

The Auditor-General  
Audit Report No.18 2009–10  
Performance Audit

## **LPG Vehicle Scheme**

**Department of Innovation, Industry, Science and  
Research**

**Centrelink**

**Medicare Australia**

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of Australia 2009

ISSN 1036-7632

ISBN 0 642 81102 4

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Canberra ACT  
18 December 2009

Dear Mr President  
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in the Department of Innovation, Industry, Science and Research, Centrelink and Medicare Australia 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 *LPG Vehicle Scheme*.

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 (ANAO). 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 Australian Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

For further information contact:  
**The Publications Manager**  
**Australian National Audit Office**  
**GPO Box 707**  
**Canberra ACT 2601**

**Telephone:** (02) 6203 7505  
**Fax:** (02) 6203 7519  
**Email:** [webmaster@anao.gov.au](mailto:webmaster@anao.gov.au)

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### Audit Team

David Roberts  
Jess Cooke  
Beni Subena  
Stuart Turnbull  
Dr Paul Nicoll

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# Abbreviations

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ABN	Australian Business Number
AEs	Additional Estimates
AFP	Australian Federal Police
ANAO	Australian National Audit Office
ARO	Authorised Review Officer
ASD	Additional Supporting Documentation
ATF	Autogas Task Force
CDPP	Commonwealth Director of Public Prosecutions
CIU	Cabinet Implementation Unit
CRN	Customer Reference Number
DIISR	Department of Innovation, Industry, Science and Research
Finance	Department of Finance and Deregulation
FMA Act	<i>Financial Management and Accountability Act 1997</i>
FMA Regulations	<i>Financial Management and Accountability Regulations 1997</i>
GVM	Gross Vehicle Mass
KPIs	Key Performance Indicators
LPG	Liquid Petroleum Gas
LPGVS	LPG Vehicle Scheme
Medicare	Medicare Australia

MOU	Memorandum of Understanding
MTAA	Motor Traders Association of Australia
NEVDIS	National Exchange of Vehicle and Driver Information System
ODM	Original Decision Maker
PBS	Portfolio Budget Statements
SLA	Service Level Agreement
VIN	Vehicle Identification Number



# Glossary

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Administered items	Administered items are resources controlled by Government but administered by an agency on behalf of the Government (for example most grants and benefits; transfer payments).
Assessment checklist	The LPG claim assessment checklist is attached to the front of LPG applications and completed by Centrelink for each assessment. The checklist guides and records the actions of Centrelink's processing staff in assessing grant eligibility.
Customer Reference Number	A Customer Reference Number (CRN) is a unique Centrelink identifier assigned to each Centrelink customer.
Departmental items	Departmental items are resources controlled by an agency, comprising the assets, liabilities, revenues and expenses applied to the production of an agency's outputs (for example salaries and operational expenses including depreciation).
Grant	<p>FMA Regulation 3A(1) defines a grant as an arrangement for the provision of financial assistance by the Commonwealth:</p> <ul style="list-style-type: none"><li>• under which public money is to be paid to a recipient other than the Commonwealth;</li><li>• which is intended to assist the recipient achieve its goals;</li><li>• which is intended to promote one or more of the Australian Government's policy objectives; and</li><li>• under which the recipient is required to act in accordance with any terms or conditions specified in the arrangement.</li></ul>

Guidelines	The Scheme's Ministerial Guidelines and Customer Guidelines which outline the eligibility criteria for the Scheme.
Held applications	Applications are held when Centrelink requires additional information from applicants to support the application.
LPG	Liquefied Petroleum Gas (also called LPG, GPL, LP Gas, or autogas) is a mixture of hydrocarbon gases used as a fuel in heating appliances and vehicles.
NEVDIS	The National Exchange of Vehicle and Driver Information System is a national database which stores vehicle and driver licensing information. The database is maintained by Austroads, the National Association of Road Transport and Traffic Authorities.
Random sampling	Statistical sampling technique where each item or element of the population has an equal chance of selection. The purpose of random sampling is to ensure that bias is not introduced into the sample. This allows conclusions to be drawn on the population of interest.
Representative sampling	Statistical sampling technique where items or elements which are representative of a larger population are selected. A representative sample may be a random sample or a targeted sample, depending upon the objective of sampling and the characteristics of the population. The purpose of a representative sample is to enable extrapolation of the results to make generalisations about the larger population.
Targeted sampling	Statistical sampling technique which involves breaking a population into segments (or stratifying) and then concentrating efforts on one or a few key segments. The benefits of targeted sampling are that it can focus on key risks or areas of interest and may be more cost-effective.

## **Summary and Recommendations**



# Summary

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## Introduction

1. In August 2006 the Australian Government established the Liquid Petroleum Gas (LPG) Vehicle Scheme to promote the use and uptake of LPG. Under the Scheme, private vehicle owners claim a grant following the purchase of new LPG-powered vehicles, or conversion of existing petrol or diesel vehicles to operate on LPG only, LPG and petrol, or LPG and diesel. From commencement and through to its conclusion on 30 June 2014, it is anticipated that over 535 000 vehicle owners will be provided grants under the Scheme at a cost of approximately \$870 million.
2. Applicant and vehicle eligibility criteria for the Liquid Petroleum Gas Vehicle Scheme (LPGVS) are set out in Ministerial Guidelines. Individuals meeting the Scheme's eligibility criteria are paid a grant. There are no limits on the numbers of eligible persons. When the Scheme commenced, LPG conversions of registered vehicles resulted in a grant of \$2000, which will decrease to \$1000 per vehicle from 1 July 2012. From 10 November 2008, owners of new dedicated LPG vehicles receive a \$2000 grant (the grant was previously \$1000), while the grant for owners of new vehicles fitted for LPG before first registration is \$2000 for the duration of the Scheme.
3. The Scheme is administered by the Department of Innovation, Industry, Science and Research (DIISR) through its program delivery arm, AusIndustry. DIISR engaged Centrelink and Medicare Australia (Medicare) to deliver the Scheme due to their extensive service delivery experience. Centrelink and Medicare offices are the contact points for lodging applications. Centrelink is responsible for grant assessment, payment (using funds provided by DIISR), quality assurance and compliance.
4. To claim a grant, individuals submit an application form together with certified copies of the installer/dealer's tax invoice (paid in full), the vehicle's registration papers and their driver's licence. When assessing applications, Centrelink staff cross-check documentation, examine installer/dealer Australian Business Number (ABN) details and undertake other pre-payment eligibility checks. Quality reviews of processing accuracy are also undertaken for selected applications prior to payment.
5. Following payment of grants, Centrelink reviews a percentage of granted applications to provide assurance on payment accuracy (random

reviews) and manage compliance risks (targeted reviews). These reviews primarily involve re-examination of supporting documentation, and confirmation of details with the applicant and/or installer via telephone.

6. There are approximately 3250 installers/dealers nationally, varying from small workshops to large car dealers, which accounted for some 85 000 grants in 2008–09. Almost all of these grants were for conversions of registered vehicles. Given that many State and Territory vehicle registration offices do not physically check that vehicles have been fitted for LPG, or record them as such in vehicle registration papers, there is a key reliance on the authenticity of the documentation provided by installers/dealers.

## **Audit approach**

7. The audit objective was to assess whether the administration of the LPG Vehicle Scheme is effective. To address this objective, the audit considered whether:

- there is a sound framework for the operation of the Scheme;
- grants are promoted, assessed and approved in accordance with relevant guidance and regulations; and
- the Scheme's performance is monitored and reported.

8. The audit was a cross-portfolio review. It included an examination of the roles and responsibilities of DIISR (including AusIndustry), Centrelink and Medicare in the administration of the Scheme.

## **Overall conclusion**

9. Since its establishment in August 2006, the LPGVS has encouraged vehicle owners to buy new LPG-powered vehicles or to convert existing petrol and diesel vehicles to operate using LPG. In aggregate, the Scheme provided grants to 226 619 vehicle owners between August 2006 and June 2009 at a cost of \$451.8 million, well in excess of the initial estimate of \$305 million for this period.

10. Overall, the LPGVS is well-designed and effectively administered. Eligibility requirements and administrative arrangements are clearly articulated in policy, guidelines and agreements; DIISR, Centrelink and Medicare combine to provide central contact points for applicants and effective service delivery; and, managerial oversight and risk management for the program are generally sound.

11. Application and assessment procedures for the Scheme are operating smoothly. Applicants have ready access to Scheme information and 93 per cent of applications are approved upon first being lodged. The majority of grant eligibility checks undertaken by Centrelink prior to payment are effective, providing assurance concerning payment correctness and enabling timely processing of applications. Where weaknesses in eligibility checks exist, options to strengthen them are limited by a lack of available information, and the likely low cost-effectiveness of improved measures. Fraud and compliance risks for the Scheme can be more appropriately mitigated through tailored compliance assurance activity than by further strengthening application assessment procedures.

12. Consistent with the *LPGVS Fraud and Risk Compliance Strategy*, Centrelink reviews just under five per cent of granted applications—almost all of which are ‘random’ reviews, and normally performs checks on multiple payments to individuals’ bank accounts. These measures help to address the Scheme’s fraud and compliance risks. Further, in the period analysed by ANAO, less than one per cent of granted application reviews led to a debt being raised, and using the same information sources as Centrelink’s compliance team the ANAO confirmed the appropriateness of decisions for a sample of these reviews.

13. Notwithstanding these conclusions, there are some relatively low cost improvements which could be made to quality assurance and compliance activity for the Scheme. Centrelink’s ‘random’ reviews of granted applications should be undertaken using a random sampling approach so that they provide an unbiased basis for assessing payment accuracy for the broader population.<sup>1</sup> Meanwhile, Centrelink’s targeted reviews of granted applications should be better focused on the Scheme’s key compliance risks. Improvement can also be made by Centrelink better documenting all checks on multiple payments to individuals’ bank accounts.

14. Wherever possible, funding agreements for grant programs should convey appropriate authority to allow checking that the activity to which a grant relates has occurred. In the case of the LPGVS, Centrelink is unable to compel applicants, installers/dealers or other third parties to provide (or give

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<sup>1</sup> In response to the draft audit report, Centrelink advised that it had implemented an independent sampling process to ensure unbiased selection of applications for review.

access to) supplementary information to confirm eligibility, which increases reliance on the validity of core documentation. DIISR and Centrelink have recognised that their limited authority does present a compliance risk, and have previously explored options to strengthen the Scheme's review rights. In this regard, the results of better targeted granted application reviews will further inform the need for additional compliance checks. If required, any strengthening of Centrelink's review rights would need to be commensurate with the scale, nature and complexity of risks for what is a high volume but small sized grant.

15. When the LPGVS was first introduced, its objective was articulated as promoting the use and uptake of LPG. Subsequently, the Scheme has been linked to other objectives, such as providing financial assistance to families experiencing the high cost of fuel prices, and promoting cleaner environmentally friendly technology. Performance measures for the Scheme focus on inputs and outputs, rather than whether the outcomes sought are being achieved. In light of this, there would be benefit in clarifying the Scheme's objectives, and examining whether the grant has helped to achieve these objectives by influencing individuals' behaviour as intended.

16. The ANAO has made three recommendations directed towards strengthening compliance activity; improving quality assurance; and conducting a formal evaluation to assess the impact of the Scheme.

## **Key findings by Chapter**

### **The Framework for the Scheme (Chapter Two)**

17. Administration of the LPGVS is supported by a set of clearly articulated guidelines. Ministerial Guidelines outline eligibility criteria and administrative arrangements; Customer Guidelines provide relevant information to potential applicants; and, operational policy advice guides Centrelink staff in processing and reviewing applications. In all cases, revisions to policy and guidelines have been appropriately managed and authorised.

18. The respective roles and responsibilities of DIISR, Centrelink and Medicare in administering the program are properly documented. Regular meetings and consultation between the delivery partners facilitate changes to eligibility requirements, and address operational and compliance issues. A range of avenues exist for applicants to provide feedback on the Scheme and DIISR has responded appropriately to applicant correspondence.



19. AusIndustry and Centrelink regularly assess the Scheme's risks and implement measures to mitigate their impact. Within the framework provided by the Ministerial Guidelines, Scheme risk management is sound, but there is scope for improved documentation of reasons for changes to some annual risk assessments.

20. The absence of precedents to assist in making forecasts of Scheme demand and volatility in petrol and diesel prices resulted in underestimation of the funding required for the Scheme by \$57 million (88 per cent) in 2006–07 and \$67 million (69 per cent) in 2007–08. Since then, DIISR's engagement of a consultancy firm to forecast Scheme demand has resulted in more accurate forecasts and improved budgeting.

### **Applying for LPG Grants (Chapter Three)**

21. DIISR produces a range of promotional documents for the Scheme which are distributed by Centrelink and Medicare offices nationally, and appropriately focuses promotional activities on applicant awareness of eligibility requirements, including by educating installers/dealers. To support the application process, DIISR has regularly updated the LPGVS application form to reflect changes in eligibility criteria, and improve its design and clarity. Further, the majority of applications rejected upon first being lodged are approved after being resubmitted with appropriate supporting documentation. As a result, the final application rejection rate is only two per cent.

22. To assess the eligibility of applications, Centrelink staff use an assessment checklist and undertake a range of pre-payment checks using the application form, supporting documentation and other publically available information. The ANAO found these checks were correctly applied for a sample of applications. There is, however, scope to improve assessment procedures by implementing a uniform assessment checklist at all LPG processing centres, rather than the practice observed during the audit of using different checklists at two processing centres and none at the other.<sup>2</sup> In

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<sup>2</sup> In response to the draft audit report, Centrelink advised that it had implemented a uniform assessment checklist as part of the assessment process across all LPG processing centres.

addition, pre-payment checks in relation to two eligibility criteria<sup>3</sup> are of limited effectiveness owing to their reliance on applicant information.

23. Approximately one-fifth of applications are quality reviewed before being finalised to check for processing errors. Despite this, around 10 per cent of Centrelink's electronic records were found to contain keying errors—mostly in relation to applicant, installer/dealer and vehicle details. During audit fieldwork, Centrelink classed date of birth and name keying errors as non-critical to quality reviews, implying applications with these errors may have been approved without being returned to grant assessors for correction. In response to the draft audit report Centrelink advised that it had reclassified these keying errors as critical.

### **Scheme Compliance and Payment Correctness (Chapter Four)**

24. Under DIISR's and Centrelink's *LPGVS Fraud and Compliance Risk Management Strategy*, Centrelink is required to review five per cent of granted applications, and to check for multiple payments to individuals' bank accounts for all applications. Reviews of granted applications comprise of a small proportion of targeted reviews based on compliance risks, and a large proportion of reviews selected by Centrelink's processing centre staff (known as random reviews). Between July 2007 and June 2009, 7505 granted applications were reviewed (4.7 per cent) of which only 45 reviews (0.6 per cent) resulted in a debt being raised, indicating high levels of processing accuracy.

25. Some checks undertaken as part of granted application reviews are only partially effective as a result of their reliance on information voluntarily provided by the applicant and installer/dealer.<sup>4</sup> If Centrelink had some additional authority to allow checking of applicant or installer/dealer records that show anomalies or of a certain risk degree to confirm eligibility criteria have been met,<sup>5</sup> it would help to address the residual risk of ineligible payments. As always, there is a balance to be struck between the costs and benefits of applying additional review measures; nevertheless this is a matter worthy of further consideration by DIISR and Centrelink.

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<sup>3</sup> These are that the vehicle is registered for private use, and is not subject to a salary sacrifice arrangement or novated lease.

<sup>4</sup> These are that the applicant has undertaken a conversion of a vehicle or purchased a new vehicle fitted with an LPG unit, and the vehicle is for private use.

<sup>5</sup> Or to obtain information from third party sources such as vehicle registration offices.

26. ANAO reviewed LPGVS data held by Centrelink and found instances of multiple payments to individuals as a result of incorrect entry of personal details, and instances of multiple payments in relation to the same vehicle. While the number of cases identified represented less than one per cent of payments for the period in question, they indicated that Centrelink can improve its targeted compliance activity to identify multiple payments for the same individual or vehicle.

27. For the period analysed by ANAO only three per cent of all granted application reviews (or 223 reviews) were targeted reviews, most of which resulted from return to sender correspondence. As mentioned previously, further work is required to better focus targeted compliance reviews on the Scheme's key risks. This includes undertaking additional reviews where application and assessment patterns for installers are unusual; to mitigate identified weaknesses in eligibility checks; and following improved interrogation of LPGVS data.

