

The Auditor-General
Audit Report No.19 2009–10
Performance Audit

Child Support Reforms: Stage One of the Child Support Scheme Reforms and Improving Compliance

Department of Human Services
**Department of Families, Housing, Community Services
and Indigenous Affairs**
Centrelink

Australian National Audit Office

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of Australia 2009

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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 Human Services, the Department of Families, Housing, Community Services and Indigenous Affairs and Centrelink in accordance with the authority contained in the *Auditor-General Act 1997*.

Pursuant to *Senate Standing Order 166* relating to the presentation of documents when the Senate is not sitting, I present the report of this audit and the accompanying brochure. The report is titled *Child Support Reforms: Stage One of the Child Support Scheme Reforms and Improving Compliance*.

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 and title.

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.

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Contents

Abbreviations.....	7
Glossary	8
Summary and Recommendations	11
Summary	13
Introduction	13
Audit objective and criteria	15
Overall conclusion.....	16
Key findings by Chapter	20
Summary of agency responses	24
Recommendations	26
Audit Findings and Conclusions	29
1. Introduction	31
Child Support Agency	31
Child Support Scheme	32
Child Support Reforms.....	33
Related ANAO audits	38
The audit objective and approach	38
Report structure	39
2. Stage One of the Child Support Scheme Reforms	41
Introduction	41
Governance arrangements	42
Project management.....	43
Risk management	44
Communication	51
Monitoring and review.....	54
Conclusion	57
3. Improving Compliance Program Development	58
Introduction	58
Planning the Improving Compliance program.....	61
Conclusion	73
4. Transitional Compliance Project	75
Introduction	75
Outcomes of the Transitional Compliance project	76
5. Delivery of the Improving Compliance program.....	85
Introduction	85
Governance arrangements	85
Project management.....	89

Risk management	90
Conclusion	95
6. CSA's Budget and Resource Management	97
Costing	97
Budgeting	98
7. Improving Compliance Program Monitoring, Reporting and Outcomes	104
Monitoring and reporting	104
Outcomes of the Improving Compliance program	107
Appendices	119
Appendix 1: Agency responses	121
Appendix 2: Major developments in the Child Support Scheme	123
Appendix 3: Stage One of the CSSR performance indicators	124
Appendix 4: CSA's Governance Framework	126
Index	128
Series Titles	130
Current Better Practice Guides	132

Tables

Table 2.1	Customers affected by stage one of the CSSR in 2006-07	56
Table 3.1	Improving Compliance projects	59
Table 3.2	Number of cases affected by delayed use of taxable income by type	66
Table 4.1	Estimate reconciliation risk assessment	78
Table 7.1	LENF annual collection targets	114
Table A 1	Major development in the Child Support Scheme	123
Table A 2	Stage One of the CSSR Performance Indicators	124

Figures

Figure 1.1	The Child Support Reforms	34
Figure 1.2	CSSR governance structure	38
Figure 3.1	Some risks identified by the ANAO in the Child Support Scheme assessment, collection and debt recovery phases	62
Figure 3.2	Almost one-quarter of outstanding international debt could be transmitted overseas	72
Figure 4.1	Child support compliance during the transitional compliance period	77
Figure 5.1	Business as usual collection results for Litigation and DPO projects	88
Figure 6.1	Budget for the Improving Compliance program in 2006-07 to 2008-09	99
Figure 7.1	Total Child Support debt, 2004 to 2008	109
Figure 7.2	Improving Compliance program performance as at June 2009	111
Figure 7.3	Improving Compliance program project performance as at June 2009	113
Figure A 1	CSA's Child Support Reforms governance framework	126

Abbreviations

ANAO	Australian National Audit Office
ATO	Australian Taxation Office
BAU	Business as usual
BBCSA	Building a Better Child Support Agency
CDPP	Commonwealth Director of Public Prosecutions
CSA	Child Support Agency
CSSR	Child Support Scheme Reforms
DEEWR	Department of Education, Employment and Workplace Relations
DHS	Department of Human Services
DPO	Departure Prohibition Order
DTI	Delayed use of taxable income
DVA	Department of Veterans' Affairs
FaHCSIA	Department of Families, Housing, Community Services and Indigenous Affairs
Finance	Department of Finance and Deregulation
FTB	Family Tax Benefit
ICT	Information and Communication Technology
IDC	Intensive Debt Collection
IM	Income Minimiser
LENF	Lodgement Enforcement
NEC	National Executive Change
NPP	New Policy Proposal

Glossary

Capacity to pay	The amount that a parent can afford to pay based on their income, earning capacity, property and/or financial resources.
Child support period	The child support period refers to the period of time to which a child support assessment applies. The length of child support periods can vary depending on the individual circumstances of each case, but cannot exceed 15 months.
Child Support Reforms	The suite of measures announced in February 2006 aimed at improving the Child Support Scheme and its administration. Child Support Reforms includes the Improving Compliance program, Child Support Scheme Reforms and Building a Better CSA program.
CSA collect customer type	One of two collection types: customers rely on the Child Support Agency (CSA) to collect and transfer child support payments (see private collect customer type).
Estimate reconciliation	The process undertaken by CSA to reconcile the amount of child support paid by a customer based on an estimate of their income, against the amount of child support a customer should have paid based on their actual income.
International debt	International debt consists of debt owed by a parent in Australia to another parent located overseas; debt owed by a parent located overseas to a parent living in Australia; and debt owed by a parent on a domestic case where that parent also owes a debt to another parent located overseas.
Maximum child support payment	The maximum amount of child support that a customer can be assessed to pay using the child support assessment formula.
Minimum child support payment	A minimum amount of child support is payable for each child support assessment. This amount is indexed annually in line with the Consumer Price Index.

Private collect customer type	One of two collection types: customers collect and transfer child support payments without the assistance of CSA, however, most private collect customers rely on CSA to determine the amount of child support that is transferred (see CSA collect customer type).
Tracing	An activity undertaken by CSA to identify the accurate addresses of customers.
Transitional compliance period	The period of time between introduction of stage one, July 2006, and stage three of the Child Support Scheme Reforms, July 2008. Stage three of the reforms included the change to the child support formula.

Summary and Recommendations

Summary

Introduction

1. Commencing in 1988, the Child Support Scheme was designed to address concerns about the poverty of women and children following separation and divorce; and the increasing government expenditure to support children where parents were not meeting their financial obligations.¹

2. In the same year, the Child Support Agency (CSA) was established as part of the Australian Taxation Office (ATO) to administer the Child Support Scheme and to support separated parents to transfer child support payments.² In 1998, CSA was transferred to the Department of Family and Community Services³ before becoming part of the newly formed Department of Human Services (DHS) in 2004. While forming part of DHS, CSA largely operated as a separate agency until July 2008, when a departmental re-organisation brought together the enabling functions (such as information technology, human resources, finance and legal) of CSA within the department.

3. CSA's functions and operations are legislatively based⁴ and its role includes the registration of separated parents and their children; the assessment of child support liabilities; and the collection, enforcement and transfer of child support payments. CSA also manages customer complaints and objections, and reviews assessments when requested by customers through the change of assessment process. In fulfilling its role, CSA has over 1.5 million customers and, in 2008–09, assisted in the transfer of approximately \$2.8 billion in child support payments.

¹ Ministerial Taskforce on Child Support, *In the Best Interests of Children – Reforming the Child Support Scheme*, Commonwealth of Australia, Canberra, 2005, p.43.

² Appendix 2 shows the major developments in the Child Support Scheme since its introduction and CSA's establishment in 1988.

³ Now known as the Department of Families, Housing, Community Services and Indigenous Affairs, which is the reference used throughout this report.

⁴ *Child Support (Registration and Collection) Act 1988* and the *Child Support (Assessment) Act 1989*. The Deputy Secretary, Child Support and Planning, is the Child Support Registrar for the purposes of the Acts.

Child Support Reforms

4. In 2003, the House of Representatives Standing Committee on Family and Community Affairs undertook an inquiry into child custody arrangements in the event of family separation and released a report⁵ which included a recommendation to examine the child support formula. The Australian Government accepted this recommendation and established an independent Ministerial Taskforce to undertake the review.

5. In June 2005, the Ministerial Taskforce on Child Support released its report, *In the Best Interests of Children – Reforming the Child Support Scheme*. The Taskforce made 30 recommendations covering all aspects of the Child Support Scheme including changes to the child support formula, the broader Child Support Scheme and CSA's role and resources.

6. In response to the report, the Government provided funding of \$877 million over five years to implement a suite of measures known as the Child Support Reforms. These Child Support Reforms comprised three key initiatives, namely:

- the Child Support Scheme Reforms (CSSR) (\$582.2 million);
- the Improving Compliance program (\$165.1 million); and
- the Building a Better CSA program (\$146.6 million).⁶

7. The CSSR were policy changes that aimed to ensure that the Child Support Scheme adequately addressed the needs and costs of supporting children and promoted shared parental responsibility. Given the complexity and number of changes involved, the CSSR were introduced in a phased manner over three years, commencing with the introduction of stage one on 1 July 2006 and concluding with the introduction of stage three on 1 July 2008.⁷

8. Impacting on approximately 500 000 customers, stage one of the CSSR (a focus of this audit) comprised six key changes to the Scheme and was primarily designed to address the customers most greatly affected by the variation between the existing formula and the new formula to be introduced

⁵ House of Representatives Standing Committee on Family and Community Affairs, *Every picture tells a story*, Commonwealth of Australia, Canberra, 2003.

⁶ Figures do not add to \$877 million due to anticipated savings from the reforms.

⁷ Stage two commenced on 1 July 2007.

in stage three CSSR. For example, stage one of the CSSR varied the child support liabilities of those customers who pay the most and the least amount of child support.

9. The second key initiative, the Improving Compliance program, constituted seven ongoing compliance projects aimed at improving the accuracy of child support assessments and increasing the amount of child support collected and transferred between parents. It also included a Transitional Compliance project which sought to 'minimise the risk of non-compliance prior to implementation of the reforms'.⁸

10. FaHCSIA, as the policy agency responsible for child support matters, was the lead agency for the implementation of CSSR and the Improving Compliance program and was accountable to Government for their delivery. However, in a practical sense, the day-to-day delivery of the CSSR and Improving Compliance program was primarily the responsibility of CSA.

11. A number of other departments and agencies were also involved in implementing the CSSR changes and Improving Compliance program; principally Centrelink, ATO and the Department of Veterans' Affairs (DVA).

12. The third key initiative, the Building a Better CSA program, was designed to make organisational and customer service enhancements and is the subject of a separate ANAO audit due to table in 2009–10.

13. The Child Support Reforms affected every part of CSA's organisation and represented the most significant event for CSA since its inception. In 2007–08, at the peak of implementing the reforms, CSA's departmental appropriation had increased by almost 60 per cent and its staffing level had increased by 20 per cent, against 2005–06 levels.

Audit objective and criteria

14. The objective of the audit was to assess how effectively DHS (including CSA), FaHCSIA and Centrelink managed the implementation of stage one of the CSSR and the Improving Compliance program.

15. The three main audit criteria were:

⁸ Australian Government, *Budget Paper No.2 2006-07* [Internet]. Commonwealth of Australia, 2006, available from <http://www.budget.gov.au/2006-07/bp2/html/bp2_expense-08.htm> [accessed 12 October 2009].

- The implementation of stage one of the CSSR and the Improving Compliance program was effectively planned.
- The targets and objectives of stage one of the CSSR and the Improving Compliance program were achieved.
- The ongoing impact of stage one of the CSSR and the Improving Compliance program are effectively monitored and evaluated, and this information is used to make adjustments and inform future decision-making.

Overall conclusion

16. The Child Support Reforms were aimed at addressing growing concerns in the community about the adequacy of the then Child Support Scheme and its administration. Representing the most significant change to the Scheme since its inception, the CSSR were an important step to address concerns about the fairness and adequacy of the Scheme through better balancing the interests of both parents and increasing the focus on the needs and costs of children. Further, to complement the CSSR, a compliance program was considered necessary to address the growth in child support debt and maintain compliance, that is the number of parents who pay child support in full and on time, in the lead up to the change in the child support formula in July 2008.

17. The Child Support Reforms were led by FaHCSIA, with common governance arrangements, (including the establishment of the CSSR Steering Committee), at a whole-of-government level being adopted for both stage one of the CSSR and the Improving Compliance program. However, the day-to-day delivery of both initiatives were essentially undertaken and managed by CSA, in partnership with other agencies such as Centrelink, ATO and DVA, on specific projects.

Stage one of the Child Support Scheme Reforms

18. The changes to the Child Support Scheme associated with stage one of the CSSR took effect as planned on 1 July 2006. This was despite a compressed timeframe for planning and implementation due to the Child Support Reforms only being agreed and announced in February 2006; with Royal Assent for the necessary legislative changes being received in mid June 2006.

19. As is common with the delivery of any major policy reform, the planning and implementation of stage one of the CSSR experienced some difficulties. These issues impacted on systems and processes; and ultimately some customers. Many of these issues, however, could have been better managed, or in some cases avoided, if weaknesses in both whole-of-government and individual agency governance and project management arrangements (such as risk management, communication and performance monitoring and reporting) had been adequately addressed.

20. Those areas that contributed to some of the difficulties encountered included:

- CSA's inexperience with implementing significant policy reforms, and not having in place a robust project management framework supported by appropriate skills and resources;
- the absence of intra- and inter-agency agreements to support collaboration in the delivery of the reforms resulted in issues such as inefficient customer communication activities; and systems integration problems which limited the ability of agencies to exchange information and maintain a common understanding of progress; and
- insufficient risk management practices which led to some risks, such as communicating to customers the rationale for the CSSR, being identified but inadequately managed.

21. Stage one of the Child Support Scheme Reforms affected approximately 33 per cent of CSA's total customer base. From individual customer's perspectives, financial impacts varied significantly with the largest number of affected customers (190 359 cases) receiving an increase to their annual child support assessment from \$260 to \$320 (minimum payment) while over 3000 customers received a reduction in their child support assessment of over \$500 per month (maximum payment).⁹

22. Changes implemented as part of stage one of the CSSR were expected to contribute to the broader outcomes of CSSR. Due to limitations in the setting, monitoring and reporting of performance indicators, it is difficult to determine if the intended outcomes of stage one of the CSSR and their

⁹ Department of Families, Housing, Community Services and Indigenous Affairs, *Child Support Reform: Stage One Management Information Report*, 2007.

contribution to the overall success of CSSR were achieved. CSA did, however, undertake a review of the implementation of stage one of the CSSR to identify areas that could be improved for the subsequent implementation of stages two and three of the CSSR.

Improving Compliance program

23. The Improving Compliance program was designed to achieve three key outcomes. Based on results to date, the program is on track to achieve one of those outcomes through meeting the adjusted child support collection target of \$339 million¹⁰ by 30 June 2010. In relation to the two remaining outcomes:

- the child support compliance rate was not maintained during the transitional compliance period; and
- it is unknown whether the revised Family Tax Benefit (FTB) savings of \$43 million¹¹ over four years will be achieved because savings attributable to cases that have been subject to CSA compliance action are not assessed.

24. Unlike stage one of the CSSR, CSA had scope to plan the projects which constituted the Improving Compliance program beyond the three projects recommended by the Ministerial Taskforce. CSA's planning did not, however, effectively utilise this opportunity. This was evident through a lack of strategic planning to identify and address key risks to the Child Support Scheme and some inadequate financial management practices regarding costing, budgeting and resourcing. The effects of these shortcomings include that some compliance risks to the Child Support Scheme remain unaddressed, and some individual projects have been unable to achieve their collection targets.

25. Contributing to limitations of the Improving Compliance program was the delay in implementing governance frameworks and the lack of robust project management strategies (including risk management and performance monitoring and reporting).

¹⁰ This target was originally \$463.6 million but was reduced due to an administrative oversight in setting the target.

¹¹ This target was originally \$52.7 million but was revised with the collection target.

Areas for improvement

26. Since the introduction of stage one of the CSSR and the Improving Compliance program, DHS and CSA have taken some steps to improve operations. This included the July 2008 departmental reorganisation which, among other things, has helped to identify the overhead and corporate costs of the Child Support Program more accurately.

27. Notwithstanding these changes, there remain areas for improvement. Using the identified shortcomings in the planning and implementation of stage one of the CSSR and the Improving Compliance program, the ANAO has made six recommendations to help improve existing business practices and the implementation of future policy initiatives. These recommendations have a focus on:

- improving the clarity and implementation of project management (including risk management) and governance frameworks;
- more effectively utilising and integrating compliance tools, such as case selection and prosecutions, in CSA's operations; and
- better coordinating communication campaigns across the Human Services portfolio where initiatives are being delivered for a shared purpose.

28. Stage one of the CSSR and the Improving Compliance program were part of a significant package of measures, totalling almost \$900 million, which were aimed at reforming the Child Support Scheme through changing customer behaviours, achieving better outcomes for those involved and improving administrative practices. There were common issues experienced in planning and implementing both stage one of the CSSR and the Improving Compliance program resulting from inadequate governance frameworks and a lack of robust project management arrangements (incorporating risk, budget and resource management, and performance monitoring and reporting). This highlights the importance of agencies evaluating existing organisational strengths and weaknesses to identify the changes required to support the implementation of major policy initiatives and delivery of expected outcomes.

Key findings by Chapter

Stage one of the Child Support Scheme Reforms

29. The changes associated with stage one of the CSSR took effect as planned on 1 July 2006. Stage one of the CSSR affected approximately 500 000 (33 per cent) of CSA's customers. The financial impact on individual customers varied in significance, with some customers experiencing an annual increase in their child support liability from \$260 to \$320 and other customers experiencing a decrease in their child support liability of over \$500 per month.

30. An important purpose of stage one of the CSSR was to contribute to the achievement of the broader outcomes of the CSSR, such as encouraging greater cooperation between parents. However, due to limitations in the setting, monitoring and reporting of performance indicators, it is difficult to determine if the intended outcomes of stage one of the CSSR and their contribution to the overall success of CSSR were achieved. CSA did undertake a review of the implementation of stage one of the CSSR to identify areas for improvement for the implementation of stages two and three of the CSSR.

31. As is common with the delivery of any major policy reform, the planning and implementation of stage one of the CSSR experienced some difficulties that impacted on systems and processes and ultimately on customers. Many of these issues, however, could have either been better managed, or in some cases avoided, had greater attention been paid to both whole-of-government and agency governance and project management arrangements.

Improving Compliance program development

32. The Improving Compliance program presented the opportunity for CSA to assess the effectiveness of its existing compliance strategy and implement a program that addressed the risks associated with compliance in the Child Support Scheme.

33. In planning the Improving Compliance program, CSA did not undertake a robust assessment to identify the major compliance risks in the Child Support Scheme. Instead, the program was largely based on an extension of the existing National Integrated Compliance Strategy.

34. While the Improving Compliance program has addressed some of the risks in the Child Support Scheme, as a result of the approach adopted by CSA,

the program did not identify and/or adequately address some key risks in the assessment, collection and debt recovery stages that could have been determined from the information available at the time.

Transitional Compliance project

35. The Transitional Compliance project was established to address the risk of customer non-compliance during the CSSR implementation period. Customer compliance indicators during the period 1 July 2006 to 1 July 2008 show that this was not achieved. Compliance levels for the proportion of customers paying their full child support liability decreased by 3.5 per cent (from 45.9 per cent to 42.4 per cent), while the proportion of customers paying no child support increased by 1.1 per cent (from 12 per cent to 13.1 per cent). During this period Total Child Support debt also increased by 12.8 per cent, growing from \$899.5 million¹² to \$1.014 billion.¹³

36. One factor that could have contributed to this result was CSA's decision to undertake additional compliance activities that were not originally part of the Transitional Compliance project. While these other compliance activities had an impact on compliance levels, they were not specifically targeted at the original objective of the project.

37. Tracing the correct addresses for customers, estimate reconciliation backlog, international debt and customer fraud were all areas that CSA could have considered as part of the Improving Compliance program had an assessment of the risks to the Child Support Scheme been undertaken when it was planned. CSA's attempt to address these areas as short term projects did not recognise their complexity or significance. This is demonstrated in various ways, including the need for CSA to re-establish a tracing project and seek further funding to address the estimate reconciliation backlog; and also the growing level of international debt.

38. Other projects, such as the Prosecution and Optical Surveillance projects, aim to address important compliance risks and continue to be supported as part of the ongoing Improving Compliance program. Through

¹² Child Support Agency, *Child Support Scheme Facts and Figures 2006-07*, CSA, Canberra, 2007, p.51.

¹³ Child Support Agency, *Collection Update Edition 9*, 2008.

improved guidance and strategy, such as a case selection policy, these projects could be better employed to fully realise their potential.

39. Had CSA conducted a robust risk analysis during planning, the areas that have been targeted through the Transitional Compliance project could have been identified and potentially included as part of the Improving Compliance program. This could have then contributed to the development of sound ongoing strategies to deliver long-term improvements in managing the risks, and allowed CSA to use the Transitional Compliance project to specifically target the intended objective – minimising the risk of non-compliance prior to implementation of the reforms.

Delivery of the Improving Compliance program

40. The CSSR Steering Committee's oversight of the Improving Compliance program was limited given that the day-to-day implementation of the program primarily resided with CSA. The Steering Committee's role did not extend to budget and resourcing strategies, which were ultimately critical to the overall success of the program. Despite putting in place a project management plan, some identified key risks to the success of the Improving Compliance program were not effectively monitored or reported on and materialised, such as the growth in non-compliance during the transitional compliance period.

41. CSA recognised, at an early stage, the limitations of its project management framework to support the scope of change required for the Child Support Reforms and sought external assistance. However, project management arrangements, incorporating a risk management framework, were not fully developed until ten months after the Improving Compliance program had commenced and were incomplete; partly due to the day-to-day implementation of the Child Support Reforms taking priority.

42. In some instances this had a detrimental impact on the Improving Compliance program which was reflected through the:

- lack of clarity in roles and cooperation between some business areas;
- incomplete project plans being approved; and
- inadequate identification and/or management of some risks, such as the lack of a coordinated approach to case management, that directly impacted on the ability of some projects to achieve their targets.

43. The issues encountered during implementation of the Improving Compliance program highlight the importance of applying a sound project management approach to support the delivery of expected outcomes; in this case, increased child support collections and enhanced compliance results. Delivery of the Improving Compliance program would have benefited from the earlier adoption of governance arrangements that were supported by clear and effective project management arrangements, including a risk management framework.

CSA's budget and resource management

44. CSA's inability to effectively cost, budget and manage the financial and human resources for the Improving Compliance program had an ongoing, negative impact on its ability to achieve project targets.

45. In the 2009–10 Australian Government Budget, CSA received as part of its funding agreement an additional \$223.2 million over four years to manage its workload, maintain service standards and prevent growth in uncollected child support. In May 2009, CSA had not yet determined which of its business streams¹⁴ would receive funding from this measure, indicating that CSA's New Policy Proposal (NPP) development processes remain unaligned with its organisational planning and resource allocation processes.

46. Since CSA was brought into the newly formed DHS in 2004, CSA has essentially operated as a separate agency with its own corporate functions. DHS advised the ANAO that a departmental reorganisation that came into effect in July 2008 has brought together the enabling functions (including finance) of CSA within the department. This is expected to improve the transparency of project costs and requirements; and to help DHS identify the overhead and corporate costs of CSA more accurately.

Improving Compliance program monitoring, reporting and outcomes

47. The monitoring and reporting of the Improving Compliance program improved over time as automated systems were introduced. While CSA undertook many reviews to assess the implementation of the Child Support Reforms and to improve operations, the ongoing performance reporting

¹⁴ 'Stream' is the term used by CSA to describe its business lines, for example, New customers stream.

system was limited in its effectiveness due to some of the risks and issues that were repeatedly identified by programs and projects going unaddressed.

48. The Improving Compliance program was designed to achieve three key outcomes, namely: address the risk of customer non-compliance during the CSSR transition period; increase child support payments; and reduce FTB payments.

49. Various measures, such as the proportion of customers paying their full child support liability (declined 3.5 per cent) and the proportion of customers paying no child support (increased 1.1 per cent), indicate that compliance levels dropped during the CSSR transitional period. During this time other compliance measures demonstrated unfavourable trends, including debt levels which increased by \$114.5 million to over \$1 billion, and the accuracy of assessments which declined.

50. Child support collections have increased as a result of the Improving Compliance program with CSA likely to achieve its collection target of \$339.3 million (over four years) if the current collection rates are maintained. It is unknown if the FTB savings target of \$43 million (over four years) will be met because actual FTB savings resulting from compliance measures are not assessed by departments.

