - uncertainty about the reliability of QOL data that measures the correctness of initial assessments of complex Age Pension entitlements (see Chapter 3);
- a lack of timeliness data for complex Age Pension assessments that could be separately measured and aggregated to gauge the contribution of CAOs to Centrelink's achievement of internal timeliness KPIs for the Age Pension programme; and

- an absence of robust measures of efficiency or productivity (especially workload per CAO).

**2.40** Thus, Centrelink had little meaningful data to measure the effectiveness and efficiency of complex assessment processing by CAOs. Centrelink had developed a performance information database for CAOs, the CAO Toolbox, which contained a number of data variables including timeliness and productivity. However, the database did not readily allow these variables to be collated to form meaningful national level indicators, which can be tracked over time.

**2.41** As well, the CAO Toolbox is reliant on CAOs manually entering data into the system, as opposed to the system automatically collecting data from the other Centrelink information management systems which CAOs use to process customer assessments. This means that the integrity of the data is based on CAOs entering data into the system in an accurate and timely manner. During the audit, the ANAO encountered a number of anomalies in the data contained in the CAO Toolbox. These were due to data either being incorrectly entered into the system by CAOs, or not entered at all.<sup>70</sup>

**2.42** Consequently, the analysis undertaken by the ANAO in this report is limited by these shortcomings. In previous audits<sup>71</sup>, the ANAO has identified complex assessments as a major business risk for the correct processing of Age Pension entitlements. It is therefore important that Centrelink has in place systems that measure its effectiveness in processing these assessments, and thereby support an efficient allocation of resources. As well, adequate information monitoring systems will assist Centrelink to identify emerging issues that may have resource implications for the processing of complex assessments.

## Recommendation No.1

**2.43** The ANAO recommends that Centrelink further improves its performance measurement system so that it accurately measures the key elements of CAO performance in undertaking complex Age Pension assessments, including payment correctness, timeliness, and efficiency.

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<sup>70</sup> An example of an anomaly encountered was timeliness figures appearing as negatives indicating that the complex assessment had been processed before the customer had lodged the claim.

<sup>71</sup> ANAO Audit Report No.34 2000–2001, op. cit., and ANAO Audit Report No. 17 2002–03, op. cit.

*Centrelink response*

**2.44 Agreed.** Centrelink undertakes to analyse what improvements can be achieved in the measurement of CAO performance in conjunction with a cost/benefit analysis of whether identified options represent value for money.

## 3. Business Processes Supporting Complex Age Pension Assessments

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*This Chapter examines Centrelink's key business processes to support CAOs to assess complex Age Pension entitlements.*

### Introduction

**3.1** As reported in Chapter 1, around 8.5 per cent of Age Pension assessments are sufficiently complex that CSOs need to refer them to a CAO to process the complex component. To support timely and accurate assessments of Age Pension claims, it is important that Centrelink has adequate processes and practices to identify complex assessments and manage the transfer between the various staff.

**3.2** The ANAO examined Centrelink's business processes for processing complex Age Pension assessments. Specifically the ANAO examined:

- whether a consistent definition of complexity existed within the Centrelink network to assist CSOs to identify and refer complex Age Pension assessments to CAOs; and
- the business processes in place to process complex assessments, including the interface between CAOs and CSOs.

### Identification and referral of complex Age Pension assessments

#### Defining complexity in customer assessments

**3.3** The ANAO audit *Assessment of New Claims for the Age Pension by Centrelink*<sup>72</sup>, identified that when a complex claim was correctly identified by a CSO and referred to a CAO for processing, the likelihood that the claim would be processed correctly increased. However, Centrelink was unable to provide

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<sup>72</sup> ANAO Audit Report No. 34 2000–2001, op. cit. This audit was undertaken prior to the development of a definition of complex assessments. Subsequently, for that audit, the ANAO categorised customer claims into simple, complex and very complex. Very complex claims were classified as claims that contained involvement in business structures and were more than likely to be processed by CAOs. Simple and complex claims were all other claims that were more than likely to be processed by CSOs. The ANAO found the rate of error for very complex claims to be 28.4 per cent compared to 32.2 per cent for complex claims. The inherent risk of error for very complex claims was higher than that of complex claims, which the ANAO concluded demonstrated CAOs were having a positive effect on the correctness of processing new claims pp. 79-80.

the ANAO with a consistent definition of what constituted a complex customer assessment either during that audit or during a subsequent 2002–03 audit of Age Pension Entitlements.<sup>73</sup>

**3.4** The ANAO considers it important that appropriate guidance is provided to CSOs to assist them to identify complex assessments that should be referred to a CAO for processing, given that CAOs have a greater likelihood of assessing such cases correctly. At the time of the 2002–03 ANAO audit of Age Pension Entitlements, Centrelink advised the ANAO that ‘Centrelink was working to develop such a definition [of complex assessments] under the sponsorship of the Guiding Coalition’.<sup>74</sup>,<sup>75</sup>

**3.5** Accordingly, in this audit, the ANAO sought to ascertain whether Centrelink had defined the term complex assessment, provided appropriate advice to Centrelink staff on this issue and whether this definition was consistently applied by Centrelink staff throughout the network.

### **Identification of complex assessments**

**3.6** Centrelink has developed a list of circumstances that it defines as complex and which staff were advised must be referred to a CAO. This list was placed on the Centrelink e-reference system<sup>76</sup> in September 2001, and has been updated on several occasions. The last update was on 4 October 2006 and is replicated in Appendix 1.

**3.7** The ANAO sought to ascertain whether this list was being applied consistently across the network. The results of this analysis appear in Table 3.1.

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<sup>73</sup> ANAO Audit Report No. 17 2002–2003, op., cit. This audit examined the correctness of processing of Age Pension assessments and re-assessments relating to non-new claims.

<sup>74</sup> The Guiding Coalition was a committee composed of all Senior Executive Service officers of Centrelink. Its role was to guide the organisation, set direction and lead change, and communicate decisions.

<sup>75</sup> ANAO Audit Report No. 17 2002–2003, op., cit., p. 105.

<sup>76</sup> The Centrelink e-reference system is an on-line database that allows Centrelink staff to search for legislation and guidelines for processing customer assessments.

**Table 3.1****Approaches to defining complexity throughout Centrelink**

Centrelink guidance on main instances of complexity	Typical CSO interpretation of these guidelines	Typical CAO interpretation of these guidelines
1. Private trusts, private companies, Pensions Loans Scheme, trust and company reviews, and foregone wages should be referred to CAOs for processing.	Should be referred to a CAO.	Should be referred to a CAO.
2. Complex partnerships, assets hardship, self-managed super funds, granny flat arrangements, and self employment should be referred to CAOs for processing.	Varied practices by CSOs throughout the network. ANAO interviews found that around 70 per cent of CSOs would refer these cases to CAOs. However the remainder of CSOs, especially the more experienced, advised that they would process these cases themselves.	All CAOs interviewed by the ANAO advised that they would expect these cases to be referred.  However, they noted that some of these cases are substantially less complex than those involving trusts and companies.
3. Sole traders, partnerships, Families Actual Means Test, Ministers of Religion, income streams, managed investments, margin loans, shares options, warrants, sale and purchase of home in previous twelve months should be referred to CAOs on the basis of Area Office policies.	No Area policies have been promulgated. Referral practices varied between Areas, and between CSCs and CSOs within Areas.	CAOs interviewed by the ANAO advised that they would process these cases if referred, even though they did not regard them as complex.