### **Monitoring and Reporting (Chapter Five)**

28. Monitoring and reporting responsibilities in relation to administration of the Scheme are included in documents to which all parties have agreed. Centrelink and Medicare produce reports for DIISR in accordance with the Program Protocol and Service Level Agreement (SLA) respectively. These reports provide DIISR with relevant management information and assist it in administering the Scheme. However, reporting on granted application reviews could be improved to provide a better indication to DIISR of the adequacy of Centrelink's compliance activity.

29. DIISR, Centrelink and Medicare report information on the LPGVS in their respective annual reports. Information in annual reports could be improved if DIISR clarified and reported on the Scheme's objective. The proposed formal evaluation of the Scheme would explore in more depth the premises underpinning the multiple objectives to which the Scheme has been linked, and how the grant has influenced individuals' behaviour.

## Summary of agencies' responses

### Department of Innovation, Industry, Science and Research

30. The department welcomes the ANAO's conclusion that the Scheme is well-designed and effectively administered, and is pleased with the finding that DIISR, Centrelink and Medicare combine to provide effective service delivery and that managerial oversight and risk management for the program are generally sound. The department also notes the ANAO's confirmation that the department is responding appropriately to applicant feedback and where necessary amending its policy and guidelines. The department agrees to implement the report's three recommendations.

### Centrelink

31. Centrelink agrees with the recommendations in the report. Centrelink welcomes this report and considers that implementation of the recommendations and findings will further strengthen the delivery of the LPG Vehicle Scheme.

### Medicare Australia

32. As a delivery partner for the LPG Vehicle Scheme, Medicare Australia welcomed the opportunity to participate in this audit. Medicare Australia notes that the majority of LPGVS applications are lodged at a Medicare office and these applications maintain a low rejection rate. Medicare Australia supports Recommendation 3; to commence a formal evaluation of the LPG Vehicle Scheme, and would welcome the opportunity to provide appropriate service delivery input based on its experience as a service delivery partner. Medicare Australia also supports the suggestion that a new key performance indicator relating to the proportion of complaints resolved be established.

# Recommendations

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## Recommendation No.1

### Para 4.36

In order to improve compliance activity for the Scheme, the ANAO recommends that DIISR and Centrelink:

- a) better focus targeted reviews of granted applications on the Scheme's compliance risks; and
- b) in light of the results of (a) above, consider strengthening Centrelink's review rights.

**Centrelink response:** *Agreed*

**DIISR response:** *Agreed*

## Recommendation No.2

### Para 4.41

The ANAO recommends, in order to improve assurance of the accuracy of grant payments, that Centrelink randomly selects applications for review.

**Centrelink response:** *Agreed*

**DIISR response:** *Agreed*

## Recommendation No.3

### Para 5.32

To inform policy considerations as to the future of the Scheme beyond June 2014, the ANAO recommends that a formal evaluation be conducted to assess its impact.

**DIISR response:** *Agreed*

**Centrelink response:** *Agreed*

**Medicare response:** *Agreed*



## **Audit Findings and Conclusions**





# 1. Introduction

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*This Chapter describes the LPG Vehicle Scheme, the audit objective, criteria and scope and the structure of the report.*

## Overview of the LPG Vehicle Scheme

**1.1** In August 2006 the Australian Government established the Liquid Petroleum Gas (LPG) Vehicle Scheme to encourage private vehicle owners to buy new LPG powered vehicles, or convert existing petrol or diesel vehicles to operate on LPG only, LPG and petrol, or LPG and diesel. The objective of the Scheme is to promote the use and uptake of LPG. The Scheme is scheduled to end on 30 June 2014.<sup>6</sup>

**1.2** The LPG Vehicle Scheme (LPGVS) is an uncapped entitlement scheme.<sup>7</sup> The Scheme provides grants to successful applicants following the LPG conversion of a registered vehicle, or the purchase of a new vehicle fitted for LPG before first registration. Ministerial Guidelines set the eligibility criteria for the Scheme.<sup>8</sup>

**1.3** At the Scheme's inception, the Government provided the following grants, subject to eligibility criteria:

- (a) a grant of \$2000 for the LPG conversion of a new or used petrol or diesel motor vehicle (this included new or used vehicles where the conversion occurs after the vehicle is registered; and new vehicles where the LPG unit is fitted after manufacture but before the vehicle is registered for the first time); and
- (b) a grant of \$1000 for the purchase of a new motor vehicle with an LPG unit fitted at the time of manufacture.

**1.4** From 10 November 2008, the Government doubled the grant amount for the purchase of a new private use motor vehicle fitted for LPG at time of

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<sup>6</sup> To be eligible for the Scheme, the LPG conversion or new vehicle purchase must be completed on or before 30 June 2014. Grant payments can be made up to 30 June 2015.

<sup>7</sup> An uncapped entitlement scheme is a scheme where the total cost of the scheme is not limited to a particular amount.

<sup>8</sup> Department of Innovation, Industry, Science and Research, *Liquid Petroleum Gas (LPG) Vehicle Scheme Ministerial Guidelines*, 10 June 2009.

manufacture.<sup>9</sup> Subsequently, the Government changed the grant amount available for conversions of registered vehicles in the 2009–10 Budget. The grant amounts since the Scheme’s inception are outlined at Table 1.1 below.

**Table 1.1**

**Grants for LPG conversions and new LPG vehicles**

Grant Type	Grant Amount	Conversion Completed/ Date of Purchase
LPG conversions of registered vehicles	\$2000	Between 14 August 2006 and 30 June 2009
	\$1750	Between 1 July 2009 and 30 June 2010
	\$1500	Between 1 July 2010 and 30 June 2011
	\$1250	Between 1 July 2011 and 30 June 2012
	\$1000	Between 1 July 2012 and 30 June 2014
New vehicles fitted with LPG after manufacture but before first registration	\$2000	Between 14 August 2006 and 30 June 2014
New dedicated LPG vehicles	\$1000	Between 14 August 2006 and 9 November 2008
	\$2000	Between 10 November 2008 and 30 June 2014

Source: See <<http://www.ausindustry.gov.au/Energyandfuels/LPGVehicleScheme/Pages/home.aspx>> [accessed 16 June 2009].

**1.5** The Scheme is administered by the Department of Innovation, Industry, Science and Research (DIISR) through its program delivery arm, AusIndustry. DIISR engaged Centrelink and Medicare Australia (Medicare) to deliver the Scheme due to their extensive service delivery experience. Medicare and Centrelink offices are the contact points for application lodgement. Centrelink is responsible for grant assessment, payment, quality assurance and compliance. In 2008–09, Centrelink and Medicare received departmental funding of \$7.7 million and \$2.2 million respectively to administer the Scheme.<sup>10</sup>

**1.6** The Scheme provided grants to 226 619 vehicle owners from August 2006 to June 2009 at a cost of \$451.8 million. DIISR anticipates that there will be a further 310 000 individuals who will receive assistance under the Scheme

<sup>9</sup> Featured as part of the \$6.2 billion ‘New Car Plan for a Greener Future’ announced by the Prime Minister on 10 November 2008. See <<http://www.innovation.gov.au/automotivereview/Documents/NEWCARPLANGREENERFUTURE.pdf>> [accessed 13 May 2009].

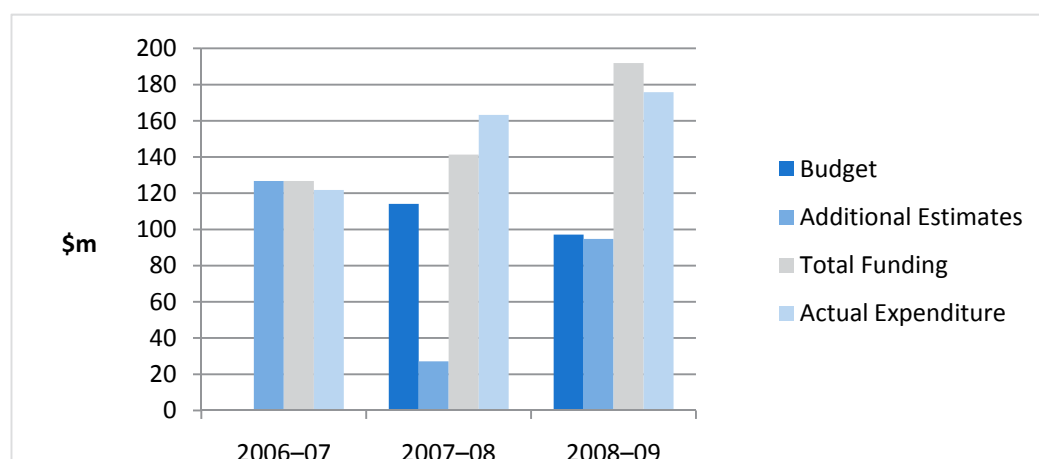
<sup>10</sup> These figures are based on the 2008–09 Additional Estimates.

between 1 July 2009 and its conclusion on 30 June 2014, at a cost of \$423 million.<sup>11</sup>

1.7 The 2008–09 appropriation for LPGVS grants was \$191.9 million,<sup>12</sup> comprising an initial budget of \$97.1 million, \$1.5 million for the doubling of the grant amount for the purchase of a new private use motor vehicle fitted with LPG at time of manufacture, and an additional \$93.2 million authorised at 2008–09 Additional Estimates (AEs). The AEs funding was necessary to respond to higher than expected demand for the Scheme.<sup>13</sup> A summary of Budget, AEs and actual expenditure for the LPGVS from 2006–07 to 2008–09 is in Figure 1.1 below.

**Figure 1.1**

### LPGVS Budget, Additional Estimates and actual expenditure



Source: Department of Industry, Tourism and Resources (ITR) Portfolio Additional Estimates 2006–07, ITR Annual Report 2006–07, ITR Portfolio Budget Statements (PBS) 2007–08, DIISR Portfolio Additional Estimates 2007–08, DIISR Annual Report 2007–08, DIISR PBS 2008–09, DIISR Portfolio Additional Estimates 2008–09 and DIISR Annual Report 2008–09.

Note: There was no amount allocated in the 2006–07 DIISR Budget as the Scheme was not announced until 14 August 2006.

1.8 Table 1.2 contains information on the type, number and value of grants since the Scheme's inception.

<sup>11</sup> See <<http://www.innovation.gov.au/General/Corporate/Pages/LPGVehicleScheme.aspx>> [accessed 22 July 2009].

<sup>12</sup> Department of Innovation, Industry, Science and Research, *Portfolio Budget Statements 2008–09*, April 2008, p. 22, available at <<http://www.innovation.gov.au/publications>>.

<sup>13</sup> Department of Innovation, Industry, Science and Research, *Additional Estimates 2008–09*, 25 November 2008, p. 19, available at <<http://www.innovation.gov.au/publications>>.

**Table 1.2****LPGVS grant statistics as at 30 June 2009**

Grant Type	Number of grants paid	Value of grants paid
Grant of \$2000 for registered vehicles converted to LPG	225 094	\$450 188 000
Grant of \$2000 for new LPG units fitted at time of manufacture, or after manufacture but before first registration where the vehicle was purchased on or after 10 November 2008	77	\$154 000
Grant of \$1000 for new LPG units fitted at time of manufacture, or after manufacture but before first registration where the vehicle was purchased before 10 November 2008	1448	\$1 448 000
<b>Total LPGVS Grants Paid</b>	<b>226 619</b>	<b>\$451 790 000</b>

Source: See <<http://www.ausindustry.gov.au/EnergyandFuels/LPGVehicleScheme/Pages/LPGVehicleSchemeStatistics.aspx>> [accessed 7 July 2009].

**Eligibility criteria**

1.9 Applicants are eligible to apply under the Scheme if:<sup>14</sup>

- their new or used vehicle is an eligible vehicle;
- the individual has not received a grant under the Scheme in the previous three years;<sup>15</sup>
- the applicant lodges a LPG application by post or at a Centrelink or Medicare office within 12 months from the date of LPG conversion or the date of new vehicle purchase;

<sup>14</sup> AusIndustry LPG Vehicle Scheme Customer Guidelines See <<http://www.ausindustry.gov.au/EnergyandFuels/LPGVehicleScheme/Documents/Customer%20Guidelines/LPG%20Customer%20Guidelines%20-%20June%202009.pdf>> [accessed 22 July 2009].

<sup>15</sup> Individuals who received a grant for a vehicle destroyed in the Victorian bushfires of February 2009 are exempt from meeting this requirement, under certain conditions.

- at the time the application is made, the conversion to LPG of the vehicle is completed and has been paid for, or, for any new LPG vehicle purchase, the purchase is completed and paid for; and
- the applicant shows proof of conversion of the vehicle to LPG by presentation of a paid tax invoice showing payment of parts and installation of the LPG conversion kit.

**1.10** A vehicle is eligible if:

- the vehicle was converted to LPG or fitted with an LPG unit during manufacture on or after 14 August 2006;
- for a new or used registered vehicle converted to LPG:
  - the vehicle was registered in the name of the applicant at the date of LPG conversion and is a vehicle for private use at that time; or
  - the vehicle was registered in the name of the applicant at the time of application and is for private use at that time. This applies only where the applicant purchased the vehicle before the LPG conversion and the purchase is evidenced by payment of the vehicle's purchase price;
- for a new vehicle fitted with a LPG unit after manufacture but before registration, the vehicle is registered in the name of the applicant at the time of purchase, is a vehicle for private use at that time and the vehicle has not been previously registered;
- for a new vehicle fitted with a LPG unit at time of manufacture, the vehicle is registered in the name of the applicant at the time of purchase, is a vehicle for private use at that time and the vehicle has not been previously registered;
- the vehicle is a passenger or light commercial vehicle less than 3.5 tonnes Gross Vehicle Mass (GVM);
- the vehicle is not subject to a novated lease or financed through a salary sacrifice arrangement at the date of LPG conversion or purchase of a new LPG vehicle; and
- the vehicle is not a motor scooter, tricycle or boat.

## **Application process**

**1.11** Individuals can obtain information about the Scheme through an AusIndustry hotline and Medicare and Centrelink offices. Individuals apply for the grant by submitting an application and the relevant supporting documents at Medicare or Centrelink offices, or by post. Centrelink makes decisions regarding the completeness of applications and applicant and vehicle eligibility. In this context, DIISR may provide Centrelink with written directions regarding the interpretation of the Ministerial Guidelines.

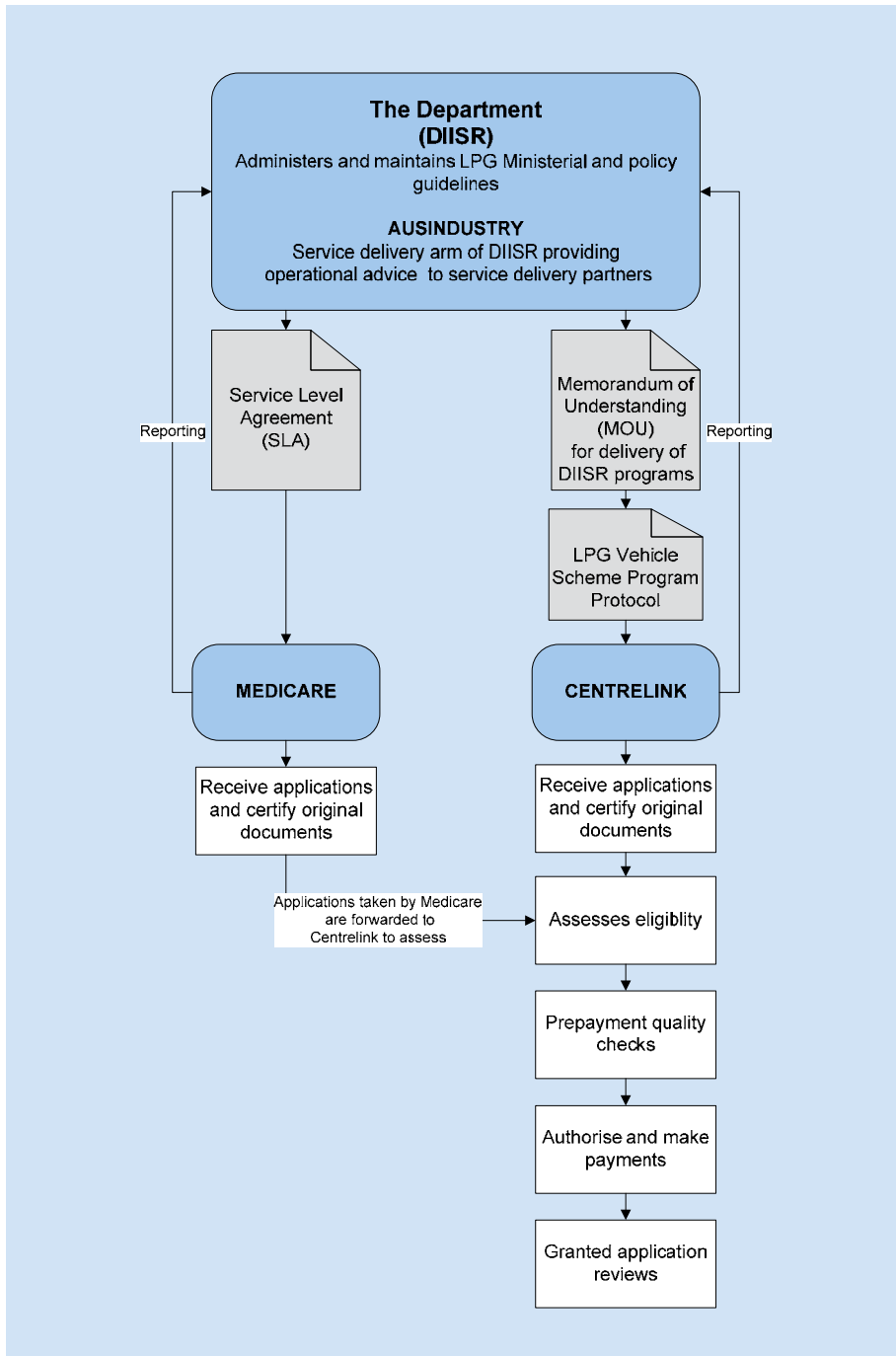
**1.12** Under the agreed service delivery arrangements for the Scheme, Centrelink is required to process 80 per cent of applications within 10 working days of receiving a complete application. Payments are made into the applicant's bank account. Unsuccessful applicants have 13 weeks from notification of rejection to request a review of the grant decision.