51. Underpinning the reporting of collection results, the ANAO identified some limitations relating to the accuracy of the data, such as including collection results attributable to activities outside of the Improving Compliance program and some collection results being counted twice. Therefore, these issues need to be considered when interpreting the collection results.

Summary of agency responses

Department of Human Services

52. DHS responded to the audit as follows:

The Department welcomes the audit and agrees with its recommendations. Since the implementation of Stage One of the Child Support Scheme Reforms and the Improving Compliance Program, the CSA has worked to improve the efficiency and effectiveness of the service it offers separated parents.

The audit report identifies a number of suggestions for further improvements, many of which have been addressed since stage one of the reforms. The recent integration into the Department has assisted in improving the portfolio

communication approach as well as integrating the enabling services to improve internal budgeting processes.

The Improving Compliance program measure is in its final stages and is to be completed in 2010. However, a range of activities undertaken as part of this measure will continue in the CSA's ongoing compliance operations. The audit report provides a valuable assessment framework to develop changes to ongoing and future compliance operations.

The report makes reference to the delayed use of taxable income and prioritisation of the reassessment of cases. The current prioritisation is the result of formal government decisions taken after careful consideration of analysis of the caseload.

The Department notes the report's review of practices including risk and project management, as well as monitoring and reviewing processes and recognises the value of the improvements recommended to ensure effective and efficient best practice.

Department of Families, Housing, Community Services and Indigenous Affairs

53. FaHCSIA responded to the audit as follows:

The Department of Families, Housing, Community Services and Indigenous Affairs welcomes the findings of the audit report *Child Support Reforms: Stage one of the Child Support Scheme Reforms and Improving Compliance*. FaHCSIA recognises the importance of effective governance arrangements that are assessed and regularly reviews governance arrangements to ensure they continue to meet the needs for which they were established.

FaHCSIA agrees in part with Recommendation 6 in relation to possible benefits in specifically tracking these savings, for example better informing future policy initiatives. FaHCSIA notes it currently monitors Family Tax Benefit savings actually achieved from child support collections. These cannot currently be attributed to individual Child Support Agency compliance activities. FaHCSIA will continue to explore opportunities for more detailed analysis of FTB savings in the future, while ensuring that the costs of tracking these amounts are carefully balanced with the benefit they would provide.

Recommendations

Recommendation No.1

Para 2.20

Where initiatives within the Human Services portfolio require multiple agencies to communicate with customers for a shared purpose, the ANAO recommends that the Department of Human Services coordinate communications to facilitate the provision of cohesive and comprehensive information to affected individuals.

DHS response: *Agreed.*

Recommendation No.2

Para 3.59

In order to adequately address continuing and emerging compliance risks to the Child Support Scheme, the ANAO recommends that CSA improve its approach to compliance risk management, particularly through implementing procedures that allow for the better identification, treatment and monitoring of risks.

DHS response: *Agreed.*

Recommendation No.3

Para 4.29

To improve the effectiveness of prosecution activity, the ANAO recommends that CSA review and update its prosecution policy to ensure that it meets current operational requirements, including guidance on case selection.

DHS response: *Agreed.*

**Recommendation
No.4**

Para 5.44

The ANAO recommends that CSA develop a coordinated national approach to case selection that:

- is risk based and provides appropriate coverage of CSA's customers;
- strategically allocates cases to suitable compliance projects; and
- utilises analysis from successful case types to inform the strategies of its compliance projects.

DHS response: *Agreed.*

**Recommendation
No.5**

Para 6.24

The ANAO recommends that CSA improve its budget and resource management processes through early identification of program requirements and allocations that align with program objectives.

DHS response: *Agreed.*

**Recommendation
No.6**

Para 7.40

To improve the accuracy and usefulness of the Child Support Scheme compliance performance reporting, the ANAO recommends that Family Tax Benefit payment savings attributable to compliance action are estimated and reported.

DHS response: *Agreed.*

FaHCSIA response: *Agreed with qualification.*

Audit Findings and Conclusions

1. Introduction

This Chapter provides background on the Child Support Agency, the Child Support Scheme and the Child Support Reforms. It also outlines the audit approach.

Child Support Agency

1.1 In 1988, the Child Support Agency (CSA) was established as part of the Australian Taxation Office (ATO) to administer the Child Support Scheme and to support separated parents to transfer child support payments.¹⁵ CSA's functions and operations derive from the *Child Support (Registration and Collection) Act 1988* and the *Child Support (Assessment) Act 1989* (the Acts).

1.2 In 1998, CSA was transferred to the Department of Family and Community Services¹⁶ before becoming part of the newly formed Department of Human Services (DHS) in 2004. DHS is responsible for the 'development, delivery and coordination of Australian Government services'¹⁷ and provides 'advice on service delivery policy and leadership'¹⁸ to Human Services portfolio agencies.¹⁹

1.3 Despite nominally being a section of DHS since 2004, CSA remained relatively independent until mid-2008 when its corporate functions were combined with DHS. CSA is now known within government as the Child Support and Planning Program of DHS but retains its CSA branding externally. CSA is led by the Deputy Secretary, Child Support and Planning, who is also the Child Support Registrar for the purposes of the Acts.

1.4 CSA's role includes the registration of separated parents and their children, the assessment of child support liabilities; and the collection, enforcement and transfer of child support payments. CSA also manages customer complaints and objections, and reviews assessments when requested

¹⁵ Appendix 2 shows the major developments in the Child Support Scheme since its introduction and CSA's establishment in 1988.

¹⁶ Now known as the Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) which is the reference used throughout this report.

¹⁷ Department of Human Services, *Annual Report 2004–05*, DHS, Canberra, 2006, p.16.

¹⁸ Department of Human Services, *Annual Report 2007–08*, DHS, Canberra, 2009, p. 3.

¹⁹ Centrelink, Medicare Australia and Australian Hearing.

by customers through the change of assessment process. In fulfilling its role, CSA has over 1.5 million customers and, in 2008–09, assisted in the transfer of approximately \$2.8 billion in child support payments.²⁰

Child Support Scheme

1.5 The Child Support Scheme was developed in the late 1980s to address concerns about the poverty of women and children following separation and divorce; and the increasing government expenditure to support children where parents were not meeting their financial obligations.²¹ The Child Support Scheme was implemented to provide an administrative avenue to parents, outside of court involvement, as a means to determine and enforce the transfer of child support.

1.6 The Child Support Scheme provides for CSA to determine child support assessments and empowers CSA with various compliance tools to enforce the collection of child support. These enforcement powers include the capacity to issue a Departure Prohibition Order (DPO), litigate non-compliant parents with an identified means of payment and intercept tax refunds.

1.7 In determining the amount of child support payable, CSA uses a formula that takes into account the income and level of care of both parents and the cost of raising children.²² At the very least, the paying parent will be required to pay a minimum amount of child support (\$6.82 per week as at 1 July 2009), which is increased annually in line with the Consumer Price Index.

1.8 There are two main types of customer groups in the Child Support Scheme; parents with CSA collect arrangements (48 per cent of cases) and parents with private collect arrangements (52 per cent of cases). For CSA collect customers, CSA determines, collects and transfers the child support payable. Alternatively, private collect customers are registered with CSA but transfer payments between themselves without the involvement of CSA. The amount of child support paid in private collect arrangements is based on either

²⁰ Department of Human Services, *Annual Report 2008–09*, DHS, Canberra, 2009.

²¹ Ministerial Taskforce on Child Support, op. cit., p.43.

²² Child Support Agency, *The child support formula* [Internet], CSA, Australia, 2009, available from <<http://www.csa.gov.au/ChildSupportFormula/theChildSupportFormula.aspx>> [accessed 15 July 2009].

a court order, CSA assessment or an agreement that has been accepted by CSA.²³

Responsibility for child support policy

1.9 While CSA has responsibility for the day-to-day delivery of the Child Support Scheme, FaHCSIA has maintained portfolio responsibility for child support policy development since 1998.

1.10 FaHCSIA has a dedicated child support area that was established after a recommendation of the Taskforce in May 2005.²⁴ Prior to 2005, FaHCSIA played a more limited role in child support policy with CSA undertaking many of the functions for which FaHCSIA had nominal responsibility.

Child Support Reforms

1.11 In 2003, the House of Representatives Standing Committee on Family and Community Affairs undertook an inquiry into child custody arrangements in the event of family separation and released a report which included a recommendation to examine the child support formula.²⁵ The Australian Government accepted this recommendation and established an independent Ministerial Taskforce to undertake the review.²⁶

1.12 In June 2005, the Ministerial Taskforce on Child Support released its report, *In the Best Interests of Children – Reforming the Child Support Scheme*. The report made 30 recommendations covering all aspects of the Child Support Scheme including changes to the child support formula, the broader Child Support Scheme and CSA's role and resources.

1.13 In response to the report, the Government provided \$877 million²⁷ over five years to implement a suite of measures known as the

²³ Child Support Agency, *Private payments* [Internet], CSA, Australia, available from <<http://www.csa.gov.au/ParentsAndCarers/privatePayments.aspx>> [accessed 15 July 2009].

²⁴ Ministerial Taskforce on Child Support, op. cit., p. 264.

²⁵ House of Representatives Standing Committee on Family and Community Affairs, op. cit.

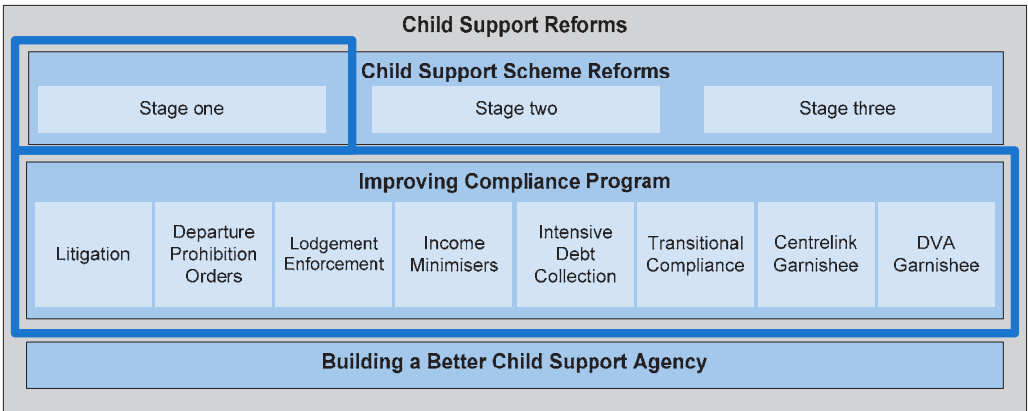
²⁶ Ministerial Taskforce on Child Support, op. cit.

²⁷ This figure takes into account the estimated savings associated with the changes. CSA received the bulk of the funding at over \$500 million. Other Government departments and agencies that received funding were the Department of Education, Employment and Workplace Relations; Attorney-General's Department; FaHCSIA; the Australian Taxation Office; Department of Veterans' Affairs; Federal Magistrates Court; and Centrelink.

Child Support Reforms, which were aimed at improving the Child Support Scheme.²⁸ The suite of measures comprised three key initiatives, which are shown at Figure 1.1. The components reviewed as part of this audit, stage one of the Child Support Scheme Reforms (CSSR) and the Improving Compliance program, are outlined.

Figure 1.1

The Child Support Reforms



Source: ANAO.

1.14 More specifically, the Child Support Scheme Reforms (CSSR) comprised policy changes to the Child Support Scheme that had been recommended by the Taskforce and agreed to by Government. The Improving Compliance program provided funding for the implementation of an enhanced compliance program, of which some activities stemmed from recommendations made by the Taskforce. While the Building a Better CSA (BBCSA) program provided funding for CSA to make organisational and customer service enhancements through activities determined by CSA.²⁹

Child Support Scheme Reforms

1.15 The overall aim of the CSSR was to:

²⁸ Australian Government, op. cit.

²⁹ The Building a Better CSA program is the subject of a separate ANAO performance audit that is expected to be tabled in 2009–10.

Ensure it [the Child Support Scheme] focuses on the needs and costs of children and places a greater emphasis on shared parental responsibility.³⁰

1.16 Given the number of changes involved, the CSSR were introduced in a phased manner over three years commencing with stage one on 1 July 2006 and concluding with stage three, including the new child support formula, on 1 July 2008.³¹

1.17 CSSR was implemented in a staged approach to manage implementation constraints such as legislation and IT system enhancements. Changes implemented as part of stage one, the focus for part of this audit, were prioritised based on significance and capacity. The changes under stage one affected approximately 500 000 customers in 2006–07, and consisted of:

- expanding the eligibility requirements for the with-child rate of Newstart and related income support payments from customers who care for their children for at least 30 per cent of the time (110 nights per year), to customers who care for their children at least 14 per cent of the time (52 nights per year);
- enabling customers who pay child support to direct up to 30 per cent (an increase from 25 per cent) of their payments to specific items essential for their children, such as school fees and medical costs;
- changing 'assessment of capacity'³² guidelines to limit the circumstances under which a customer's income can be decreased for child support assessment purposes;
- reducing the amount of annual income above which no additional child support was payable from \$139 347 to \$104 702;
- improving support for separating families through improved referral processes for Family Relationship Centres and the Family Relationship Advice Line³³; and

³⁰ Australian Government, op cit.

³¹ Stage two commenced on 1 January 2007.

³² If a customer subject to a child support assessment does not believe their child support assessment is fair, they can apply for a 'change of assessment.'

³³ In 2005–06, the Government announced a package of measures called 'A new family law system' worth almost \$400 million over four years. The package included the establishment of a network of Family Relationship Centres to be supported by a Family Relationship Advice Line and website with funding of \$199.1 million over four years.

- increasing the minimum payment from \$5 to \$6.14 per week from 1 July 2006 and then increasing it annually in line with the Consumer Price Index.³⁴

Improving Compliance program

1.18 The Improving Compliance program is a series of ongoing compliance projects with the exception of the Transitional Compliance project, which ran from June 2006 to June 2008.³⁵ Funding for the Improving Compliance program commenced in 2005-06 (\$0.7 million), and totals \$165.1 million over five years to 2009-10.³⁶

1.19 The Transitional Compliance project funded four proposed activities aimed at minimising the risk of customer non-compliance in the lead up to the introduction of the new child support formula in June 2008.³⁷

1.20 The ongoing compliance projects include:

- expansion of the tax return Lodgement Enforcement project (LENF) by increasing the number of non-lodgement customer referrals to the ATO by an additional 100 000 per year;
- increasing litigation action to recover outstanding child support liabilities;
- increasing the coverage of Departure Prohibition Orders (DPOs);
- increasing investigation of customers' deliberate understatement of income (Income Minimiser);
- continuing the Intensive Debt Collection project, which is focussed on managing customers who have proven to be difficult to collect child support from in the past; and

³⁴ Department of Families, Housing, Community Services and Indigenous Affairs, *Factsheet One: An overview of the reforms 2007* [Internet]. FaHCSIA, Australia, 2006, available from <<http://www.csa.gov.au/schemereforms/factsheets.aspx>> [accessed viewed 15 November 2007].

³⁵ Although funding was provided in 2005-06 to CSA to commence the Transitional Compliance project, CSA did not commence the project until 2006-07.

³⁶ CSA was allocated the majority of the funding (\$162.2 million) and Centrelink the remainder (\$2.9 million). Source: Australian Government, op. cit.

³⁷ *ibid.*

- enhancing CSA's power to garnishee social security payments and Veterans' entitlements (Centrelink garnishee and Department of Veterans' Affairs (DVA) garnishee).³⁸

Delivery of the Child Support Scheme Reforms and Improving Compliance program

1.21 FaHCSIA, as the policy agency responsible for child support matters, was the lead agency for the implementation of CSSR and the Improving Compliance program and was accountable to the Government for their delivery. However, in a practical sense, the day-to-day delivery of the CSSR and Improving Compliance program was primarily the responsibility of CSA.

1.22 A number of other departments and agencies were also involved in implementing the CSSR changes and Improving Compliance program. These agencies were largely Centrelink, ATO and DVA.

1.23 FaHCSIA established the CSSR Steering Committee, which was designed to oversee and monitor implementation of CSSR and the Improving Compliance program, including reviewing the progress of implementation and resolving cross portfolio issues. The Committee's core membership comprised of representatives from: FaHCSIA (Chair), DHS, CSA, Centrelink and the Attorney-General's Department (AGD).³⁹ Standing invitations were extended to other agencies to attend Steering Committee meetings when relevant.

1.24 Working groups were also established as part of the CSSR governance structure which were designed to oversee the development, management and reporting of particular Child Support Reforms aspects, other than those relating to service delivery and system implementation.

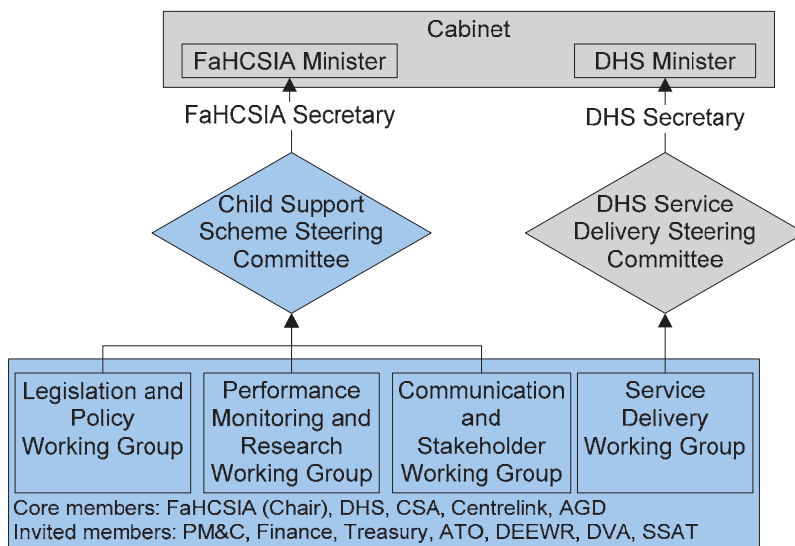
1.25 DHS played a role in implementing the Child Support Reforms through the DHS Service Delivery Committee, which was responsible for the service delivery and systems implementation associated with CSSR and Building a Better CSA program. The governance arrangements supporting the CSSR are shown in Figure 1.2.

³⁸ Australian Government, op. cit.

³⁹ AGD was a core member of the CSSR Steering Committee due to its role in implementing the 'New Family Law System' announced in the 2005–06 Commonwealth budget that included the introduction of Family Relationship Centres and the Family Relationship Advice Line.

Figure 1.2

CSSR governance structure



Source: ANAO representation of information from FaHCSIA, *Child Support Scheme Reform Project Management Plan* (v6.0), 2006.

Note: SSAT (Social Security Appeals Tribunal).

Related ANAO audits

1.26 In November 2007, the ANAO tabled *Data Integrity in the Child Support Agency* (Audit Report No.16 2007–08) which made five recommendations. In 2005–06, the ANAO tabled the cross-portfolio *Forms for Individual Service Delivery* (Audit Report No.26 2005–06) which included CSA.

1.27 The ANAO has underway two audits related to the current audit: *Child Support Reforms: Building a Better Child Support Agency* and the *Implementation of the Family Relationship Centres Initiative*. The reports on these audits are expected to be tabled by mid-2010.

The audit objective and approach

1.28 The objective of the audit was to assess the effectiveness of DHS's (including CSA), FaHCSIA's and Centrelink's management of the implementation of stage one of the CSSR and the Improving Compliance program.

Audit criteria

1.29 The three main criteria for the audit were:

- The implementation of stage one of the CSSR and the Improving Compliance program was effectively planned.
- The targets and objectives of stage one of the CSSR and the Improving Compliance program were achieved.
- The ongoing impact of stage one of the CSSR and the Improving Compliance program are effectively monitored and evaluated, and this information is used to make adjustments and inform future decision-making.

Audit approach

1.30 The audit methodology has been prepared to comply with the ANAO's Auditing Standards to ensure that there is sufficient and appropriate evidence to form a reliable audit opinion. The audit involved:

- examining files and records kept by DHS (including CSA), FaHCSIA and Centrelink;
- interviewing staff from CSA (29 national office staff, 101 staff from seven metropolitan customer service offices, 12 staff from three regional services centres), DHS, FaHCSIA, Centrelink, Department of Immigration and Citizenship, ATO, DVA and AGD; and
- seeking the views of relevant stakeholders, including non-government organisations.

1.31 This audit was conducted in accordance with ANAO Auditing Standards at a cost of approximately \$387 068.

Report structure

1.32 This report examines the implementation of stage one of the CSSR and the Improving Compliance program separately. Due to the scope and length of the Improving Compliance program, most Chapters are specific to the Improving Compliance program.

1.33 This report examines common areas across stage one of the CSSR and the Improving Compliance program, namely the governance arrangements, risk management, monitoring and review and the achievement of outcomes.

1.34 The areas examined as part of this audit are set out in the following Chapters:

- Stage one of the CSSR (Chapter two)
- Improving Compliance program development (Chapter three)
- Transitional Compliance project (Chapter four)
- Delivery of the Improving Compliance program (Chapter five)
- CSA's budget and resource management (Chapter six)
- Improving Compliance program monitoring, reporting and outcomes (Chapter seven).

2. Stage One of the Child Support Scheme Reforms

This Chapter examines the planning, implementation, monitoring, reporting and outcomes of stage one of the Child Support Scheme Reforms.

Introduction

2.1 In February 2006, the Australian Government announced the Child Support Reforms package of measures, including the CSSR, with stage one of the CSSR to commence from 1 July 2006. Between the announcement of the package and implementation of stage one of the CSSR, relevant departments and agencies were required to finalise funding arrangements in addition to planning operational requirements for the changes. In this period, the relevant legislation also needed to be developed and receive Royal Assent. Therefore, despite some preliminary work being done prior to February 2006, this meant that planning for the implementation of stage one of the CSSR was undertaken in a compressed timeframe.

2.2 There are several areas that are integral to the successful implementation of policy and programs including:

- governance;
- project management;
- risk management;
- communication; and
- monitoring and review.

2.3 These issues, as related to stage one of the CSSR, are examined in the remainder of this Chapter from both a whole-of-government perspective and also with respect to CSA, given its central role in the delivery of the reforms.

Governance arrangements

Better practice governance

Governance is the set of responsibilities and practices, policies and procedures, exercised by an agency's executive to provide strategic direction, ensure objectives are achieved, manage risks and use resources with responsibility and with accountability.⁴⁰

Whole-of-government governance arrangements

2.4 The whole-of-government governance arrangements, established to support the implementation of the Child Support Reforms, were finalised in May 2006. Therefore, while the CSSR Steering Committee and working groups were meeting prior to the implementation of stage one of the CSSR in July 2006, up until May, the meetings were largely focussed on the establishment of governance structures, rather than issues associated with implementation of the reforms.

2.5 As a result, many of the key program management tools that underpin the governance structure, such as the risk plan, work plan, communications plan, and monitoring arrangements, were also under development during implementation of stage one of the CSSR, and were not agreed until July 2006, after the changes had commenced.

Whole-of-government coordination

2.6 The absence of an established governance structure and underpinning arrangements, combined with a limited number of inter-agency governance agreements, contributed to a lack of cross-agency collaboration. As a result, problems were encountered that included:

- customers did not receive joint communications from Centrelink and CSA explaining the combined impact and rationale of the reforms each agency implemented (refer paragraphs 2.17 to 2.19);
- systems integration errors between Centrelink and CSA led to insufficient child support being deducted from the income support payments of some Centrelink customers (refer paragraphs 2.27 to 2.29); and

⁴⁰ ANAO and Department of the Prime Minister and Cabinet, *Implementation of Programme and Policy Initiatives*, Commonwealth of Australia, Canberra, 2006, p.13.

- CSA was unable to provide FaHCSIA with the performance data it required to evaluate the impact of the scheme reforms (refer paragraph 2.53).

CSA's governance arrangements

2.7 When the Child Support Reforms were announced, CSA did not have an established governance framework in place to support the implementation of stage one of the CSSR.

2.8 CSA commenced planning its governance framework for managing the implementation of the Child Support Reforms in January 2006 through establishing the 'National Change Executive' as an internal steering committee to oversee the delivery of the program. In April 2006, CSA engaged consultants to assist it in preparing for the implementation of the Child Support Reforms, including finalising CSA's governance framework and the associated tools. However, CSA's framework was only agreed in-principle in July 2006—after implementation of stage one of the CSSR—and was not finally agreed until April 2007.