Source: ANAO analysis of Centrelink guidelines and the results of interviews with Centrelink CSOs and CAOs in five Centrelink Areas.

**3.8** The CAOs interviewed by the ANAO tended to have a uniform understanding of what constituted a complex assessment, considering them to comprise those claims involving customer interests represented by Groups 1 and 2 in Table 3.1. However, these CAOs also advised that they expected many of the assessments listed in Group 3 of Table 3.1 to be referred to them, even though many CAOs did not consider these cases to be sufficiently complex that CSOs could not process them correctly.

**3.9** All CSOs interviewed by the ANAO, regarded customer claims relating to the categories listed in Group 1 of Table 3.1 as being complex and thought

they should be referred to a CAO. This is in line with the Centrelink guidelines on these categories.

**3.10** Centrelink guidelines also require all claims which fall under the categories listed in Group 2 of Table 3.1 to be referred to a CAO. However, the ANAO found that 30 per cent of CSOs interviewed would process claims that fall into at least one of these categories themselves. In particular, CSOs indicated that they would process claims relating to self-employment and self-managed superannuation funds.

**3.11** The referral of those categories of assessment set out in Group 3 of Table 3.1 is at the discretion of the Centrelink Areas. Although these claims are not as complex as those contained in Groups 1 and 2 of the table, Areas are able to direct CSOs to refer these categories of claims to CAOs rather than process these assessments themselves. However, the ANAO found that no Area had introduced a policy regarding the handling of Group 3 assessments. Rather, whether these cases were being referred to CAOs appeared to be either at the discretion of the individual CSOs, or the CAO attached to the CSC where the claim was lodged.

**3.12** The ANAO found, therefore, that with the exception of those categories contained in Group 1 of Table 3.1, there is still inconsistency in the Centrelink network as to whether a claim is referred to a CAO. Specifically, claims that fall into the categories contained in Group 2 of Table 3.1, are not being referred to CAOs in all cases, notwithstanding that this is required by Centrelink guidelines. As well, the lack of guidance provided to CSOs on the categories of claims contained in Group 3 of Table 3.1 means that CSOs are often deciding whether to refer these claims, with little confidence or guidance about the appropriate approach.

**3.13** The ANAO understands that there is a need for flexibility by Centrelink staff to implement these guidelines. There may be many factors affecting a CSO's decision to refer a complex assessment to a CAO or decide that they are better placed to undertake it themselves. Nevertheless, inconsistency in referrals of the categories of claims identified in Groups 2 and 3 in Table 3.1 raises two potential risks—that CSOs undertake complex assessments that would be best referred to CAOs, and that CSOs refer straightforward work to CAOs, which the CSO should do themselves. Both problems can reduce the overall effectiveness and efficiency of Centrelink's processing of Age Pension assessments.

**3.14** The ANAO notes that Centrelink's Internal Audit Branch encountered a similar problem when conducting an audit of means testing for the Age Pension programme during the first half of 2006.<sup>77</sup>

## Recommendation No.2

**3.15** The ANAO recommends that Centrelink takes further steps to assist relevant staff in applying a consistent definition of complex assessments when deciding whether complex elements of Age Pension assessments should be referred to a CAO for processing by:

- (a) emphasising to CSOs of the need to follow relevant guidelines that have been set by Centrelink National support Office; and
- (b) oversighting the development by Area Support Offices of appropriate directions to CSOs for those potentially complex assessments that are not covered by National Office guidelines.

### *Centrelink response*

**3.16** Agreed. With regard to (b) above, Centrelink's Seniors, Carers and Rural National Business Line will develop consistent directions for all complex assessments which will be applied nationally.

## Referral processes for complex assessments

**3.17** The timeliness and correctness of processing complex Age Pension claims (including re-assessments) is improved if there are clear and effective procedures for referring complex assessments to CAOs. Such procedures can contribute to correctness if they ensure CSOs promptly refer a complex case to a CAO rather than attempting to process the case themselves. In the 2000–01 ANAO performance audit of *New Claims for the Age Pension*, the ANAO found that CSOs were reluctant to refer complex cases to CAOs, due to the perceived effect on the CSOs' own timeliness key performance indicators. The ANAO identified that this led to some CSOs processing these claims themselves, notwithstanding that the CSOs did not have the requisite skills to undertake

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<sup>77</sup> Centrelink, Internal Audit, *Means Test Case Study: Age Pension*, May 2006. This audit found 'the definition of 'complex work' (or 'complex assessment') is difficult to locate within Centrelink online reference material (including e-reference), and the definition does not provide sufficient detail to assist CSOs in understanding when consultation and/or referral to a CAO is required for cases involving assets and/or income related to income [sic], managed investments, margin loans, shares, options warrants, Families Actual Means Test, sale and purchase of home within 12 months, and Ministers of Religion' p. 14.

the processing of such complex claims and that it had a subsequent impact on the level of correctness of processing these claims.

**3.18** Timeliness improvements are available from procedures ensuring that complex claims are promptly referred to CAOs for processing. In addition, procedures which encourage CSOs to collect from the customer all of the information required to process his/her claim before referring it to a CAO, also contribute to timeliness by subsequently reducing the amount and likelihood of follow-up information requests that the CAO is obliged to make when processing the claim.

**3.19** In light of previous audit findings relating to the referral process for complex assessments, the ANAO sought to ascertain whether Centrelink had in place clear and effective referral procedures for complex assessments which encouraged CSOs to promptly and appropriately refer these cases to a CAO for processing.

*Development and implementation of an on-line referral scriptor*

**3.20** The ANAO found that Centrelink had made significant improvements in the referral processes for complex assessments since the ANAO had previously examined the issue in 2000–01 and 2002–03. The main reason for these improvements was the introduction of a referral scriptor. The scriptor is an on-line workflow tool developed by Centrelink which aims to standardise and automate processes used by CSOs to refer complex claims to CAOs. A scriptor also assists CSOs by contributing pre-scripted portions of documents that are placed on the customer's record.

**3.21** The scriptor was introduced in September 2005. Centrelink mandated that CSOs apply the scriptor when referring complex assessments to CAOs. Prior to the introduction of the scriptor, complex assessments were referred manually to CAOs. This involved the CSO completing a written form and then having to identify and access the required screens in the customer's record on the computer system. The case was then referred to a CAO.