**1.13** Centrelink authorises and makes payments to eligible applicants. Each day Centrelink invoices DIISR to enable DIISR to transfer the total value of Centrelink payments made the previous day to a Centrelink account.

**1.14** Centrelink undertakes quality assurance processes prior to payment, and conducts post-payment reviews of the validity of granted applications. The requirements for these procedures are outlined in Centrelink's agreement with DIISR. Figure 1.2 shows the responsibilities of each agency.

Figure 1.2

## Administration of the LPG Vehicle Scheme



Source: ANAO analysis.

## Audit approach

### Audit objective and scope

**1.15** The audit objective was to assess whether the administration of the LPG Vehicle Scheme is effective.

**1.16** The audit was a cross-portfolio review. It included an examination of the roles and responsibilities of DIISR (including AusIndustry), Centrelink and Medicare in the administration of the Scheme.

### Audit criteria

**1.17** The audit criteria were to assess whether:

- there is a sound framework for the operation of the Scheme;
- grants are promoted, assessed and approved in accordance with relevant guidance and regulations; and
- the Scheme's performance is monitored and reported.

### Audit methodology

**1.18** In order to form an opinion against the audit objective, audit activities included:

- examination of policy documents, guidelines, procedures, operational documents, meeting minutes and reports;
- interviews with relevant DIISR, Centrelink and Medicare personnel;
- requests to LPG Australia and the Motor Traders Association of Australia (MTAA) for their views on the Scheme's administration;<sup>16</sup>
- a review of DIISR's financial transactions to test whether payment authorisations were in accordance with relevant policy and guidance;
- examination of a representative sample of 292 applications and supporting documentation to validate the accuracy of grant eligibility determinations;
- examination of Centrelink's LPG payment data for the period 1 July 2007 to 5 June 2009; and

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<sup>16</sup> MTAA did not provide any comments, while LPG Australia's comments are at Appendix 1.



- review of the appropriateness of Centrelink's LPGVS's compliance activities and debt recovery procedures.

**1.19** The Australian National Audit Office (ANAO) extracted data on 160 492 LPGVS grants paid between 1 July 2007 and 5 June 2009.<sup>17</sup> In addition, the ANAO was provided with data relating to 11 806 LPGVS rejection decisions made between 1 July 2007 and 5 June 2009. These records related to LPGVS applications made by 10 679 individuals, as identified by their Customer Reference Number (CRN), with some individuals having an application being rejected more than once.

**1.20** Fieldwork was conducted at DIISR's National Office, AusIndustry's LPGVS Office in Sydney, Medicare's National Office, Centrelink's National Office and Centrelink's LPG processing centres in Robina and Adelaide.<sup>18</sup>

## Previous ANAO audits

**1.21** There have been no previous ANAO audits of the LPGVS. However, ANAO has conducted a number of recent performance audits which examined the administration of grants.<sup>19</sup> ANAO has also audited a number of Centrelink processes which are relevant to the management of the LPGVS. These include:

- Assuring Centrelink Payments – The Role of the Random Sample Survey Programme;<sup>20</sup> and
- Management of Customer Debt.<sup>21</sup>

**1.22** The ANAO *Better Practice Guide on Grants Administration, 2002*<sup>22</sup> and the *Commonwealth Grant Guidelines Policies and Principles for Grants Administration, 2009*<sup>23</sup> were also relevant to this performance audit.

<sup>17</sup> Prior to 1 July 2007 Centrelink used a different database which did not store data elements for individual applications separately. As a result, the ANAO used data from 1 July 2007 to assist the analysis process.

<sup>18</sup> There are three LPG processing centres which assess and pay LPGVS grants. They are in Adelaide, Robina and Griffith.

<sup>19</sup> For example, ANAO Audit Report No.40 2008-09, *Planning and Allocating Aged Care Places and Capital Grants*, and ANAO Audit Report No.36 2008-09, *Settlements Grants Program*, available at <<http://www.anao.gov.au/director/publications.cfm>>.

<sup>20</sup> ANAO Audit Report No.43 2005-06, *Assuring Centrelink Payments – The Role of the Random Sample Survey Programme*, available at <<http://www.anao.gov.au/director/publications.cfm>>.

<sup>21</sup> ANAO Audit Report No.4 2004-05, *Management of Customer Debt*, available at <<http://www.anao.gov.au/director/publications.cfm>>.

<sup>22</sup> ANAO Better Practice Guide—Grants Administration, 2002, available from <<http://www.anao.gov.au/director/publications.cfm>>.

1.23 The audit was undertaken in accordance with ANAO auditing standards at a cost of \$340 000.

## Report structure

1.24 This report contains five chapters as outlined in Figure 1.3.

**Figure 1.3**

### Structure of the report

<b>Chapter 1 INTRODUCTION</b>	<ul style="list-style-type: none"><li>• Overview of the LPG Vehicle Scheme</li><li>• Audit approach</li><li>• Previous ANAO audits</li></ul>
<b>Chapter 2 THE FRAMEWORK FOR THE SCHEME</b>	<ul style="list-style-type: none"><li>• Policy and guidelines</li><li>• The Scheme's roles and responsibilities</li><li>• Feedback on the Scheme's policy, guidelines, and administration</li><li>• Identifying and assessing the Scheme's risks</li><li>• Forecasting Scheme demand</li><li>• Financial management</li></ul>
<b>Chapter 3 APPLYING FOR LPG GRANTS</b>	<ul style="list-style-type: none"><li>• Scheme promotion</li><li>• Applying for grants</li><li>• Determining grant eligibility</li><li>• Accuracy of LPG data</li></ul>
<b>Chapter 4 SCHEME COMPLIANCE AND PAYMENT CORRECTNESS</b>	<ul style="list-style-type: none"><li>• Fraud and Risk Compliance Strategy</li><li>• Reviews of granted applications</li><li>• Selection of granted applications for compliance review</li><li>• Assessment of random reviews</li><li>• Debt recovery</li></ul>
<b>Chapter 5 MONITORING AND REPORTING ON SCHEME PERFORMANCE</b>	<ul style="list-style-type: none"><li>• DIISR reporting to Parliament</li><li>• AusIndustry reporting</li><li>• Centrelink and Medicare reporting</li><li>• Other reporting</li><li>• Review and evaluation of the Scheme</li></ul>

<sup>23</sup> See <<http://www.finance.gov.au/publications/fmg-series/docs/FMG-23-Commonwealth-Grant-Guidelines-July-2009.pdf>> [accessed 22 July 2009].

## 2. The Framework for the Scheme

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*This Chapter examines the framework for the operation of the Scheme including policy and guidelines, roles and responsibilities for its administration, and mechanisms for stakeholder feedback. It also reviews risk management, how demand for the Scheme is forecast, and financial and appropriation management controls.*

### Introduction

**2.1** Key elements of establishing government entitlement programs which involve the payment of grants are:

- developing policy and guidelines for the payment of grants, including authority to help make sure funds are used for the intended purpose;
- defining roles and responsibilities for the Scheme's administration;
- establishing mechanisms for stakeholders to comment on policy, guidelines and other administrative matters;
- establishing processes for the identification and assessment of risk;
- developing robust methods for forecasting demand; and
- implementing a strong financial management framework.

**2.2** Having regard to these factors, the ANAO examined whether there is an appropriate framework for the Scheme's operation.

### Policy and guidelines

**2.3** The eligibility criteria for grant payments and administrative arrangements for the Scheme's operation are established in Ministerial Guidelines. The Minister signed the first set of Ministerial Guidelines on 31 August 2006, providing a basis for the Scheme's operation prior to the first grant payment on 1 October 2006. The initial Guidelines and subsequent versions outline:

- applicant and vehicle eligibility criteria;
- grant amounts;
- service delivery arrangements;
- review rights;

- provision for the Minister to appoint a program delegate to make decisions in relation to administration of the Scheme; and
- confidentiality requirements for LPG applications.

**2.4** Since the initial Guidelines were released in August 2006, there have been five occasions when it has been necessary for DIISR to seek Ministerial approval for revision of the Guidelines due to changes to eligibility criteria or grant amounts.

**2.5** AusIndustry's Customer Guidelines outline the eligibility criteria for the LPG grant, how to submit an application, compliance arrangements for the Scheme and issues for potential applicants to consider before converting a vehicle. The Customer Guidelines complement the Ministerial Guidelines by providing further information on the Scheme's operation. AusIndustry first issued the Customer Guidelines at the Scheme's inception in August 2006, and has issued revised guidance since that time, as aspects of the eligibility criteria have changed and to make the Guidelines clearer. AusIndustry recommends that potential applicants read the Guidelines before submitting an application.

**2.6** From Scheme inception, AusIndustry issued operational policy advice to Centrelink to assist it to interpret the Scheme's guidelines. In June 2007, AusIndustry consolidated the Scheme's operational policy into one document so it could be more easily accessed. AusIndustry's policy advice is updated periodically.

**2.7** Overall, the Scheme's guidelines and operational policy clearly set out LPGVS eligibility requirements and administrative arrangements. Revisions to guidelines and operational policy have been timely and appropriately authorised.

## **Authority to confirm grant payments are used for the intended purpose**

**2.8** Wherever possible, funding agreements for grant programs should be enforceable and establish conditions to ensure public funds are used for the intended purpose. A well-drafted funding agreement provides for agreed terms and conditions of the funding assistance, including performance information and access requirements.<sup>24</sup>

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<sup>24</sup> Department of Finance and Deregulation, *Commonwealth Grant Guidelines Policies and Principles for Grants Administration*, July 2009, p. 24.

**2.9** Generally, DIISR's Executive grant programs (programs also administered by Ministerial Guidelines) involve contractual arrangements between DIISR and the grant recipient. These contracts include clauses relating to breach or default, the non-payment of outstanding funds and the potential recovery of funds, and provide DIISR authority to investigate and recover debts where necessary. DIISR advised it was not economical to establish the LPGVS using such arrangements as the grants are provided to individuals and the monetary value of the grant is low in comparison to DIISR's other grant programs.

**2.10** For the majority of payments which Centrelink administers, investigation and debt recovery powers are conferred by social security legislation. Social security legislation provides Centrelink with the authority to require a person to give information, or produce a document that is in the person's custody or under the person's control. This includes powers to compel third parties to give information about a class of person(s).<sup>25</sup> It also provides Centrelink with the authority to recover debts through deductions from wages or social security payments, legal proceedings, garnishee notices, and repayment by instalments.<sup>26</sup> Centrelink has explored the option of amending social security legislation so that it covers the LPGVS. However, legal advice indicates that because LPGVS payments are not social security payments they should not be subject to the provisions of social security law.

**2.11** A consequence of the way the LPGVS has been established is that Centrelink and DIISR can request but not compel supplementary information from individuals, installers/dealers and other third party sources when identifying possible ineligible payments. Scheme debts can be raised under the authority of Section 47 of the *Financial Management and Accountability Act 1997* (FMA Act) which requires Chief Executives to pursue recovery of each debt to which they are responsible. However, the enforcement of these debts requires referral to the Australian Federal Police (AFP) or Commonwealth Director of Public Prosecutions (CDPP) for investigation.<sup>27</sup>

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<sup>25</sup> Part 5, Information Management, *Social Security (Administration) Act*, 1999.

<sup>26</sup> Chapter 5, Overpayments and Debt Recovery, *Social Security Act*, 1991.

<sup>27</sup> The Australian Federal Police and the Commonwealth Director of Public Prosecutions have the authority of the *Criminal Code Act 1995*. At the time of the audit only one case involving multiple applications in different names had been referred to the Australian Federal Police.

**2.12** As a result of the above, the capacity to verify Scheme eligibility requirements have been met using additional information sources (such as installer/dealer records) is limited. This has the potential to impact on the identification of ineligible payments for debt recovery, and is discussed in more detail in Chapter Four in the context of risk levels for the high volume but small sized grant.

## **The Scheme's roles and responsibilities**

**2.13** As mentioned previously, the LPGVS is administered by DIISR (through its program delivery arm AusIndustry) and delivered by Centrelink and Medicare. In managing multi-agency service delivery arrangements, it is important to have a clear and documented understanding of each agency's roles and responsibilities.

### **Documents outlining service delivery arrangements**

**2.14** DIISR has a Memorandum of Understanding (MOU) that provides for Centrelink's delivery of DIISR programs. DIISR also has a Program Protocol that is specific to the LPGVS and sets out the responsibilities of Centrelink and DIISR. In addition, DIISR has a Service Level Agreement (SLA) with Medicare which describes its and Medicare's responsibilities for the administration of the Scheme. The roles and responsibilities of each party involved in the administration of the LPGVS are summarised at Table 2.1.

**Table 2.1****Roles and responsibilities for the LPG Vehicle Scheme**

Agency Responsibility	DIISR (AusIndustry)	Centrelink	Medicare
Policy development	✓		
Policy clarification	✓		
Funding of grants payments	✓		
Funding for service delivery	✓	✓ <sup>28</sup>	✓
Promoting the LPG Vehicle Scheme	✓		
Receive applications and certify original documentation		✓	✓
Assess applications based on eligibility as per the Ministerial Guidelines		✓	
Authorise and make grant payments		✓	
Raise and recover debts where appropriate		✓	
Quality assurance		✓	
Undertake Scheme compliance activities (including fraud investigation)		✓	
Produce management reports	✓	✓	✓

Source: ANAO data.

**2.15** There is adequate documentation which clearly outlines the roles and responsibilities for the Scheme's administration. Discussions with the department and agencies confirmed their understanding of these arrangements.

<sup>28</sup> From 1 July 2009, Centrelink's service delivery costs for the Scheme were directly appropriated. Prior to this Centrelink received its service delivery funding through DIISR.

## Feedback on the Scheme's policy, guidelines and administration

**2.16** Seeking feedback from stakeholders on policy implementation can be an important method to improve the quality of its implementation.<sup>29</sup> The ANAO explored whether there are mechanisms for stakeholders to comment on the Scheme's guidelines, operational policy and administration.

### Centrelink's and Medicare's views

**2.17** DIISR uses two primary mechanisms which are documented in the Program Protocol and SLA to obtain Centrelink's and Medicare's views on the implementation of the Scheme's guidelines and operational policy, and other administrative matters. These are:

- quarterly delivery partner meetings with Centrelink and Medicare; and
- fortnightly meetings with Centrelink.

**2.18** In addition to the above, DIISR and Centrelink consult as required regarding the impact of any changes to Ministerial Guidelines or customer documents.