2.9 While CSA was still able to implement the necessary changes for stage one of the CSSR on 1 July 2006, the absence of established governance arrangements compromised the level of scrutiny of risk and issue management and did not provide for transparent decision-making.

Project management

Better practice project management

Planning for implementation is most effective when it is underpinned by a systematic and structured approach and supported by a sound project management methodology. Plans should show how an initiative will be implemented. The map should deal with matters such as timeframes and roles and responsibilities.⁴¹

Whole-of-government project management

2.10 The CSSR Steering Committee developed a project management plan for stage one of the CSSR that included: project delivery milestones, risks, funding allocations, role and purpose of the committee and associated working groups, communication management and reporting requirements. However,

⁴¹ ANAO and Department of the Prime Minister and Cabinet, op. cit., p. 26.

this plan was not finalised until July 2006—after the introduction of stage one of the CSSR.

2.11 Earlier introduction of a project management plan could have assisted in avoiding some of the whole-of-government issues encountered in implementing stage one of the CSSR, such as risk management (refer paragraphs 2.14 to 2.29) and the coordination of communications (refer paragraphs 2.40 to 2.41).

CSA's project management

2.12 CSA did not have an established project management framework in place prior to the implementation of stage one of the CSSR as there had been little change in the Child Support Scheme since its inception. In order to put in place a structure around how it would implement stage one of the CSSR, CSA began developing a project plan in May 2006. However, partly due to the compressed timeframe, CSA placed greater attention on trying to address specific issues on a day-to-day basis and the project plan was never completed or approved.

2.13 Included in the project plan template was a risk register and communication plan, although both of these plans had not been completed for stage one of the CSSR. Had the project plan been completed in full, including the risk register and communications plan, CSA could have used it to inform decision-making and actions, and may have avoided some of the issues it encountered concerning risk management (refer paragraphs 2.31 to 2.36) and communication (refer paragraphs 2.42 to 2.48).

Risk management

Better practice risk management

Systematic risk management practices enable agencies to be confident that implementation has been designed to achieve government objectives most effectively. Good risk management practices reduce the likelihood or consequence of unpleasant surprises that may jeopardise the achievement of objectives.⁴²

⁴² ANAO and Department of the Prime Minister and Cabinet, op. cit., p. 19.

Whole-of-government risk management

2.14 The identification and allocation of risks for treatment and monitoring is one step that underpins successful project management. The importance of this process increases when undertaking whole-of-government projects with numerous agencies involved. Those agencies should have a common understanding of the identified risks and who is responsible for managing them, including shared risks.⁴³

2.15 Minimal risk planning, that largely involved identifying some risks, was undertaken prior to the implementation of stage one of the CSSR. For those risks identified, the CSSR Steering Committee did not allocate responsibility for treatment, monitoring and reporting until after the reforms had commenced.

2.16 The lack of attention to risk management resulted in some risks that were identified being insufficiently managed and subsequently being realised. These included:

- the rationale of increased eligibility for the with-child rate was not communicated to customers; and
- poor cross-agency collaboration, leading to inefficient processes and impacts on some customer payments.

Rationale of increased eligibility for with-child rate

2.17 The CSSR risk register identified lack of cross-agency consistency in messages as a risk. Centrelink was responsible for implementing the expanded eligibility for the with-child rate initiative with the Department of Education, Employment and Workplace Relations (DEEWR) being the responsible policy department.⁴⁴ The rationale for increasing the eligibility for the with-child rate of particular income support payments was to encourage customers to spend more time with their children, however, this was not explained to customers. Joint CSA/Centrelink customers that were affected received a standard payment assessment notice from Centrelink that did not outline the reason for the increase in the payment rate because it was not a legal requirement and

⁴³ *ibid.*, p. 20.

⁴⁴ DEEWR is the policy department responsible for the Newstart payment and related payments.

modifying the standard letter would have resulted in a cost (estimated by Centrelink to be \$10 000 to \$15 000).

2.18 CSA also did not list the with-child rate change on its website, in its customer newsletter or in its staff training package.⁴⁵ As determined by DEEWR, customers were expected to self-identify eligibility for the with-child rate by ensuring care arrangement details were current. However, no mail out notifying customers of the change to the with-child eligibility rate or the requirement to update care information was conducted.

2.19 Communicating the reasoning behind policy changes is an important part of educating those affected and driving the desired changes in behaviour; in this instance, to achieve the broader outcomes of the CSSR, such as improved quality of relationships in separated families (refer paragraph 2.50). As the lead agency responsible for service delivery coordination, DHS could have played a more active role in coordinating the communications of its portfolio agencies through the DHS Service Delivery Steering Committee. Coordinated communication could have been in a number of forms including a joint CSA/Centrelink letter detailing the combined impact of stage one of the CSSR on individuals; or, in-lieu of an integrated approach, through the inclusion of information about the with-child rate in CSA's customer and stakeholder communication.

Recommendation No.1

2.20 Where initiatives within the Human Services portfolio require multiple agencies to communicate with customers for a shared purpose, the ANAO recommends that the Department of Human Services coordinate communications to facilitate the provision of cohesive and comprehensive information to affected individuals.

2.21 DHS response: *Agree.* The Department agrees that communication across multiple agencies within the portfolio requires effective and timely coordination. For the implementation of Stages Two and Three of the Child Support Scheme Reforms, the CSA, on behalf of the Human Services portfolio, coordinated all communication with customers for multiple agencies within the portfolio. The Communication and Stakeholder Working Group, chaired

⁴⁵ Child Support Agency, *Child Support Scheme Fast Facts for Parents*, CSA, Canberra, 2006.

by the CSA, was a key driver for this collaboration on communication approach and activities, for portfolio agencies and other departments whose customers were affected by the reforms.

2.22 This coordination will be improved in the future with the integration of portfolio agencies' communication functions into a single departmental communication team. The first stage of this integration was completed in April 2009 with the Department, CSA and Medicare Australia communication teams coming together. Work to identify further opportunities to improve coordination of customer communication is continuing within the portfolio.

Poor cross-agency collaboration risk

2.23 Poor cross-agency collaboration was also identified as a risk in the CSSR Steering Committee risk register. Despite identification, the risk was not adequately treated and materialised in separate incidences including:

- some customers received fortnightly re-assessment notices for up to nine months; and
- customers had less than the minimum amount deducted from their Centrelink payments.

Fortnightly re-assessment notices

2.24 Realisation of this risk resulted in some customers affected by the increase to the minimum child support assessment receiving assessment notices each fortnight between July 2006 and December 2006. This situation arose from the incongruence between CSA's regulations requiring CSA to request weekly deduction amounts from Centrelink payments, and Centrelink's fortnightly payment cycle.

2.25 The minimum child support liability was \$12.27 per fortnight. Centrelink deducted the weekly amount as requested by CSA, which was \$6.13 one week and \$6.14 the following week.⁴⁶ In turn, Centrelink's system issued an assessment notice each fortnight to advise affected customers of the one cent assessment variation. As a result of this error, approximately 38 400 potentially unnecessary notices were sent to around 3 200 customers at a cost of \$19 200.

⁴⁶ Doubling the weekly amount does not always equal the fortnightly amount calculated using the formula specified at Section 5, Part 5, section 155 of the *Child Support (Assessment) Act 1989*.

2.26 Centrelink identified this anomaly in April 2006, before the reforms were implemented. However, CSA and FaHCSIA did not initiate the necessary regulatory changes to address the issue.⁴⁷ It was not until January 2007, when the minimum assessment was increased to \$12.76 per fortnight in line with Consumer Price Index, that this issue was addressed for some affected customers. Further legislative and system changes in 2007 allowed the problem to be addressed for the remaining customers, as well as prevent any future occurrences.⁴⁸

Deductions from Centrelink payments

2.27 Poor cross-agency systems integration was identified as a risk in early iterations of risk management planning. However, due to inadequate risk management, this risk was realised through a systems error that prevented CSA from requesting Centrelink to deduct the minimum rate from 38 000 customers as part of stage one of the CSSR. These customers, therefore, did not have the increased minimum amount (\$6.14 per week⁴⁹) deducted from their income support payments between July and September 2006.⁵⁰ Each customer accrued maximum arrears of \$11.35 across this period. The ANAO estimates the total maximum arrears accrued was approximately \$431 300.

2.28 As a result, some customers underpaid their child support liability and accrued arrears without their knowledge because CSA statements sent to customers reflected the increased minimum payment. The error was not corrected until 30 September 2006 when CSA became aware of the issue through customer complaints; almost three months after the reforms were introduced. At the time, the child support legislation prohibited recovery of more than the minimum amount so the arrears created from this error could not be recovered.

⁴⁷ The formula for calculating a fortnightly amount of child support payable is different to the approach taken by Centrelink. The compilation of the regulations was superseded by the regulations introduced on 1 July 2008. In this version, the prescribed deduction amount is the 'installment period' for a social security periodic payment determined under paragraph 43 (1) (b) of the *Social Security (Administration) Act 1999*.

⁴⁸ *ibid.*

⁴⁹ Annual increases to the minimum payment are based on indexing the annual minimum rate by the Consumer Price Index. Therefore, in July 2006, the minimum payment increased from \$5.00 to \$6.14 (149.8 [September 2005 weighted average] divided by 121.8 [March 1999 weighted average] multiplied by \$260 [minimum annual amount]).

⁵⁰ These customers had a 'suspended' Centrelink payment status and were therefore excluded by Centrelink from the minimum payment increase.

2.29 While only representing a relatively small financial impact on customers, this example demonstrates the importance of establishing treatments for identified risks and then actively monitoring and actioning any issues.

Agency risk management

2.30 At an individual agency level, risk management for stage one of the CSSR was also inadequate in some areas with impacts on both internal process and systems and, ultimately, on customers. The following outlines examples of where CSA's and Centrelink's risk management practices were insufficient.

CSA's risk management

2.31 CSA's project plan and risk register for the implementation of stage one of the CSSR was never completed. In the incomplete draft, CSA identified 43 potential risks in relation to the implementation of stage one of the CSSR. However, for many of the risks identified, no treatments were specified, nor were monitoring and reporting regimes established.

2.32 There were also risks that arose during the implementation of stage one of the CSSR that were not identified in the risk register. One such example involved the change of assessment process and the reduction in the maximum cap.

2.33 In May 2006, CSA identified through data sampling that some change of assessment decisions were being inconsistently recorded in Cuba, CSA's customer record database. As a result, CSA was required to manually review 1200 change of assessment decisions to determine which customers were entitled to a lower child support assessment due to the reduction in the maximum cap that formed part of stage one of the CSSR.

2.34 This process identified that 648 customers had 'income cap' recorded in the system and were therefore entitled to a reduction in their child support assessment. However, due to the manual process, this reduction was delayed for up to two months and consequently some customers made child support payments that were greater than required.

2.35 The remaining 552 customers had a specified annual rate or income amount, recorded in Cuba, which was above the income cap due to an assessment that the customer had a capacity to pay an amount greater than the maximum cap. The specified amount had generally been set through a process such as a court order or a change of assessment. Accordingly, these customers'

child support assessments could not be amended in line with the maximum cap reduction.⁵¹ Consequently, some of these customers, who could have expected to have their child support assessment amount automatically reduced (because it was based on an income amount greater than the income cap), did not receive a reduction and continued to pay a higher level of child support.

2.36 Had CSA completed the risk register for stage one of the CSSR, with an adequate focus on identifying risks and appropriate risk treatments, it could have enabled greater proactive management of the risks that were realised during implementation and minimised the impact on customers.

Centrelink's risk management

2.37 Similar to CSA, Centrelink also recognised a risk in preparing for the expansion of the with-child rate for some income support payments. It did not, however, go on to adequately assess and address the risk. In 2006, Centrelink identified, through an examination of the existing practices used to process with-child payment rates, that a systems error occurring since 2000 had resulted in 1603 customers being incorrectly paid the with-child rate. Overpayments totalled approximately \$1.5 million, which Centrelink raised and waived as debts.

2.38 To address this error, Centrelink introduced a system enhancement in July 2006 that made data entry in a particular field in its customer database, the Income Security Integrated System, mandatory in particular circumstances. This enhancement did not prevent all instances of customers being paid incorrectly. Also, Centrelink did not retrospectively correct all the existing records with errors when it introduced the system enhancement. From July 2006 until December 2008,

2.39 From July 2006 until December 2008, Centrelink identified and amended affected customers' payments. To be effective, risk treatments need to be implemented in a timely manner. This incident is an example of where this did not occur and, consequently, some customers continued to be incorrectly paid until December 2008. Centrelink advised the ANAO that system fixes introduced between July 2006 and December 2008 have prevented any further instances of this issue from occurring.

⁵¹ Department of Families, Housing, Community Services and Indigenous Affairs, *Child Support Reform Stage One Management Information Report*, 2007.

Communication

Better practice communication

Communication is a central component of any change process. The greater the impact or change, the greater the need for clear communication of the reasons and rationale behind it, the benefits expected, the plans for its implementation and its proposed effects. Without effective communication, stakeholders may miss out on vital information and may not understand why change is needed, or the benefits to them of the change.⁵²

Whole-of-government communication

2.40 The changes that formed part of stage one of the CSSR were expected to impact on approximately 500 000 customers. Accordingly, given the customer impact and the number of agencies involved, agreeing on a communications strategy was important. Despite this, agencies did not agree or put in place an overarching communications strategy to support the delivery of the reforms, and the extent of collaboration between agencies on the external communication strategy for stage one of the CSSR was limited. This was primarily due to the two CSSR governance working groups responsible for coordinating communication (CSSR Communication and Stakeholder Working Group and DHS Service Delivery Steering Committee) being focussed on finalising administrative arrangements rather than a communications strategy prior to the implementation of stage one of the CSSR.

2.41 FaHCSIA and CSA coordinated some aspects of communication for the reforms. For instance, FaHCSIA took responsibility for the announcement of the reforms⁵³ and published fact sheets⁵⁴ on its website for CSA customers (with links to the CSA website). While a good initiative, its effectiveness was somewhat limited due to CSA staff not being provided with the fact sheets. Also, CSA staff did not have access to the internet at that time⁵⁵ and therefore were unable to access these fact sheets or guide customers to their location.

⁵² ANAO and Department of the Prime Minister and Cabinet, op. cit., p. 47.

⁵³ Brough, M (Minister for Families, Community Services and Indigenous Affairs) 2006, *Child Support Reforms to Deliver Fairer System*, media release, Parliament House, Canberra, 28 February.

⁵⁴ Department of Families, Housing, Community Services and Indigenous Affairs, *Reforms to the Child Support Scheme* [Internet]. FaHCSIA, Australia, 2006, available from <<http://www.fahcsia.gov.au/sa/childsupport/progserv/ChildSupportPolicy/ChildSupportReform/Pages/default.aspx#factsheets>> [accessed 7 May 2009].

⁵⁵ CSA staff now have access to the internet.

CSA and FaHCSIA delivered joint stakeholder briefings in each capital city (and in Townsville) within 15 days of the announcement of the reforms. However, the CSA staff members who were ultimately responsible for applying the changes to customers' cases were provided with minimal information between the announcement in February 2006 and the commencement of stage one of the CSSR training in May 2006.

CSA's communication with customers

2.42 Due to the compressed timing between the announcement of the Child Support Reforms and the implementation of stage one of the CSSR, the timing of Royal Assent for the *Child Support Legislation Amendment (Reform of the Child Support Scheme—Initial Measures) Act 2006* was identified as a source of major risk. Identified risks flowing from this included:

- customers not being notified of child support assessment changes in sufficient time to make adjustments to personal finances and enable compliance;
- employers not being notified of child support assessment changes in sufficient time to make adjustments to payroll systems for employer withholdings; and
- legislative amendments causing further adjustments to CSA's IT systems.⁵⁶

2.43 Delayed Royal Assent posed a risk because the agencies were unable to notify customers of their new assessment until it was received. FaHCSIA and CSA tried to mitigate this risk through two main strategies, namely: requesting Ministerial approval for a deferred start date for the implementation of stage one of the CSSR; and preparing new assessment notices in advance so they could be despatched once Royal Assent was received.

2.44 The request to delay the start date for stage one of the CSSR was made in April 2006, however, the Minister decided not to delay the implementation. Knowing that there would be minimal time between receiving Royal Assent and the 1 July 2006 commencement, CSA prepared new assessment notices in advance. However, given the recognised significance of this risk, departments

⁵⁶ CSA IT systems had been designed and built prior to the legislation being introduced into Parliament. CSA IT systems would have needed to be updated to reflect legislative amendments.

did not choose to put in place any other mitigation strategies between April 2006 and commencement; such as undertaking an advertising, letter or electronic media (such as email) campaign to inform and educate customers.

2.45 Royal Assent was not received until 15 June 2006, and with the commencement date for stage one of the CSSR remaining at 1 July 2006, this meant that 206 085⁵⁷ paying customers were not advised of their revised assessment until approximately one month before the first payment was due.

2.46 Receiving customers were notified in the same period. The 10 678 receiving customers who experienced a decrease in their child support assessment, due to the reduction in the maximum cap, were particularly affected because of the magnitude of the assessment reductions. The average reduction was \$358 per month, but 3341 customers (or 31.3 per cent of customers affected) had a reduction in child support of \$500 or more per month. Customers had between one month and six weeks to re-organise their finances between the receipt of notification in early- to mid-July and the first reduced payment on 7 August 2006.

2.47 With notification being conducted by mail, international customers were notified of changes later than domestic customers, meaning they had less time to prepare for the changes. As part of CSA's evaluation of the implementation of stage one of the CSSR, it was recommended that in the future email be used to notify customers of changes to their child support payments.⁵⁸

2.48 CSA also has an online facility, CSAOnline, which customers can use to access and supply certain information; such as to update personal details and view payment history information. This facility has limited services for international customers who can only view and update personal details and complete an enquiry form.⁵⁹ However, in August 2009, CSA expanded the functionality of CSAOnline to allow secure messages to be sent between CSA

⁵⁷ The 206 085 constitute 190 359 customers whose minimum payment was increased, 2917 customers who benefited from the extension of the 'with-child' rate of income support payments and 11 215 customers whose assessment was affected by the reduced maximum child support cap. Source: FaHCSIA, *Child Support Reforms Stage 1 Management Information Report*, 2007.

⁵⁸ Child Support Agency, *Implementation of Stage 1 of the Child Support Scheme Reforms Evaluation Report*, 2006, p. 6.

⁵⁹ Child Support Agency, *Welcome to the Child Support Agency's online service – CSAOnline* [Internet]. CSA, Australia, 2009, available from <<https://www.csaonline.gov.au/>> [accessed 2 July 2009].

and its customers. This is a valuable enhancement, providing another option for customers to access information in a timely manner.

Monitoring and review

Better practice monitoring and review

It is desirable that regular monitoring and review of key implementation deliverables be established as early as possible, preferably during the implementation planning phase. Early identification of appropriate data sources assists in establishing timely and effective monitoring activities.⁶⁰

CSA's review of stage one of the CSSR

2.49 As part of a suite of reviews of the Child Support Reforms, CSA conducted an evaluation of its implementation of stage one of the CSSR in October 2006.⁶¹ The report found that given the short timeframe and organisational impact of the Building a Better CSA program, the implementation of stage one of the CSSR was effective. Despite determining that the implementation had been effective, the evaluation report made 24 recommendations to assist the operational implementation of stages two and three the CSSR. Recommendations made in the report included: improving communication to customers affected by changes; use of emails to inform international customers of changes to their child support payments; and improving ICT processes, such as ensuring business areas sign-off Cuba changes so they align with, and enhance, processes to enable the identification of systematic errors or issues.

CSSR objectives and performance indicators

2.50 The CSSR were designed to address shortcomings in the Child Support Scheme and also encourage behavioural change, such as greater cooperation between separated parents. Combined, the three stages of the CSSR were expected to deliver five key outcomes; namely:

- parents share the cost of raising children according to their capacity to pay;
- improved quality of relationships in separated families;

⁶⁰ ANAO and Department of the Prime Minister and Cabinet, op. cit., p. 35.

⁶¹ The evaluation did not review if the stage one of the CSSR changes achieved the intended outcomes.

- the Scheme balances the interests of separated parents;
- improved accountability/transparency; and
- improved compliance with-child support obligations (relating to the Improving Compliance program).

Stage one of the CSSR performance and reporting

2.51 The changes to the Child Support Scheme associated with stage one of the CSSR took effect as planned on 1 July 2006. In order to assess the success of stage one, the CSSR Steering Committee agreed to nine sub-outcomes under the five high-level outcomes. A range of quantitative performance indicators were also developed for each of the five high-level outcomes. This outcome and performance indicator structure is represented in Appendix 3.

2.52 Due to the nature of the performance indicators chosen, they did not in all cases align with the intended outcomes of the reforms. For example, under the 'Improved quality of relationships in separated families' outcome the performance indicator reporting on access to Family Relationship Centres, Family Relationship Advice Line and other expanded services is limited to the number of transfers between CSA and these external services. This reporting does not directly reflect the intended outcome of this measure to improve the quality of relationships in separated families; or, the expectation that Family Relationship Centres play an educational role for separated parents, and in some instances, assist parents to negotiate financial outcomes.

2.53 The stage one of the CSSR performance indicators were developed after implementation of the reforms. Consequently, CSA did not factor these reporting requirements into its IT systems changes for the reforms. This meant that CSA was unable to provide the information that FaHCSIA planned to include in its reporting on stage one of the CSSR. As a result, only a sub-set of the agreed performance indicators were reported by FaHCSIA in its Ministerial reporting on stage one of the CSSR because the data could not be produced. Appendix 3 shows that, in the third management information report on the impact of CSSR, of the 17 indicators identified to inform the nine sub-outcomes: four indicators were fully reported; six indicators were partly reported; and seven indicators were not reported.

2.54 Policy changes with desired qualitative outcomes can be difficult to measure. Establishing a suite of both quantitative and qualitative performance

indicators and effective monitoring and reporting allows the success or otherwise of changes to be assessed. In the absence of appropriate performance indicators and reporting, it is difficult to determine if the intended outcomes of stage one of the CSSR and their contribution to the overall success of CSSR were achieved.

Impact of stage one of the CSSR

2.55 Table 2.1 shows the number of customers affected by stage one of the CSSR.

Table 2.1

Customers affected by stage one of the CSSR at 1 July 2006

Reform	Number of affected cases
Expansion of with-child eligibility for rate of income support to customers who share care of their children	2917
Increased amount of child support which non-resident customers can spend directly on their children	25 345 ⁶² (in 2006-07)
Improved assessment of customers' capacity to earn income	1472 ⁶³ (in 2006-07)
Reduced maximum amount of child support payable for high-income earners	11 215
Increased minimum child support amount	190 359
Customers referred to the Family Relationship Advice Line	26 004* (in 2006-07)
Total	257 314

Source: Department of Families, Housing, Community Services and Indigenous Affairs, *Child Support Reform Stage One Management Information Report*, 2007.

Note: Some customers may have been affected by more than one change.

* This figure represents customers not cases—referred to the Family Relationship Advice Line between 2006-07 and 2008-09.

2.56 Two of the reforms were notable for the number of customers affected, and the financial impact on customers. The increase in the minimum child support payment from \$260 to \$320 per annum affected the greatest number of

⁶² Combines prescribed non-agency payments made by one customer to another for a specified purpose and non-agency payments made by one customer to a third party in lieu of child support.

⁶³ Customers made 1472 applications for a change of assessment based on earning capacity, 187 of which resulted in an increased child support liability and 79 resulted in a decreased child support liability.

customers (190 359 cases) and resulted in an \$11.4 million aggregate annual increase in child support liabilities.

2.57 According to the management reporting, the largest financial impact was experienced by customers affected by the reduced maximum amount of child support payable for high-income earners. Over 3000 customers received a reduction in child support of over \$500 per month,⁶⁴ with the aggregate annual decrease in child support assessments due to this change being approximately \$4.1 million.

Conclusion

2.58 Stage one was the first of three stages in the CSSR that were designed to bring about fundamental reform to the Child Support Scheme. The changes associated with stage one of the CSSR took effect as planned on 1 July 2006. This was despite a compressed timeframe for planning and implementation due to the reforms only being announced in February 2006 and Royal Assent for the necessary legislative changes being received on 15 June 2006.

2.59 The changes affected approximately 500 000 CSA customers, with the financial impact varying with each of the six changes. However, due to limitations in the setting, monitoring and reporting of performance indicators, it is difficult to determine if the stage one of the CSSR changes contributed to the intended broader outcomes of CSSR, which include improving relationships in separated families and ensuring children are supported consistent with parents' financial capacity.