**3.22** Under the new process, the scriptor prompts the CSO through the referral process, ensuring the appropriate information is collected from the customer, and the required information is entered into the customer's electronic record. Once the scriptor is complete, it automatically refers the case to a CAO, where it appears in the CAO's on-line workflow system.

**3.23** In previous audits,<sup>78</sup> the ANAO has identified that the use of on-line scriptor tools provides significant gains in the efficiency and correctness of Centrelink work processes. The ANAO considers that the compulsory use of the CAO referral scriptor also provides a significant improvement over the previous manual methods of referral, ensuring a consistent automated approach to complex assessment referrals. The ANAO notes that this view was also shared by all of the CAOs the ANAO interviewed during this audit.

*Impact of alternative business structures on referral of complex Age Pension assessments*

**3.24** During fieldwork, the ANAO noted that all Areas were undergoing significant restructures to accommodate the introduction of Centrelink's new business model. The new business model divides Centrelink's operations into four business lines. These include:

- Working Age Participation;
- Families and Child Care;
- Business Integrity; and
- Seniors, Carers and Rural, which includes the Age Pension programme.

**3.25** The introduction of the new business model places a greater emphasis on customer service, in particular managing the queues within Customer Service Centres of people waiting for service, and ensuring customer assessments are processed as quickly as possible. Consequently all Areas visited by the ANAO were restructuring their operations to meet these new demands.

**3.26** The ANAO noted that each of these Areas were adopting structures that the management of the particular Area thought best suited their Area's individual needs. Each of the Area structures adopted for processing complex Age Pension assessments had advantages and disadvantages for the successful operation of CAOs. Table 3.2 outlines each structure and its impact on CAO operations.

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<sup>78</sup> Audit Report No. 17 2002–03, op. cit., and Audit Report No.4, 2004–05, *Management of Customer Debt*, Centrelink.

**Table 3.2****Advantages and disadvantages of business structures for processing complex Age Pension assessments**

Structure	Advantage	Disadvantage
<p>1.</p> <p>Individual CAOs move between CSCs, administering complex assessments in one to three CSCs each.</p> <p>New claims and re-assessments processed on-site where they are lodged by customers.</p> <p>CAOs attached to a particular CSC processed all complex claims for that CSC.</p>	<p>Complex claims immediately referred to a CAO for processing.</p> <p>CAOs able to provide immediate assistance to CSOs when processing claims.</p> <p>CAOs able to liaise with some customers when they lodge their claim to ensure all documentation is collected.</p>	<p>Inexperienced CAOs don't have on-site support from more experienced CAOs to assist them with processing claims.</p> <p>There can be a variance in the workload between CAOs because different CSCs have different rates of complex claims and reassessments.</p> <p>Because they are on-site, CAOs are seen as a CSC resource and can spend a lot of their time providing assistance to CSOs on non-complex cases.</p> <p>CAOs are constantly travelling between CSCs.</p>
<p>2.</p> <p>CAOs based in three clusters of three to five CAOs in one CSC. From this CSC they administer complex claims and reassessments for four to five other CSCs, travelling between each of these CSCs when required.</p> <p>All Age Pension new claims, both non-complex and complex, for the Area are centrally processed in one CSC, and re-assessments are processed in the CSC in which they are lodged.</p> <p>CAOs based in the central processing site process complex new claims plus any re-assessments lodged at that site. Other CAOs only process re-assessments.</p>	<p>Has the potential to improve the efficiency of processing new claims.</p> <p>CAOs better able to distribute workload, manage peaks and troughs in workload because work is shared.</p> <p>Inexperienced CAOs can be in constant contact with experienced CAOs.</p> <p>CAOs can provide a visiting service to CSCs within their cluster, and focus on the CSCs with greater volumes of complex work.</p>	<p>ANAO interviews with CSOs located in CSCs where CAOs are not located found that these CSOs could find it difficult to contact a CAO.</p> <p>ANAO interviews also found that these CSOs may be at a disadvantage in terms of being able to access the training and guidance provided by CAOs.</p> <p>CAOs located in a CSC that does not process new claims may not have much exposure to processing these claims. CAOs interviewed by the ANAO expressed concern that this could potentially lower their skills set.</p>

Structure	Advantage	Disadvantage
<p>3.</p> <p>All CAOs located centrally in the Area Office.</p> <p>All complex work is referred to them at the Area Office.</p> <p>CAOs provide a visiting service to CSCs to provide training and guidance.</p>	<p>Can increase the efficiency of processing complex assessments.</p> <p>CAOs better able to distribute workload, manage peaks and troughs in workload.</p> <p>Inexperienced CAOs can be in constant contact with experienced CAOs.</p> <p>CAOs can provide a visiting service to CSCs within their Area, and focus on the CSCs with greater volumes of complex work.</p>	<p>CAOs can have limited contact with CSOs, reducing the amount of training and guidance CSOs receive.</p> <p>ANAO interviews found CSOs can have difficulty contacting a CAO on how to process a customer claim.</p> <p>CAOs have no face to face contact with customers.</p>
<p>4.</p> <p>Individual CAOs move between CSCs, administering complex assessments in one to three CSCs each.</p> <p>All Age Pension New Claims centrally processed in one of the Area's CSCs.</p> <p>Complex new claims are referred back to the CSC in which they were lodged from the central processing site, for processing by that CSC's CAO before referral back to the central new claims processing site.</p> <p>Re-assessments processed on site where they are lodged by customers</p>	<p>CAOs able to provide immediate assistance as required to CSOs when processing all types of assessments.</p>	<p>Claims are unnecessarily referred between the CSC in which they were lodged to the central processing site, back to the CSC in which they were lodged for processing by that CSC's CAO, and then back to the central processing site to be completed by a CSO.</p>

Source: ANAO analysis of Area CAO business structures, and interviews with CSOs and CAOs.

**3.27** As set out in Table 3.2, the ANAO identified advantages and disadvantages attaching to each of the four different business structures for processing complex Age Pension assessments that have been adopted by the five Areas visited during this audit. The ANAO recognises that the focus of the broader restructuring in Centrelink, of which the arrangements for processing Age Pension assessments are only part, is on achieving the improvements in customer service expected from the new business-line business model.

However, the ANAO considers it important that Areas are aware of the impact that the various structures they have adopted have had on CAOs' operations.

**3.28** While, as noted above, each structure had its own advantages and disadvantages, the ANAO considered that structure 4 had the potential to be the least efficient. Under this structure, CAOs were individually located in CSCs, while new claims for the Age Pension for the entire Area were being centrally processed in one CSC. When a new claim was lodged for the Age Pension programme involving a complex assessment that required processing by a CAO, it was first sent to the central processing centre where this requirement was identified. The claim was then returned to the CSC where it was originally lodged for processing by that CSC's CAO, then returned to the central processing centre for completion.