**2.19** The ANAO examined meeting minutes and actions arising from the quarterly delivery partner and fortnightly meetings since the Scheme's inception. The ANAO concluded the meetings are an effective means for DIISR to consult and seek advice from Medicare and Centrelink on proposed changes to eligibility requirements and discuss any operational and compliance issues.

### Industry's views

**2.20** LPG Australia<sup>30</sup> established the Autogas Task Force (ATF) when the Government announced the Scheme. DIISR had a representative on the ATF as an observer. The ATF provided DIISR with advice on industry capacity, infrastructure, and health and safety issues during the Scheme's implementation. The meetings included a standing agenda item on the eligibility criteria for LPG grants. LPG Australia provided a submission to the audit which observed the framework for administration of the Scheme is

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<sup>29</sup> ANAO, *Better Practice Guide, Implementation of Programme and Policy Initiatives: Making Implementation Matter*, 2005, available at <<http://www.anao.gov.au/director/publications.cfm>>.

<sup>30</sup> Established in 1958, LPG Australia represents and promotes the interests of all sectors of the LPG industry in Australia.



effective, providing a high level of profile to the Scheme, a central contract point for enquiries and ready access of consumers and industry to relevant information (refer Appendix 1).

## **Applicants' views**

**2.21** Besides applicants fielding inquiries and obtaining LPGVS information at Centrelink and Medicare offices, there are a number of ways that applicants can comment on the Scheme. These include:

- the AusIndustry hotline;
- letters to the Minister; and
- correspondence with the Ombudsman.

### *AusIndustry hotline*

**2.22** AusIndustry maintains records of all calls received by its hotline. To the end of May 2009, AusIndustry had received over 168 000 calls since the Scheme's inception. Calls were mainly general queries about the Scheme and queries about applications lodged.<sup>31</sup> The volume of calls received and actions taken indicate that the hotline plays a significant role in disseminating information regarding the Scheme and answering applicant queries.

### *Letters to the Minister*

**2.23** DIISR's Automotive Policy Branch and AusIndustry Division respond to letters to the Minister regarding the Scheme. Automotive Policy Branch is responsible for responding to letters dealing with policy matters. AusIndustry responds to letters concerning operational issues, usually involving queries regarding individual applications. Until the end of May 2009, the Minister for Innovation, Industry, Science and Research had received 531 letters regarding the Scheme. ANAO reviewed these letters and found that most of them related to policy matters, with the level of ministerial correspondence in relation to operational issues low by comparison.

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<sup>31</sup> All calls regarding lodged applications are transferred to the appropriate LPG processing centre.

## *Correspondence with Ombudsman*

**2.24** Since the Scheme's inception until the end of May 2009, the Ombudsman received 34 complaints about the Scheme.<sup>32</sup> ANAO reviewed the Ombudsman complaints to determine if there were any systemic issues. The major operational reasons for complaints were rejection of applications because: State or Territory of residence was not the same as the State or Territory of the vehicle's registration; the vehicle was not registered in the applicant's name at time of conversion; and installer's invoices did not include confirmation that payment was for parts and labour.

### *Impact of the applicant correspondence*

**2.25** Partly reflecting issues expressed in correspondence received from applicants, the eligibility criterion requiring the applicant to reside in the State or Territory where their vehicle was registered was removed from the Ministerial Guidelines on 23 September 2008. AusIndustry updated the Scheme's Customer Guidelines in September 2008 to more clearly outline the information required to be included on installer's invoices for an application to be eligible. Also, the June 2009 Ministerial Guidelines revised the eligibility requirement to allow vehicles not registered in the applicant's name at time of conversion to be eligible for a grant under certain circumstances.<sup>33</sup> Overall, DIISR is responding appropriately to applicant correspondence and where necessary amending its policy and guidelines in response to such correspondence.

## **Identifying and assessing the Scheme's risks**

**2.26** To assess AusIndustry's approach to managing the Scheme's risks, the ANAO examined how AusIndustry applied the Australian and New Zealand *Risk Management Standard*, AS/NZS 4360:2004. The standard provides a

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<sup>32</sup> The Commonwealth Ombudsman forwarded a draft of an own motion investigation of the LPG Vehicle Scheme to DIISR on 9 October 2009. An own motion investigation is where the Ombudsman investigates, on the initiative or 'own motion' of the Ombudsman, the administrative actions of Australian Government agencies, often arising from insights gained from handling individual complaints. The Ombudsman investigation examined vehicle registration criteria, assessment of self installers and complaint handling procedures.

<sup>33</sup> For a new or used registered vehicle converted to LPG, vehicle registration in the name of the applicant at the time of application is accepted where the applicant purchased the vehicle before the LPG conversion and the purchase is evidenced by payment of the purchase price.

framework for establishing the context, identifying, analysing, evaluating, treating, monitoring and communicating risks.<sup>34</sup>

**2.27** AusIndustry in consultation with Centrelink identifies, assesses and documents program, fraud and compliance risks each financial year. The risk assessment takes into account the adequacy of internal controls, the effectiveness of quality assurance measures and the results of compliance activity.

**2.28** The major identified risks in the 2009–10 risk assessment are failure to:

- provide accurate, consistent and effective service delivery;
- maintain adequate resources for the administration of the Scheme; and
- detect and prevent fraud.<sup>35</sup>

**2.29** AusIndustry and Centrelink employ a number of strategies to reduce program risks such as conducting quarterly delivery partner meetings and monitoring applicant numbers. The main strategies used to support payment correctness and mitigate fraud risks are pre-payment checks, and granted application reviews. The effectiveness of these measures is discussed in Chapters Three and Four.

**2.30** The 2007–08 and 2008–09 risk assessments for the Scheme included 11 program risks with a residual risk rated as high or very high after the application of internal controls. The 2009–10 risk assessment only rated two of these 11 risks as high or very high. The description of internal controls in the 2009–10 risk assessment was similar to the previous two years, except for the exclusion of data matching of vehicle details from Centrelink's system with State and Territory vehicle registration details.<sup>36</sup> DIISR advised that because this data matching did not identify any grants which involved ineligible vehicles it was discontinued and Scheme risks were downgraded. While this

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<sup>34</sup> Standards Australia, *Risk Management AS/NZS 4360:2004*, Standards Australia International Limited, Sydney, 31 August 2004, p iii.

<sup>35</sup> Fraud risks include risks that the applicant or vehicle may not exist, and the conversion has not occurred and does not meet eligibility requirements.

<sup>36</sup> Data matching included the checking of vehicle registration and Vehicle Identification Number (VIN) details in Centrelink's LPG payment system with the National Exchange of Vehicle and Driver Information (NEVDIS). DIISR authorised the discontinuation of the practice of NEVDIS checks on applicant vehicles on 14 August 2008.

explanation is reasonable, there is scope for DIISR to improve documentation of the reasons for changes to some annual risk assessments.

## Forecasting Scheme demand

**2.31** For an uncapped entitlement Scheme such as the LPGVS, it is important for DIISR to have a robust method for forecasting the Scheme's demand. This assists DIISR to meet grant payments from the Scheme's budget, informs service delivery funding and enables provision of advice on the implications of government policy costings.

**2.32** The LPGVS's original administered funding profile was determined by a group comprising representatives from the Department of Finance and Deregulation (Finance), DIISR, Prime Minister and Cabinet, and the Treasury. The funding was based on expectations about the demand for new LPG motor vehicles, conversions of existing petrol or diesel motor vehicles and the capacity of industry to meet that demand.

**2.33** Due to volatility in the factors that influence LPG automotive use, particularly petrol and diesel prices, DIISR underestimated demand for grants in 2006–07. As a result, DIISR engaged a consulting firm in 2007–08 to forecast the likely level of future demand. The consulting firm's forecasts for 2007–08 predicted LPGVS grants to within \$1 million. Significant changes to petrol and diesel prices in 2008–09 resulted in DIISR re-engaging the firm, whose demand forecasts informed requests for additional funding at the 2008–09 AEs. DIISR is now in a better position to make sound forecasts of demand and informed decisions on its budgeting requirements.

## Service delivery funding

**2.34** Centrelink and Medicare require funding in order to meet their service delivery responsibilities. At the time of the audit Centrelink received its LPGVS funding through DIISR,<sup>37</sup> whereas Medicare's LPGVS funding was appropriated directly to it. The main factors that determine service delivery costs are Scheme demand, how applications are lodged, the application rejection rate, and the level of compliance activity.

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<sup>37</sup> From 1 July 2009, Centrelink's delivery costs for the Scheme were directly appropriated. This is consistent with how Centrelink receives funding for other programs it delivers on behalf of other departments or agencies.

**2.35** As observed above, Scheme demand has been higher than initially anticipated, resulting in higher than expected service delivery costs. In addition, service delivery funding was initially based on the assumption that 44 per cent of applications would be lodged at Medicare offices, 36 per cent at Centrelink offices and 20 per cent by post, and this assumption has proven to be incorrect. Between 10 December 2007<sup>38</sup> and 5 June 2009, 74 per cent of applications were lodged at Medicare offices, 21 per cent at Centrelink offices and five per cent were posted to Centrelink's processing centre. Centrelink and Medicare have periodically reviewed the proportion of applications lodged at Centrelink and Medicare offices, and Medicare has submitted funding requests to reflect the revised workload and has received some additional funding.<sup>39</sup>

## Financial management

**2.36** *Financial Management and Accountability Regulations 1997* (FMA Regulation 9)<sup>40</sup> outlines requirements relating to approval to spend public monies, while other appropriation management responsibilities of agencies are outlined in Finance circulars. DIISR as a department of state, and Centrelink and Medicare as statutory agencies, are subject to the requirements of the FMA Regulations and Finance circulars.

**2.37** The ANAO examined whether DIISR had acted in a manner consistent with the requirements of FMA Regulation 9 in spending public moneys, and was meeting its appropriation management responsibilities for the administered appropriation of the LPGVS. This included whether the daily disbursement of funds from DIISR to Centrelink was accurate and appropriately authorised, and the LPGVS appropriation was managed in accordance with Finance guidance.

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<sup>38</sup> Initially information on application lodgement was provided from manual counts undertaken by Centrelink and Medicare staff and was prone to anomalies. From December 2007 Centrelink began to capture this data in its information system, which has proven to be a more robust information source.

<sup>39</sup> Medicare advised that based on current projections of Scheme demand there remains a shortfall in its funding across the forward estimates period. Medicare is continuing to work with DIISR and Finance on anticipated changes to customer demand and implications for its funding.

<sup>40</sup> FMA Regulation 9 requires the approver of a spending proposal to be satisfied, after making reasonable enquiries that the proposed expenditure is in accordance with the policies of the Commonwealth. There should be clarity as to who is exercising approval powers and their authority to do so.

## Daily disbursement of funds from DIISR to Centrelink for LPG payments

**2.38** In order to validate the daily transfer of funds from DIISR to Centrelink for LPG payments, the ANAO assessed a random sample of 30 daily transfers since the Scheme's inception. The ANAO found the transfers were authorised as required by FMA Regulation 9, and the amounts transferred by DIISR matched the amounts requested by Centrelink.

## Appropriation management

**2.39** The ANAO examined whether DIISR's appropriation management was consistent with Finance's guidance<sup>41</sup> for transfers to and from other programs and that these transactions were appropriately authorised.

### *LPGVS funds transfers from other programs*

**2.40** Due to difficulties in forecasting Scheme demand, DIISR has required additional funds on top of its initial funding allocation in each of the first three years of the Scheme's operation. This has necessitated re-phrasings,<sup>42</sup> funds transfers from other programs, and AE bids. DIISR advised that to meet payments in excess of the Scheme's appropriation, its initial approach was to transfer funds from other programs. The transferred funds were then repaid when re-phrasings and AE bids were approved by Finance. Finance advised that it is acceptable to meet funding shortfalls from other programs, provided that the programs fall under the same Outcome in the Department's Portfolio Budget Statements (PBS).<sup>43</sup>

**2.41** Since the Scheme's inception DIISR has transferred funds from other programs to meet demand for grants on 40 occasions. DIISR advised that to transfer funds from another program in the same Outcome, the DIISR finance section consults with the relevant division and program manager to see if there are any surplus funds (non-committed) available for transfer.<sup>44</sup> The ANAO

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<sup>41</sup> Department of Finance and Deregulation, *Finance Circular No. 2004/16 – Appropriation Management: Responsibilities of Agencies*, 28 October 2004, available at <<http://www.finance.gov.au/publications/finance-circulars/index.html>>.

<sup>42</sup> Movement of funds from outer year forward estimates in order to meet LPGVS payments.

<sup>43</sup> Refer to <<http://www.finance.gov.au/budget/budget-process/advance-to-finance-minister.html>> [accessed 7 July 2009].

<sup>44</sup> DIISR advised that the amount borrowed from other programs is based on their capacity to lend.

examined the 22 fund transfers and 23 repayments that occurred in 2008–09 and found that all transactions had been appropriately authorised.

## Conclusion

**2.42** There is a sound framework for administration of the LPGVS which has matured throughout its operation. The roles and responsibilities of DIISR (including AusIndustry), Centrelink and Medicare are clearly understood and reflect the expertise and capacity of each organisation. The delivery partners work effectively together and where necessary refine administration of the grant in response to stakeholder feedback. The key risks of the Scheme are regularly assessed and risks mitigation strategies implemented. Further, the approach used to forecast Scheme demand has been adjusted over time in order to improve its accuracy.

**2.43** A consequence of the way the Scheme has been established under Ministerial Guidelines is that Centrelink and DIISR can ask for but not compel supplementary information from individuals, installers/dealers and other third party sources in relation to eligibility of grant applications. This has the potential to impact on the identification of ineligible payments, and is discussed in more detail in Chapter Four in the context of risk levels for the high volume but small sized grant.

## 3. Applying for LPG Grants

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*This Chapter examines Scheme promotion, application procedures, grant decisions and Scheme data maintained by Centrelink.*

### Introduction

**3.1** Grant programs require procedures to advise potential applicants on how to apply for grants and assess applications against published eligibility criteria. The ANAO examined the effectiveness of arrangements for the promotion and assessment of LPG grants.

### Scheme promotion

**3.2** Raising public awareness of targeted assistance programs is important to inform the community of the purpose of the program and the conditions which apply. Typically applicants will want to know: the level of grant payments; where and how to apply; eligibility criteria; processing and approval timeframes; and contact details for any queries. The ANAO examined how this information is communicated to the public for the LPGVS.

**3.3** DIISR is responsible for providing information to the public in relation to the Scheme. DIISR produces the following promotional documents which it distributes to Centrelink and Medicare offices nationally:

- Customer Guidelines, a Scheme brochure and the application form which outline grant payments, eligibility criteria and application lodgement requirements;
- answers to frequently asked questions;
- a promotional poster for display in Centrelink and Medicare offices; and
- a customer story outlining the financial benefits of converting vehicles to LPG.

**3.4** In addition to the above promotional material, DIISR produces a installer/dealer information sheet. LPGVS information is also available on the



AusIndustry website, through its hotline and Medicare and Centrelink counter staff.<sup>45</sup>

**3.5** In December 2008, Centrelink produced a report which summarised information obtained from eight workshops held in New South Wales, Western Australia and Victoria with 76 LPGVS applicants. The major findings about the Scheme were:

- 57 per cent of participants indicated they first became aware of the LPGVS through newspaper or media articles, government websites, industry websites, and advertising materials;
- 72 per cent participants obtained most information about the Scheme from LPG installers; and
- 69 per cent of participants felt they understood the Scheme well or very well, although most had received little information about eligibility requirements.

**3.6** As discussed in Chapter Two, demand for grants has exceeded expectations since the Scheme's inception. In light of this, Finance's view is the Scheme does not require a high level of promotion and the present funding for promotion is adequate. Similarly, DIISR advised that its promotional strategy is focused on applicant awareness of Scheme eligibility requirements rather than on raising general awareness of the Scheme. In particular, promotional activities include educating installers/dealers on Scheme requirements, and providing them with information for distribution to their customers. Maintaining the focus on installers/dealers is appropriate given many workshop participants had sourced most information about the Scheme from installers/dealers, and had received little information about eligibility requirements from government sources prior to application lodgement.

## Applying for grants

**3.7** Grant eligibility criteria that are clearly stated and communicated to potential applicants help to exclude ineligible applications or applications that have little chance of success, which can otherwise result in significant

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<sup>45</sup> The Centrelink and Medicare Australia websites also contain links to the AusIndustry website.

additional administrative costs.<sup>46</sup> Application forms should be easy to understand and provide all the necessary information in a logical fashion.