2.60 The delivery of any major policy reform initiative requires robust planning to allow for a successful execution. The planning and implementation of stage one of the CSSR experienced difficulties that impacted on systems and processes and ultimately on customers. Many of these issues could have either been better managed, or in some cases avoided, had greater attention be paid to both whole-of-government and agency: governance arrangements; project management; risk management; communication; and monitoring and reporting.

⁶⁴ Department of Families, Housing, Community Services and Indigenous Affairs, op. cit., 2007.

3. Improving Compliance Program Development

This Chapter examines CSA's development of the Improving Compliance program and reviews some risks in the assessment, collection and debt recovery phases of the Child Support Scheme.

Introduction

3.1 Customers responsible for paying child support may choose to pay or not pay for a number of reasons, including the level of care they have of their children; and if they consider an assessment is reasonable.⁶⁵ CSA has little control over these issues, which can create a challenging compliance environment. Nevertheless, the payment of child support liabilities and enforcing compliance is important for ensuring that customers with primary care of children have sufficient funds to raise their children; government outlays relating to family payments are minimised; and the level of community confidence in the Scheme is maintained and improved.

Ministerial Taskforce on Child Support

3.2 The Improving Compliance program came from a recommendation of the Taskforce that CSA receive increased resources to investigate customers in particular groups and their capacity to pay child support.⁶⁶ The Taskforce further recommended that CSA be empowered to deduct arrears from Centrelink benefits, and garnishee liabilities and arrears from other government payments, such as pensions.

3.3 As a result of these recommendations and further advice from CSA, the Australian Government provided funding to CSA, in addition to existing ongoing 'business as usual' (BAU) compliance activities, for a compliance program that included seven ongoing projects and one transitional project (refer Table 3.1).

⁶⁵ B Smyth, 'Child support policy in Australia: Back to basics?', *Family Matters*, 67, 2004, p. 43.

⁶⁶ Ministerial Taskforce on Child Support, op. cit., p.25.

Table 3.1**Improving Compliance projects**

Project	Description
Centrelink Garnishee	Implementation of a legislative change in July 2008 that increased the amount CSA could request Centrelink to deduct from income support payments of customers with-child support arrears to three times the weekly minimum child support liability.
Department of Veterans' Affairs (DVA) Garnishee	Implementation of a legislative change in July 2008 that introduced the power for CSA to request DVA to deduct up to three times the weekly minimum child support liability from a Veteran's entitlement.
Departure Prohibition Order (DPO)	Aims to increase the number and coverage of DPOs issued by CSA. DPOs are an administrative order that CSA can issue to prevent parents from leaving Australia until they pay their overdue child support or negotiate a satisfactory payment arrangement.
Income Minimiser	Aims to increase the number of investigations of customers whose taxable income, used to determine child support assessments, does not accurately reflect their assets, financial resources, income or earning capacity.
Intensive Debt Collection	Continuation of an existing project that identifies customers from whom CSA has had difficulty collecting child support debt. CSA contacts these customers and attempts to negotiate a suitable arrangement for payment of the customer's debt.
Litigation	The Litigation project aims to increase the number of customers that CSA litigates, who have an identified income or asset stream from which outstanding child support arrears could be recovered.
Tax Return Lodgement Enforcement (LENF)	LENF is an expansion of a joint project between the ATO and CSA involving an increase in the number of customers that CSA refers to the ATO for tax return lodgement enforcement action.
Transitional Compliance	Sought to minimise the risk of non-compliance prior to the introduction of the new child support formula in July 2008 through communication activities, responding to customer queries and addressing non-compliance with the previous scheme.

Source: ANAO.

Australian Standard: Compliance Programs

3.4 CSA had significant scope in determining what projects were included in the Improving Compliance program. In examining CSA's development and planning for the Improving Compliance program the ANAO had regard to the *Australian Standard: Compliance Programs AS3806-2006* (the standard).

3.5 Two principles of the standard most relevant to the development of compliance programs are:

- Compliance programs are regularly reviewed and continually improved with possible consideration of:
 - changes in the external and internal environment;
 - previous compliance reviews and their recommendations; and
 - adequacy of the compliance policy, its associated objectives and targets, systems, structure and personnel (Principle Twelve).⁶⁷
- Compliance obligations are identified and assessed. The standard indicates that an organisation should take these obligations into account in establishing, implementing, maintaining and improving its compliance program. As part of identifying and assessing compliance obligations, the standard suggests that prior to implementing a compliance program an organisation should identify the compliance risks (Principle Five).⁶⁸

National Integrated Compliance Strategy

3.6 Prior to the Improving Compliance program, CSA had in place the National Integrated Compliance Strategy in 2004–05 and 2005–06. CSA's compliance efforts were focussed on four key areas: Intensive Debt Collection (IDC1),⁶⁹ DPO, LENF and international collections and debt. In 2005–06, CSA also introduced the Late Penalty Payment Offer⁷⁰ and proactive audits of child support avoiders and minimisers (now called the IM program).

3.7 In 2004–05 and 2005–06,⁷¹ the National Integrated Compliance Strategy had proven successful at marginally reducing the level of gross domestic debt. However, international debt had continued to grow over the same period and

⁶⁷ Standards Australia, *Australian Standard Compliance program*, Standards Australia, Sydney, 2006, p. 24.

⁶⁸ *ibid.*, p. 10.

⁶⁹ The IDC1 project was a measure in the 2003–04 Australian Government Budget. The initiative aimed to increase the collection of outstanding child support debts.

⁷⁰ The Late Payment Penalty Offer refers to the cancellation of late payment penalties for customers who pay their child support debts.

⁷¹ Department of Human Services, *2004–05 Annual Report*, DHS, Canberra, 2005, p. 60.

therefore Total Child Support debt had increased by six per cent from \$899.5 million to \$951.8 million from 2004–05 to 2005–06.⁷²

Planning the Improving Compliance program

3.8 Rather than developing the Improving Compliance program based on a review of the Child Support Scheme and relevant risks, CSA based the Improving Compliance program on the National Integrated Compliance Strategy. This meant that in planning the Improving Compliance program, CSA did not review the compliance risks associated with the assessment, collection and debt recovery phases of the Child Support Scheme, as suggested by Principle Five of the standard. Instead, CSA based its planning and funding allocations largely on an expansion of existing activities and introduction of those new activities as recommended by the Taskforce.

3.9 As a result, the Improving Compliance program did not address some of the areas of serious Child Support Scheme compliance risk. During the course of the audit the ANAO identified a number of risks associated with the key phases of Child Support Scheme compliance (refer Figure 3.1) and examined how they were managed through the Improving Compliance program.⁷³

3.10 CSA has since improved its use of risks to identify the areas requiring attention, as identified by its compliance strategy released in 2008, *CSA: Supporting parents to meet their child support responsibilities 2008–10*⁷⁴, which identifies a broader range of compliance risks. The strategy indicates that these risks could be addressed through a combination of new and existing projects, such as addressing the risk of fraud and non-compliance in the cash economy through applying its optical surveillance capability. However, some of the risks identified in this strategy remain inadequately addressed, such as employer withholdings (see paragraphs 3.42 to 3.44) and profiling customers (see paragraphs 3.52 to 3.55).

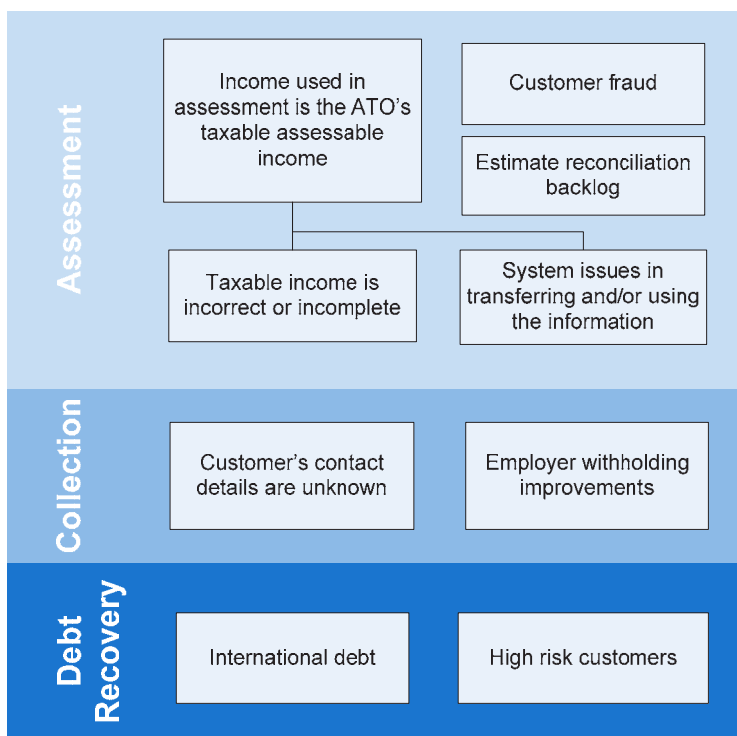
⁷² Child Support Agency, *Facts and Figures 2006–07*, CSA, Canberra, 2007, p. 51.

⁷³ This is not an exhaustive list of risks and represents risks identified through the ANAO investigation of material for this audit and not through a comprehensive risk assessment exercise.

⁷⁴ Child Support Agency, *CSA: Supporting parents to meet their child support responsibilities 2008–10*, CSA, Canberra, undated.

Figure 3.1

Some risks identified by the ANAO in the Child Support Scheme assessment, collection and debt recovery phases



Source: ANAO analysis.

Risks in the payment assessment phase

3.11 It is important that payment assessments are accurate to ensure that the amount of child support to be paid is consistent with the financial capacity of both the paying and receiving customers to meet the costs of raising a child.

3.12 In planning the Improving Compliance program, CSA addressed some of the risks associated with the assessment phase, for example the risk of customers not lodging tax returns was addressed through CSA's expansion of the LENF project. However, as shown in Figure 3.1, some of the risks in the assessment phase were not adequately reviewed, including:

- using the ATO's recorded income for customers' assessments;
- customer fraud; and
- CSA's capacity to manage the estimate reconciliation backlog.

Using ATO's recorded income

3.13 When registering a new customer, CSA does not require evidence of a customer's income for determining an assessment. Instead, CSA can use an amount called 'adjusted taxable income', which is calculated from information held by the ATO, to determine a child support assessment. There are risks associated with using this method which include:

- the taxable income recorded is incomplete or incorrect for child support purposes; and
- systems issues with the transfer and/or usage of the information.

Income recorded is incomplete for child support assessment purposes

3.14 Customers can minimise their taxable incomes through legitimate tax planning arrangements. For example, customers may negatively gear investments or salary sacrifice income. Child support assessments are based on parents' financial capacity, which may or may not be appropriately reflected by an income used for taxation purposes. Therefore, a customer's child support assessment, as derived by CSA and based on their taxable income, may be less than what they would pay in the absence of a tax planning arrangement.

3.15 CSA has more broadly recognised this risk through the expansion of the IM project as part of the Improving Compliance program. IM investigations occur after a customer's assessment has been determined and involve conducting checks on a customer's income, assets, business structures and/or financial assets to determine if the child support assessment is consistent with their capacity to pay. Cases referred for an IM investigation must meet certain criteria before being accepted by an IM team.⁷⁵

3.16 An IM investigation takes place after a child support assessment has been completed and the paying relationship has commenced. Therefore, where an income has been used to determine an assessment which does not reflect the customer's actual financial capacity to pay child support, this situation may not be corrected until the case is accepted and investigated by an IM team.

3.17 To better balance the strategy of addressing this risk, as part of the IM project, CSA could also adopt a risk based approach of conducting financial

⁷⁵ These criteria are that: the case must be a stage two case (assessed under an administrative assessment); administrative actions should be up to date (including eligibility); and referral must be based on fact, not hearsay.

reviews of customers from high risk customer groups, such as business owners or customers employed in cash economy industries, at the time of determining their assessment.

Business process and system issues with the transfer and/or usage of the ATO's income information

3.18 In determining child support assessments, if a customer has not lodged a tax return, CSA may use a determined income amount based on the circumstances of the case. For example, if the customer last lodged a tax return two years prior, CSA may use that tax return amount multiplied by an indexation factor.

3.19 Child support legislation⁷⁶ requires that in most cases the Child Support Registrar immediately amend a child support assessment which is based on a determined income, when the customer's income becomes known. In February 2007, CSA identified a number of systematic data quality issues preventing its customer record system, Cuba, from replacing determined amounts of income with actual income information supplied by the ATO in some child support assessments.

3.20 The issue, known as delayed use of taxable income (DTI), has meant that the Child Support Registrar has not properly satisfied the statutory requirements for the affected cases. DTI had also been previously identified by the Commonwealth Ombudsman in 2003-04 through citing a particular case.⁷⁷ DTI can result in one of three outcomes for the child support cases affected: an underpayment, an overpayment or no change to the payment.

3.21 CSA's estimate of the number of assessments affected has varied significantly since it identified the issue. However, its final estimate is that over 350 000 individual assessments are affected with 56 275 cases⁷⁸ having associated overpayments and underpayments totalling \$114.1 million.⁷⁹ DTI

⁷⁶ Section 58A of the *Child Support (Assessment) Act 1989*.

⁷⁷ Commonwealth Ombudsman, *Annual Report 2003-04* [Internet]. Commonwealth Ombudsman, Canberra, 2004, available from <http://www.ombudsman.gov.au/publications_information/Annual_Reports/ar200304/download/PDF/chp05.pdf> [accessed 22 July 2009].

⁷⁸ One case may have a number of affected assessments for a number of reasons, including because assessments in different years were affected.

⁷⁹ Comprised of \$59 million in underpayments and \$62 million in overpayments.

affects a range of cases including cases that have ended⁸⁰, private collect cases and CSA collect cases; and has been identified in cases dating back to 1989.

3.22 Given the complexity associated with DTI, particularly potential overpayments and underpayments of affected customers' Family Tax Benefit entitlements and the possibility of compensation payments to affected customers, an Interdepartmental Working Group (IDWG) was formed. The IDWG was established to determine an appropriate approach to addressing the issue and was chaired by DHS; and comprised CSA and the Departments of: Education, Employment and Workplace Relations; Families, Housing, Community Services and Indigenous Affairs; Finance and Deregulation; and the Prime Minister and Cabinet. The IDWG recommended to Government that only a subset of those cases where there was a financial impact be automatically reassessed.⁸¹

3.23 In 2008–09, the Government agreed to provide CSA with \$19 million to reassess all current CSA collect cases and ended cases with-child support payment arrears.⁸² This involves reassessing some 11 302 cases (20 per cent of affected cases with a financial impact) with total estimated associated overpayments and underpayments of \$20.7 million (18 per cent of total estimated financial impact). Any resulting overpayments or underpayments identified are expected to be raised against the relevant customers.

3.24 Such an approach means that the child support assessments of private collect customers and customers with ended cases without arrears will not be automatically reassessed, despite these customers representing the majority of cases affected by DTI both in terms of number of cases and potential financial impact. Table 3.1 provides a breakdown of the number and financial impact of DTI affected cases by case type.

⁸⁰ Cases where all children are over 18 years old, there has been a death, or the customers are no longer separated.

⁸¹ It remains the option of any CSA customer to request a reassessment.

⁸² Total funding for this activity was \$21.9 million, as Centrelink and FaHCSIA also received funding.

Table 3.2**Number of cases affected by delayed use of taxable income by type**

Case type	Number	Percentage of cases affected (per cent)	Modelled potential financial impact
Ended without arrears	29 177	52	\$59.6 m
Private collect	15 796	28	\$33.8 m
Ended with arrears	1513	3	\$3.0 m
CSA collect	9789	17	\$17.7 m
Total	56 275	100	\$114.1 m

Source: Department of Human Services, *DHS Accounting Position: Delayed Taxable Income (DTI) issue*, 2009.

3.25 Legal advice obtained by DHS indicates that reassessments could be prioritised based on variables such as available resources or the age of a case. Given this, it is important that a clear and structured approach is adopted when determining which cases to prioritise.

3.26 The option to review all current CSA collect cases and ended cases with-child support payment arrears prioritises those cases above others. However, it remains unclear as to why these cases were prioritised over private collect cases and ended cases without arrears, particularly given the relative case numbers and potential financial impact. Further, with regard to private collect cases, while they do not require CSA to collect the debt, the parties involved still rely on CSA to determine the amount of child support payable. In this respect, the legal advice obtained by DHS when dealing with this matter notes that private collect cases are ‘...more akin to active CSA collect cases.’⁸³

3.27 The standard suggests that compliance programs need to be based on a consideration of obligations and risks. However, the approach to assess only some cases, despite DTI adversely impacting on other current cases, does not reflect a clear risk based methodology. This approach also does not reflect the intent of the Child Support Reforms, including some of the broader intended outcomes of parents sharing the costs of raising children based on their financial capacity and improved accountability and transparency.

⁸³ Australian Government Solicitor, *Child Support assessments: delayed replacement of taxable incomes*, 2007.

Customer fraud

3.28 The Commonwealth Fraud Control Guidelines define fraud as ‘dishonestly obtaining a benefit by deception or other means.’⁸⁴ On its website, CSA provides examples of what may be considered fraudulent behaviour by CSA customers, such as customers earning ‘cash-in-hand’ and not declaring their income, which means that their assessment may be incorrect.⁸⁵

3.29 In 2005-06 and 2006-07, CSA investigated 13 and 15 allegations of customer fraud respectively. This meant that in 2006-07, of CSA’s 1.4 million customers, it investigated 0.01 in every 1000 customers. By comparison, in 2006-07, Centrelink had 6.5 million customers and conducted 42 000 fraud investigations (seven in every 1000 customers).

3.30 Although CSA does not administer government payments, CSA’s diligence in identifying and investigating customer fraud is important so that assessments are accurate and reflect customers’ capacity to pay child support; and therefore also help to ensure that government outlays through family payments are minimised. However, these results indicate that investigating customer fraud has not been a strong focus of CSA’s compliance program. A review of CSA’s activities to address fraud in the Child Support Scheme could have been undertaken as part of a risk based approach to planning the Improving Compliance program.

3.31 This view is supported by a 2008 report produced by the Commonwealth Ombudsman on CSA’s response to customer fraud allegations (the Ombudsman’s report). The Ombudsman’s report found that CSA officers generally do not consider investigating and prosecuting customer fraud as an ‘appropriate strategy or efficient use of resources.’⁸⁶ The report also found that CSA’s fraud control plan was primarily focussed on internal fraud and consequently did not adequately address customer fraud risk.⁸⁷

⁸⁴ Attorney General’s Department, *Commonwealth Fraud Control Guidelines 2002*, AGD, Canberra, 2002, p. iii.

⁸⁵ Child Support Agency, *Australian Government Service Fraud tip-off line* [Internet]. CSA, Australia, 2009, available from <<http://www.csa.gov.au/report-fraud/index.aspx>> [accessed 6 May 2009].

⁸⁶ Commonwealth Ombudsman, *Responding to allegations of customer fraud*, Commonwealth Ombudsman, Canberra, 2008, p. 1.

⁸⁷ *ibid.*

3.32 CSA has subsequently taken action to address the findings in the Ombudsman's report, including developing a fraud control plan and risk assessment and introducing a procedural instruction for staff about managing fraud.

Estimate reconciliations backlog

3.33 Customers can lodge an income estimate, to be used to determine their child support assessment, where the estimate is at least 15 per cent less than the customer's actual assessable income for the previous financial year. This means that customers whose circumstances have changed between financial years can have their assessment adjusted to reflect their current circumstances.

3.34 At the end of the child support period⁸⁸ to which the income estimate is applied, the customer's estimated income is reconciled with the customer's actual income. Where there is a difference between the actual and estimated income, the paying customer may be required to pay additional child support.

3.35 In 1998, the child support legislation was amended to change the child support period to 15 months.⁸⁹ This change introduced complexity to the estimate reconciliation process as CSA officers were required to calculate the actual income earned over the child support period, which may span three financial years. Consequently, estimate reconciliation processing times were lengthened, without a corresponding adjustment to resources.

3.36 Gradually, a backlog of estimates requiring reconciliation has accumulated. In November 2007, CSA identified approximately 393 000 outstanding estimates requiring reconciliation. This delay has resulted in some CSA customers being required to pay additional child support for periods that ended a number of years earlier. In the Commonwealth Ombudsman's Annual Reports for 2007-08 and 2008-09, CSA's delay in reconciling estimates was found to be a common complaint received from customers.⁹⁰

⁸⁸ The child support period is the time that a child support assessment applies and can be up to 15 months.

⁸⁹ Section 7A of the *Child Support (Assessment) Act 1989* (added No.120, 1998).

⁹⁰ Commonwealth Ombudsman, *2007-08 Annual Report* [Internet]. Commonwealth Ombudsman, Australia, 2008, available from <http://www.ombudsman.gov.au/publications_information/annual_reports/ar2007-08/Chapter_7/Chapter_7d.html#> [accessed 6 May 2009]; Commonwealth Ombudsman, *2008-09 Annual Report* [Internet]. Commonwealth Ombudsman, Australia, 2008, available from <[http://www.ombudsman.gov.au/commonwealth/publish.nsf/AttachmentsByTitle/annual_report0809/\\$FILE/anrep_screen.pdf](http://www.ombudsman.gov.au/commonwealth/publish.nsf/AttachmentsByTitle/annual_report0809/$FILE/anrep_screen.pdf)> [accessed 19 October 2009].

3.37 From 2008–09 to 2010–11, CSA will receive additional funding to address the backlog of estimates (refer paragraphs 4.5 to 4.8 for information about CSA’s efforts to address the backlog). CSA advised the Commonwealth Ombudsman that at June 2009 it had around 207 000 cases with incomes that needed to be reconciled, and a further 190 000 unreconciled estimates awaiting lodgement of customers’ tax returns.⁹¹ The estimate reconciliation backlog has been growing since 2000 and could have been considered as part of CSA’s planning of the Improving Compliance program, had a risk based approach been adopted.

Risks in the collection phase

3.38 Collection is the transfer of child support payments from the paying customer to the receiving customer. CSA planned to address some of the risks associated with the collection phase in the Improving Compliance program. For example, the risk that customers may default in anticipation of the change to the child support formula in July 2008 was to be addressed by the Transitional Compliance project (refer Chapter four). However, Figure 3.1 shows that CSA did not address other known risks in the collection phase such as:

- customers whose contact details are unknown; and
- employer withholdings improvements.

Customers whose contact details are unknown

3.39 There are a number of reasons why CSA may not have a customer’s correct contact details recorded, such as: the customer who registered the child support case did not know the other customer’s contact details; or customers regularly move addresses to avoid paying child support. Without the correct contact details it is difficult for CSA to be able to enforce compliance action, such as tax lodgement enforcement, against customers.

3.40 In 2007, CSA identified 21 000 customers with invalid addresses. These customers had a total outstanding debt of \$93.5 million, and 75 per cent of those customers did not lodge tax returns.⁹² In the same year, CSA identified

⁹¹ *ibid.*, p. 70.

⁹² Child Support Agency, *Client Location and Compliance: Initial report and recommendations 2007*, CSA, 2007, p. 3.

an additional 28 000 customers with invalid addresses; increasing to 49 000 the number of customers for whom CSA did not have valid addresses.

3.41 In September 2005, around the time that CSA was planning the Improving Compliance program, CSA did not have valid addresses for 3.7 per cent of its customers.⁹³ Despite the risk that this group of customers pose to the effectiveness of CSA's compliance program, a project aimed at obtaining the accurate address details of customers was not included as part of the planned Improving Compliance program (refer paragraphs 4.9 to 4.11 on CSA's subsequent efforts to trace customers' addresses).

Employer withholdings improvements

3.42 The *Child Support (Registration and Collection) Act 1989* provides CSA with a range of powers to deal with employers of child support payers including the power to instruct an employer to withhold a specified amount from wages or salaries. As part of two debt studies conducted by CSA in 2003 and 2007, it was found that employer withholdings was effective in reducing debt and recommended that all potential employer withholding cases be actioned.

3.43 Despite the findings of these studies, CSA does not maintain or prepare regular reports on the ongoing effectiveness of employer withholding garnishee notices. CSA was unable to advise the ANAO how many employers had failed to comply with garnishee notices since 2006-07 or how many employers have remained non-compliant with CSA deduction notices.