**3.29** When the ANAO visited this Area, this system had only just been implemented, and no timeliness data was available for the processing of complex assessments. However, the ANAO considers that there is a strong likelihood that this system would add more days to the time taken to process complex assessments. The ANAO considers that Centrelink should closely monitor the timeliness performance for processing Age Pension complex assessments in Areas using this business structure for processing complex assessments.

**3.30** The varying business structures currently in place for processing complex Age Pension assessments across the network present Centrelink with the opportunity to examine which structure is the most efficient and effective for processing these assessments. In addition, it should allow for the identification of those structures that facilitate optimal use of CAOs across the full range of roles they perform.

## Recommendation No.3

**3.31** The ANAO recommends that Centrelink analyse the range of current Area business structures in place for processing complex Age Pension assessments, to determine whether there are benefits in introducing standardised arrangements to facilitate efficient processing of complex assessments, having regard to the operating environment of each Area.

### *Centrelink response*

**3.32** Agreed. Centrelink will institute a review in calendar year 2007 to determine whether there are benefits in introducing a nationally standardised structure for CAOs.

## Business processes that support CAOs to assess complex Age Pension entitlements

**3.33** Since the previous ANAO audits of the Age Pension programme, Centrelink has introduced significant changes to its processes for complex assessments, to attempt to make them more efficient and timely. The ANAO examined the procedures in place for CAOs to complete the complex component of Age Pension assessments, and refer the assessment back to the relevant CSO for finalisation.

**3.34** Once a complex claim is identified and referred, the claim is then processed by a CAO. However, the CAO is not responsible for processing the entire claim, rather only those parts of the claim which are complex. When the CAO has processed the complex components, the claim is referred back to the CSO (known as the Original Decision Maker or ODM), who then finalises processing the claim.

**3.35** The ANAO found in the 2000–01 audit of the *Assessment of New Claims*<sup>79</sup> that CSOs were reluctant to refer complex assessments to CAOs due to the perceived effect on CSOs' capacity to meet timeliness Key Performance Indicators (KPIs) for new claims and re-assessments which applied under the then Business Partnership Agreement with the then Department of Family and Community Services.<sup>80</sup> However, one of the improvements Centrelink has made since the 2000–01 ANAO audit is that CAOs now prioritise their complex assessment workload having regard to the timeliness KPIs. The CSOs interviewed by the ANAO during fieldwork for this audit acknowledged that CAOs prioritised any referrals to ensure timeliness targets were met and so did not express the reluctance to refer cases to a CAO for processing that had been expressed to ANAO by CSOs during the previous audit.

**3.36** The actual processing of the complex component of the customer's claim is undertaken manually by the CAOs, with the exception of annual trust and company reviews<sup>81</sup>, which are processed with the assistance of a scriptor.

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<sup>79</sup> ANAO Audit Report No. 34 2000–2001 op. cit., p. 114.

<sup>80</sup> As explained in Chapter 2, the current timeliness KPI for new claims is 85 per cent of claims actioned within seven days from the date of lodgement if the claim contains all the required documentation. If the claim lacks the required documentation, then the KPI is 85 per cent of claims actioned within 28 days of lodgement. For re-assessments, the KPI is 80 per cent of re-assessments actioned within 28 days from the date of notification.

<sup>81</sup> Trust and company reviews are undertaken annually. This involves reviewing the financial statements for the trust or company and re-assessing the customer's payment entitlement in light of the financial performance and profit distribution policies of these entities.

That is, for all other complex assessments, the CAO does not have access to any other automated scriptors or on-line tools to assist them with applying social security legislation and guidelines, and undertaking the necessary calculations.

**3.37** The only other automated tool available to CAOs is the report-writing scriptor, which automatically creates a report detailing the outcome of the complex assessment and the legislative justification for this outcome. This report is placed on the customer's file, and is used by the CSO who originally referred the case to explain to the customer the reasons for the outcome of the assessment of their case.

**3.38** CAOs and CSOs interviewed by the ANAO advised that they valued this tool very highly, as it facilitated a clear and consistent approach to reporting a complex assessment's outcome, and enabled the referring CSO to better understand why the CAO had made the assessment.

**3.39** The lack of further automated assistance for CAOs is not expected to change in the foreseeable future. Centrelink advised the ANAO that it regards the allocation of electronic resources to develop automated tools specifically for the processing of complex assessments as a low priority. This is primarily due to the currently relatively small number of complex assessments as a proportion of total assessments processed by Centrelink.<sup>82</sup>

**3.40** However, as noted in Chapter 1, there is the potential in coming years for a significant increase in the total number of Age Pensioners and in the number of these individuals eligible for a part pension, because they own more assets than the allowable assets limit for a full pension. This is a result of the ageing of the Australian population and recent changes to Government policy on such issues as the treatment of income and assets (see paragraphs 1.12 to 1.16).

**3.41** In this circumstance, and given the popularity with CAOs of the existing automated scriptor for report-writing and their view of the benefits of this tool to their effectiveness and efficiency, the ANAO considers that there may be benefit in Centrelink further investigating the cost-benefit of extending the range of automated tools available to staff to support them in processing complex Age Pension entitlements.

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<sup>82</sup> For the Age Pension programme the proportion is 8.5 per cent.

## Helpdesk support

**3.42** To assist in processing complex assessments, CAOs also have access to a CAO helpdesk. The helpdesk is staffed by an experienced subject matter expert, who is able to provide advice to CAOs on the processing of complex assessments.

**3.43** All CAOs interviewed by the ANAO found the helpdesk to be a valuable resource that contributed to the efficient and correct processing of complex assessments.

## Ensuring the quality of complex Age Pension assessments: QOL

**3.44** Chapter 2 identified that the main internal control mechanism for CAOs was the QOL checking system (see paragraphs 2.10 to 2.18). In previous audits,<sup>83</sup> the ANAO has identified shortcomings with the use of this system to improve quality. These included:

- pressure to adopt a tick and flick mentality to the QOL checking activity due to other work demands;
- pressure from other staff not to be too stringent in QOL checking as this would create more work;
- QOL was not easily applied to all tasks, especially tasks undertaken by specialist Centrelink officers; and
- the QOL checks themselves were not checked for accuracy.

**3.45** Centrelink has introduced changes to the QOL checking process subsequent to the previous ANAO audits. These changes included the introduction of new reporting mechanisms to provide reports on correctness at a CSC, Area Support Office and National Support Office level, and aligning the QOL process with Centrelink's Business Assurance Framework. As well, National Standards were introduced in June 2006 to address inconsistencies relating to QOL checking.