**3.8** ANAO analysis of LPGVS data from 10 December 2007<sup>47</sup> to 5 June 2009 revealed that 93 per cent of applications were successful upon first being lodged, which is an initial rejection rate of seven per cent. Five per cent of applications were initially rejected, but then approved after resubmission. This means that the final rejection rate (the proportion of applicants who were unsuccessful due to ineligibility within the period examined by the ANAO) was only two per cent. Interrogation of LPGVS data showed that the two main reasons for rejecting applications were:

- applicants did not provide sufficient evidence to support their application (accounting for 61 per cent of all rejection decisions); and
- vehicles not being registered for private use (accounting for 18 per cent of all rejection decisions).

**3.9** Figure 3.1 shows that rejection rates vary significantly according to whether they are lodged with Medicare, Centrelink or via the post. In particular:

- the initial rejection rate was: 4.7 per cent of applications lodged at Medicare; 9.5 per cent of applications lodged at Centrelink; and 31.2 per cent of postal applications; and
- the final rejection rate was: 1.4 per cent of applications lodged at Medicare; 2.2 per cent of applications lodged at Centrelink; and 7.9 per cent of postal applications.

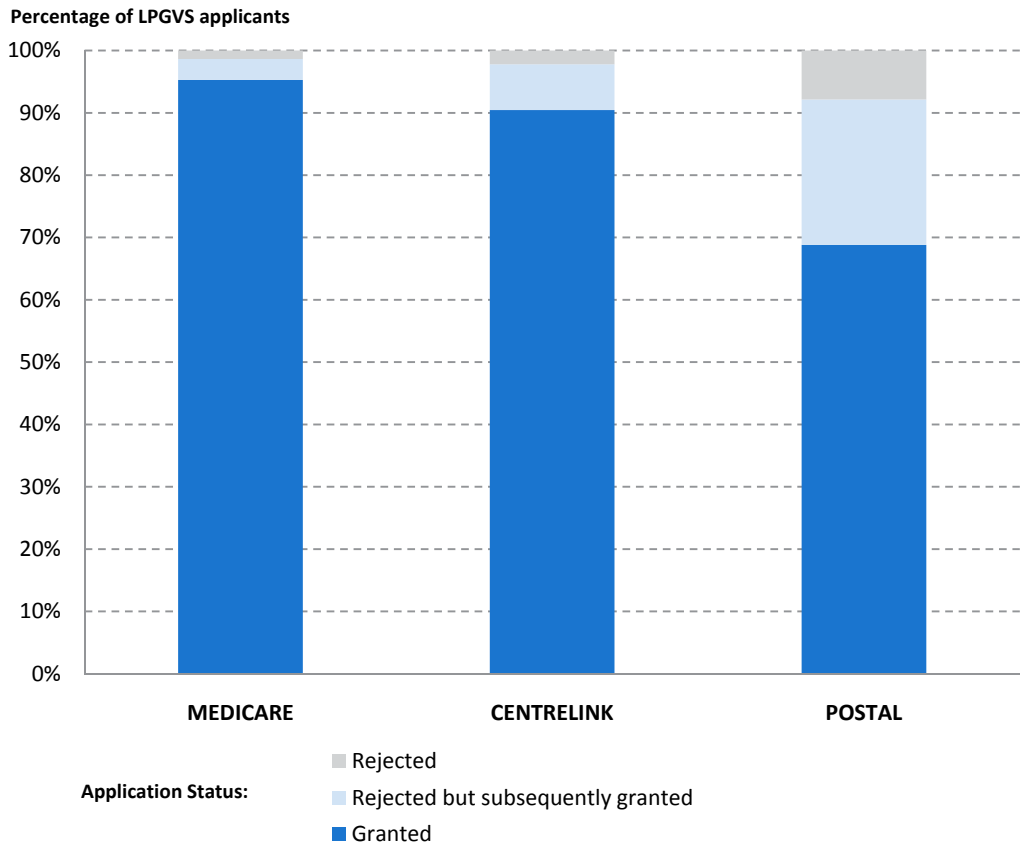
**3.10** The above results are not unexpected. A lower rejection rate is anticipated when applications are lodged in person given the experience Medicare and Centrelink staff have with the application process. In addition, rejection rates are lowest at Medicare offices, where most applications are lodged. Overall, application rejection rates are quite low.

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<sup>46</sup> ANAO Better Practice Guide, *Grants Administration*, 2002, pp. 20 and 40.

<sup>47</sup> The Centrelink LPGVS database only recorded data on source of application from 10 December 2007.

**Figure 3.1**  
**LPGVS grant application status by source of application lodgement**



Source: ANAO analysis of Centrelink LPGVS data, 10 December 2007 to 5 June 2009.

**3.11** AusIndustry has released 11 different versions of the *LPGVS Application Form* over the three-year life of the Scheme. Amendments to the form have primarily related to changes in Scheme eligibility criteria. AusIndustry has also improved the form’s design and clarity in response to feedback from stakeholders and applicants.

## Determining grant eligibility

**3.12** It is appropriate that grant programs have clear eligibility rules and that decisions in relation to the approval or refusal of grant applications are soundly documented.<sup>48</sup>

**3.13** The ANAO examined a stratified<sup>49</sup> random sample of 292 LPGVS applications lodged between 1 July 2007 and 30 March 2009 in order to verify the accuracy of Centrelink's decisions on grant eligibility.<sup>50</sup> This sample included four populations of interest:

- granted applications that had not been subject to a review (88.8 per cent of the total population);
- rejected applications that had not been subject to a review (6.5 per cent of the total population);
- granted applications that had been subjected to a review for which the original decision was affirmed (4.7 per cent of the total population); and
- granted applications that had been subjected to a review for which a debt had been identified (less than 0.03 per cent of the total population).<sup>51</sup>

**3.14** Table 3.1 provides a breakdown of the audit sample selected.

**Table 3.1**

### Audit sample composition

Review status	Application status		Total
	Granted	Rejected	
Not reviewed	98	74	172
Reviewed	82	0	82
Reviewed and debt raised	38	0	38
<b>Total</b>	<b>218</b>	<b>74</b>	<b>292</b>

Source: ANAO data.

<sup>48</sup> ANAO Better Practice Guide, *Grant Administration*, 2002, pp. 22 and 37.

<sup>49</sup> Stratification allowed for adequate coverage of smaller segments of the population.

<sup>50</sup> The ANAO selected 310 LPGVS applications for examination. However, Centrelink was unable to locate 18 applications (5.8 per cent) during the two week audit fieldwork timeframe.

<sup>51</sup> Percentages have been rounded.

**3.15** The stratified sample of 120 reviewed applications was selected to assess Centrelink's granted application reviews (refer Chapter Four). Applications where a debt was raised were of particular interest given they may shed light on compliance risks. Findings from the reviewed applications in the audit sample were not used to draw inferences on overall decision accuracy but were used to confirm the veracity of Centrelink's checks on the accuracy of grant payments.<sup>52</sup>

**3.16** Only the 172 applications that were not subject to review were used to draw conclusions on the accuracy of the original decision, and the completeness of supporting documentation, for the population in question.<sup>53</sup> The findings for these applications are discussed below.

## Assessment checklists

**3.17** Centrelink uses an assessment checklist to assist processing staff in determining application eligibility. Processing staff attach the checklist to each application to help confirm that an applicant has provided the necessary information to support the application and meet the eligibility criteria. The checklist also records the processing checks performed. During audit fieldwork two of Centrelink's LPGVS processing centres used assessment checklists they developed themselves which were not uniform. The other processing centre did not use an assessment checklist.<sup>54</sup> Around one-fifth (21 per cent) of LPGVS applications in the audit sample did not have an attached assessment checklist. Given the variability in approach, the ANAO suggested Centrelink would benefit from using the same checklist at each of its LPG processing centres. This would assist consistent assessment of LPGVS applications, provide assurance appropriate checks are performed and help new processing centre staff determine eligibility when processing applications. In response to the draft audit report Centrelink advised that it had implemented a uniform assessment checklist to be used as part of the assessment process in all three of its LPG processing sites.

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<sup>52</sup> Reviewed applications are corrected in the review process and it is not always possible to ascertain from the data what information the original decision was based upon.

<sup>53</sup> The sample of non-reviewed applications provided a 95 per cent confidence interval of plus or minus eight percentage points or less, in relation to the accuracy of decisions and completeness of documentation.

<sup>54</sup> The Robina processing centre did not use an assessment checklist. Robina staff advised this was due to considerable staff experience in processing LPG applications.

## Pre-payment checks

**3.18** The ANAO's examination of whether applications were granted or rejected in accordance with the Scheme's guidelines was based on eligibility criteria, AusIndustry operational advice, Centrelink's assessment checklist, and Centrelink's pre-payment checks.<sup>55</sup>

**3.19** The Scheme's eligibility criteria, the associated pre-payment checks at the time of the audit and ANAO's assessment of the pre-payment checks are outlined at Table 3.2 below.

**Table 3.2**

### Pre-payment checks for addressing eligibility requirements

Eligibility criteria	Pre-payment checks	Effectiveness of pre-payment checks
Applicants have not received a grant under the Scheme in the previous three years.	An automated system control alerts processing staff to a previous LPG grant payment within the three year time frame.	Effective
Applicants have undertaken a LPG conversion on their private use vehicle or purchased a new vehicle fitted with a LPG unit before the vehicle is registered in the last 12 months.	<p>Centrelink and Medicare collect and certify the following original documents when an application is lodged:</p> <ul style="list-style-type: none"> <li>• vehicle registration papers current at time of conversion in the applicant's name;</li> <li>• installer/dealer's tax invoice paid in full; and</li> <li>• applicant's current driver's licence.</li> </ul> <p>Centrelink processing staff also conduct a check of the installer/dealer information on the application form and tax invoice by matching the Australian Business Number (ABN) to information stored at <a href="http://www.business.gov.au">www.business.gov.au</a>.</p>	Effective <sup>1</sup>
The vehicle was converted to LPG or the new LPG vehicle was purchased on or after 14 August 2006.	Centrelink and Medicare collect and certify the original installer/dealer's tax invoice paid in full at time of application lodgement. The date of the conversion or new vehicle purchase on the invoice is matched with the date on the application form.	Effective
The vehicle is registered in the applicant's name at time of LPG conversion.	Centrelink and Medicare collect and certify the original vehicle registration papers current at time of conversion in the applicant's name.	Effective <sup>2</sup>

<sup>55</sup> The *Fraud and Compliance Risk Management Strategy* developed by AusIndustry and Centrelink states that in order to manage the program's key risks Centrelink will implement pre-payment checks.

Eligibility criteria	Pre-payment checks	Effectiveness of pre-payment checks
The vehicle is registered for private use at time of LPG conversion.	Centrelink and Medicare collect and certify the original vehicle registration papers current at time of conversion in the applicant's name. In some States and Territories vehicle registration papers indicate whether the vehicle is registered for business or private use.  For States and Territories that do not have the classification on the vehicle registration papers, Centrelink use the applicant's declaration that the vehicle is for private use.	Partially effective
There are no prior registered owner(s) for new vehicles fitted with LPG units.	Centrelink and Medicare collect and certify the following original documents when an application is lodged: <ul style="list-style-type: none"> <li>vehicle registration papers current at time of purchase in the applicant's name; and</li> <li>installer/dealer's tax invoice paid in full.</li> </ul>	Effective
The vehicle is less than 3.5 tonnes GVM.	Centrelink processing centre staff conduct a check of a vehicle's weight using vehicle data stored at < <a href="http://www.redbook.com">www.redbook.com</a> > before approving an application. This check independently confirms the vehicle's weight.  In some States, such as New South Wales, GVM is recorded on a vehicle's registration papers. This is used as an alternative check where appropriate.	Effective
The vehicle is not subject to a novated lease or financed through a salary sacrifice arrangement at the date of LPG conversion or purchase of new LPG vehicle.	The applicant's self declaration is used as the control for this eligibility requirement.	Ineffective
The vehicle is not a motor scooter, tricycle or boat.	Centrelink and Medicare collect and certify the original vehicle registration papers current at time of conversion in the applicant's name.	Effective

Source: LPGVS Ministerial and Customer Guidelines, AusIndustry operational policy advice, Centrelink processing controls and ANAO data.

Note 1: As part of the assessment process, the application of these checks are appropriate. Comment is made in Chapter Four on the appropriateness of how assurance is obtained for this eligibility criterion post-payment.

Note 2: Previously an applicant could provide registration papers current at time of application submission or conversion and be eligible for a grant. During the audit DIISR removed the option for applicants to provide registration papers current at time of application submission from the June 2009 Customer Guidelines and its August 2009 operational policy advice. DIISR removed this option as the policy intention of the Scheme is that the person who incurred the cost of the conversion and who is the owner of the vehicle at the time of conversion receives the grant.

**3.20** The ANAO examination of 172 non-reviewed applications in the audit sample found no significant errors in Centrelink's application of eligibility criteria and AusIndustry policy advice. However, issues were noted with how

effectively some pre-payment checks addressed eligibility requirements. These issues are summarised below.

*The vehicle is registered for private use at time of LPG conversion*

**3.21** In some States and Territories (which account for around 60 per cent of grants) a vehicle's use is not indicated on the vehicle's registration papers. For these States and Territories the applicant's declaration is used as the check for this eligibility criterion, and granted application reviews provide some additional assurance over payment accuracy. In the absence of a national standard for vehicle registration, Centrelink's practice of obtaining a declaration of private vehicle use for these States and Territories is reasonable.

*The vehicle is not subject to a novated lease or financed through a salary sacrifice arrangement at the date of LPG conversion or purchase of new LPG vehicle*

**3.22** Centrelink uses the applicant's declaration as the pre-payment check for this criterion. Subsequently, granted application reviews of vehicle encumbrance<sup>56</sup> provide some additional assurance that this eligibility requirement is being met. When the encumbrance check indicates that the vehicle has a financial interest, Centrelink requests further information from the applicant to confirm eligibility.

**3.23** During the course of the audit Centrelink explored whether conducting pre-payment checks of vehicle encumbrance would be a cost-effective means of increasing assurance of payment correctness. Centrelink concluded this approach would not be cost-effective as it would substantially increase the time to assess and process applications, while identifying a relatively small proportion of ineligible vehicles.

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<sup>56</sup> A vehicle encumbrance check indicates whether there is a financial interest on the vehicle, the vehicle is stolen and/or the vehicle has been written off.



## Right of review

**3.24** Centrelink is responsible for administering the LPGVS's review and appeal process. If an applicant disagrees with a grant decision he/she has 13 weeks from notification of the decision to request a review of the decision. When Centrelink receives a review request, it arranges for the decision to be reconsidered by the Original Decision Maker (ODM). The ODM confirms, revokes or varies the original decision. If an applicant is not satisfied with the ODM decision he/she has the option to seek a further review of the decision within 13 weeks of notification of the ODM decision. This review is conducted by an Authorised Review Officer (ARO) and involves an independent review of the application and supporting evidence to decide whether the original decision should be affirmed, set aside or varied.

**3.25** In the audit sample, 26 applications were subject to an ODM review, 12 of which proceeded to an ARO review. The ANAO examined these applications and in each case concurred that the decisions made by the ODM and ARO were in accordance with the Scheme's eligibility criteria and AusIndustry's operational policy advice.

## Accuracy of LPG data

### Quality assurance of application processing

**3.26** Centrelink has a documented LPGVS quality assurance strategy which aims to maintain a minimum 95 per cent accuracy standard in processing applications. This involves a qualified officer reviewing two, 25 or 100 per cent of a processor's work, depending on his/her experience, for completeness and correctness. Processing errors are classified as critical<sup>57</sup> or non-critical errors.<sup>58</sup>

**3.27** The ANAO did not assess the effectiveness of Centrelink's pre-payment quality assurance strategy, but did find that around one-fifth of the 172 non-reviewed LPGVS applications in the audit sample had been quality reviewed by Centrelink prior to payment.

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<sup>57</sup> Critical errors include incorrect payment amounts, incorrect bank details, incorrect CRN and other errors that impact on payment correctness and could result in payments to ineligible applicants. Critical errors result in applications being returned to persons undertaking grant assessments for correction before grants are approved.

<sup>58</sup> Non-critical errors include incorrect applicant details, incorrect address details, incorrect vehicle details and keying errors not relating to payment correctness. For non-critical errors grants are approved and feedback provided to the person assessing the grant.