3.44 Given that CSA's internal studies had twice supported the effectiveness of this function in collecting child support, improvements to CSA's monitoring and reporting on its employer withholding function is another example of an area that could have been considered as part of planning the Improving Compliance program.

Risks in debt recovery

3.45 Debt recovery refers to the collection and transfer of outstanding child support between customers. Debt recovery is important for ensuring that child support assessments are enforced and customers with primary care of children receive adequate support for the costs of raising children.

⁹³ *ibid.*, p. 7.

3.46 CSA's Total Child Support debt is made up of a number of different debt types. CSA's Improving Compliance program addresses some of these types of debt, such as debt associated with customers on income support payments through the Centrelink and DVA garnishee projects. However, the Improving Compliance program does not address other key customer risk groups, namely:

- debt associated with international customers; and
- high risk customer groups.

Debt associated with international customers

3.47 International debt is complicated in that it comprises debts:

- CSA is required to collect for other international jurisdictions;
- other countries are required to collect on CSA's behalf; and
- associated with domestic cases where a customer has more than one case and owes a debt to a parent living overseas and also owes a debt to a parent living in Australia.

3.48 At July 2008, total international cases represented only four per cent of CSA's total caseload but represented 23 per cent of CSA's Total Child Support debt. This is because the average level of debt for international cases (\$6006) is higher than that of domestic cases (\$1010).

3.49 At February 2009, CSA had \$122.1 million of debt to collect for other countries⁹⁴ and had \$102.3 million of debt for collection by other countries.⁹⁵ Figure 3.2 shows that of the \$102.3 million for collection by other countries, CSA has transmitted \$33.6 million for collection and estimates it could transmit an additional \$61.1 million of debt⁹⁶ if the appropriate referral requirements and relevant customers' locations were known. The total amount of debt that could be transmitted if these requirements were met represents almost one-quarter of the total outstanding international debt.

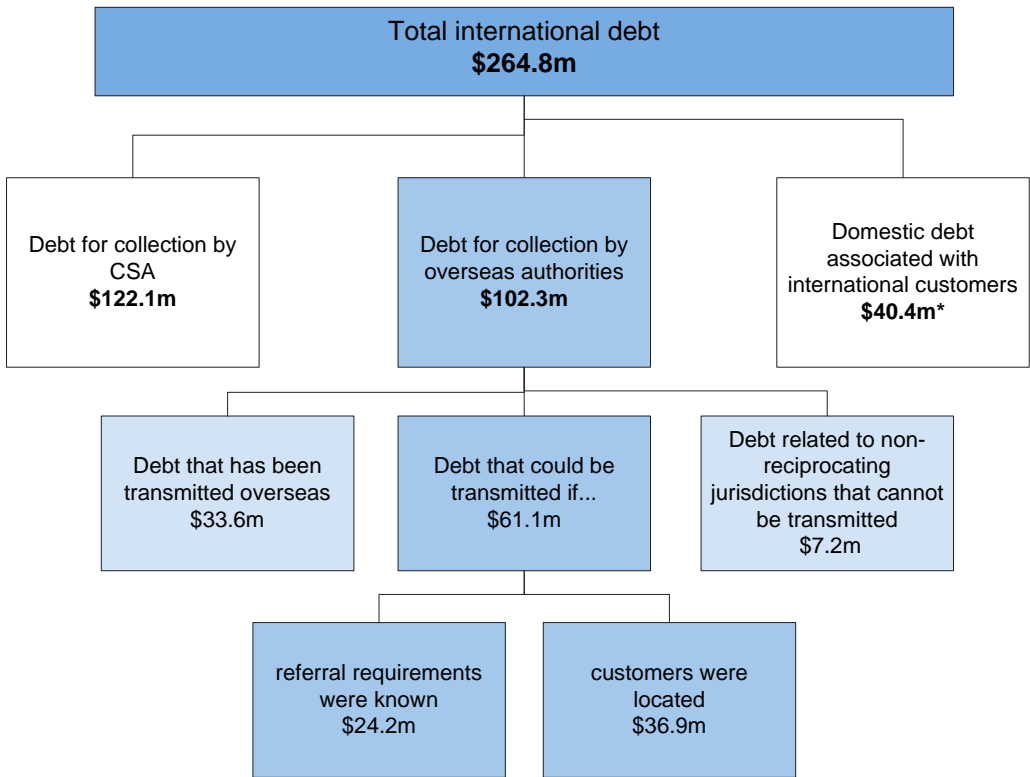
⁹⁴ This forms part of CSA's international obligations and CSA has little control over the quantum of debt transferred by other countries.

⁹⁵ Child Support Agency, *International Debt Summit*, 2009, p. 1.

⁹⁶ Schedule 2 of the *Child Support (Registration and Collection) Regulations 1988* lists reciprocating jurisdictions. CSA is able to transfer child support liabilities to and from reciprocating jurisdictions.

Figure 3.2

Almost one-quarter of outstanding international debt could be transmitted overseas



Source: Representation of information from Child Support Agency, *International Debt Summit*, 2009.

* This is debt of 'associated' domestic cases where the customer who is a resident of Australia in the international case has another child support assessment liability with another customer in Australia.

3.50 An independent report commissioned by CSA in 2004 found that due to the significant growth in international cases, customer service officers employed in the International stream were managing large case backlogs and CSA needed to focus on debt collection. However, CSA's International stream, is required to undertake a range of other tasks including residency decisions and international payment and disbursement processing. Also, most of the work undertaken by the International teams is manual, despite similar tasks being automated for domestic case management. These operational constraints limit the amount of time customer service officers can dedicate to work in this area and their subsequent effectiveness.

3.51 Given the large and growing component of Total Child Support debt that is made up of international debt, a project focussed on international cases

which included automating processes; determining jurisdictional requirements; and reducing debt, could have been included as part of the Improving Compliance program to address this risk.

High risk customer groups

3.52 Market segmentation is used by firms to identify groups of similar customers; prioritise groups; understand customer behaviour and respond to preferences. While this strategy is primarily applied by firms to improve product and service responsiveness, its purpose is applicable to addressing customer debt.

3.53 CSA's client segmentation model, that was used as part of the 2003 and 2007 debt studies, was based on a range of factors including case type, tax return lodgement status and income source.

3.54 For debt recovery, and more generally, customer management, a more useful segmentation model could also include individual circumstances such as employment type or compliance motivation. Segmentation or customer profiling in this manner is not uncommon in risk based compliance programs, for example Centrelink conducts risk profiling as part of its debt strategies.⁹⁷

3.55 The relevance of specific customer segmentation is recognised in CSA's compliance communication strategy that identifies target secondary audiences, including industry groups, such as cash economy and/or high income; and the mining and building industries. A project aimed at developing more comprehensive profiles of customers as part of the Improving Compliance program could have assisted CSA to better identify and target specific customer groups with appropriate Improving Compliance projects.

Conclusion

3.56 The Improving Compliance program presented the opportunity for CSA to assess the effectiveness of its existing compliance strategy and to implement a program that addressed the risks associated with compliance in the Child Support Scheme. The *Australian Standard: Compliance Programs AS3806-2006*, provides guidance on the planning and implementation of compliance programs; such as organisations identifying compliance risks

⁹⁷ Australian National Audit Office, *Management of Customer Debt – Follow-up Audit*, Audit Report No. 42, ANAO, Canberra, 2007-08, p. 78.

before implementing a compliance program; and compliance programs being regularly reviewed and continually improved.

3.57 In planning the Improving Compliance program, CSA did not undertake a robust assessment to identify the major compliance risks in the Child Support Scheme. Instead, the program was largely based on an extension of the existing National Integrated Compliance Strategy.

3.58 While the Improving Compliance program has addressed some of the risks in the Child Support Scheme, as a result of the approach adopted by CSA, the program did not identify and/or adequately address some key risks in the assessment, collection and debt recovery stages that could have been determined from the information available at the time.

Recommendation No.2

3.59 In order to adequately address continuing and emerging compliance risks to the Child Support Scheme, the ANAO recommends that CSA improve its approach to compliance risk management, particularly through implementing procedures that allow for the better identification, treatment and monitoring of risks.

3.60 DHS response: *Agree.* The Department is currently developing ways in which existing compliance risk management processes can be enhanced to ensure that in the future they allow for improved risk identification and treatment.

4. Transitional Compliance Project

This Chapter examines CSA's Transitional Compliance project.

Introduction

4.1 The Transitional Compliance project, which was funded as part of the Improving Compliance program, sought to 'minimise the risk of non-compliance prior to implementation of the reforms'.⁹⁸ This project was considered necessary because it was expected that a proportion of paying customers would become non-compliant in anticipation of a revised child support assessment resulting from the CSSR.

4.2 The Transitional Compliance project did not have a child support collection target. Rather, it was designed to address the risk of customer non-compliance through four planned activities:

- additional resources to contact first time defaulters;
- a communications campaign advising customers that their current assessments are valid and no changes will be made until the new legislation is introduced;
- additional resources to respond to customer queries about the changes; and
- additional resources to manage the expected increase in the number of customers transferring from private collect arrangements to CSA collect⁹⁹ arrangements as paying customers default in anticipation of the formula changes.

4.3 As part of the broader Improving Compliance program, CSA undertook a proactive compliance media and communication campaign, but did not specifically undertake any of the other three activities. Due to the need to improve the collection results¹⁰⁰ for other Improving Compliance projects

⁹⁸ Australian Government, op. cit.

⁹⁹ CSA collect cases involve CSA transferring child support payments from one customer to the other customer.

¹⁰⁰ Collection results from some Transitional Compliance projects, such as tracing and estimate reconciliation, were counted towards other Improving Compliance projects including IDC2. This is discussed in Chapter seven.

and address a number of ongoing compliance risks, the CSA Executive decided to use some of the Transitional Compliance project funding for other compliance projects, namely:

- Estimate Reconciliation Backlog;
- Tracing (identifying customers' correct addresses);
- International Debt;
- Optical Surveillance; and
- Prosecutions.

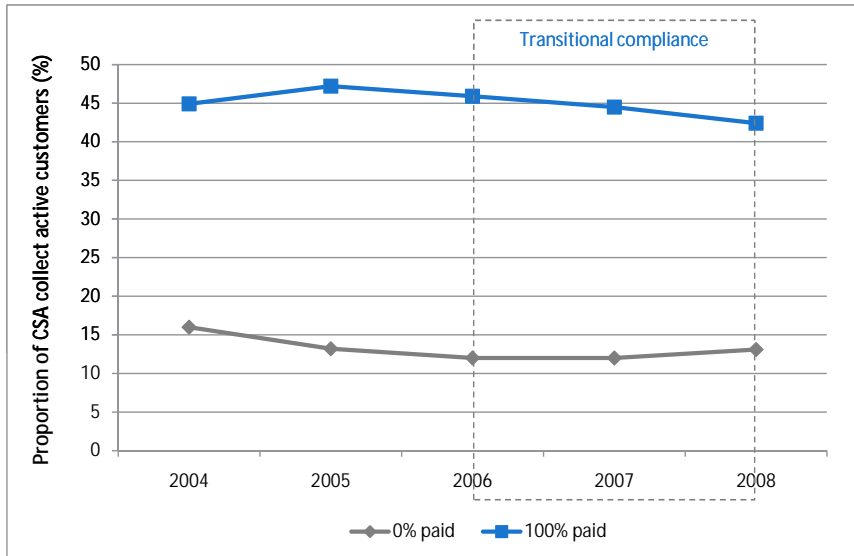
Outcomes of the Transitional Compliance project

Compliance levels during the transition period

4.4 One of the measures of compliance used by CSA is the percentage of a child support liability that a customer pays.¹⁰¹ Figure 4.1 shows that compliance was not maintained during the implementation of CSSR. In this period, the proportion of customers¹⁰² paying their full child support liability dropped by 3.5 per cent, from 45.9 per cent to 42.4 per cent, and the proportion of customers paying no child support increased slightly from 12.0 per cent to 13.1 per cent.

¹⁰¹ The other components of compliance that CSA measure are: accuracy of assessment and timeliness of child support payments.

¹⁰² In this case 'customers' refer to CSA Collect where CSA collects child support payments from the paying customer and transfers payments to the receiving customer.

Figure 4.1**Child support compliance during the transitional compliance period**

Source: ANAO analysis of information from Child Support Agency, *Child Support Scheme Facts and Figures 2006-07*, CSA, Canberra, p.44-46; and Child Support Agency, *Customer Research Extract for all active cases and cases ended with arrears*, 2008.

Note: Customers that paid between one per cent and 99 per cent of the child support liability are not shown.

The Estimate Reconciliation Backlog project

4.5 CSA's estimate reconciliation backlog was creating customer dissatisfaction and leading to customer complaints to the Commonwealth Ombudsman (refer paragraphs 3.33 to 3.37). As part of the Transitional Compliance project CSA established a project aimed at reducing the backlog.

4.6 The Estimate Reconciliation Backlog project ran from September 2007 to June 2008, and aimed to complete 69 000 estimates¹⁰³, among other project deliverables. CSA analysed the risks associated with the cases requiring estimate reconciliation(s) and classified cases as low or medium to high risk, based on their characteristics (provided in Table 4.1).

¹⁰³ Funding for the Transitional Compliance project was from 2005-06 to 2007-08.

Table 4.1**Estimate reconciliation risk assessment**

Risk level	Case characteristic
Low risk	Estimates with end dates prior to 1 July 2003 Estimates associated with: <ul style="list-style-type: none"> ended cases with arrears¹⁰⁴ active cases with one estimate only and no arrears customers whose highest income during the child support period was \$15 000 or under
Medium to high risk	Estimates associated with customers with: <ul style="list-style-type: none"> a number of cases, all with an estimate only one case and who have regularly submitted estimates over a number of years more than one case and who have regularly submitted estimates over a number of years

Source: Child Support Agency, *CSA National Executive Submission: Estimate Reconciliation Backlog*, 2007.

4.7 The Estimate Reconciliation Backlog project focussed on less complex cases as a method to maximise the reduction in the aggregate number of estimates requiring reconciliation for the funding provided. Consequently, those cases classified as medium to high risk, such as customers with more than one case, were not reconciled.

4.8 The project reached its target and reconciled 69 441 estimates. However, the estimates reconciliation backlog continues to be an issue for CSA with 207 000 cases with incomes that need to be reconciled and a further 190 000 unreconciled estimates awaiting lodgement of customers' tax returns, as at June 2009.¹⁰⁵ As a result, in the 2009–10 Australian Government Budget, CSA received funding over three years to address the balance of the estimate reconciliation backlog.

¹⁰⁴ Ended cases with arrears are cases which are no longer current because the child may have turned 18 years old or one of the parties to the case may be deceased and there is a child support debt associated with the case.

¹⁰⁵ *ibid.*, p. 70.

The Tracing project

4.9 In July 2007, the CSA Executive decided to use some of the Transitional Compliance project funding for a project aimed at tracing the correct address details for customers with unknown addresses (refer paragraphs 3.39 to 3.41). The project ceased three months after commencement due to a lack of available funding.

4.10 Despite its short existence, the project identified the addresses of 4488 customers with total associated debt of \$38.4 million. These customers were then referred to either a general child support collection team or an IDC2 team for collection action. The number of customers whose addresses were identified due to this project represented 9.2 per cent of customers whose details were unknown in mid-2007.

4.11 CSA again attempted to address this issue by re-commencing the project for the period April 2009 to June 2009. At April 2009, CSA had 164 737 active customers¹⁰⁶ on tracing with total associated debt of \$224.1 million. The project reviewed 9000 cases and was successful in identifying addresses for 7309 customers (4.4 per cent of active customers on tracing).

The International Debt project

4.12 In July 2007, CSA commenced an International Debt project to address the growth in debt associated with international cases by achieving a number of outcomes, including enhanced understanding of the requirements of relevant overseas authorities when referring cases for registration and collection; and improved debt collection skills for project staff.

4.13 In November 2007, similar to the Tracing project, the International Debt project ceased and was therefore unable to achieve most of its key outcomes.

4.14 At February 2009, CSA had 6759 international cases with a total debt of \$24.2 million which could be transmitted overseas (refer paragraph 3.49).¹⁰⁷ These cases are in reciprocating jurisdictions, however, the referral process is unknown and the cases cannot be transmitted. This highlights the importance of the International Debt project's intended outcome to enhance the

¹⁰⁶ Of these customers 54 005 are CSA collect customers.

¹⁰⁷ Child Support Agency, *International Debt Summit*, 2009.

understanding of the registration and collection requirements of overseas jurisdictions.

4.15 International debt continues to be one of the drivers of the increasing level of total debt and to pose a compliance risk (refer paragraphs 3.47 to 3.51). CSA's International stream currently consists of two teams and approximately 20 officers. The ANAO was advised that the current level of staffing only allows for escalated¹⁰⁸ child support cases to be transmitted overseas for collection. Non-escalated cases are not transmitted and therefore are not subject to collection action. Accordingly, such an arrangement does not necessarily provide for the equal treatment of cases on their merits or reflect the significance of the risk international debt poses to the Child Support Scheme.

The Optical Surveillance project

4.16 In May 2007, CSA commenced an Optical Surveillance project that links to the risk of customer fraud. The project was a pilot and was expected to improve the identification of the income and assets of customers who deliberately understate their financial circumstances for child support assessment purposes.

4.17 The pilot ran for approximately five months in 2007, during which time six cases were referred for optical surveillance. At the end of the pilot, CSA conducted a review. However, it was limited in its ability to assess the success of the project as all six cases either remained under surveillance or were awaiting court action.

4.18 After the pilot, CSA decided to continue the Optical Surveillance project as part of the broader ongoing Improving Compliance program. The pilot allowed CSA to identify a number of potential uses for optical surveillance including to disprove information provided by customers; confirm relationship and lifestyle issues; and provide evidence of offences committed by third parties.¹⁰⁹

¹⁰⁸ Escalated cases are those cases with customers who have indicated continual or high-levels of dissatisfaction with CSA's management of the case, including by submitting a number of complaints to CSA or complaining to the Commonwealth Ombudsman.

¹⁰⁹ Child Support Agency, *International Debt Summit*, 2009, p. 4.

4.19 While optical surveillance is a compliance strategy that has been used with success in other agencies, such as the ATO and Centrelink, the ANAO found that CSA was yet to fully incorporate the function within its suite of compliance activities. For example:

- a review of CSA's Procedural Instructions showed that not all of the relevant Procedural Instructions, such as Litigation and Information Gathering, identify optical surveillance as a potential investigative tool; and
- customer service officers had made 22 employer referrals to the Special Investigations Unit¹¹⁰ but none had resulted in optical surveillance action due to the referrals not meeting the necessary criteria.

4.20 To support the successful adoption of optical surveillance, there would be benefit in CSA reviewing its guidance and training material to maximise the potential benefits and to allow relevant staff to gain the necessary understanding of the process. Further, given the Optical Surveillance Procedural Instruction provides for a wide range of areas where the function may be used, if CSA was to expand its case selection and align this functionality with a clear prosecution strategy for fraud cases (refer paragraphs 4.22 to 4.29), the combination of the two functions is likely to increase the possibility of successful results.

4.21 Based on the six cases in the pilot, on average, it costs CSA approximately \$30 000 for each optical surveillance case. While it is potentially a useful tool to support its compliance activities, to continue the program, CSA chose to use resources from other compliance projects, such as Litigation, DPOs and IDC2. Therefore, in the absence of a considered assessment of the success or otherwise of this program, it remains important that CSA continues to monitor the cost/benefit implications.

The Prosecution project

4.22 CSA can prosecute customers for fraudulent behaviour by referring cases to the Commonwealth Director of Public Prosecutions (CDPP). Prior to referring a case for prosecution, CSA is required to investigate the case and

¹¹⁰ The Specialised Investigation Unit is responsible for investigating complex cases such as those that require optical surveillance.

obtain sufficient evidence of the customer's fraudulent behaviour. As part of the Transitional Compliance project CSA commenced a Prosecution project in May 2007 that was intended to:

- successfully prosecute a limited number of customers for criminal offences;
- secure media coverage of the prosecutions to act as a deterrent to other CSA customers; and
- strengthen CSA's media responses in relation to managing customer fraud.

4.23 According to a 2008 internal report on the Transitional Compliance project, the Prosecution project achieved all of its outputs.¹¹¹ The report, however, does not address the achievement of the three outcomes. As at August 2009, no cases had been prosecuted. Further, based on the limited evidence and lack of performance indicators it is difficult to assess the success of the project in meeting the remaining outcomes.

4.24 In 2008, CSA decided to extend the Prosecution project as part of the broader ongoing Improving Compliance program. CSA's total estimated cost for the Prosecution project between its commencement in April 2007 and June 2009 is approximately \$458 000.¹¹²

4.25 CSA has a high-level Prosecution policy that provides some guidance on both the considerations that will be taken into account when deciding if to refer cases to the CDPP (such as 'there is sufficient evidence to prosecute the case'); and the types of cases where prosecution activity should be applied (such as those cases that have 'an impact on collection').

4.26 In selecting cases to pursue for prosecution, CSA takes into account many factors such as the strength of the case, available resources and likely outcomes. Accordingly, it is important that the prosecution policy clearly sets out the decision-making framework, including the basis for case selection, so that it is commonly understood and adopted by those involved.

¹¹¹ These outputs included targets for recruitment, cases identified for investigation and introducing/updating investigation and prosecution policies and procedures.

¹¹² This includes approximately \$82 000 in capital expenditure. Source: CSA advice, 4 August 2009.

4.27 At August 2009, the project had completed five prosecution briefs; of which three had been referred to the CDPP and two were not approved by CSA Executive for referral. Of the three referrals made to the CDPP, none of the identified customers had been prosecuted; although, the CDPP had commenced prosecution action on one case.

4.28 While the Prosecution project is relatively new, CSA's demand for project outcomes is likely to grow with its increased focus on customer fraud and optical surveillance. CSA staff and the Prosecution project team need clear guidance on the type of cases that are relevant to pursue. CSA's prosecution policy only provides high-level guidance to staff on specific types of cases to be pursued and does not sufficiently elaborate on either the decision-making process involved or the case selection methodology. Some further guidance to staff on these matters would be beneficial.

Recommendation No.3

4.29 To improve the effectiveness of prosecution activity, the ANAO recommends that CSA review and update its prosecution policy to ensure that it meets current operational requirements, including guidance on case selection.

4.30 DHS response: *Agree.* The Department recognises the importance of an effective prosecution policy. In the last 12 months the Department has undertaken considerable development in its approach to prosecution including improved procedural instructions for staff and case selection processes to identify cases where prosecution activity may be appropriate. The Department will continue to place appropriate emphasis on this activity in the future.

Conclusion

4.31 The Transitional Compliance project was established to address the risk of customer non-compliance during the CSSR implementation period. CSA undertook a compliance communication campaign that was originally planned as part of the Transitional Compliance project, however, the other activities planned to address the risk of transitional non-compliance were not put in place.

4.32 Data on customer compliance levels during the period 1 July 2006 to 1 July 2008 indicates that customer compliance was not maintained during the transitional compliance period. Compliance levels for the proportion of customers paying their full child support liability decreased while the

proportion of customers paying no child support increased. One factor that could have contributed to this result was CSA's decision to undertake additional compliance activities with Transitional Compliance project funding. These other compliance activities had an impact on compliance levels, however, they were not specifically targeted at the original objective of the project.

4.33 Tracing, estimate reconciliation backlog, international debt and customer fraud were all risks that existed when the Improving Compliance program was planned. CSA's attempt to address these risks as short-term projects did not recognise the complexity or significance associated with these risks. This is demonstrated by the need for CSA to re-establish a tracing project and seek further funding to address the estimate reconciliation backlog, and also the growing level of international debt.

4.34 The Prosecution and Optical Surveillance projects aim to address important compliance risks and continue to be supported as part of the ongoing Improving Compliance program. Through improved guidance and strategy, such as a case selection policy, these projects could be better employed to fully realise their potential.

4.35 Had CSA conducted a robust risk analysis during planning, the areas that have been targeted through the Transitional Compliance project could have been identified and potentially included as part of the Improving Compliance program. This could have then contributed to the development of sound ongoing strategies to deliver long-term improvements in managing the risks and allowed CSA to use the Transitional Compliance project to specifically target the intended objective — minimising the risk of non-compliance prior to the implementation of the reforms.

5. Delivery of the Improving Compliance program

This Chapter examines CSA's delivery of the Improving Compliance program, including the supporting governance, project management and risk management strategies.

Introduction

5.1 Clear and adequate governance arrangements; active risk management; and a project management approach that is consistently applied contribute to the successful implementation of program and policy initiatives. Coordination of these areas is important to on time, on budget and effective delivery of outcomes.