**3.46** However, these changes do not completely address the issues discussed in paragraph 3.44. In two of the Areas visited by the ANAO, the number of CAOs appeared to be very low, placing large work demands on them. It is in this environment that the ANAO has previously found that QOL checkers are

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<sup>83</sup> Audit Report No. 34 2000–01, op. cit., and Audit Report No.4, 2004–05, op. cit.

likely to adopt a ‘tick and flick’ mentality to QOL checking, as identification of errors could result in extra work.<sup>84</sup>

**3.47** The QOL tool is not easily applied to specialist tasks such as complex Age Pension assessments. This is because QOL was initially developed to provide control over the processing of non-complex customer assessments at the CSO level. While the QOL tool covers all the major tasks undertaken by a CSO when processing a non-complex assessment, it does not include all the major tasks undertaken by specialist officers such as CAOs.<sup>85</sup> As a result, QOL checkers must voluntarily check the processes that QOL does not cover. This approach is likely to lead to inconsistent effectiveness of QOL as an internal quality control tool for complex Age Pension assessments.

**3.48** The ANAO also found that there was an absence of ‘check the checking’ procedures, which test the adequacy and accuracy of QOL checks conducted by CAOs. Centrelink advised the ANAO, that ‘check the checking procedures’ were introduced for the Age Pension programme in early 2006, with 300 QOL checked claims being rechecked each quarter. However, during ANAO fieldwork in March to May 2006, none of the CAOs interviewed by the ANAO stated that their work had been subject to QOL ‘check the checking’.

**3.49** In light of these findings, the ANAO considers that there would be benefit in Centrelink further reviewing how QOL is applied to complex Age Pension assessments, and then introducing any identified improvements that would strengthen controls to the correctness of complex Age Pension assessments.

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<sup>84</sup> Audit Report No. 34 2000–01, op. cit., p. 93.

<sup>85</sup> Examples of processes undertaken by CAOs which are not covered by the QOL tool include: ensuring the appropriate financial statements of a trust and/or company have been applied; the correct information has been drawn from these statements; and the appropriate documentation has been examined when assessing a customer who holds interests in a self-managed superannuation fund.

## 4. Resourcing the Complex Assessment Function

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*This chapter examines the resourcing strategies Centrelink has in place for the complex Age Pension assessment function currently and into the future.*

### Introduction

**4.1** The previous chapter discussed the importance to Centrelink's assessment of complex Age Pension entitlements of effective business processes that:

- facilitate the appropriate referral of complex assessments to CAOs;
- ensure appropriate prioritisation of these assessments having regard to timeliness KPIs; and,
- enable CSOs to effectively communicate the results of assessments to customers.

**4.2** However, effective business processes alone are not sufficient to ensure that Centrelink is able to undertake these assessments in an efficient, effective and timely manner. The function must also be adequately resourced.

**4.3** Accordingly, Centrelink requires adequate numbers of CAOs to be appropriately positioned throughout its network to undertake the assessment of complex Age Pension cases. To do this, Centrelink requires an accurate estimate of the total number of complex Age Pension assessments to be processed, information about how this workload is distributed through the Centrelink network and the average throughput of CAOs. As well, Centrelink should have in place recruitment, training and succession planning strategies that enable it to adequately meet future demands for CAOs.

**4.4** Most CAOs undertake work on multiple programmes. For example, a CAO working on Age Pension assessments typically also does similar assessments for other programmes, such as Newstart and Youth Allowance. Centrelink advised the ANAO that this made it difficult for Centrelink to separately identify the number of CAOs working on Age Pension cases. Centrelink further advised the ANAO that it would be time consuming and expensive to provide time-series data on the number of CAOs allocated to the Age Pension programme and associated caseload.

**4.5** For this reason, the analysis in this Chapter reports on data mainly at the aggregate level, covering all programmes processed by CAOs. As Chapter 1 discussed, the Age Pension programme represents around half Centrelink's caseload of complex assessments. Thus, while it is likely that the aggregate analysis reported in this Chapter reflects the Age Pension programme, it is possible there are some significant variations for that programme.

**4.6** The ANAO examined the major influences on resourcing CAOs, including:

- the number and distribution of CAOs; and
- Centrelink's succession planning for CAOs.

## Number and distribution of CAOs

### Number of CAOs

**4.7** During the ANAO audit of *Age Pension New Claims* in 2000<sup>86</sup>, Centrelink had only 42 CAOs to process complex assessments across all programmes and the entire network. Subsequent to that audit, and the introduction of legislation in 2002 governing the treatment of social security customers' interests in trusts and companies under the Social Security Law<sup>87</sup>, Centrelink increased the number of CAOs.

**4.8** Figure 4.1 shows the associated spike in the number of CAOs, with a peak of 223 in May 2003. Apart from this period, the number of CAOs has been relatively stable at around 180. However, since mid-2005 the number of CAOs has decreased slightly, with 166 CAOs employed by Centrelink as of October 2006.

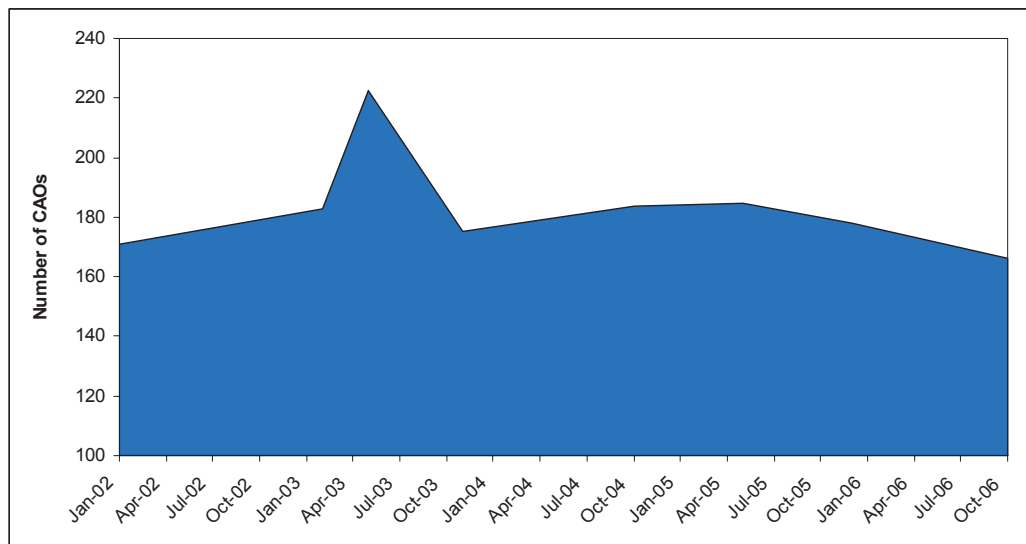
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<sup>86</sup> Audit Report No.34 2000–2001, op. cit.

<sup>87</sup> *Social Security Act 1991* (Cth), *Social Security Administration Act 1999* (Cth), and *Social Security (International Agreements Act) 1999* (Cth).

**Figure 4.1**

**Number of CAOs, January 2002 to October 2006**



Source: ANAO analysis and data provided by Centrelink.