**3.28** On 20 June 2008 Centrelink introduced quality reviews for all rejected applications prior to assessment finalisation to confirm the accuracy of grant decisions and reduce possible instances of complaints.<sup>59</sup> The ANAO examined 25 LPGVS applications that were rejected due to ineligibility since 20 June 2008 and found that only around one-quarter of these had been quality reviewed. This indicates quality review arrangements need some additional attention.<sup>60</sup>

### **Accuracy of LPG sample data**

**3.29** The ANAO assessed the accuracy of Centrelink's application data in its LPG system. This was done by matching data from Centrelink's electronic records to the applications in the audit sample. Around 10 per cent of Centrelink's electronic records for LPGVS applications contained keying errors. The most common keying errors related to entry of:

- LPGVS applicant personal details (name, date of birth, address and contact information), with around four per cent of electronic records containing such errors;
- installer/dealer details (Australian Business Number (ABN), address and license numbers), with around four per cent of electronic records containing such errors; and
- vehicle details (make, model, type, registration number, and Vehicle Identification Number (VIN) or Chassis number), with around two per cent of electronic records containing such errors.

**3.30** Centrelink's quality assurance strategy classifies the keying errors identified by the ANAO as non-critical. The ANAO considers that the inaccurate entry of personal details such as incorrect date of birth or name data increases the risk of payments to ineligible applicants through creation of multiple customer records for the same person.

**3.31** During the audit, Centrelink advised that it uses data matching of date of birth, names and addresses to avoid such occurrences. However, in examining the audit sample the ANAO found applications where two records

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<sup>59</sup> This does not include applications rejected for not providing sufficient evidence to support the application.

<sup>60</sup> In response to the draft audit report, Centrelink advised that it has put measures in place to ensure that 100 per cent of rejected applications are subject to a quality review, with the exception of applications which did not meet the documentation standard that information requested has been received within 14 days.

for the same individual had been created due to the incorrect entry of personal details. In some instances this had resulted in more than one payment for an individual. In response to an ANAO suggestion, Centrelink advised that it had reclassified these errors as critical so they are corrected before grants are approved.

## Conclusion

**3.32** Overall, promotion and application procedures for the Scheme are working as intended, as reflected by high levels of Scheme demand and low application rejection rates.

**3.33** Centrelink's assessments of grant eligibility are generally effective. There is, however, scope to improve assessment procedures by applying a uniform assessment checklist at all LPG processing centres. Meanwhile, some pre-payment checks are reliant on applicant declarations as evidence, and options to strengthen these checks are limited by a lack of available information, and the likely low cost-effectiveness of improved measures. Finally, Centrelink can give greater attention to rectifying application keying errors that may lead to incorrect payment.

## 4. Scheme Compliance and Payment Correctness

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*This Chapter examines the effectiveness of Centrelink's post-payment quality assurance and compliance activity for the Scheme.*

### Introduction

**4.1** It is important for grant programs to have sound quality assurance and compliance procedures after grant payments are made. In a Scheme such as the LPGVS these measures may be expected to include:

- randomly selecting payments for review to make an assessment about the accuracy of payment processing and to potentially assess broader levels of compliance (quality assurance); and
- undertaking targeted compliance reviews to address the key risks of the Scheme (compliance activity).

**4.2** AusIndustry's and Centrelink's *LPGVS Fraud and Risk Compliance Strategy* outlines the processes Centrelink uses to provide assurance LPGVS payments are correct, and to manage the Scheme's compliance risks. This Chapter assesses the effectiveness of these procedures. The ANAO's assessment is based on:

- an examination of 120 grant decisions (and related documentation) that were subject to Centrelink's 'random' and targeted reviews since 1 July 2007;<sup>61</sup>
- examination of LPGVS data for applications lodged between 1 July 2007 and 5 June 2009; and
- verification of data matching between vehicle registration and VIN details in Centrelink's LPGVS system, and information held in the National Exchange of Vehicle and Driver Information (NEVDIS).

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<sup>61</sup> This included 38 cases for which the review had identified debts for recovery.

## Fraud and Risk Compliance Strategy

**4.3** The LPGVS Program Protocol between DIISR and Centrelink summaries the LPGVS risk and compliance program. AusIndustry and Centrelink also have a *LPGVS Fraud and Compliance Risk Management Strategy* which they review annually and for which Centrelink is responsible for delivering. This involves implementing checks consistent with the Scheme's risk management plan.

**4.4** Centrelink's strategy states that to manage the Scheme's key risks, Centrelink will implement: pre-payment checks (refer Chapter Three); reviews of five per cent of granted applications; and checks on multiple payments to bank accounts for 100 per cent of applications. The granted application reviews are comprised of a small number of targeted compliance reviews (223 between July 2007 and June 2009) and a large number of 'randomly' selected applications for review (7282 between July 2007 and June 2009). There is no difference in the methodology used by Centrelink for the targeted and random reviews.

**4.5** Granted applications are targeted for compliance review according to triggers including:

- return to sender correspondence;
- multiple payments to individuals' bank accounts;<sup>62</sup>
- tip offs; and
- installer compliance issues.

**4.6** Table 4.1 shows that Centrelink conducted 7505 reviews of granted applications over the period of review.<sup>63</sup> This represents 4.7 per cent of granted applications made over this period. Of the 7505 LPGVS reviews only 45 (0.6 per cent) resulted in a debt being raised.

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<sup>62</sup> Centrelink is required to review 100 per cent of multiple payments to individuals' bank accounts, identify those payments that warrant further investigation (due to possible ineligibility) and refer those applications to its compliance team for a full review.

<sup>63</sup> The ANAO examined Centrelink data relating to LPGVS grant applications lodged between 1 July 2007 and 5 June 2009.

**Table 4.1****Review of LPGVS granted applications**

Review status	Reason for review	Number	Per cent
<b>No review conducted</b>		<b>152 987</b>	<b>95.3</b>
<b>Review conducted</b>		<b>7505</b>	<b>4.7</b>
	Random	7282	4.5
	Return to sender correspondence	132	0.1
	Multiple payments to individuals' bank accounts	63	0.0
	Tip offs	22	0.0
	Installer compliance issues	1	0.0
	Other	5	0.0
<b>Total</b>		<b>160 492</b>	<b>100.0</b>

Source: ANAO analysis of Centrelink LPGVS data.

Note: Percentages have been rounded.

**4.7** The ANAO examined the reviewed applications in the audit sample to validate the checks Centrelink implements to confirm applicant and vehicle eligibility after grant payments are made.

## Reviews of granted applications

**4.8** In undertaking application reviews, Centrelink's compliance team uses a compliance review checklist.<sup>64</sup> This checklist differs for each State and Territory to reflect alternate vehicle registration regimes. The checklist is attached to each review and assists compliance staff in performing the appropriate review checks. All reviews involve confirming that the information on the application, tax invoice, and vehicle registration papers is the same as the information in Centrelink's LPG system, and that the original eligibility decision was correct. Compliance staff identify and correct any keying errors in this process. In addition to conducting these procedures, the post-payment checks at Table 4.2 are conducted to confirm eligibility. The table includes ANAO's assessment of these checks.

<sup>64</sup> This checklist is not the same as the assessment checklist referred to in Chapter Three.

**Table 4.2****Post-payment checks for addressing eligibility requirements**

Eligibility criteria	Post-payment checks	Effectiveness of post-payment checks
Applicants have not received a grant under the Scheme in the previous three years.	A check of the applicant's previous grant payment history is performed. A phone call is made to the applicant verifying the information on the application form including the applicant's bank details.	Effective
Applicants have undertaken a LPG conversion on their private use vehicle or purchased a new vehicle fitted with a LPG unit before the vehicle is registered in the last 12 months.	Processing staff repeat the ABN check (discussed at Chapter Three). A phone call is made to the applicant and/or installer/dealer to verify the date of conversion or vehicle purchase.	Partially effective
The vehicle was converted to LPG or the new LPG vehicle was purchased on or after 14 August 2006.	A phone call is made to the applicant and/or installer/dealer to verify the date of conversion or vehicle purchase.	Effective
The vehicle is registered in the applicant's name at time of LPG conversion.	A phone call is made to the applicant to verify the vehicle registration details on the application form.	Effective
The vehicle is registered for private use at time of LPG conversion.	A phone call is made to the applicant to verify the vehicle registration details on the application form. Contact is made with State/Territory vehicle registration offices in order to independently verify whether a vehicle is registered for business or private use.	Partially effective
There are no prior registered owner(s) for new vehicles fitted with LPG units.	A phone call is made to the applicant and/or installer/dealer to verify the vehicle registration details on the application form.	Effective
The vehicle is less than 3.5 tonnes GVM.	Processing staff repeat the red book check on vehicle weight (discussed at Chapter Three). A phone call is made to the applicant to verify the vehicle registration details on the application form.	Effective

Eligibility criteria	Post-payment checks	Effectiveness of post-payment checks
The vehicle is not subject to a novated lease or financed through a salary sacrifice arrangement at the date of LPG conversion or purchase of new LPG vehicle.	An independent check of whether a vehicle is subject to a financial interest (referred to in Chapter Three) is performed by referring to websites maintained by each State and Territory's vehicle registration offices.  If a financial interest is identified, a phone call is made to the applicant in order to confirm the vehicles circumstances. If the applicant confirms the vehicle is salary sacrificed or the subject of a novated lease a debt is raised.	Effective
The vehicle is not a motor scooter, tricycle or boat.	A phone call is made to the applicant and/or installer/dealer to verify the vehicle registration details on the application form.	Effective

Source: LPGVS Ministerial and Customer Guidelines, AusIndustry operational policy advice, Centrelink post-payment review controls and ANAO data.

Note: Installers/dealers are only contacted if discrepancies are identified which need to be confirmed or verified.

**4.9** The ANAO confirmed Centrelink had correctly implemented these post-payment checks for the 120 reviewed applications in the audit sample. However, issues were noted with how effectively some of Centrelink's checks address whether eligibility requirements have been met. These issues are summarised below.

### **Applicants have undertaken a LPG conversion on their private use vehicle or purchased a new vehicle fitted with a LPG unit before the vehicle is registered in the last 12 months**

**4.10** There are approximately 3250 installers/dealers nationally, varying from small workshops to large car dealers, which accounted for 85 065 grants in the 2008–09 financial year. As State and Territory vehicle registration papers do not uniformly provide information concerning whether a vehicle has been fitted for LPG, based on vehicle inspections, there is a key reliance on documentation provided by installers/dealers to confirm conversions have occurred. Centrelink staff review the installer/dealer tax invoice to assess whether a LPG conversion or vehicle purchase has taken place, validate that the installer/dealer is a registered business and make contact with the applicant and installer/dealer to verify the details on the application form. These checks provide some assurance that the conversion or purchase has been undertaken.

**4.11** However, as the checks do not involve third parties, there is a residual risk that some applicants may collude with installers/dealers in order to



receive payments for which they are not eligible. Independent confirmation by Centrelink of the conversion or purchase would help mitigate this risk and provide greater assurance over this eligibility requirement. Independent confirmation may, for example, be provided through notification by the relevant State or Territory vehicle registration office that the vehicle is registered as a LPG-powered vehicle,<sup>65</sup> or examination of an installer's/dealer's business records.

**4.12** As discussed in Chapter Two, the LPGVS was created under Ministerial direction and does not have a statutory basis. As such, Centrelink does not possess the authority to compel applicants, installers/dealers or other third parties to provide (or give access to) supplementary information to confirm whether conversions or purchases have been undertaken. One measure DIISR and Centrelink may use to reduce this risk is to identify installers/dealers with unusual conversion patterns to trigger compliance reviews of related applications. The ANAO noted during fieldwork that Centrelink does profile some installers. However, as indicated by Table 4.1, between July 2007 and June 2009 only one review was triggered on the basis of identified installer compliance issues. The ANAO encourages DIISR and Centrelink to analyse application patterns and assessment information according to installers/dealers, and where appropriate to undertake additional targeted reviews of granted applications.<sup>66</sup>

**4.13** DIISR and Centrelink have advised that they accept the residual risk that conversions or purchases may not have occurred, and are confident their limited authority in reviewing applications has not had a material impact on Scheme compliance outcomes. Nevertheless, it is difficult to assess the magnitude of the risk that conversions have not occurred given the coverage of existing compliance reviews, and their reliance on information voluntarily provided by applicants and installers/dealers.

## **The vehicle is registered for private use at time of LPG conversion**

**4.14** In addition to reviewing the vehicle's registration papers, to confirm a vehicle is registered for private use at the time of conversion Centrelink

<sup>65</sup> In States and Territories where vehicles are subject to an annual roadworthy certificate.

<sup>66</sup> In June 2009, AusIndustry requested that Centrelink develop reporting functionality to identify the number of conversions being undertaken for individual installers/dealers. It is anticipated that these reports could be used by Centrelink to identify installers/dealers with unusual conversion patterns, which may trigger compliance reviews of associated applications.

contacts the applicant to verify the vehicle registration details on the application form. As discussed in Chapter Three, in some States and Territories, a vehicle's registration papers do not indicate a vehicle's use (60 per cent of applications). In order to independently verify whether a vehicle is registered for business or private use in these States and Territory, Centrelink would need to contact the relevant vehicle registration office. However, due to the privacy concerns of vehicle registration offices they are usually reluctant to provide vehicle details.<sup>67</sup>

## **Effectiveness of post-payment checks**

**4.15** Centrelink's post-payment checks of granted applications rely on validation of documentation through contacting the applicant and installer/dealer, and use of other publically available information. If Centrelink had some additional authority to allow checking of applicant or installer/dealer records that present anomalies or of a certain risk profile to confirm eligibility criteria have been met, or to obtain information from third party sources such as vehicle registration offices, it would help to address the residual risk of ineligible payments. As always, there is a balance to be struck between the costs and benefits of applying additional review measures; nevertheless this is a matter worthy of further consideration by DIISR and Centrelink.

## **Selection of granted applications for compliance review**

**4.16** The method used to select granted applications for compliance review should be driven by a program's risk profile. This assists in identifying non-compliance and optimising applicant behaviour.

**4.17** As discussed earlier, Centrelink targets granted applications for compliance review by triggers such as return to sender correspondence, multiple payments to individuals' bank accounts, tip offs and installer/dealer compliance issues.

**4.18** In addition, when the LPGVS was established, DIISR and Centrelink considered that the Scheme was exposed to organised crime groups submitting fraudulent applications for phantom vehicles. To control this risk, DIISR and

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<sup>67</sup> The LPGVS application form authorises the Commonwealth to access data from the relevant authority of the State or Territory in which the vehicle is registered to validate registration details, therefore vehicle registration offices sometimes provide vehicle details.

Centrelink decided to confirm the existence of vehicles by matching vehicle details (registration and VINs) with information held in NEVDIS,<sup>68</sup> and undertook additional review activity where anomalies were identified.

## **Multiple payments to individuals' bank accounts**

**4.19** The *LPGVS Fraud and Compliance Risk Management Strategy* requires Centrelink review all multiple payments to individuals' bank accounts. ANAO analysis of LPGVS data identified 6050 LPGVS grant payments made to bank accounts that had at least one other LPGVS grant payment made to them. Table 4.3 shows that Centrelink reviewed 301 (five per cent) of these multiple grant payments and identified five debts for recovery. Of the 6050 LPGVS grant payments made to these bank accounts, only 44 (0.7 per cent) were targeted for review on the basis that they were multiple payments to individuals' bank accounts. Almost all other reviews conducted on applications where multiple payments had been made to individuals' bank accounts were 'random' reviews.

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<sup>68</sup> NEVDIS is a consolidated record of all State and Territory vehicle registration details maintained by Austroads.

**Table 4.3****Review of multiple LPGVS payments to individuals' bank accounts**

Review status	Reason for review	Reviews conducted		Outcome of reviews	
		Number	Per cent	Original decision affirmed	Debt raised
No review conducted		5749	95.0	n/a	n/a
Review conducted		301	5.0	296	5
	Random	253	4.3	248	5
	Multiple payments to individuals' bank accounts	44	0.7	44	0
	Return to sender correspondence	3	0.0	3	0
	NEVDIS (discontinued August 2008)	1	0.0	1	0
Total multiple LPGVS payments to individuals' bank accounts		6050	100.0	296	5

Source: ANAO analysis of Centrelink LPGVS data.

**4.20** Centrelink advised that before referring information about multiple payments to individuals' accounts to its compliance team, it first confirms whether LPGVS grant recipients are spouses (as spouses can individually claim for separate vehicles). However, these spouse checks were not being recorded when audit fieldwork was undertaken.