5.2 The ANAO examined the governance arrangements, project management framework and risk management processes that supported the delivery of the Improving Compliance program.

Governance arrangements

Whole-of-government governance structures

5.3 The Improving Compliance program was subject to the CSSR governance arrangements that were in their infancy at July 2006 when the program commenced. That is, the CSSR Steering Committee chaired by FaHCSIA was the central governance body with FaHCSIA ultimately responsible to government for the delivery of the program.

5.4 The governance arrangements continued to evolve over time with the Steering Committee developing a Project Management Plan¹¹³, which included the Steering Committee's terms of reference, a risk assessment and management plan, an issues management plan and reporting arrangements. The Steering Committee's responsibilities for the delivery of the Improving Compliance program focussed on monitoring milestones and risks. They did not extend to budget strategies and resourcing decisions, which largely remained with the responsible implementation agencies.

¹¹³ FaHCSIA, *Child Support Scheme Reform Project Management Plan* (v6.0), 2006.

5.5 Given that dedicating increased resources (both funding and staff) was identified as a key strategy for achieving the Improving Compliance outcomes, this meant that the Steering Committee and FaHCSIA had insufficient oversight of material central to the success of the reforms. This lack of visibility grew in importance as CSA's inadequate budget and staff management increasingly impacted on the achievement of project targets (refer Chapter six).

CSA's governance framework

5.6 CSA relied on one governance structure for delivering the Child Support Reforms, including the Improving Compliance program. However, this structure was not in place at the outset of the Improving Compliance program (refer paragraphs 2.7 to 2.9).

5.7 Initially, CSA relied on what was to become the National Executive Change (NEC)¹¹⁴ as a central decision-making mechanism, while it developed and implemented a governance framework with the assistance of project management consultants. It was not until April 2007, ten months after the Child Support Reforms had commenced, that the framework to deliver the reforms was formally agreed and adopted.

5.8 Extending from the lack of a formalised high-level governance structure within CSA for the delivery of the Child Support Reforms, at an operational level similar arrangements were either lacking or non-existent. This was demonstrated through the absence of cooperative arrangements to govern the relationships between programs and projects and CSA's business support functions.

5.9 Clarifying and formalising roles, responsibilities and accountabilities from the beginning of a program is important to achieving outcomes.¹¹⁵ In order to be able to deliver the Improving Compliance program, a number of business areas, such as ICT and State Executives, were required to support programs and projects. CSA's governance framework did not provide for the establishment of cooperative arrangements between the supporting business areas and programs/projects; and as a result problems were encountered.

¹¹⁴ Refer Appendix 4.

¹¹⁵ ANAO and Department of the Prime Minister and Cabinet, op. cit., p. 13.

Improving Compliance program and ICT

5.10 The relationship and absence of clarity around the roles and responsibilities between the ICT stream and the Improving Compliance program led to a number of difficulties that impacted on the delivery of the program, including:

- over-scheduling of system releases that impacted on delivery of the Improving Compliance program changes; and
- establishing a user-pays system which required the Improving Compliance program to fund ICT to implement changes. This situation created frustration when estimated costs were inaccurate, and also created confusion about which party was responsible for funding some changes.

5.11 These issues created a difficult working relationship between the ICT stream and the Improving Compliance program, which was recognised in a report commissioned by CSA on the delivery of the Child Support Reforms which found that:

Compliance complains of an ICT organisation that is focused on process rather than progress, apportioning blame rather than fixing problems and unable to provide firm deadlines. ICT talks of Compliance constantly changing its requirements, unwilling to consider pragmatic solutions are less than perfect and unwilling to understand or embrace ICT's pipeline and need for planned releases. Neither seems to rely on a formal enough design process.¹¹⁶

Improving Compliance program and the State Executive

5.12 The introduction of the Improving Compliance program was intended to supplement existing 'business as usual' (BAU) compliance activities. Prior to the introduction of the program, there was no national compliance team with compliance activity being the responsibility of each State Executive. Consequently, with the establishment of the Improving Compliance program and introduction of the national compliance team, it was unclear who was responsible for the full spectrum of CSA's compliance activities.

5.13 Compliance resources were segmented between the new funding for the Improving Compliance program projects and existing BAU compliance activities, funded from State Executive budgets. Despite the intention of

¹¹⁶ Child Support Agency, *Change Program External Delivery Assurance Report*, May 2007, p. 17.

maintaining pre-reform BAU compliance activities after the introduction of the Improving Compliance program, State Executives took different approaches to implementing the new arrangements. This included, in some instances, changing the role of compliance officers from BAU compliance activities to other activities.

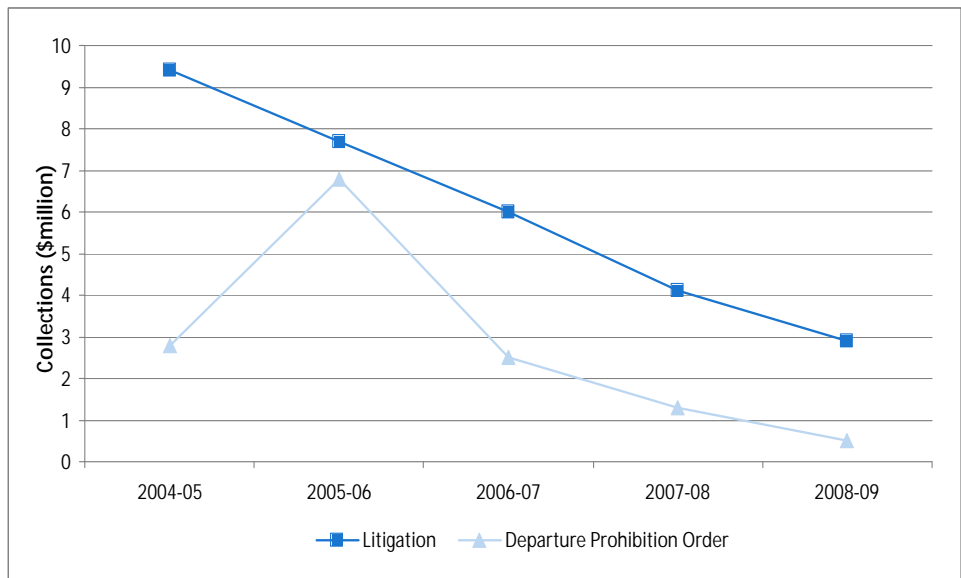
5.14 Analysis shows that these decisions had impacts on BAU compliance activities, including:

- for most of 2007-08, BAU resources for Litigation were not maintained; and
- in 2007, no BAU DPO positions were filled.

5.15 DPO and Litigation BAU collection results have not been maintained since the commencement of the Improving Compliance program, as shown in Figure 5.1.

Figure 5.1

Business as usual collection results for Litigation and DPO projects



Source: ANAO analysis of information from Child Support Agency, *Annual collection results for Compliance Projects where there is BAU activity since 2004/05 segmented as BAU and Project*, 2009.

Note: The large increase in collections for the DPO project in 2005-06 is because, in that year only, changes in the amount of arrears owed by customers resulting from changes to customers' assessments were also counted as part of collections. Prior to and after 2005-06, only payments resulting from DPO team intervention have been counted.

5.16 In October 2008, the Service Delivery and Enforcement Services¹¹⁷ streams finalised a Partnership Agreement which included areas such as performance expectations. An earlier agreement of this nature could have assisted in ensuring BAU positions were maintained and could have avoided the other issues encountered in the Improving Compliance program and State Executive relationship (refer paragraphs 6.10 to 6.18).

Project management

5.17 Given the Improving Compliance program was a series of targeted compliance projects, having in place a robust project management framework was critical to the successful implementation of the program. CSA recognised that it did not have a strong project management framework to support implementation and looked to improve its framework and capacity through the engagement of project management consultants. However, the limited and devolved arrangements that were established had a major impact on the effectiveness of the Improving Compliance program. For example, at a fundamental level, project plans were in varying states of completeness at the commencement of the Improving Compliance program. This meant that areas such as risk management, resource strategies and project milestones were often not fully considered or agreed prior to the commencement of a project.

CSA's project management culture

5.18 Despite identifying and acknowledging the lack of a strong project management framework, some decisions made by the NEC did not cultivate a project management culture, including:

- approving projects it considered had under-developed planning;
- not using the agreed project approval process, and
- not requiring all projects to develop project plans.

5.19 Had the Improving Compliance program been subject to a formalised project management framework from the outset, that provided for a rigorous project planning and approval process, CSA could have potentially avoided a number of issues that it encountered during implementation, including

¹¹⁷ In 2008, the Improving Compliance program became part of the Enforcement Services stream.

intra-agency relationships and Improving Compliance project case selection (refer paragraphs 5.39 to 5.43).

Risk management

Risk management oversight by the CSSR Steering Committee

5.20 Risk management from a whole-of-government perspective was the responsibility of the CSSR Steering Committee with the DHS Service Delivery Steering Committee responsible for managing the project implementation risks.

5.21 Risk identification occurred between late 2005 and mid 2006, at which time the agency or working group responsible for managing the risk was identified. Agencies and working groups attempted to manage the identified risks through monthly reporting at the Steering Committee meetings. A risk register was maintained, which included the risk description and source; the responsible Working Group or agency; potential risk consequences with likelihood ratings; and controls and proposed treatments.

5.22 There were a number of risks identified that were either directly or indirectly related to the Improving Compliance program. Two of the risks identified that related to the program were:

- poor cross-agency systems integration; and
- ineffective ongoing/transitional compliance.

5.23 The risk of ineffective ongoing/transitional compliance was routinely monitored and reported on during implementation of the reforms. Poor cross-agency system integration risk, however, was removed from the register during implementation and was therefore not continuously monitored. Both the risks of poor cross-agency systems integration and ineffective ongoing/transitional compliance materialised. This has resulted in some customers not receiving the child support they are entitled to and compliance levels falling during the transitional compliance period.

Garnisheed payments from DVA entitlement payments

5.24 One example of where poor cross-agency systems integration had an impact on the Improving Compliance program was the DVA garnishee project, which involves garnisheeing child support liabilities from DVA income support payments.

5.25 To assist in identifying mutual CSA and DVA customers, DVA received \$200 000 in the 2006–07 Budget to undertake an annual data match. However, with an annual data match the agencies identified that there was a risk that customers could accrue child support arrears for up to 12 months between data matches. DVA and CSA prepared costings of options to address this risk that varied from \$1.7 million for Centrelink to identify mutual CSA and DVA customers; to \$2.9 million for a direct interface between CSA and DVA.

5.26 The Steering Committee decided that the estimated small number of customers affected (around 4000) did not warrant the cost associated with building an automated daily data matching system. Consequently, the DVA garnishee operates as a manual system with two methods to identify mutual customers, namely:

- an annual data match; or
- CSA sending a fax to DVA requesting further information.

5.27 In the first year the garnishee operated, between August 2008 and July 2009, there were numerous problems with the manual system including:

- the DVA deduction amount requested by CSA was incorrect in 82 per cent of cases¹¹⁸ and no review mechanism was in place to identify discrepancies;
- DVA deductions were not automatically increased in line with the annual increase in the minimum payment; and
- a misallocation of deductions between customers due to DVA grouping deductions from multiple customers in its transfers to CSA.

5.28 At July 2009, the number of customers with DVA garnishees (38) is well below the targeted number of 4113 customers. While only impacting on a relatively small number of customers, the risk identified by CSA and DVA that customers would accrue arrears between data matches, has not been addressed.¹¹⁹ The controls and manual process implemented by CSA and DVA

¹¹⁸ CSA requested 470 deductions from DVA income support payments of 38 customers. Of the 470 deductions, 86 were at the prescribed amount. The underpayments of 27 customers ranged from \$0.01 to \$477.60 and one customer overpaid \$327.79.

¹¹⁹ When CSA identifies a (potential) mutual customer, who has not previously been identified as mutual through data exchange, CSA confirms that the customer is a DVA customer through an exchange of pro-forma faxes.

have not been effective in preventing incorrect amounts of child support being deducted from customers' income support payments.

5.29 Further, while the Steering Committee's decision not to invest in an automated system is pragmatic given the number of customers involved to date, if that number increases closer to the target it is likely to increase the amount of child support overpayments and underpayments.

5.30 One option to help address the issues identified is the development and implementation of appropriate checks at key risk points in the DVA garnishee process. In that respect, in October 2009, DVA contacted CSA to initiate discussions about potential enhancements to the annual process of exchanging the income information of joint customers. Further, the memorandum of understanding that governs the DVA garnishee process, *Protocol governing the disclosure of information between CSA and DVA*, is yet to be finalised. The ANAO suggests that the timely finalisation of the protocol could also help provide the framework for addressing the issues that have arisen.

Risk of ongoing/transitional compliance

5.31 The CSSR Steering Committee risk register consistently reported on the transitional compliance risk, including changes to its likelihood and consequence statuses and proposed treatments. Despite the attention given to this risk, customer non-compliance during the transitional compliance increased (refer paragraph 4.4).

5.32 One reason for the increase in customer non-compliance during the transitional period may have been that both the CSSR and the DHS Service Delivery Steering Committees did not adequately scrutinise the treatments identified for the transitional compliance risk. Identified treatments were high-level and included:

- increased promotion of compliance activities;
- face-to-face intervention; and
- revised staff training.

5.33 While these treatments somewhat reflect the activities CSA was funded to undertake as part of the Transitional Compliance project, CSA only undertook one activity aimed at maintaining transitional compliance levels. Training and face-to-face intervention were both identified as treatments for over 12 months, however:

- increased face-to-face intervention featured as part of the BBCSA program as an increase in the number, and change in the role, of Regional Service Centres, and the introduction of case management for high-need customers. Neither of these activities are specifically aimed at customers with debt or who become non-compliant; and
- no training was provided to staff about managing transitional non-compliance.

5.34 Therefore, reported treatments were not adequate to address the identified risks. Greater scrutiny by the Steering Committees around the treatments, for example the types of customers identified and targeted, may have increased the accountability associated with reporting. Also, a combination of quantitative performance indicators, such as the level of debt and the number of first-time default customers, in addition to the high-level activities, may have provided a more suitable suite of treatments.

CSA's risk management

5.35 Similar to the governance arrangements and project management framework, CSA's risk management framework for delivering the Child Support Reforms was not fully developed at the commencement of the Improving Compliance program. Prior to the commencement of the program only two of the five projects, Litigation and IM, had a risk register in their project plans with the registers only identifying limited risk treatments.

5.36 Responsibility for risk management was devolved and consequently varied throughout the Improving Compliance program. This was reflected at both an agency level with the lack of a centralised high-level risk management plan and at the project level where completed risk registers were not part of project plans.

5.37 As with all projects, some risks (identified and not identified) materialised to varying degrees. When this occurs it is the strength of risk planning (including identification and treatments) and response (including actively monitoring and responding), that allows for effective management.

5.38 For the implementation of the Improving Compliance program, CSA needed to consider a range of risks, including strategic risks, to the Child Support Scheme, such as customer fraud and high-risk customers (refer Chapter three), in addition to operational risks associated with the program and projects, such as project case selection.

Case selection risk

5.39 Case selection is a devolved process in CSA, with each Improving Compliance project responsible for identifying cases to pursue. In addition, BAU project teams have the capacity to conduct their own case selection through CSA's management information and reporting system. This uncoordinated approach to case selection contains some inherent risks, such as a lack of expertise or knowledge to adequately identify cases and duplication between approaches and identification of cases.

5.40 Despite making improvements on a project-by-project basis, such as dedicated case selection functions, case selection was identified as a key ongoing risk during the Improving Compliance program. In addition to individual projects identifying the risk, an improved case selection strategy was repeatedly flagged by the Compliance Capability project¹²⁰ as a priority area requiring improvement. In an end-of-phase report reviewing the Compliance Capability project in March 2008, some of the high-level outcomes identified for the project were to:

- research and develop compliance scores¹²¹ to inform case selection; and
- design, develop and implement a new case selection methodology for IM and collection projects.

5.41 These outcomes have not been achieved, and case selection remains an ongoing problem that directly impacts on the ability of some projects to meet their collection targets. For example, in July 2008 the:

- IM project noted that case selection would need a stronger focus in the program because it had not been achieving its targets; and
- DPO project identified national case selection and referral areas that need to be improved because the project was not reaching its targets.

5.42 On various occasions CSA has investigated options or signalled an intention to implement a national case selection framework. This has included costing the development of a national case selection tool to be between \$69 200

¹²⁰ The Compliance Capability project was established to deliver a number of outcomes to support the Improving Compliance projects.

¹²¹ Compliance scores indicate CSA's likelihood of being able to collect child support based on customers' characteristics.

and \$77 200; and the Enforcement Services¹²² 2008–09 Business Plan which outlined a plan to develop policy in relation to case selection, referral improvement and data matching. However, this work has not resulted in any changes to the existing systems and practices to address the risk, and individual projects continue to be responsible for case selection.

5.43 The importance of case selection to the success of the Improving Compliance program is evident through some projects not achieving targets (refer paragraphs 7.31 to 7.34). The risk, while identified on numerous occasions, has not been adequately managed. Developing a national case selection framework (that includes a centralised function) could produce a more strategic and efficient approach to case management for the Improving Compliance program through removing the duplication of this activity by individual projects and providing for the appropriate identification and referral of cases.

Recommendation No.4

5.44 The ANAO recommends that CSA develop a coordinated national approach to case selection that:

- is risk based and provides appropriate coverage of CSA’s customers;
- strategically allocates cases to suitable compliance projects; and
- utilises analysis from successful case types to inform the strategies of its compliance projects.

5.45 DHS response: *Agree.* The Department acknowledges the criticality of a coordinated national case selection capability and is currently developing an integrated and risk based case selection model to support its compliance activities.

Conclusion

5.46 A sound project management framework is important for ensuring that programs and projects deliver expected outcomes in a timely and cost efficient manner. Project management principles are applied to help identify, plan, manage and respond to program and project implementation issues.

¹²² In 2008, the Improving Compliance program became part of the Enforcement Services stream.

5.47 The CSSR Steering Committee's oversight of the Improving Compliance program was limited given that the day-to-day implementation of the program primarily resided with CSA. The Steering Committee's role did not extend to budget and resourcing strategies, which were ultimately critical to the overall success of the program. Despite putting in place a Project Management Plan, some identified key risks to the success of Improving Compliance program were not effectively monitored or reported on and subsequently materialised, such as the growth in non-compliance during the transitional compliance period.

5.48 While CSA recognised early the limitations of its project management framework and sought external assistance, project management arrangements were late to develop and were incomplete; partly due to the day-to-day implementation of the program taking priority.

5.49 In some instances this had a detrimental impact on the Improving Compliance program which was reflected through:

- the lack of clarity in roles and cooperation between some business areas;
- incomplete project plans that were approved to commence; and
- inadequate identification and/or management of some risks, such as the lack of a coordinated approach to case management, that directly impacted on the ability of some projects to achieve their targets.

5.50 The application of project management principles is important to the delivery of expected outcomes; in this case, increased child support collections and enhanced compliance results. Given the issues encountered during implementation, the delivery of the Improving Compliance program would have benefited from the earlier adoption of governance arrangements supported by clear and effective project and risk management frameworks.

6. CSA's Budget and Resource Management

This Chapter examines CSA's costing, budget and resource management for the Child Support Reforms and how this impacted on the Improving Compliance program.

6.1 One major challenge to implementing an initiative is employing adequate financial management including costing, budgeting and tracking expenditure. To provide for adequate funding during implementation, agencies need to develop a budget along with processes to manage the budget. Effective financial management also requires monitoring and reporting to ensure that resources are efficiently utilised.¹²³

Costing

6.2 For most new program initiatives a 'new policy proposal' (NPP) process is undertaken that includes the identification of program costs. It is important that an agency identifies all costs, particularly material costs, associated with delivering a program at this stage so that decisions can be made on appropriate funding levels to meet the program objectives.

6.3 During the NPP process, CSA failed to identify and/or accurately estimate a number of costs associated with implementing the Child Support Reforms, including:

- engaging project management expertise and business support costs;
- establishing a national compliance team to coordinate the Improving Compliance program and developing and implementing a national compliance result tracking and reporting tool; and
- staff¹²⁴ and overhead costs.¹²⁵

¹²³ ANAO and Department of the Prime Minister and Cabinet, op. cit., p. 44.

¹²⁴ CSA based estimated salary costs on a lower rate than required and therefore the budget allocation only covered 343 of the forecast 479 positions. CSA expects that this will reduce actual child support collections by \$95.5 million. It may also have been a key driver for CSA's need to re-negotiate its program targets (refer Chapter seven).

¹²⁵ CSA was required to absorb \$44.5 million in overhead costs for the Improving Compliance program including \$11 million for accommodation fit out and \$13 million for corporate overhead costs.

6.4 The negative impact of the additional costs on the Improving Compliance program was raised on a number of occasions through internal reporting on the program, with funding being identified as a major reason why the program was unlikely to meet its targets. These issues were also highlighted though an internal budget review, which cited keys reasons for CSA's difficult budget position as including:

- costing estimates for the Child Support Reforms did not accurately reflect the scope and nature of the work required to implement the measures; and
- costing estimates for implementing the Child Support Reforms did not adequately consider the costs of support services and project management.¹²⁶

6.5 As a result of CSA's inadequate identification and estimation of the costs associated with implementing the Child Support Reforms, CSA encountered budget difficulties.

Budgeting

6.6 CSA's inadequate estimation of funding requirements meant that having in place a strong budgeting framework from the outset was important. CSA did not, however, have an adequate financial management system, which was reflected by advice to the CSA Executive Committee in September 2006 indicating that it was unknown how projects were tracking against budgets. It was not until six months after the implementation of stage one of the CSSR, and the commencement of the Improving Compliance program, that CSA implemented a system that could automatically attribute costs incurred by programs, projects and business support areas.

6.7 The financial difficulties also required CSA to reassess the funding it received and to reprioritise budgets. In May 2006, when the Child Support Reforms projects were asked to provide budget estimates, they totalled almost \$20 million, or 12 per cent more than the funding provided. Accordingly, the NEC approved project budget requests for 2006–07 less five per cent to cover project management consultants. Again, in 2007–08, a similar approach was adopted whereby project budgets were approved less ten per cent. However,

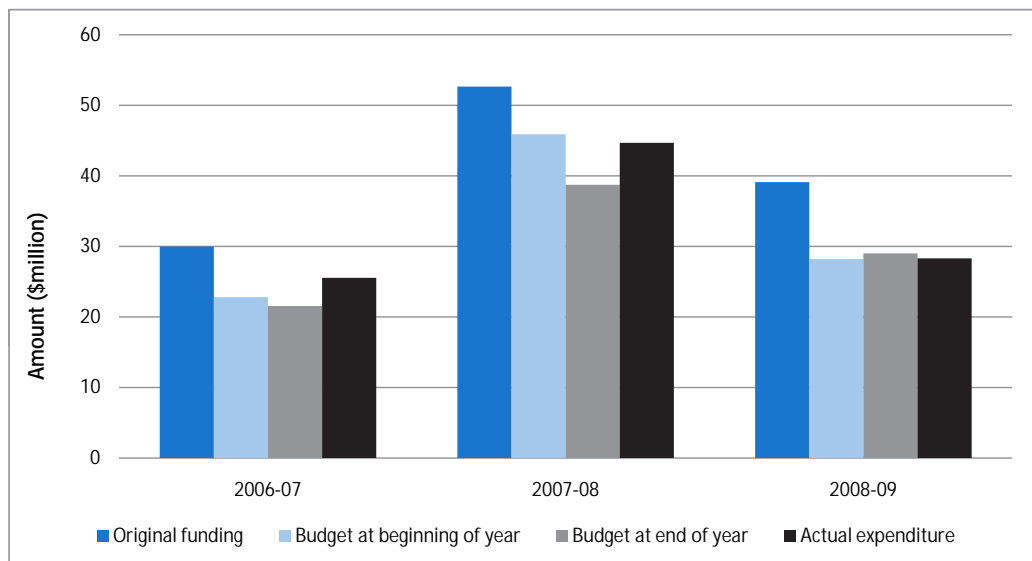
¹²⁶ Child Support Agency, *Compliance Program Budget Situation for 2007-08, 2007*.

this arbitrary approach was insufficient to make up the shortfall and therefore budgets were further reduced periodically during 2006–07 and 2007–08.