**4.9** Subsequent to the substantial increase in CAO numbers in 2003, the roles of CAOs also changed. In particular, CAOs took on a much broader role within the Centrelink network, becoming not only responsible for processing complex claims, but also taking on the primary training and consulting role within the network for claims involving business interests which would not be classified as complex. Most of this training is provided to CSOs. However, CAOs are also responsible for providing training to other CAOs, as well as other specialist Centrelink officers, such as Debt Raising Officers and Authorised Review Officers.

### **Distribution of CAOs by Area**

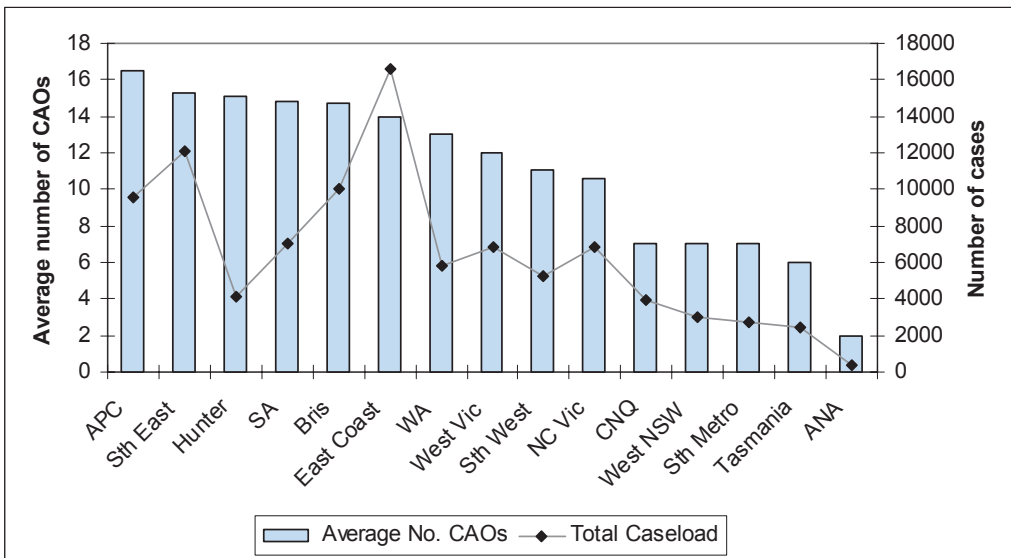
**4.10** CAOs in the Centrelink network are managed primarily through the individual Area Support Offices. Therefore, each Area Support Office is responsible for developing the resource strategies that determine the number of CAOs to be employed in their Area and their distribution. As each Area contains different numbers of customers requiring a complex assessment, the resourcing of CAOs differs between Areas.

**4.11** The ANAO found varying resource strategies for the CAO role in place across the Areas it visited during fieldwork for this audit. The ANAO identified considerable variation in the numbers of CAOs employed per Area, even after adjusting for differences in the number of complex assessments

processed within each individual Area for all programmes (see Figure 4.2). For example, Area East Coast employed fewer CAOs relative to its complex caseload than Areas Western Australia and Hunter. However, the ANAO noted that no Area Support Office had determined the number of CAOs employed within their Area on the basis of a detailed analysis of costs and benefits of CAOs.

**Figure 4.2**

**Number of CAOs compared to caseload of complex assessments<sup>A</sup> per Area 2005–06**



Notes: A) Includes all complex assessments, not just Age Pension programme complex assessments as Centrelink advises that it is currently unable to disaggregate this data to the programme level.

B) Sth East–Area South East Victoria; SA–Area South Australia; Bris–Area Brisbane; APC–Area Pacific Central (NSW); WA–Area Western Australia; Hunter–Area Hunter (NSW); East Coast–Area East Coast (NSW); West Vic–Area West Victoria; NC Vic–Area North Central Victoria; Sth West–Area South West (NSW); CNQ–Area Central and North Queensland; West NSW–Area West (NSW); Sth Metro–Area South Metro (NSW); Tasmania–Area Tasmania; ANA–Area North Australia (WA and NT).

Source: ANAO analysis and data provided by Centrelink.

**4.12** During fieldwork, many Area offices advised the ANAO that they determined the number of CAOs for the forthcoming year mainly on the basis of existing numbers, sometimes reduced in line with achieving an efficiency dividend.<sup>88</sup> However, two offices advised that they had reduced the number of

<sup>88</sup> An efficiency dividend for CAOs involves reducing the overall number of CAOs for an Area, while increasing the workload for the remaining CAOs. Efficiency dividends can be applied by Areas where there has been a reduction in overall funding for that Area for the next financial year.

CAOs undertaking complex Age Pension assessments in the belief that there had been a reduction in caseload.

**4.13** The ANAO has concerns about both these approaches, as:

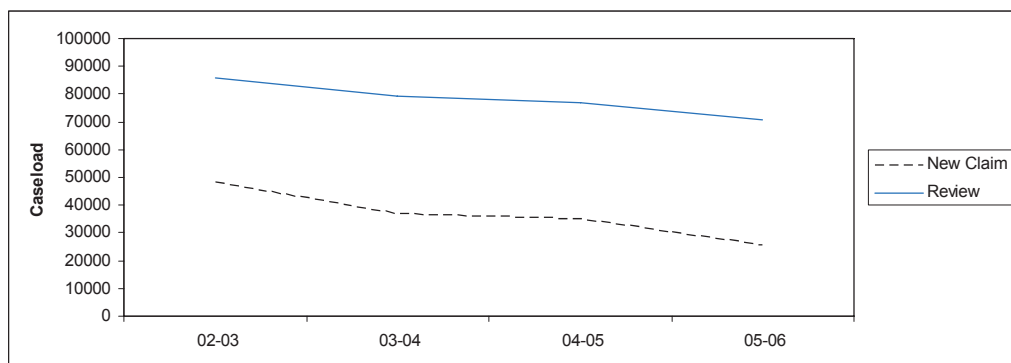
- reducing the number of CAOs in line with efficiency dividend reductions is not necessarily efficient. A better approach would be to reduce the quantity of less efficient inputs and maintain or increase the quantity of more efficient inputs, rather than cutting all resources equally; and
- the data indicating that complex casework has reduced is unreliable, and most likely incorrect, as the following section discusses.

### Recent trends in CAO caseload

**4.14** The Area Offices that had reduced the number of CAOs because they believed that the volume of complex Age Pension assessments had decreased, advised that they had based their analysis on the data contained in the CAO Toolbox. Figure 4.3 shows that these data indicate that the complex caseload had fallen substantially across the Centrelink network between July 2002 and June 2005, from a total of 133 880 new claims and reviews in 2002–03 to 96 246 new claims and reviews in 2005–06.

**Figure 4.3**

**Casework undertaken by CAOs between July 2002 and June 2006**



Source: ANAO analysis and CAO Toolbox data provided by Centrelink.