**4.21** ANAO examination of LPGVS data confirms that the majority, but not all multiple bank payments to individuals' bank accounts do relate to spouses. Centrelink investigated the remaining cases identified by the ANAO which had not been subject to a compliance review and advised no multiple payments were made to individuals. The cases related to instances where Centrelink had entered vehicle details incorrectly into its payment system, or where ineligible payments had been terminated before being deposited into an applicant's bank account.

**4.22** Notwithstanding the above, the ANAO considers that there would be benefit in Centrelink better documenting spouse checks. This would support correct referral of cases for compliance review and provide assurance to DIISR

that appropriate checks are being conducted on multiple payments to individuals' bank accounts. In response to the draft audit report Centrelink advised that it had implemented procedures to confirm these checks are being conducted.

## **NEVDIS data matching**

**4.23** At the end of July 2008, Centrelink had reviewed 454 applications triggered by NEVDIS data matching. All these reviews found the application to be eligible and there were no referrals to debt recovery. In light of these findings, DIISR and Centrelink concluded that the risk to the Scheme of applications involving phantom vehicles was low. Additionally, the high cost and limited risk mitigation provided by NEVDIS data matching<sup>69</sup> resulted in DIISR authorising its discontinuation on 14 August 2008.

**4.24** The decision to discontinue NEVDIS data matching is appropriate in view of the difficulties in matching NEVDIS data which is 'real time' data with Centrelink's data which is current at the time of conversion. Also, the data matching of 454 applications resulted in no debts being raised.<sup>70</sup> The ANAO considers that undertaking targeted reviews to identify instances of more than one payment for the same vehicle may go some way towards addressing the risk of payments for ineligible vehicles.

## **Review of LPGVS data to improve targeting**

**4.25** The ANAO examined LPGVS data and identified a number of potentially ineligible payments which had not been the subject of a compliance review. Currently, Centrelink's data matching procedures do not identify these potentially ineligible payments. The issues identified by the ANAO are summarised below.

### ***Instances of more than one payment made to an applicant in three years***

**4.26** Under the Ministerial Guidelines, an individual is not eligible to receive a LPGVS grant if he/she has received one in the previous three years. If an

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<sup>69</sup> NEVDIS vehicle details are current at the date of extraction while those in Centrelink's system are recorded at the date of the LPG conversion. LPG applications can be submitted up to 12 months after a conversion. During this period a vehicle's ownership could change or the vehicle could be re-registered in another State or Territory. This limits the usefulness of NEVDIS data matching.

<sup>70</sup> The ANAO noted the assurance provided by NEVDIS was also limited by: the exclusion of mismatched records (3.9 per cent); and the review of only six weeks of Victorian applications (which account for approximately 47 per cent of the Scheme's applications in total) due to VicRoads privacy concerns.

individual claims a grant within three years, Centrelink's system will not allow the grant to be paid. However, if Centrelink staff inadvertently enter different personal details into its system for the same individual, an individual could be paid a grant twice or more within a three year period. To control this risk, from 30 April 2009, DIISR required Centrelink and Medicare to obtain a certified copy of the applicant's drivers licence with each LPGVS application as Additional Supporting Documentation (ASD).

**4.27** When an applicant applies for a LPGVS grant and Centrelink's data matching indicates that they are not an existing Centrelink customer, it assigns a unique CRN. If individuals make multiple claims using different personal details and Centrelink accepts these applications, then not only have they obtained grants to which they are not entitled, but they have also obtained multiple electronic identities within Centrelink's system. Centrelink uses CRNs to control a broad range of risks across the programs it administers. CRN data matching is used so that individuals do not 'double dip' within individual programs such as the LPGVS, or across programs—for example, by ensuring that individuals do not receive both a Disability Support Pension and a Newstart Allowance.

**4.28** ANAO's examination of LPGVS data for the period of review found 26 individuals with multiple CRNs. These cases were forwarded to Centrelink for investigation. Centrelink confirmed that all 26 cases did relate to LPG applicants with duplicate CRNs, and found eight cases where it had incorrectly made two grant payments to the same individual. Centrelink has raised debts for these eight cases. The remaining 18 cases had already been identified by Centrelink and did not involve duplicate payments.

**4.29** If Centrelink selected granted applications for targeted review by improved matching of personal details to identify multiple electronic identities, reviews would then be able to identify ineligible payments and raise debts where appropriate.

#### *Multiple granted applications for vehicles with same VIN/Chassis number*

**4.30** To be eligible for payment, LPGVS applicants must provide the VIN or Chassis number of the converted vehicle.<sup>71</sup> The ANAO examined LPGVS data to ascertain whether there was evidence of multiple grants being paid for the

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<sup>71</sup> Every motor vehicle is uniquely identified by a VIN or, in the case of some older vehicles, a Chassis number.

same vehicle. The ANAO identified 185 vehicles that appeared to have a total of 431 grants paid in relation to them.<sup>72</sup>

**4.31** These 431 cases were forwarded to Centrelink for investigation. Centrelink completed its investigations into the cases in September 2009 and identified that approximately four per cent represented duplicate payments and required debt recovery action. Some of the duplicate payments had already been identified by Centrelink's compliance team for debt recovery. A substantial portion of the remaining investigated cases contained incomplete VIN or Chassis numbers which were incorrectly transferred to ANAO when LPGVS data was extracted for the audit. Centrelink advised that the grants for these vehicles were eligible payments.

**4.32** If Centrelink selected granted applications for targeted review by improved matching of vehicle details to identify multiple VIN or Chassis numbers, reviews would then be able to identify ineligible payments and raise debts where appropriate.

### **Assessment of targeted compliance reviews**

**4.33** For programs such as the LPGVS, targeting for review those payments which represent the highest risks is particularly important in order to identify possible ineligible payments. However, as indicated by Table 4.1, only 223<sup>73</sup> granted applications (or 0.14 per cent of all granted applications) were targeted for review between July 2007 and June 2009, most of which resulted from return to sender correspondence.

**4.34** Further work is required to better focus targeted reviews of granted applications on the Scheme's compliance risks. This includes undertaking reviews:

- where application and assessment data for installers/dealers highlight potential anomalies;
- to mitigate identified weaknesses in payment checks, such as reliance on applicant declarations; and

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<sup>72</sup> The total estimated value of these grants is \$862 000.

<sup>73</sup> Excludes review work triggered by NEVDIS data matching.

- following improved interrogation of LPGVS data to identify multiple payments for the same vehicle or individual.<sup>74</sup>

**4.35** The compliance results arising from better targeting of granted application reviews on the Scheme's compliance risks would shed light on any need to revisit Centrelink's review rights.

## Recommendation No.1

**4.36** In order to improve compliance activity for the Scheme, the ANAO recommends that DIISR and Centrelink:

- better focus targeted reviews of granted applications on the Scheme's compliance risks; and
- in light of the results of (a) above, consider strengthening Centrelink's review rights.

*Centrelink's response:*

**4.37** *Agreed.*

*DIISR's response:*

**4.38** *Agreed.*

## Assessment of random reviews

**4.39** As indicated by Table 4.1, between July 2007 and June 2009 4.5 per cent of granted applications underwent 'random' review. To generate applications for 'random' review, Centrelink's compliance team requested each of the three LPGVS processing centres to select and send it a daily quota of applications. The quota per processing centre was based on the number of applications received and processed at each site, and processing centre team leaders determined how these applications were selected. The ANAO noted several instances where processing centre staff selected applications for 'random' review in order to correct errors they had identified.<sup>75</sup>

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<sup>74</sup> In response to the draft audit report, Centrelink advised it has implemented a new reporting functionality that enables its compliance team to identify installer anomalies and better target installer reviews. Further to this, Centrelink advised that it is working with DIISR to align application review practices against the Scheme's key risks.

<sup>75</sup> While it is appropriate to target such applications for review selecting them as part of the random review process introduces bias into the sample and reduces the assurance over payment correctness.



**4.40** Given Centrelink's 'random' reviews have historically been selected in a non-random manner, they have not provided a basis for assessing the overall accuracy of payments. In addition, and as indicated previously, the weaknesses in checks implemented as part of 'random' reviews limit their capacity to inform understanding of broader levels of compliance. Nevertheless, requiring Centrelink's compliance team to randomly select applications for review would improve assurance over payment correctness.<sup>76</sup>

## Recommendation No.2

**4.41** The ANAO recommends, in order to improve assurance of the accuracy of grant payments, that Centrelink randomly selects applications for review.

*Centrelink's response:*

**4.42** *Agreed.*

*DIISR's response:*

**4.43** *Agreed.*

## Debt recovery

**4.44** As discussed in Chapter Two, Centrelink does not possess debt recovery powers for the LPGVS, such as the ability to deduct amounts from wages or issue garnishee notices. Centrelink is instead reliant on referral of unpaid debts to the AFP or CDPP for enforcement action where fraud is suspected.

**4.45** Section 47 of the FMA Act states that Chief Executives of FMA Act agencies must pursue the recovery of debts owing to the Commonwealth in respect to the operations of their agency. Up until 31 March 2009, Centrelink had raised 45 debts since the Scheme's inception. As at 15 June 2009, 36 of these debts had been recovered. To date Centrelink has not written-off any LPGVS debts.

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<sup>76</sup> In response to the draft audit report Centrelink advised that it had implemented an independent sampling process to ensure unbiased selection of applications for review.

## Conclusion

**4.46** Under DIISR's and Centrelink's *Fraud and Compliance Risk Management Strategy*, Centrelink is required to review five per cent of granted applications, and check for multiple payments to individuals' bank accounts for all applications. These activities are generally conducted in accordance with requirements and help to address the Scheme's fraud and compliance risks.

**4.47** Checks undertaken by Centrelink as part of granted application reviews rely on confirmation of details with the applicant and installer/dealer, and accessing other publically available information. While this enables the reviews to be undertaken in an efficient manner, their depth is at times constrained by Centrelink's limited authority to obtain or access supplementary information. Whether stronger authority is required by Centrelink to respond to the residual risk of ineligible payments is worthy of consideration by DIISR and Centrelink.

**4.48** Overall, there is scope for improvement of the Scheme's *Fraud and Compliance Risk Management Strategy*. Targeted reviews of granted applications can be better focused on the Scheme's key compliance risks. Meanwhile, reviews selected by Centrelink to provide a basis for assessing payment correctness for the broader population would avoid bias if randomly selected. Checks on multiple payments to individuals' bank accounts can also be improved.

## 5. Monitoring and Reporting

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*This Chapter examines monitoring and reporting for the LPGVS.*

### Introduction

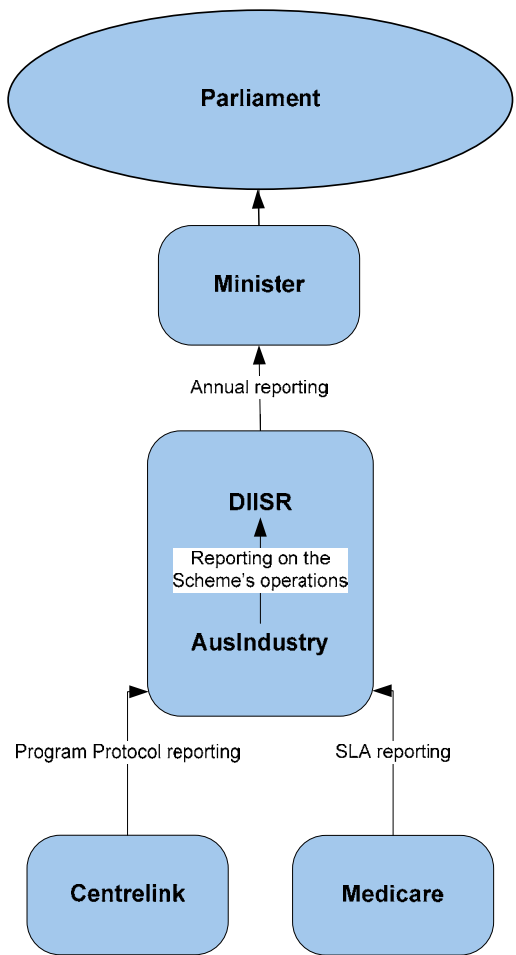
**5.1** Relevant and accurate performance information assists decision making when managing grant programs, and is necessary for departments and agencies to report their performance.

**5.2** The LPGVS has three levels of performance reporting. DIISR as the Scheme's policy owner is responsible for reporting to its Minister and the Parliament on the Scheme's performance.<sup>77</sup> AusIndustry, as DIISR's Business Program Delivery Division, is responsible for reporting to DIISR's Executive on the Scheme's operations. Centrelink and Medicare report to DIISR on their roles and responsibilities in administering the Scheme. Figure 5.1 outlines the Scheme's reporting regime.

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<sup>77</sup> Centrelink and Medicare also report aspects of the Scheme's performance in their annual reports.

**Figure 5.1**  
**Scheme reporting**



Source: ANAO analysis.

**5.3** The ANAO examined reporting of the Scheme’s performance to determine whether agencies fulfil their reporting requirements, and whether reporting assists the Scheme’s administration and informs the Minister and Parliament.

## DIISR reporting to Parliament

5.4 External reporting of performance provides an opportunity for departments and agencies to demonstrate and promote their achievements and explain any variance from expectations or reference points, while meeting statutory accountability requirements.<sup>78</sup>

5.5 Ideally, grant administration should focus on outcomes and outputs, while seeking the most efficient and effective use of inputs. Performance information should identify the extent to which the granting activity is contributing to government outcomes, as well as producing expected outputs. The more specific the operational objectives (of grant programs) the easier it is to develop appropriate performance indicators.<sup>79</sup>

5.6 The documented objective of the LPGVS upon its establishment was to promote the use and uptake of LPG. Subsequently, in DIISR's 2008–09 PBS and annual report the objective of the Scheme was documented as providing assistance to motorists to offset high petrol prices. In addition, the Government's *Review of Australia's Automotive Industry* in July 2008 and the *New Car Plan for a Greener Future* in November 2008 identified the LPGVS as a measure to reduce greenhouse gas emissions and promote the adoption of greener technology. The Government has also stated that the grant supports the use of Australia's large reserves of petroleum gas which enhances national security by reducing dependence on foreign oil supplies.<sup>80</sup>

5.7 DIISR's reporting in its 2006–07, 2007–08 and 2008–09<sup>81</sup> annual reports, included a brief description of the Scheme, LPGVS expenditure and the number of grants paid. As such, external performance information has focused on inputs and outputs, and has not identified the extent to which the grant is contributing to government outcomes. Reporting would be improved if it adopted a stronger outcomes orientation.

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<sup>78</sup> ANAO Better Practice Guide, *Better Practice in Annual Performance Reporting*, 2004, p. v.

<sup>79</sup> Department of Finance and Deregulation, *Commonwealth Grant Guidelines Policies and Principles for Grants Administration*, July 2009, pp.17 and 18.

<sup>80</sup> See <<http://www.carcentral.com.au/200807182277/government/lpg-protected-from-upcoming-emissions-trading-scheme-price-hikes.htm>> [accessed 12 March 2009].

<sup>81</sup> The 2008–09 annual report also included a brief summary of DIISR's performance against its grant target for 2008–09.

**5.8** However, adopting a stronger outcomes orientation in reporting on the Scheme's performance is made difficult by two factors. Firstly, as indicated above, the Scheme has been linked to multiple objectives. Secondly, a range of factors contribute to the number of grants paid each year (such as petrol prices) and it is difficult to attribute outcomes to the grant itself.

**5.9** In view of the appearance of multiple objectives, there would be benefit in DIISR clarifying the Scheme's objectives and developing appropriate performance indicators to report on their achievement. This may involve presenting longitudinal data on the number of grants each year alongside other influencing factors such as petrol prices, as well as qualitative descriptions of consumer behaviour and LPG industry changes. Such an approach would help to establish the impact of the Scheme, and assist future policy making as the Scheme approaches its finalisation in 2014.

## **AusIndustry reporting**

**5.10** AusIndustry reports on the Scheme's administration to DIISR's Executive each month. The report is designed to inform DIISR's Executive of LPGVS activity and any management issues. The report includes:

- financial management issues;
- performance against service delivery targets and any issues and risks;
- records of compliance activities and any issues and risks; and
- summaries of any legal and sensitive case information.

**5.11** The ANAO reviewed AusIndustry's reports from August 2006 to April 2009, and noted that DIISR's Executive was informed of Scheme policy changes, financial, operational and compliance issues over this period.