6.8 Figure 6.1 shows that in the financial years 2006–07, 2007–08 and 2008–09, the internal budget for the Improving Compliance program was significantly reduced from the NPP funding. Figure 6.1 also shows that in 2006–07 and 2007–08, expenditure for the Improving Compliance program was greater than its budget.

Figure 6.1

Budget for the Improving Compliance program in 2006–07 to 2008–09



Source: ANAO analysis of CSA information.

6.9 The combination of inadequate identification of costs at the outset of the program and the need to reprioritise budgets had flow-on effects for the Improving Compliance program, particularly budget management and its capacity to achieve its targets. CSA's approach to reduce all program budgets evenly did not reflect a risk-based consideration of its organisational priorities and responsibilities.

Improving Compliance program's budget

6.10 CSA's strategy for achieving the Improving Compliance program targets focussed on increasing frontline staffing levels. A review of the Improving Compliance program by CSA's Project Office found that CSA had

‘very little by way of a clear strategy over and above acquiring the people to acquire the extra funds’ [the Improving Compliance collection target].¹²⁷

6.11 Despite underestimating funding, given that staffing was a key driver for the success of the program, CSA decided to employ the original number of funded officers by the end of 2007 and then allow for the number to decrease to an affordable level through attrition by mid-2008. It is unclear, however, how this strategy was going to be carried out, in particular how the short-term budget shortfall would be addressed.

6.12 By September 2007, CSA had engaged 376 of the planned approximately 470 new staff for the Improving Compliance program. In September 2007, a BBCSA workforce planning project, taking into account CSA’s entire workforce affordability, determined that the Improving Compliance program could only afford approximately 270 officers, leaving a surplus of over 100 officers. Accordingly, over the period October 2007 to March 2008, CSA had to manage the downsizing of the new staffing level to 300 officers.

6.13 Surplus staff was identified by the Improving Compliance program in progress reporting to the NEC as one of two reasons¹²⁸ why it overspent its 2007–08 budget by almost \$4.7 million. To manage this situation, CSA Executive determined that expenses for the surplus staff should be split evenly between the BAU budgets of the State Executives (who had primary responsibility for the recruitment of Improving Compliance program staff) and the Improving Compliance program.

Improving Compliance program’s staffing

6.14 Due to the division of surplus staff costs between the State Executive and Improving Compliance program budgets, some staff shifted from the Improving Compliance program budget to State Executive’s budgets and also had their roles changed from Improving Compliance project work to other BAU work. Therefore, the Improving Compliance program was unable to maintain the number of staff required to meet project targets, and this

¹²⁷ Child Support Agency, *Compliance WDP – Integration and Assurance Workshop (Report and Action Plan)*, 2007, p. 10.

¹²⁸ The second reason was the high amount of corporate overhead costs charged to the Improving Compliance program.

contributed to some projects being unable to meet their targets (refer paragraphs 7.31 to 7.34).

6.15 As part of the resourcing uncertainty created by the inadequate budgeting practices, staff were also inefficiently shifted into and out of Improving Compliance program work. For example, the IDC2 and IM projects initially ceased funding for almost 50 officers. However, at various points in early 2008, the projects funded an additional 95 staff; some for only one-month.

Improving Compliance program's project teams

6.16 The inconsistency in approach to budgets and staffing further contributed to the problems encountered and demonstrated a failure to recognise:

- the importance and efficiencies that can be gained from developing and retaining a skilled workforce;
- the wasted time and resources of the IM and IDC2 projects associated with training the new staff; and
- potential staff dissatisfaction with regular and rapid changes to their day-to-day roles.

6.17 In November 2007, the lack of control over staffing was identified as a problem by the Litigation, DPO, and IDC2 projects. The impact of these issues and the decision to not create clear lines of accountability were also reflected through CSA's Compliance Capability project, which found that compliance projects that were independent of State Executive influence worked at a 'markedly higher efficiency and productivity level.'¹²⁹

6.18 It was not until 2008–09, that some of the staffing problems were addressed for the Litigation, IM and DPO projects with responsibility for the BAU and Improving Compliance program project teams shifting from State Executives to the Improving Compliance program project management teams. IDC2 teams, however, remain under the management of State Executives with

¹²⁹ Child Support Agency, *Compliance Capability Enhancement Program End-of-phase report*, 2008, p. 6.

problems regarding staffing levels that have a direct impact on the ability of the project to meet its objectives continuing to occur.¹³⁰

Conclusion

6.19 CSA's inability to effectively cost, budget and manage the financial resources for the Improving Compliance program had an ongoing, detrimental impact on its ability to achieve program targets.

6.20 In the 2009–10 Australian Government Budget, CSA received, as part of its funding agreement, an additional \$223.2 million over four years to manage its workload, maintain service standards and prevent growth in uncollected child support. In May 2009, however, CSA had not yet determined which of its business streams would receive funding from this measure, indicating that CSA's NPP development processes remain unaligned with its organisational planning and resource allocation processes.

6.21 Since CSA was brought into the newly formed DHS in 2004, CSA has essentially operated as a separate agency – rather than as part of the department – and as such has operated its own corporate functions, including finance. DHS advised the ANAO that a departmental reorganisation that came into effect in July 2008 has brought together the enabling functions (information technology, human resources, finance and legal advice) of the department including CSA. This is expected to improve the transparency of project costs and requirements; and help DHS to identify the overhead and corporate costs of CSA more accurately.

6.22 CSA is now required to report budget performance each month against allocated budgets and planned expenditure profiles; and DHS indicated that there will be a formal mid-year review process to assess its progress against government priorities.

6.23 While these changes present the opportunity to address the identified weaknesses in CSA's financial management practices, due to the timing they were not assessed as part of the audit.

¹³⁰ In 2008–09 State Executive budgets received funding for approximately 107 IDC2 officers. In December 2008, Enforcement Services identified that average staffing levels for IDC2 from July 2008 to December 2008 were below that level.

Recommendation No.5

6.24 The ANAO recommends that CSA improve its budget and resource management processes through early identification of program requirements and allocations that align with program objectives.

6.25 **DHS response:** *Agree.* The Department has recently undertaken a review of governance arrangements and has implemented a new governance approach. The approach includes a streamlined governance process which provides greater clarity and assurance to the Secretary through a range of corporate and operations committees which support the Department's Management Board. The governance framework includes a Finance Committee and a CSP Business Operations Committee to ensure there is a clear focus on business priorities.

7. Improving Compliance Program Monitoring, Reporting and Outcomes

This Chapter examines the monitoring and reporting of the Improving Compliance program and compares CSA's performance against the targets set for the Improving Compliance program.

Monitoring and reporting

CSSR Steering Committee monitoring and reporting

7.1 The development of a 'strategy to manage increased compliance activity'¹³¹ was the only milestone for the Improving Compliance program included in the CSSR project plan. The CSSR Steering Committee was expected to monitor this milestone through the receipt of two deliverables: CSA's proposed approach to implementation of the strategy; and a compliance action plan. However, the Steering Committee ceased monitoring these milestones prior to their completion.

7.2 Since the replacement of the CSSR Steering Committee with the Child Support Scheme Interagency Committee (in August 2008), monthly cross-agency monitoring of the Improving Compliance program has ceased. The Improving Compliance program will not conclude until July 2010, with the final compliance reporting requirements yet to be determined beyond FaHCSIA's final CSSR report to the Minister for Families, Housing, Community Services and Indigenous Affairs expected to be delivered in late 2009.¹³²

CSA's reporting framework

7.3 The frequency and detail of project status reports will generally evolve over time in response to the success or otherwise of a project. The internal status reports for the Improving Compliance program projects were initially

¹³¹ Department of Families, Housing, Community Services and Indigenous Affairs, *FaHCSIA Project Status Report*, 2007.

¹³² In total, FaHCSIA will provide three reports to the Minister of Families, Housing, Community Services and Indigenous Affairs on the impact of CSSR. The first two reports were delivered in February and May 2009, and the last report is scheduled to be delivered in late 2009.

on a weekly basis in late 2006, with the frequency changing to fortnightly in early 2007 and then monthly in early 2008. In addition to the provision of the status reports, the Change Executive¹³³ also met fortnightly with program teams/managers.

Identified risks

7.4 Projects were required to use traffic light reporting to indicate their project status and also to identify potential risks and issues. However, this reporting system was limited in its effectiveness because the NEC did not intervene where risks or issues were repeatedly identified by programs and projects. For example, the:

- IM project reported its status as amber or red¹³⁴ for 18 months due to the absence of a reporting tool that would enable it to determine the results achieved.
- Litigation project reported its status as amber for more than 14 months because of an insufficient budget. Also, for approximately 11 months of that time, case selection and reporting capability were also identified as risks.
- DPO project reported its status as amber for 12 months due to the BAU workload of project officers and teams impacting on its ability to reach its targets.

7.5 The minutes of NEC meetings reflect that progress reporting was not consistently discussed due to timing and other pressures, however, discussion around the compliance program reporting increased when reports flagged the risk that the overall collection target may not be achieved. This risk was repeatedly discussed and assurance was provided that CSA would be able re-negotiate its collection target due to administrative oversights in initially setting the target (refer paragraphs 7.23 to 7.25).

7.6 On a number of occasions, the NEC also discussed individual projects, such as DPO and Litigation, that were not achieving project targets. Minutes

¹³³ Refer Appendix 4.

¹³⁴ For CSA's traffic light reporting the status indicator was used to reflect progress against the project's and CIU's milestones and adequacy of financial and human resources. Green status meant the project was 'on-track'; amber status was used as a 'warning', for example, may not achieve targets; and red status indicated projects were in a 'critical' situation, for example, will not achieve targets.

from these meetings show that this was not considered to be an important risk because based on the collection results of other projects, such as LENF, CSA expected to reach its revised collection target. Achievement of the overall compliance program collection target, rather than the results of individual projects, was a key priority for CSA.

CSA's reviews

7.7 CSA regularly used reviews to assess the implementation of the Child Support Reforms. The nature and scope of the reviews varied and included reviews of individual projects by managers and broader independent reviews of the Child Support Reforms and the supporting project management framework.

7.8 These reviews delivered a number of improvements to CSA's project management framework, such as some Improving Compliance program projects received greater control over teams. However, other potential improvements, such as centralised case selection, remain unaddressed.

Improving Compliance program reporting

7.9 At the start of the Improving Compliance program, compliance activities and outcomes were recorded and reported in a collection of manual systems. As a result, CSA was unable to report on performance against all the compliance targets. During this time it was known within CSA that compliance reporting was inaccurate because collections were estimated 'based on assumptions applied to the achievements of projects plus BAU activity'¹³⁵ and were tracked in a variety of spreadsheets. Consequently, some collection results were over-stated and some were under-stated.

7.10 To address the limitations of the manual system, and as a temporary measure, CSA created a partially-automated performance measurement system for the Improving Compliance program as part of the BBCSA program.

7.11 In 2008, CSA then introduced an automatic reporting system which involved customer records (source data) being 'tagged' in Cuba to a particular Improving Compliance project or BAU compliance activity so that collections made as a result of an intervention by a particular team can be reported. This

¹³⁵ Child Support Agency, *Compliance Program Results*, 2007.

system enables CSA to separately report, for example, the child support collections made from Litigation teams funded from the Improving Compliance program budget and Litigation teams funded from CSA's BAU budget.

7.12 CSA's compliance reporting system is yet to encompass all Improving Compliance program projects such as the Centrelink garnishee. Reporting on the Centrelink garnishee is still under development with CSA reporting on the number of customers affected in the relevant month rather than the total number of mutual customers affected by the measure.¹³⁶

7.13 The automatic reporting feature potentially allows CSA to calculate and compare the effectiveness of the different compliance projects and the performance of different teams completing the same activities.

Outcomes of the Improving Compliance program

7.14 The Improving Compliance program represented a significant expansion to CSA's existing compliance program with an initial planned increase of approximately 460 staff, funding of over \$160 million and major growth in its activity levels. In addition to implementing this program, CSA was expected to continue delivering business as usual compliance activities.

7.15 The Improving Compliance program targets two aspects of compliance, namely, encouraging customers to: pay and receive the right amount of child support (accurate assessment); and pay all child support on time (full and timely payment). The program had three key outcomes which were to:

- address the risk of customer non-compliance during the implementation of the CSSR from July 2006 to June 2008;
- increase child support payments by \$463.6 million over four years from 2006–07; and
- reduce Family Tax Benefit payments by \$52.7 million over the same period.¹³⁷

¹³⁶ Child Support Agency, *Actual vs Target Collections July 2008 to March 2009*, 2009.

¹³⁷ Commonwealth of Australia, op. cit. The collection target was revised to \$339.3 million in 2008.

Outcomes during the transitional compliance period

7.16 Compliance was not maintained during the implementation of CSSR, with the proportion of customers paying their full child support liability dropping by 3.5 per cent and the proportion of customers paying no child support increasing from 12.0 per cent to 13.1 per cent (refer paragraph 4.4).

7.17 There are also other compliance measures which could give an indication as to the success of the program in minimising non-compliance during the transition period. The measures include the:

- timeliness of child support payments;
- accuracy of child support assessments; and
- level of child support debt.

Timeliness of child support payments

7.18 CSA does not routinely track the timeliness of child support payments. Without such data it is therefore unknown if the Improving Compliance program has improved the timeliness of child support payments.

Accuracy of child support assessments

7.19 CSA started tracking the accuracy of child support assessments in 2006.¹³⁸ CSA's reporting indicates that the proportion of child support assessments that are accurate decreased from 44.8 per cent in 2006–07 to 41.5 per cent in 2008–09; 13.7 per cent below CSA's target of 55.2 per cent.

7.20 The IM and LENF projects are aimed at improving the accuracy of assessments and therefore the decline in this measure indicates that the Improving Compliance program has been unable to improve or maintain the accuracy of assessments during the transitional compliance period. Two areas identified that could contribute to the increased accuracy of assessments are: proactively seeking income and level of care information from customers when assessments are being undertaken; and addressing the estimate reconciliation backlog (refer paragraphs 3.33 to 3.37).

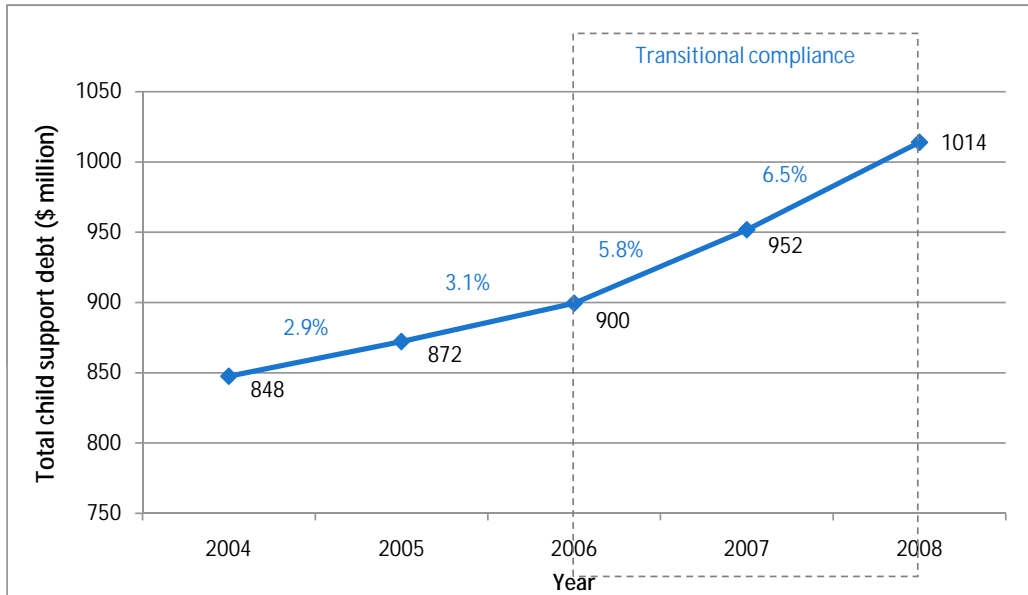
¹³⁸ The accurate assessments measure is a weighted indexation of Customer Supplied Incomes (70 per cent), Timely Estimate Reconciliation (15 per cent) and Care Changes notified within 28 days (15 per cent).

Child support debt

7.21 During the transitional compliance period, Total Child Support debt¹³⁹ increased by \$114.5 million, from \$899.5 million¹⁴⁰ to \$1.014 billion.¹⁴¹ Figure 7.1 shows the increase in debt during the transitional period and the increased pace with which debt increased.

Figure 7.1

Total Child Support debt, 2004 to 2008



Source: ANAO analysis of information from Child Support Agency, *Child Support Scheme Facts and Figures 2006-07*, CSA, Canberra, 2007, p.51 and Child Support Agency, *Collection Update Edition 9*, 2008.

7.22 In the two financial years prior to the announcement of the Child Support Reforms, total debt increased by 2.9 per cent and 3.1 per cent respectively. During the transitional compliance period, this growth increased by 5.8 per cent and 6.5 per cent annually (to June 2007 and 2008).

¹³⁹ Cumulative gross maintenance debt refers to the sum of the cumulative net maintenance debt since the Child Support Scheme began in 1988 and debts that are deemed to be currently uncollectable.

¹⁴⁰ Child Support Agency, *Child Support Scheme Facts and Figures 2006-07*, CSA, Canberra, 2007, p.51.

¹⁴¹ Child Support Agency, *Collection Update Edition 9*, 2008.

CSA's collection target

7.23 The Improving Compliance program was expected to increase the overall child support collections by \$463.6 million over four years. However, in March 2008, CSA, FaHCSIA and Finance agreed to revise the Improving Compliance program collection target downwards by \$124.4 million to \$339.3 million.

7.24 The bulk of this reduction is attributable to an administrative oversight during the setting of targets for the IDC2 and IM projects. During the costing process both the number of cases for the IM project and the length of the IDC2 project were decreased as part of negotiations between departments, however the collection targets were not correspondingly reduced until 2007 when the error was discovered.

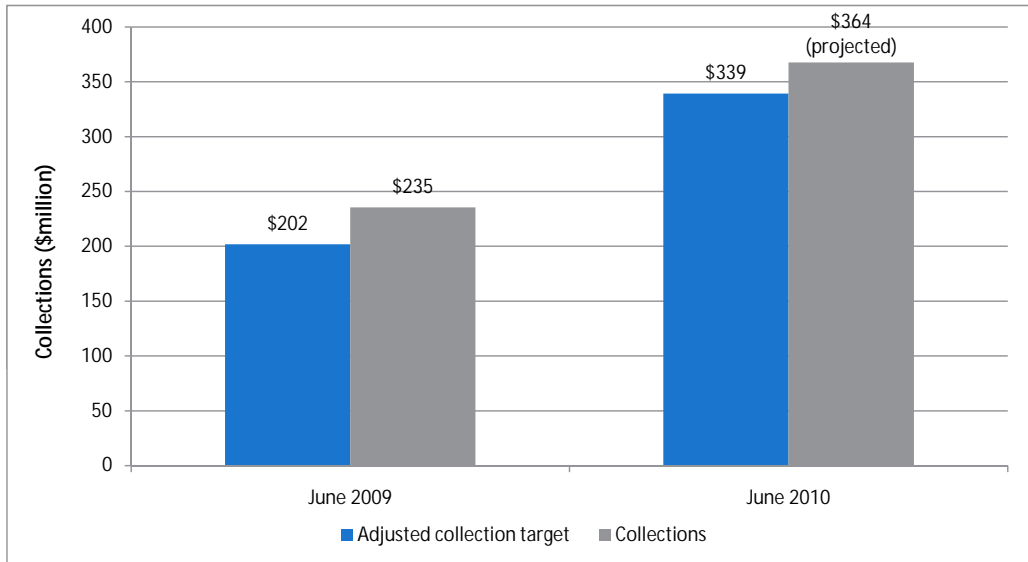
7.25 The IM project's target was originally based on 1800 cases¹⁴² in the first year, but was reduced to 900 cases, and subsequently reduced the collection target by \$23.3 million (or 20 per cent). The IDC2 project's revised target is now based on a three-year project timeframe rather than four-years, with expected collections being reduced by \$82 million (or 36.9 per cent).

7.26 As at June 2009, CSA had collected \$235.5 million against a target of \$201.8 million. In the remaining 12 months, CSA would need to collect \$103.8 million of child support in order to meet its adjusted collection target.

7.27 The average amount of child support collected in each month since June 2008 (when all of the Improving Compliance projects were in place) has been \$11.0 million. Based on this monthly average, the estimated total collection for the remainder of the program is \$132.2 million. This would result in CSA collecting \$367.7 million over the life of the Improving Compliance program, a result that is \$28.4 million above the adjusted collection target.

7.28 Figure 7.7 shows CSA's collection performance as at June 2009 and then extrapolated through to the completion of the program based on the assumption in paragraph 7.25, against the adjusted collection target.

¹⁴² The IM project's target cases were 900 in 2006-07 and 1800 in later years. The target number of cases was reduced in 2006-07 to allow for lead time for start-up requirements such as recruitment.

Figure 7.2**Improving Compliance program performance as at June 2009**

Source: ANAO analysis of information from Child Support Agency, *CSA Compliance Program Collection Targets*, 2008; Child Support Agency, *Report to the FaHCSIA CSSR Steering Committee*, 2008, p.3 and Child Support Agency, *Compliance Performance Report*, 2009.

Note: The June 2010 child support collection is an estimate based on past performance.

Management information reporting

7.29 The ANAO based its calculation of CSA's expected collection rate on the data used in FaHCSIA's management information reporting on the Improving Compliance program. However, CSA's compliance reporting includes some results from projects and activities outside of the Improving Compliance program and counts some collections twice. Examples of shortcomings that could impact on the accuracy of the estimate include:

- reporting on the tax return lodgement enforcement (LENF) project includes collections from the 100 000 customers per year funded from the NPP budget in addition to 25 000 customers per year that are funded from CSA's BAU budget and that the ATO was processing prior to the LENS project;
- in some cases NPP and BAU results are added together, for example, DPO collection results from July 2006 to March 2008 included results from BAU DPO teams;

- the methodology for calculating the IM project can include payments from customers twice¹⁴³ because once a case is tagged to the IM project all child support payments received up until the end of the project are counted towards the IM project's collection target. If customers are subsequently referred from the IM team to another team during this time, for example to a Litigation team, collections are counted towards both the IM target and the Litigation target¹⁴⁴; and
- reported IDC2 collections include collections resulting from multiple activities, including some of the Transitional Compliance activities. Also, IDC2 results include \$12 million of collection results relating to the IDC1 project (April 2007 to June 2007) which was funded as a separate budget measure in the 2003-04 Australian Government Budget.

7.30 Inaccurate reporting of collections is problematic because it impacts on CSA's ability to evaluate the effectiveness of the different compliance activities in collecting child support. Therefore, while it appears that CSA will meet its revised collection target, the limitations in the data underpinning the results need to be taken into consideration.

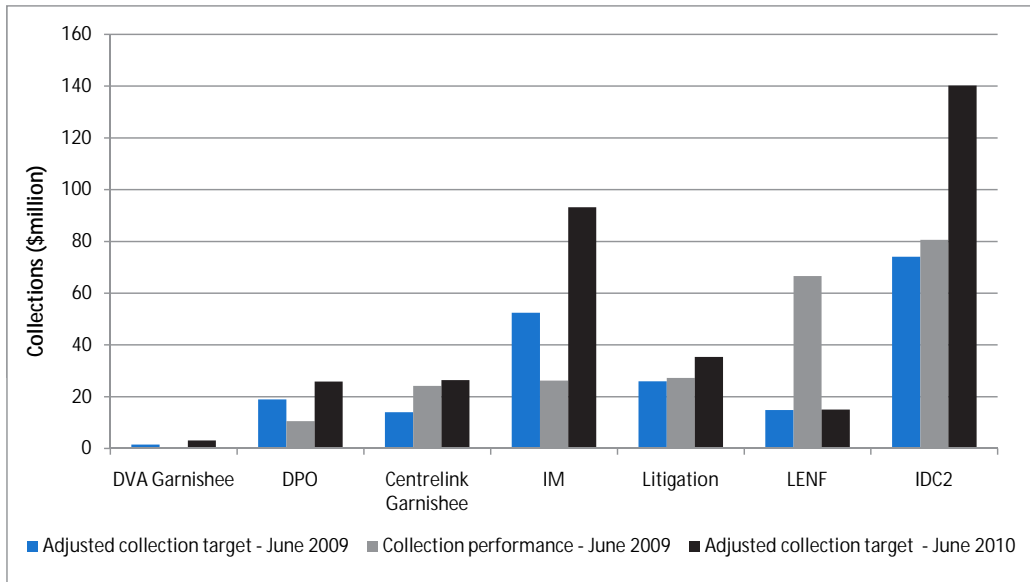
Performance of the Improving Compliance program projects

7.31 At June 2009, the Improving Compliance program was exceeding its program-to-date adjusted collection target of \$201.8 million by \$33.7 million.¹⁴⁵ In achieving this result the performance of each project in the Improving Compliance program varies considerably, as shown by Figure 7.3.