**4.15** The data demonstrates a downward trend in both the number of new claims and the number of reviews undertaken by CAOs since 2002–03.<sup>89</sup>

**4.16** However, the downward trend indicated by the CAO Toolbox data was at odds with the views of CAOs in the Centrelink network interviewed by the ANAO. Over 90 per cent of CAOs interviewed believed that they had been processing more complex cases in recent years, and that this reflected a broad upward trend in the number of complex assessments.

**4.17** Centrelink advised the ANAO that the data obtained from the CAO Toolbox was most likely inaccurate and therefore did not reflect the actual caseload of CAOs. It was therefore difficult for the ANAO to develop a firm conclusion on the trends in the number of complex assessments being processed for the Age Pension programme. The shortcomings of the CAO Toolbox, and Centrelink's plans to update the Toolbox were addressed in Chapter 2 (see paragraphs 2.35 to 2.37).

## Potential future complex Age Pension entitlements assessment caseloads for CAOs

**4.18** While there is uncertainty about the precise strength and direction of recent growth in the complex assessment caseload, interviews with CAOs during fieldwork indicated that they have generally been able to manage the workload to date. However, there is evidence that this caseload will increase substantially in coming years (see Figure 1.2 and paragraphs 1.12 to 1.16 in Chapter 1).

## Succession planning

**4.19** CAOs are experienced Centrelink officers who are required to possess a particular set of skills in order to effectively carry out their duties. From its fieldwork, the ANAO found that CAOs need to: possess an interest in commerce and an understanding of general purpose financial reports; be able to interpret and apply often complex legislation; be able to work unsupervised while meeting tight deadlines; and possess the communication skills to liaise with the financial sector and legal representatives and conduct training courses.

**4.20** Given the likely increase in the complex caseload for the Age Pension programme in coming years, and the significance of the role CAOs play in

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<sup>89</sup> Centrelink did not collect data on CAO casework numbers prior to this date.

effectively and efficiently processing such claims, it is important that Centrelink has strategies to ensure adequate numbers of CAOs are available who possess these skills.

**4.21** The ANAO examined Centrelink's succession planning strategies for CAOs aimed at ensuring that Centrelink has access to suitable people to fill the role of CAOs in the future.

**4.22** As mentioned in paragraph 4.10, the number of CAOs employed in the Centrelink network is determined on an Area by Area basis by each Area's management. Each Area Support Office is also responsible for developing succession planning strategies, to ensure that their Area maintains an adequate number of CAOs, both to meet current needs and to plan for future requirements.

**4.23** However, the ANAO found that none of the five Area Support Offices visited during fieldwork for this audit had developed succession planning strategies to ensure adequate numbers of CAOs in the future. Centrelink advised that none of its other Area Support Offices had undertaken analysis to determine the number of CAOs likely to be required in the future, despite the 2006–07 Budget changes to the Age Pension programme's asset cut-off limits, and the building impact of the Baby Boomer generation reaching retirement.

**4.24** The ANAO found that the only succession planning currently undertaken by the five Areas visited during the fieldwork stage of the audit was undertaken on an ad hoc basis, with CAOs in a particular location encouraging a small number of suitable CSOs to undertake training as it became available. There appeared to be no procedures in place that allowed Area Support Offices to provide for an expected increase in the demand for CAOs by identifying and developing suitable CSOs to take on the role of CAOs.

**4.25** In one of the Areas visited by the ANAO, the number of CAOs appeared to be low in comparison to the complex caseload in the Area and the number of CAOs employed in other Areas with a similar caseload. The ANAO was advised that this had occurred due to high turnover of staff at the CSO level, creating a lack of suitably experienced staff to be trained as CAOs. The CAOs in this Area advised the ANAO that they considered that the Area would face future challenges in recruiting staff to CAO positions.

**4.26** CAOs in two other Areas visited by the ANAO expressed similar concerns about the likely difficulty to recruit suitable staff to undertake the

CAO role. In this context, many of the CAOs interviewed by the ANAO noted that nearly all those staff with the requisite technical skill-set had already been recruited from the CSO ranks to work as CAOs. As well, the main skill set of the remaining CSOs in the network is focussed on customer service, rather than the analytical capacities required to be a CAO.

## Recommendation No.4

**4.27** Given the expected growth in complex Age Pension cases, the ANAO recommends that Centrelink develops and implements strategies to ensure that there will be sufficient suitably trained and skilled staff available to undertake the CAO role across the Centrelink network.

### *Centrelink response*

**4.28** Agreed. Centrelink's planning has put it in good stead for the introduction of the Pension Asset Taper changes in September 2007. Integral to this work has been the recognition of the need to train and deploy a significant number of extra CAOs to cover the initial surge in new claims.

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Ian McPhee  
Auditor-General

Canberra ACT  
20 February 2007



# Appendices



## Appendix 1: Cases to be referred to CAOs

### Definition of Complex Assessments

Centrelink considers the following cases to be complex, and requires Customer Service Officers to refer them to a CAO.

#### *Private trusts*

Private trusts are ones where the customer or a member of their family has created a trust. All initial assessments must be carried out by a CAO.

#### *Private companies*

Small companies created by small groups of business partners. All initial assessments must be carried out by a CAO.

#### *Complex partnerships*

Partnerships involving multiple sources of income or primary production.

#### *Assets hardship*

The customer has substantial assets that affect the assets test, but little current income and the customer is unable to rearrange their own financial affairs. CAO responsible for assessment of eligibility and rate payable.

#### *Beneficial ownership*

May occur when a customer has legal ownership of an asset but claims to be holding it on behalf of someone else.

#### *Self-Managed Super Funds and Small Australian Prudential Regulation Authority Funds*

A Self-Managed Super Fund is a superannuation fund with less than five members and all members are trustees of the fund. The ATO regulates Self-Managed Super Funds. A Small Australian Prudential Regulation Authority Fund is a superannuation fund with less than five members and the trustee is a corporate trustee that is approved by Australian Prudential Regulation Authority (APRA). Small APRA Funds are regulated by APRA. If either of these funds is paying a complying pension, it must be referred to a CAO.

### *Life interests*

Arrangements where someone has the use of an asset for the duration of their life but are unable to sell the object and access its value. For example a spouse may die and allow their spouse to receive only the income from their investments but not the amount invested. A CAO assesses how they were created, and what asset and income items they include.

### *Granny flat arrangements*

Occur when the customer 'pays' for a life interest or right to accommodation for life in a private residence that is to be their principal home.

### *Pension Loan Scheme*

This scheme allows people of Age Pension age to 'top up' their pension. Paid in fortnightly instalments, the additional payments are a loan and are secured against real estate owned by the customer.

### *Trust & company reviews*

All private trusts and companies will be reviewed annually. All updates to the trust or company record to be done by CAOs.

### *Foregone wages*

Relevant when considering the transfer of farm land to a relative. Centrelink places a value on the unpaid contribution made by the relative to the customer's farm and offsets the 'gift' by the value of the 'unpaid wage'.

### *Irrecoverable loans*

Relevant when a customer has loaned money to a third party and claims that they are unable to recover some or all of their money.