**5.12** In addition to these reports, AusIndustry publishes monthly LPGVS statistics on its website. These statistics include the cumulative number and value of grants since the Scheme's inception.

## **Centrelink and Medicare reporting**

**5.13** The principal means by which DIISR is informed on whether Centrelink and Medicare are meeting their Scheme responsibilities is through Centrelink and Medicare reporting. Centrelink's and Medicare's reporting requirements are included in the Program Protocol and SLA respectively.

**5.14** The ANAO examined Centrelink's and Medicare's management reporting to determine whether it is in accordance with requirements, and provided information which informed DIISR's administration of the Scheme.

## Centrelink reporting

**5.15** Table 5.1 outlines Centrelink's management reporting requirements to DIISR.<sup>82</sup>

**Table 5.1**

### Management reporting provided by Centrelink to DIISR

Frequency	Reporting Requirement
Daily Reporting	<ul style="list-style-type: none"> <li>Daily draw down amounts and supporting flat file report</li> </ul>
Monthly Reporting	<p><i>Scheme statistics:</i></p> <ul style="list-style-type: none"> <li>Summary of payments made to date by claim type and dollar amount</li> <li>Total claims received by source of claim lodged</li> <li>Processing statistics (claims received, pending, and rejected)</li> <li>Grants paid by postcode</li> <li>Most frequent reason for rejection</li> <li>For each State and Territory, a listing for the month of vehicle registration number and type of grant paid</li> <li>Average time to process a grant application</li> </ul> <p><i>Financial reporting and reconciliations:</i></p> <ul style="list-style-type: none"> <li>Total grant funding paid in the month and total to date</li> <li>Reconciliation of total DIISR monthly payment with LPG grants paid</li> <li>Monthly summary of funds drawn down and supporting flat file report</li> </ul> <p><i>Compliance activity and risk mitigation:</i></p> <ul style="list-style-type: none"> <li>Report on all instances of suspected or identified fraud and the follow-up action taken</li> <li>Results of compliance reviews (as specified in the <i>LPG Fraud and Risk Compliance Strategy</i>)</li> </ul>
Quarterly Reporting	<ul style="list-style-type: none"> <li>Costs of the delivery of Centrelink services</li> </ul>
End of Financial Year Reporting	<ul style="list-style-type: none"> <li>End of year spend figure for Administered funds</li> <li>Reconciliation of total DIISR annual payment with LPG grants paid</li> <li>A statement of annual service delivery expenditure for the program</li> </ul>
Annual Reporting	<ul style="list-style-type: none"> <li>LPG customer satisfaction</li> </ul>
Ad Hoc Reporting Requirements	<ul style="list-style-type: none"> <li>Any ad hoc requests agreed between the program managers</li> </ul>
Audit Requirements	<ul style="list-style-type: none"> <li>Centrelink will keep records that will allow the ANAO to audit specific payments if necessary</li> </ul>

Source: Program Protocols LPG Vehicle Scheme August 2008.

<sup>82</sup> Reporting requirements as specified in Attachment A of the August 2008 LPGVS Program Protocol.

### *Reporting on costs*

**5.16** Centrelink reports quarterly and annually on its service delivery costs. Centrelink also reports on the level of grant payments in daily, monthly and end of year financial reports. Chapter Three confirmed that daily funds transfers from DIISR to Centrelink to meet grant payments are in accordance with requirements in the Program Protocol.

**5.17** From Scheme commencement until 30 June 2009, Centrelink billed DIISR quarterly for service delivery costs. Centrelink was granted its own departmental appropriation to run the Scheme from 1 July 2009, and no longer invoices DIISR for these costs. As a consequence, DIISR has advised that the requirement in the Program Protocol that Centrelink report quarterly on service delivery costs is in the process of being removed.

### *Reporting on performance*

**5.18** Centrelink's monthly reports from March 2007 until March 2009 included information on Centrelink's performance as required by the Program Protocol.<sup>83</sup> The ANAO suggests that DIISR, in conjunction with Centrelink, revise the Scheme's monthly reporting on its granted application reviews to reflect the changes recommended at Chapter Four. For example, reporting could include the results of data matching to identify multiple payments for the same applicant or vehicle, and work undertaken in relation to particular installers. Such reporting would assist DIISR to have a better understanding of the adequacy of Centrelink's processing of grant applications and Scheme compliance.

### *Reporting on customer satisfaction*

**5.19** The Program Protocol requires Centrelink to use its annual customer satisfaction survey to assess and report LPG customer satisfaction. However, the survey is not fully suited to this purpose because it is designed for income support customers<sup>84</sup> and contains general questions about the adequacy of Centrelink services.<sup>85</sup>

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<sup>83</sup> Centrelink did not produce monthly reports from October 2006 through to February 2007 as it was unable to obtain the required data from its IT systems.

<sup>84</sup> Centrelink's income support customers are not necessarily representative of persons applying for LPGVS grants.

<sup>85</sup> The customer satisfaction survey does not contain specific questions concerning Centrelink's administration of the LPGVS.



**5.20** As outlined in Chapter Three, Centrelink conducted a number of workshops in December 2008 which provided a clearer indication of LPGVS customer behaviour and perceptions of Centrelink's service delivery. In light of this, the ANAO suggests that DIISR consider the cost-effectiveness of requiring Centrelink to conduct annual workshops.

## Medicare Australia reporting

**5.21** Table 5.2 describes Medicare's reporting to DIISR.<sup>86</sup>

**Table 5.2**

### Management information provided by Medicare to DIISR

Frequency	Reporting Requirement
Program and Service Delivery Annual Expenditure Statements	<ul style="list-style-type: none"> <li>Medicare will provide a statement of annual service delivery appropriations received by Medicare from Finance for the program. The Chief Finance Office of Medicare will provide a formal sign-off as to the integrity of the information provided to DIISR.</li> </ul>
Annual Reporting	<ul style="list-style-type: none"> <li>The executive summary of the annual Medicare Customer Satisfaction survey, together with any parts of the survey relating to the LPGVS.</li> <li>Management information reports on agreed Key Performance Indicators (KPIs)               <ul style="list-style-type: none"> <li>KPI 1 on program monitoring is for Medicare to provide Management Information Reports in accordance with the SLA more than 80 per cent of the time.</li> <li>KPI 2 on program monitoring is to meet reasonable customer expectations through Medicare's people, services and information. The agreed measure is the percentage of customers accessing LPGVS services who lodge a complaint or compliment to Medicare regarding the quality of service in providing the LPGVS services with the target being complaints less than 5 per cent of correspondence.</li> </ul> </li> </ul>
Ad Hoc Reporting	<ul style="list-style-type: none"> <li>Any ad hoc reports as agreed between the program managers</li> </ul>

Source: SLA between DIISR and Medicare Australia relating to the LPG Vehicle Scheme, 9 March 2007.

**5.22** Medicare's 2007 customer satisfaction survey was also not designed specifically for LPGVS applicants. In order to address this limitation, Medicare

<sup>86</sup> Medicare's requirements are outlined in *Program Schedule 2 - Program Monitoring* of the SLA between Medicare and DIISR.

adapted its 2008 customer satisfaction survey to include two specific questions relating to the Scheme.<sup>87</sup>

**5.23** Medicare provided its service delivery annual expenditure statements to DIISR and met its two annual reporting Key Performance Indicators (KPIs) in the first two years of the Scheme. A possible improvement on the KPI relating to the proportion of complaints recorded would be to also measure success in resolving complaints. This would provide Medicare with information on how effectively it is dealing with complaints, and as such may provide opportunities to improve the administration of the Scheme.

## Other reporting

**5.24** In addition to the Scheme's mandatory reporting requirements, the following reports have also been produced by DIISR during the Scheme's operation:

- Cabinet Implementation Unit traffic light reporting; and
- a report into low cost LPG conversions.

## Cabinet Implementation Unit reporting

**5.25** The Government required DIISR to produce quarterly Cabinet Implementation Unit (CIU) traffic light reports for the first year of the Scheme. Reports included progress against the Scheme's implementation plan and highlighted Scheme issues and outcomes to date. The traffic light ratings in these reports were green which indicated no significant difficulties and/or risks emerging. As mentioned at Chapter Two, early in the Scheme one of the more significant risks was accurately forecasting Scheme demand. The ANAO noted that DIISR included records of fund movements to meet unexpected demand in these reports.

## Report into low cost conversions

**5.26** In response to a concern from the MTAA on 22 November 2008 regarding concerns of exploitation of the Scheme,<sup>88</sup> the Minister for DIISR

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<sup>87</sup> The 2008 customer satisfaction survey contained comments from 15 respondents who had participated in the LPGVS, from a total survey population of 1000.

<sup>88</sup> Installers were complaining individuals were using cheap second-hand parts and receiving windfalls of up to \$1200 from the grant payment.

requested the department conduct an investigation and produce a report into low cost conversions. Subsequently, on 24 November 2008 DIISR requested Centrelink to review a sample of 8083 applications over the period 24 November 2008 to 8 December 2008 to identify applications where the cost of the conversion was less than \$2000.<sup>89</sup>

**5.27** Centrelink's examination of the sample revealed that only 55 applications or 0.6 per cent had conversions costing less than \$2000. Of the 55 applications, 26 were eligible and were paid, 22 were ineligible and were rejected and seven were held. The report indicated to DIISR that there was low incidence of applicants using second hand parts for low cost conversions and keeping the difference between conversion costs and the grant.

## Review and evaluation of the Scheme

**5.28** Review and evaluation of grant programs is an important part of their effective management. Evaluations often lead to better program management, greater accountability, more informed decision making, improved use of resources and refined program objectives.<sup>90</sup>

**5.29** As required by the previous Government, DIISR reviewed the Scheme after its first year. The purpose of the review was to assess, and where necessary, refine, reaffirm and realign the Scheme's operations.

**5.30** DIISR established a steering committee to oversee the review.<sup>91</sup> It held three meetings from August 2007 until December 2007. DIISR called for submissions to the review, and received five from industry, as well as submissions from Centrelink and Medicare. The review of the LPGVS was not finalised due to the change in government.

**5.31** Since that time the Scheme's administration has been refined as necessary to support effective program management. The need for an evaluation now rests on exploring the premises underpinning the multiple objectives the Scheme has been linked to, and better understanding how the grant has influenced individuals' behaviour. The findings of such an

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<sup>89</sup> Centrelink's LPGVS data system does not record the cost of conversions.

<sup>90</sup> ANAO Better Practice Guide, *Grant Administration*, 2002, p. 63.

<sup>91</sup> The steering committee included a representative from each of DIISR (including AusIndustry), the departments of Finance and Deregulation and Prime Minister and Cabinet.

evaluation would form an important input to the design and objectives of any successor program to the Scheme, which is scheduled to finish in June 2014.

### Recommendation No.3

**5.32** To inform policy considerations as to the future of the Scheme beyond June 2014, the ANAO recommends that a formal evaluation be conducted to assess its impact.

*DIISR's response:*

**5.33** *Agreed.*

*Centrelink's response:*

**5.34** *Agreed.* Centrelink is willing to support DIISR with the development of any formal evaluation.

*Medicare Australia's response:*

**5.35** *Agreed.* Medicare Australia supports a formal evaluation of the LPG Vehicle Scheme and would welcome the opportunity to provide input into that evaluation based on its experience as a service delivery partner.

### Conclusion

**5.36** Monitoring and reporting responsibilities for the Scheme are included in documents to which all parties have agreed. Centrelink and Medicare produce reports for DIISR in accordance with the Program Protocol and SLA respectively. These reports provide DIISR with relevant management information and assist it in administering the Scheme. The ANAO did, however, note that reporting on granted application reviews could be improved to provide a better indication to DIISR of the adequacy of Centrelink's compliance activity.

**5.37** DIISR, Centrelink and Medicare report information on the LPGVS in their respective annual reports. Information in annual reports could be improved if DIISR clarified and reported on the Scheme's objective. An evaluation of the Scheme would help to identify its impact.

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Ian McPhee

Auditor-General

Canberra ACT

18 December 2009



# Appendices





## Appendix 1: LPG Australia response on the Scheme's administration

As part of the performance audit, the ANAO sought the views of industry bodies that have an interest in the LPGVS. Submissions were requested for comments on the following:

- the effectiveness of the framework which has been established by the Government to administer the Scheme;
- the promotion, assessment and payment of the LPG grant; and
- any general views the industry body or its members may have on the Scheme's operation.

A summary of LPG Australia's industry association views is outlined below.

### 1. **The effectiveness of the framework which has been established by the government to administer the scheme**

"In general as a kit supplier to Original Equipment Manufacturer (OEM)<sup>92</sup> we believe the framework established by the government to administer the LPG Vehicle Scheme is very effective. Delivery of the scheme by AusIndustry and their contracted service providers Centrelink and Medicare has provided a high level of profile to the scheme. The framework delivers a readily accessible structure for consumers and industry to access relevant information on the program and provides a central contact point for inquiries which are dealt with in a timely and professional way. The good network of service providers means submitting the required paperwork to the scheme is a relatively simple process for the majority of applicants."

### 2. **The promotion, assessment and payment of the LPG grant**

"We believe the promotion of the scheme, whilst excellent during the inception period over 2006–07, could now benefit from some additional activity to address the inequity of grants paid between states. For example we know that NSW has been reticent in taking up the grant in comparison to other states on a per capita basis.

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<sup>92</sup> OEMs are the car manufacturers of LPG-powered vehicles. In Australia this includes Ford, Holden, Mitsubishi, and Toyota.

Feedback from installers and customers suggest that applications are assessed in an appropriate manner, following the defined scheme criteria and are dealt with by staff who are courteous and helpful.

Customer feedback also suggests that successful applications are generally paid in less than 2 weeks which is extremely efficient."

**3. Any general views you or your members may have on the Scheme's operation**

"From the summary of some of our members the feedback suggests there is still a misconception of the principal objective of the scheme which was to provide struggling families with some expense relief to their motoring costs. At the same time the grant is providing a constructive assistance to a sector of industry that is vital to the promotion and delivery of this alternative energy source as a key transport fuel.

Several respondents made mention of the impost of the upfront capital expense as a deterrent to a cash strapped poor credit rated member of the public. The administration of the scheme could well be improved if the public were fully conversant with the criteria before they commit to having conversion work performed. A common theme is that the criteria and eligibility for the LPGVS are not fully discussed until after the job is complete by which time there is a considerable expense accumulated and subsequent discussions are usually quite emotional. One suggestion would be to provide a small card with the hotline number for use at the installer's point of sale counter. This would encourage installers to make their customers find out the eligibility criteria for themselves before committing to the expense.

There is an expectation by industry that there should be an incentive for developing cleaner Greenhouse Gas (GHG) friendly products. No one can logically argue against supporting a valuable business sector in the OEM car manufacturers. However there is also a need to retain the retrofit sector which still provides the support to the after sales service for the OEM dealerships not able to justify the additional technicians specially qualified in LPG. Such dealerships typically are in regional areas."

## **Appendix 2: General Comments from DIISR, Centrelink and Medicare Australia**

The department and agencies involved in the audit were provided with the opportunity to comment on the proposed report in accordance with the provisions of section 19 of the *Auditor General Act 1997*.

General responses are reproduced below.

### **The Department of Innovation, Industry, Science and Research**

The department welcomes this report and the ANAO's conclusion that the Scheme is well-designed and effectively administered. The department is pleased with the finding that DIISR, Centrelink and Medicare combine to provide effective service delivery and that managerial oversight and risk management for the program are generally sound. The department accepts the three recommendations for the administration of the LPG Vehicle Scheme and acknowledges that their implementation will further strengthen the delivery of the program.

### **Centrelink**

Centrelink welcomes this report and considers that implementation of the recommendations and findings will further strengthen the delivery of the LPG Vehicle Scheme.

Centrelink continues to work closely with the Department of Innovation, Industry, Science and Research to implement the recommendations and suggestions to improve service delivery of the LPG Vehicle Scheme through changes to compliance and quality checking.

### **Medicare Australia**

As a delivery partner for the LPG Vehicle Scheme, Medicare Australia welcomed the opportunity to participate in this audit. Medicare Australia notes that the majority of LPGVS applications are lodged at a Medicare office and these applications maintain a low rejection rate. Medicare Australia supports Recommendation 3; to commence a formal evaluation of the LPG Vehicle Scheme, and would welcome the opportunity to provide appropriate service delivery input based on its experience as a service delivery partner. Medicare Australia also supports the suggestion that a new key performance indicator relating to the proportion of complaints resolved be established.

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