¹⁴³ Child Support Agency, *Compliance Performance Report Data Management and Corporate Systems*, 2009.

¹⁴⁴ CSA advised the ANAO that it uses double counting to attribute collections resulting from assessment variations by the IM project but that have been enforced through another team, for example Litigation.

¹⁴⁵ ANAO analysis of Child Support Agency, *Compliance Performance Report*, April 2009; Department of Families, Housing, Community Services and Indigenous Affairs, *Child Support Reforms Management Information Report 3: Stages 1-3*, 2009.

Figure 7.3**Improving Compliance program project performance as at June 2009**

Source: ANAO analysis of information from Child Support Agency, *CSA Compliance Program Collection Targets*, 2008; Child Support Agency, *Report to the FaHCSIA CSSR Steering Committee*, internal 2008, p.3 and Child Support Agency, *Compliance Performance Report*, 2009.

7.32 Figure 7.3 shows that the IDC2, Litigation and Centrelink garnishee projects are all ahead of target, while the DPO, DVA garnishee and IM projects are behind target. The overall success of the program can, however, be largely attributed to the LENF project.

7.33 The LENF project has collected \$66.6 million, which represents 348 per cent of its \$15 million collection target. Table 7.1 shows a large variability in annual LENF collection targets ranging from \$8.9 million in 2006-07 to \$190 000 in 2007-08 and 2009-10. CSA advised that these targets were established with an expectation that different groups of customers would be targeted each year and, consequently, the collection rates would vary based on each group.¹⁴⁶

¹⁴⁶ CSA advice, 6 August 2009.

Table 7.1**LENF annual collection targets**

2006-07 (\$m)	2007-08 (\$m)	2008-09 (\$m)	2009-10 (\$m)	Total (\$m)
8.92	0.19	5.74	0.19	15.04

Source: Child Support Agency, *CSA Compliance Program Collection Targets*, 2008.

7.34 In calculating the LENS collection target, CSA expected that of the additional 100 000 customers per annum referred to the ATO, 26 500 customers would lodge a tax return.¹⁴⁷ CSA had previously collected an average of \$710 per customer that lodged a tax return who also had a debt. If this rate was used to calculate the LENS collection target, its annual target would have been \$18.8 million; equating to an overall target of \$75.3 million. Given that in 2007, CSA had 123 916 customers with 'major debt'¹⁴⁸ totalling \$660.1 million, it would not have been unreasonable to use this collection rate and to set higher collection targets for the LENS project.

Family Tax Benefit savings target

7.35 The Family Tax Benefit (FTB) is a payment to help families raise dependent children. FTB payments are means-tested, with the rate of payment affected by a number of factors such as family income—which includes child support payments (or 'maintenance income'). The Maintenance Income Test assesses whether a customer's income is greater than the exemption amount (Maintenance Income Free Area).¹⁴⁹ Child support income greater than the

¹⁴⁷ Of the total number of customers referred by CSA to the ATO, 125 000, it was expected that 29 927 customers would lodge a tax return.

¹⁴⁸ 'Major debts' were those debts that were greater than one-twelfth of the annual child support assessment; were greater than \$260; and did not include penalty debt. Source: Child Support Agency, *Report of the Findings of the Debt Study 2*, 2008.

¹⁴⁹ The Maintenance Income Free Area is the amount of maintenance income that is disregarded for the purposes of the maintenance income test for FTB A. The Maintenance Income Free Area varies depending on: whether the recipient is single or partnered; whether the recipient and/or their partner receive maintenance; and the number of FTB children for whom the recipient and their partner receive child support.

exemption amount reduces the rate of FTB Part A¹⁵⁰ by 50 cents for every dollar of child support until the base rate is reached.¹⁵¹

7.36 FaHCSIA estimated that the Improving Compliance program would result in reduced FTB payments of \$52.7 million over four years from 2006-07.¹⁵² FaHCSIA calculated this estimate by considering the profile of child support debt and FTB payments, including the age of debt, size of debt collection, proportion of CSA customers not receiving FTB and impact of the Maintenance Income Credit. When the compliance targets were adjusted in 2008, FaHCSIA also adjusted the FTB savings estimate downwards to \$43 million (12.7 per cent of the revised Improving Compliance program collection target).

7.37 FaHCSIA tracks savings to FTB payments. However, the proportion of FTB savings that relate to the Improving Compliance program is unknown because FTB savings that relate to customers who have been subject to the Improving Compliance program cannot be identified. FaHCSIA anticipates that Centrelink and CSA would require additional funding to report this information but does not consider that the need for this information outweighs the resources required to make the necessary systems changes.

7.38 It can be difficult to measure actual savings in such a complex policy and operational environment. One method that could be considered is using an estimated approach that is based on sampling the actual results of some customers and extrapolating those results over the relevant customer population.

7.39 Without a measure, the success of this program in garnering savings cannot be determined or used to inform future decision-making. Where FTB savings are identified to offset expenditure, such as the Improving Compliance program, consideration should be given during program planning as to how

¹⁵⁰ FTB Part A is the most common payment and is paid per child. It includes a supplement, also paid per child, after the end of the financial year. FTB Part B provides extra assistance to single customer families and two customer families with one main income. It also includes a supplement, paid per family, after the end of the financial year.

¹⁵¹ Department of Families, Housing, Community Services and Indigenous Affairs, *3.1.7.10 Maintenance Income Test - General Provisions* [Internet]. FaHCSIA, Australia, 2009, available from <http://www.facsia.gov.au/Guides_Acts/fag/faguide-3/faguide-3.1/faguide-3.1.7/faguide-3.1.7.10.html>, [accessed 20 March 2009].

¹⁵² Commonwealth of Australia, op. cit. The collection target was revised to \$339.3 million in 2008.

savings will be tracked and reported against. This is important both for accountability and transparency purposes and also so as to be able to measure the effectiveness of the program.

Recommendation No.6

7.40 To improve the accuracy and usefulness of the Child Support Scheme compliance performance reporting, the ANAO recommends that Family Tax Benefit payment savings attributable to compliance action are estimated and reported.

7.41 DHS response: *Agree.* The Department agrees that measuring the compliance program, as a whole, through the estimation and reporting of Family Tax Benefit impacts would be beneficial in understanding the Scheme. As FaHCSIA already models the Family Tax Benefit impacts we recognise that they would be best placed to continue with this work.

7.42 The Department will work collaboratively with FaHCSIA on estimating and reporting of Family Tax Benefit impacts in our normal reporting cycles.

7.43 FaHCSIA response: *Agree with qualification.* FaHCSIA agrees in part with Recommendation 6 in relation to possible benefits in specifically tracking these savings, for example better informing future policy initiatives. FaHCSIA notes it currently monitors Family Tax Benefit savings actually achieved from child support collections. These cannot currently be attributed to individual Child Support Agency compliance activities. FaHCSIA will continue to explore opportunities for more detailed analysis of FTB savings in the future, while ensuring that the costs of tracking these amounts are carefully balanced with the benefit they would provide.

Conclusion

7.44 The monitoring and reporting of the Improving Compliance program improved over time as automated systems were introduced. CSA undertook many reviews to assess the implementation of the Child Support Reforms, and used these to improve operations. However, the ongoing performance reporting system was limited in its effectiveness as demonstrated by some of the risks and issues that were repeatedly identified by programs and projects going unaddressed.

7.45 The Improving Compliance program was significant in both the scale of resources invested and level of activity planned. It was designed to achieve

three key outcomes, namely: address the risk of customer non-compliance during the CSSR transition period; increase child support payments; and reduce FTB payments.

7.46 Various measures, such as the proportion of customers paying their full child support liability and the proportion of customers paying no child support, indicate that compliance levels dropped during the CSSR transitional period. During this time other compliance measures demonstrated unfavourable trends, such as debt levels increased and the accuracy of assessments declined.

7.47 Child support collections have increased as a result of the Improving Compliance program with CSA likely to achieve its collection target if the current collection rates are maintained. It is unknown if the FTB savings target will be met because FTB savings are not tracked by departments.

7.48 Underpinning the reporting of collection results, the ANAO identified some limitations relating to the reliability of the performance data (such as counting BAU compliance results as part of the Improving Compliance program results); and project targets being significantly exceeded (such as the LENF). Therefore, these issues need to be considered when interpreting the collection results.



Ian McPhee

Auditor-General

Canberra ACT

18 December 2009

Appendices

Appendix 1: Agency responses

Department of Human Services

The Department welcomes the audit and agrees with its recommendations. Since the implementation of Stage One of the Child Support Scheme Reforms and the Improving Compliance Program, the CSA has worked to improve the efficiency and effectiveness of the service it offers separated parents.

The audit report identifies a number of suggestions for further improvements, many of which have been addressed since stage one of the reforms. The recent integration into the Department has assisted in improving the portfolio communication approach as well as integrating the enabling services to improve internal budgeting processes.

The Improving Compliance program measure is in its final stages and is to be completed in 2010. However, a range of activities undertaken as part of this measure will continue in the CSA's ongoing compliance operations. The audit report provides a valuable assessment framework to develop changes to ongoing and future compliance operations.

The report makes reference to the delayed use of taxable income and prioritisation of the reassessment of cases. The current prioritisation is the result of formal government decisions taken after careful consideration of analysis of the caseload.

The Department notes the report's review of practices including risk and project management, as well as monitoring and reviewing processes and recognises the value of the improvements recommended to ensure effective and efficient best practice.

Department of Families, Housing, Community Services and Indigenous Affairs

The Department of Families, Housing, Community Services and Indigenous Affairs welcomes the findings of the audit report *Child Support Reforms: Stage one of the Child Support Scheme Reforms and Improving Compliance*.

The implementation of the Child Support Scheme Reforms was a large cross-Government implementation involving a range of Australian Government Departments. The changes were announced by the former Government in February 2006, with implementation of Stage 1 of the Reforms occurring with a minimal lead time, on 1 July 2006.

Notwithstanding the challenging timeframes to establish formal governance arrangements that would help to underpin Stage 1 and the later stages of the

reforms, FaHCSIA accepts the importance of establishing clear and comprehensive governance arrangements in a timely manner.

FaHCSIA recognises the importance of effective governance arrangements that are assessed and consistent with this, the Department regularly reviews governance arrangements to ensure they continue to meet the needs for which they were established.

As the report correctly points out, FaHCSIA tracks the overall savings to Family Tax Benefit payments resulting from the collection of child support. FaHCSIA does not, however, currently track the level of Family Tax Benefit savings resulting from specific components of Child Support Agency compliance activity, such as those measures that formed part of the Improving Compliance package.

FaHCSIA agrees in part with Recommendation 6 in relation to possible benefits in specifically tracking these savings, for example better informing future policy initiatives. FaHCSIA notes it currently monitors Family Tax Benefit savings actually achieved from child support collections. These cannot currently be attributed to individual Child Support Agency compliance activities. FaHCSIA will continue to explore opportunities for more detailed analysis of FTB savings in the future, while ensuring that the costs of tracking these amounts are carefully balanced with the benefit they would provide.

FaHCSIA also notes the reference to the issues associated with the income estimates reconciliation backlog and would like to advise that, subject to passage of legislation, a new income estimate process is planned for implementation in July 2010. This change is being developed to simplify the income estimates process for both parents and the Child Support Agency, removing the systemic drivers causing the backlog in reconciliations.

Appendix 2: Major developments in the Child Support Scheme

Table A 1

Major development in the Child Support Scheme

Date	Development
1988	Introduction of the Child Support Scheme Establishment of the Child Support Agency <i>Child Support (Registration and Collection) Act 1988</i>
1989	<i>Child Support (Assessment) Act 1989</i>
1994	Joint Standing Committee on Certain Family Law Issues examination of the Child Support Scheme
2003	House of Representatives Committee on Family and Community Affairs inquiry into Child Custody Arrangements in the Event of Family Separation
16 August 2004	Establishment of the Ministerial Taskforce on Child Support
14 June 2005	Ministerial Taskforce on Child Support report, <i>In the Best Interests of Children – Reforming the Child Support Scheme</i> , is released
28 February 2006	Government response to the Ministerial Taskforce on Child Support report released announcing reform of the Child Support Scheme and aspects of family assistance
2006	<i>Child Support Legislation Amendment (Reform of the Child Support Scheme – Initial Measures) Act 2006</i> <i>Child Support Legislation Amendment (Reform of the Child Support Scheme – New Formula and Other Measures) Act 2006</i>
1 July 2006	Stage one of the Child Support Scheme Reforms commence
1 January 2007	Stage two of the Child Support Scheme Reforms commence
1 July 2008	Stage three of the Child Support Scheme Reforms commence – new child support formula

Source: ANAO representation of information from D Daniels, *Bills Digest: Child Support Legislation Amendment (Reform of the Child Support Scheme – Initial Measures) Bill 2006*, no. 142, 2005-06, Department of Parliamentary Services, Canberra, 2006.

Appendix 3: Stage One of the CSSR performance indicators

Table A 2

Stage One of the CSSR Performance Indicators

Outcome and measure(s)	Indicator	Reported
Parents share the cost of raising children according to their capacity to pay <ul style="list-style-type: none"> Increased minimum payment Reduced maximum payments 	No. of payers paying minimum payments	In part – reported no. of payers with liability but not no. of payers paying the liability
	No. of payers paying maximum payments	In part – reported no. of payers with maximum cap but not no. of payers paying maximum cap
	No. of customers whose assessment is based on the modelled costs of children data	Yes
Improved quality of relationships in separated families <ul style="list-style-type: none"> Enhanced role for centres, advice line and related services to assist separated parents 	No. of customers referred to advice line, centres and related services by outcome	In part – reported referrals between Family Relationship Advice Line and dispute resolution services and CSA but not between Family Relationship Centres and other related services and CSA
The Scheme balances the interests of separated parents <ul style="list-style-type: none"> Fairer capacity to earn provisions Enable non-resident parents to increase the value of non-agency payments Extend 'with-child' rate of Newstart and related payments to parents with contact 	No. of payers receiving 'with-child' rate of Newstart and related payments by percentage of time spent with-child	Yes
	No. of application for reassessment by reason eight (capacity to earn) by outcome	In part – reported on total number of change of assessment applications received but did not separately identify reason eight applications
	Percentage of payers paying part of their child support in non-agency payments by income level	In part – reported on no. of customers that had paid child support through non-agency payments but did not specify income level

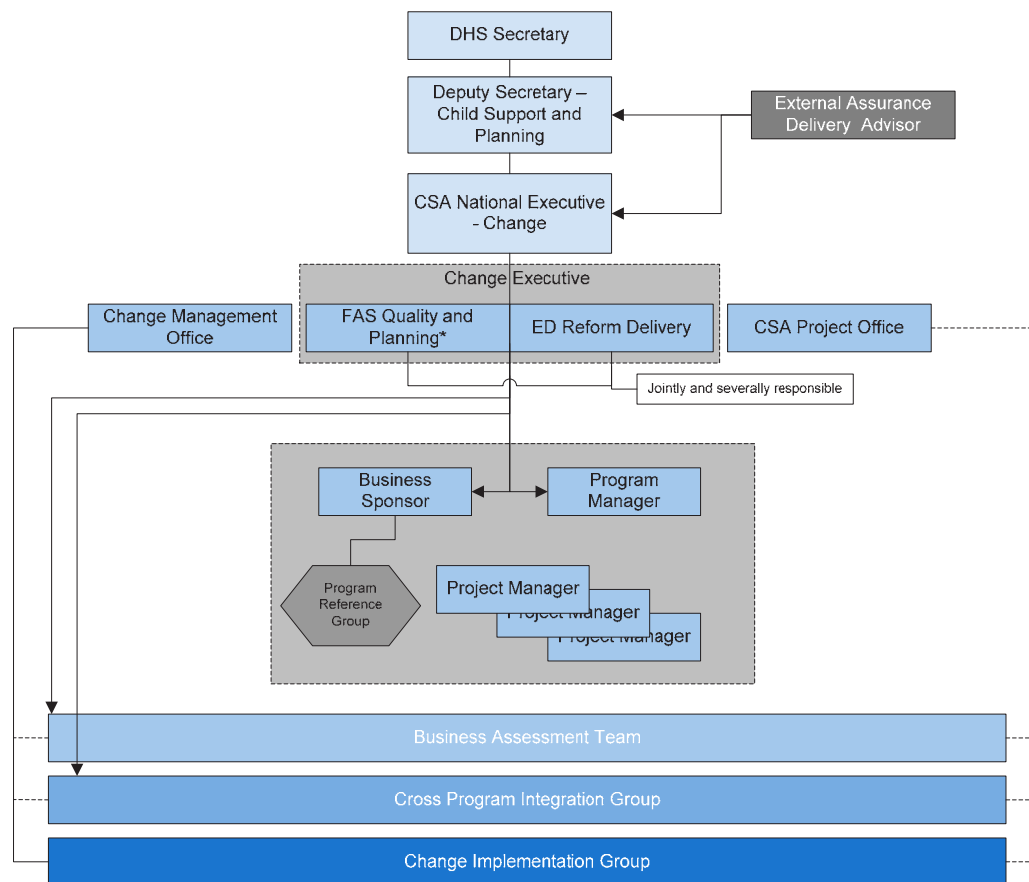
Outcome and measure(s)	Indicator	Reported
Improved accountability/transparency <ul style="list-style-type: none"> Fairer capacity to earn provisions 	No. of capacity to earn decisions consistent across state/territory boundaries	No – did not report consistency of decisions across state boundaries
	No. of appeals to the SSAT	Yes
	Percentage of customers aware of their objection rights	No – did not report awareness amongst customers but reported no. of objections received
Improved compliance with-child support obligations <ul style="list-style-type: none"> Additional resources for CSA enforcement Increase resources for transitional compliance 	Level of compliance among CSA collect customers	In part – reported debt associated with CSA collect cases but not measures of compliance such as timeliness and if payment was made in full
	Level of compliance among private collect customers	No – did not report on compliance among private collect cases
	No. of customers lodging tax returns	Yes
	No. of customers paying child support on time by method of collection	No – did not report on timeliness of customer payments
	No. of referrals to the ATO by type and outcome	No – did not report on referrals to the ATP
	No. of first time defaulters	No – did not report on the no. of first time defaulters
	No. of investigations by type and outcome	No – did not report on the no. of investigations by outcomes but did report on the no. of finalised investigations

Source: ANAO analysis and information from Department of Families, Housing, Community Services and Indigenous Affairs, *Program Logic*, 2006.

Appendix 4: CSA's Governance Framework

Figure A 1

CSA's Child Support Reforms governance framework



Source: ANAO representation of diagram from Child Support Agency, *Project Management Framework*, 2008, p. 5.

* This position was known as Deputy General Manager (DGM), Change Program.

1. The figure above shows that CSA incorporated various teams and offices in its governance framework, which had different roles and responsibilities, including:
 - *National Executive Change's* role was to approve all projects (including project commencement, budget and release of funds). The NEC comprised CSA's Deputy Secretary, First Assistant Secretaries, Executive Director Reform Delivery, Assistant Secretary Planning and

Change Management¹⁵³ and external 'critical friends.' The NEC met fortnightly.

- *Project Office's* role was to oversee and coordinate all projects and major business change within CSA, including coordinating CSA's internal project and program reporting and having responsibility for the application of the project management framework in CSA.
- *External Assurance Delivery Advisor* was engaged by CSA to independently review and report on the implementation of the Child Support Reforms. Part of the role of the External Assurance Delivery Advisor was also to provide advice about the implementation of the Child Support Reforms and to highlight and suggest mitigation action for risks associated with implementation.
- *Change Executive* were responsible for the delivery of CSA's Child Support Reforms; endorsing project proposals; and making recommendations to the NEC about project business plans. Consisted of the First Assistant Secretary, Quality and Planning and Executive Director, Reform Delivery. The Executive Director, Reform Delivery was an external consultant and the FAS, Quality and Planning was a CSA officer. The Change Executive met fortnightly with each program team.

¹⁵³ This position was known as Assistant General Manager, Change Management.

Index

A

Australian National Audit Office, 1, 3–7, 15, 19, 23–24, 26–27, 34, 38–39, 42–44, 46, 48, 50–51, 54, 59, 61–62, 70, 73–74, 77, 80–81, 83, 85–86, 88, 92, 95, 97, 99, 102–103, 109, 111–113, 116–117, 123, 125–126, 130–132
Australian Taxation Office, 7, 13, 15–16, 31, 33, 36–37, 39, 59, 62–64, 81, 111, 114, 125, 130

B

Budgeting, 6, 15, 18–19, 22–23, 25, 27, 37, 40, 85–86, 96–107, 111–112, 121, 126
Building a Better CSA, 7, 8, 14–15, 34, 37, 54, 93, 100, 106

C

Case selection, 19, 22, 26–27, 81–84, 90, 93–95, 105–106
Centrelink, 3, 15–16, 31, 33, 36–37, 38–39, 42, 45–50, 58–59, 65, 67, 71, 73, 81, 91, 107, 113, 115, 131
Change of assessment, 13, 32, 35, 49, 56, 124
Commonwealth Director of Public Prosecutions, 7, 81–83
Communications, 26, 42, 44, 46, 51, 75, 131
Costing, 6, 18, 94, 97–98, 110
CSA collect, 8, 9, 32, 65–66, 75, 76, 79, 110, 125

D

Debt, 6, 8, 16, 21, 24, 58–62, 66, 69–80, 84, 93, 108–109, 114–115, 117, 125
Delayed use of taxable income, 6, 7, 25, 64, 66, 121
Department of Human Services, 3, 7, 13, 15, 19, 23–24, 26–27, 31–32, 37–39, 46, 51, 60, 65–66, 74, 83, 90, 92, 95, 102–103, 116, 121
Department of Veterans' Affairs, 7, 15–16, 33, 37, 39, 59, 71, 90–92, 113
Departure Prohibition Order, 6–7, 32, 36, 59, 60, 88, 94, 101, 105, 111, 113

E

Estimate reconciliation, 6, 8, 21, 62, 68–69, 75, 77–78, 84, 108

F

Family Tax Benefit, 7, 18, 24–25, 27, 65, 107, 114–117, 122
Fraud, 21, 61, 62, 67, 68, 80–84, 93, 132

G

Garnishee, 37, 58–59, 70–71, 90–92, 107, 113
Governance, 5–6, 16–20, 23, 25, 37–39, 41–43, 51, 57, 85–86, 93, 96, 103, 121–122, 126, 133

I

Income Minimiser, 7, 36, 59–60, 63, 93–94, 101, 105, 108, 110, 112–113
Information and Communication Technology, 7, 54, 86–87
Intensive Debt Collection, 7, 36, 59–60
International debt, 6, 8, 21, 60, 71, 72, 80, 84

L

Litigation, 6, 36, 59, 81, 88, 93, 101, 105, 107, 112–113
Lodgement Enforcement, 6, 7, 36, 59–62, 106, 108, 111–114, 117

M

Monitoring, 5, 6, 17, 18, 19, 20, 23, 25, 26, 39, 40, 41, 42, 45, 49, 54, 56, 57, 70, 74, 85, 93, 97, 104, 116, 121

N

New Policy Proposal, 7, 23, 97, 99, 102, 111

O

Optical surveillance, 61, 80–81, 83

P

Private collect, 8, 9, 32, 65–66, 75, 125

Project management, 5, 17–20, 22–25, 41,
43–45, 57, 85–86, 89, 93, 95–98, 101, 106,
121, 127

Prosecution, 19, 21, 26, 76, 81–84

R

Reporting, 6, 17–20, 23–24, 27, 37, 40–41, 43,

45, 49, 55–57, 70, 85, 90, 93–94, 97–98,
100, 104–108, 111–112, 116–117, 127, 132

Risk management, 5–6, 17–18, 19, 22–23, 26,
39, 41, 44–45, 48–50, 57, 74, 85, 89, 90, 93,
96

T

Tracing, 9, 21, 75–76, 79, 84

Transitional compliance period, 6, 9, 18, 22, 77,
83, 90, 96, 108–109

Transitional Compliance Project, 5, 75

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Department of the Treasury

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