### *Primary Production Aggregation*

Aggregation is the only situation where a customer is allowed to offset the debts of one business structure against the assets of another. Only applies to primary production assets and liabilities.

### *Sale / leaseback and sale on terms*

Occurs when a customer sells real estate but the contract provides for the purchase price to be paid in instalments. Any other unusual sale contracts should also be referred to the CAO.

### *Home equity conversion*

A home equity conversion loan agreement is a mechanism which allows a homeowner to convert all or part of the equity locked up in their home into cash or a stream of income. A key feature of a home equity conversion agreement is that the loan (including interest) is generally not repayable until the homeowner moves out of his/her home or dies.

### *Self employment / carrying on a business*

Before expenses are allowed as deductions, a determination must be made that the customer is carrying on a business. Where the assessor is in doubt about the customer's situation, or if unsure whether expenses being claimed by a self employed customer are correct, the claim should be referred to a CAO.

### *Complex deprivation*

Any case where the customer is transferring assets or income to third parties and claims to be receiving something intangible in return.

### *Contrived arrangements*

Cases involving situations where a customer appears to be taking advantage of the income/ assets test or gifting rules by undertaking a complicated series of transactions and receiving little or no income in return.

### *Other cases*

Assessments that may be, but are not necessarily, complex in all instances. Some consultancy with CAO may be required, depending on the Area, Customer Service Centre, or Customer Service Officer. These assessments include:

- sole traders;
- partnerships;
- Families Actual Means Test;
- Ministers of Religion;
- income streams;
- managed investments;
- margin loans;
- shares, options, warrants; and
- sale and purchase home in 12 months.

## Appendix 2: Centrelink response

I am writing to you in response to the Australian National Audit Office (ANAO) Performance Audit report on the “Administration of Complex Age Pension Assessments”.

I welcome this report and the collaborative manner in which the Audit has been conducted. Thank you for the opportunity to comment on the report.

### **Recommendation No. 1**

*The ANAO recommends that Centrelink further improves its performance measurement system so that it accurately measures the key elements of CAO performance in undertaking complex Age Pension assessments, including payment correctness, timeliness, and efficiency.*

#### Centrelink Response:

Agreed. Centrelink undertakes to analyse what improvements can be achieved in the measurement of CAO performance in conjunction with a cost/benefit analysis of whether identified options represent value for money.

### **Recommendation No. 2**

*The ANAO recommends that Centrelink takes further steps to assist relevant staff in applying a consistent definition of complex assessments when deciding whether complex elements of Age Pension assessments should be referred to a CAO for processing by:*

- (a) emphasising to CSOs of the need to follow relevant guidelines that have been set by Centrelink’s National Support Office; and*
- (b) overseeing the development by Area Support Offices of appropriate directions to CSOs for those potentially complex assessments that are not covered by National Support Office guidelines.*

#### Centrelink response:

Agreed. With regard to (b) above, Centrelink’s Seniors, Carers and Rural National Business Line will develop consistent directions for all complex assessments which will be applied nationally.

### **Recommendation No. 3**

*The ANAO recommends that Centrelink analyse the range of current Area business structures in place for processing complex Age Pension assessments, to determine whether there are benefits in introducing standardised arrangements to facilitate efficient processing of complex assessments, having regard to the operating environment of each Area.*

#### Centrelink response:

Agreed. Centrelink will institute a review in calendar year 2007 to determine whether there are benefits in introducing a nationally standardised structure for CAOs.

### **Recommendation No. 4**

*Given the expected growth in complex Age Pension cases, the ANAO recommends that Centrelink develops and implements strategies to ensure that there will be sufficient suitably trained and skilled staff available to undertake the CAO role across the Centrelink network.*

#### Centrelink response:

Agreed. Centrelink's planning has put it in good stead for the introduction of the Pension Asset Taper changes in September 2007. Integral to this work has been the recognition of the need to train and deploy a significant number of extra CAOs to cover the initial surge in new claims.

### **RSS And QOL**

The Random Sample Survey (RSS) and Quality On-Line (QOL) are part of the Business Assurance Framework and suite of tools by which Centrelink measures payment correctness and checks assessments of customer claims in order to provide assurance in relation to the integrity of outlays.

#### RSS

Through initiatives to prevent error (refer paragraph 2.25 of the Audit Report), error analysis and measurement, Centrelink places considerable emphasis on ensuring that customers receive their correct entitlements. RSS is part of Centrelink's assurance measure relating to payment correctness.

The discussion in the report regarding RSS for complex Age Pension assessments should be seen in the context of the random sampling methodology which is integral to the RSS process. Customers are randomly selected from the general customer population for each payment type using a

tested sampling methodology to ensure representativeness of the customers selected re age gender, location, time on payment, amount of payment received and whether they are partnered.

Complex assessments occur in most payment types. As the relative number of complex assessments increase so too will their rate of selection in the random samples. Complex Age Pension assessments, if selected, are reported on as part of the overall sampling under RSS. RSS is not designed to measure complex assessments specifically. Introduction of a bias to sample selection could reduce the statistical integrity of the checks, thereby reducing overall reliability.

In relation to the RSS results for the Age Pension quoted in the report it should be noted that the dollar impact of errors can be quite low, for example nearly 60% of the Age Pension debts reported were less than \$50 and the median value was only \$27.

RSS is designed to inform relevant policy departments, in line with their assurance frameworks. Centrelink makes use of information, where it reasonably can, to improve service delivery. The attribution of error to either customers or staff is necessary to enable identification of the reason for error so solutions can be developed appropriately.

As part of the wider regime of control and measurement of quality, Centrelink has commenced the development of a quality assurance process specific to CAOs. This will lead to a specific programme of quality assurance for CAO work along similar lines to that currently employed for Centrelink's Authorised Review Officers (AROs).

## QOL

The ANAO has questioned the role of QOL and its adequacy as a measure of service delivery quality. However, QOL is not a quality assurance tool for service delivery, it is, rather a payment correctness checking and control process. The QOL process involves checking payments for correctness on the basis of the right programme, right rate, right date and right person – the Four Pillars of Payment Correctness. This check occurs after the initial assessment, before the payment is made.

Centrelink considers that QOL is an adequate preventative measure to control error before payments are made, as evidenced by the low rate of

administrative incorrectness with a dollar impact (7.5%) found by the RSS in relation to Age Pension payments.

Complex assessments, including those for Age Pension, are the claims or reviews containing complex financial circumstances. Given they are a relatively small proportion of the overall workload, it may not be cost effective to tailor QOL to focus on these specific assessments. Complex assessments are a subset of all Centrelink assessments across all payment types and they are QOL checked accordingly.

QOL does not provide any quality assurance or checking of service delivery, processes and procedures, information/policy or customer experience. Furthermore QOL is an internal measure for Centrelink payment correctness. QOL does not measure quality and does not measure organisational or programme performance.

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