

Management of Selected Fraud Prevention and Compliance Budget Measures

Department of Human Services

Department of Social Services

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Senior Executive Director
Corporate Management Branch
Australian National Audit Office
19 National Circuit
BARTON ACT 2600

Or via email:

communication@anao.gov.au.



Canberra ACT
28 February 2017

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken an independent performance audit in the Department of Human Services and the Department of Social Services titled *Management of Selected Fraud Prevention and Compliance Budget Measures*. The audit was conducted in accordance with the authority contained in the *Auditor-General Act 1997*. I present the report of this audit to the Parliament.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's website—<http://www.anao.gov.au>.

Yours sincerely



Grant Hehir
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

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For further information contact:

Australian National Audit Office
GPO Box 707
Canberra ACT 2601

Phone: (02) 6203 7300
Fax: (02) 6203 7777
Email: ag1@anao.gov.au

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Audit Team

Freya Mathie
Christine Preston
Megan Beven
Brendon Gittins
Donna Burton

Contents

Summary and recommendations.....	7
Background	7
Conclusion	8
Supporting findings.....	8
Recommendations.....	10
Summary of entity responses	11
Audit Findings.....	13
1. Background	15
Introduction	15
Audit approach	18
2. Designing and planning compliance measures.....	20
Have sound processes been established to support the design and implementation of the compliance measures?	20
3. Monitoring and reporting on compliance measures	26
Were the monitoring and oversight arrangements in place between Human Services and the Department of Social Services effective?	26
Did Human Services effectively monitor savings and expenses associated with compliance measures?.....	27
Has Human Services' internal monitoring and reporting on the compliance measures been effective?	32
Has Human Services' external reporting on the outcomes of the compliance measures been accurate and timely?	38
4. Achieving compliance measure outcomes	43
Have the expected savings and other outcomes been realised?	43
Have the measures been evaluated?.....	53
Appendices	57
Appendix 1 Entity responses	59
Appendix 2 List of the seven fraud prevention and compliance Budget measures within the scope of this audit.....	66
Appendix 3 Case studies—achievements of individual compliance measures	68
Appendix 4 ANAO methodology for calculating compliance measure achievements	81

Summary and recommendations

Background

1. The Department of Social Services is the Australian Government entity responsible for income security and support policies and programs, including the Administered appropriations from which income support payments are made. The Department of Human Services is responsible for service delivery policy and also administers a wide range of social, health and other payments and services, including on behalf of other entities such as the Department of Social Services. To assist in protecting the integrity of government outlays that it administers, the Department of Human Services conducts a range of compliance-related activities as part of its ongoing operations. The Department of Human Services also regularly receives additional Budget funding to supplement its existing compliance activities and to address specific risks.

2. From 2012–13 to 2015–16, the Government announced seven Centrelink-related fraud prevention and compliance Budget measures to address new and existing fraud and compliance risks affecting the integrity of the social security system. As part of these measures, the Department of Human Services received \$290.5 million in additional departmental funding, and in return committed to deliver Budget (Administered) savings totalling \$2.1 billion in fiscal balance terms, and \$1.4 billion in underlying cash balance terms over the relevant measure periods.¹

Audit objective and criteria

3. The objective of the audit was to assess the Department of Human Services' and the Department of Social Services' management of selected fraud prevention and compliance Budget measures. To form a conclusion against the audit objective, the ANAO adopted the following high level audit criteria:

- Have sound processes and practices been established to support the design and implementation of specific Budget-funded compliance measures?
- Is there effective monitoring of the implementation and achievement of the measures?
- Have expected savings and other benefits from the measures been achieved?

4. The audit focussed on seven Centrelink-related compliance measures announced in the relevant Budgets and implemented from 2012–13 to 2015–16 (see Appendix 2). In examining the *Strengthening the Integrity of Welfare Payments* measure, the audit focussed on two specific initiatives that had identified savings for 2015–16—that is, the *Employment Income Matching* initiative and the *AUSTRAC* initiative. The audit's scope did not consider any compliance measures announced following the 2015–16 Budget. Further, the audit scope did not examine the Department of Human Services' management of its broader Centrelink compliance program.

1 In this context, savings from the compliance measures comprise both 'fiscal balance' savings and 'underlying cash balance' savings. Fiscal balance savings comprise estimated amounts owing to the Government (debts raised) plus any payment reductions resulting from compliance activities (payment reductions can arise when a recipient's fortnightly payment is cancelled or varied). Underlying cash balance savings comprise payment reductions plus debts recovered.

Conclusion

5. The Department of Human Services' management of the seven selected compliance measures resulted in:

- three measures not being effectively implemented;
- two measures' implementation being partially effective—with one measure achieving the expected savings but not the expected level of compliance activity and the other measure achieving the expected level of compliance activity but not the expected savings; and
- two measures being effectively implemented.

6. As a consequence, most of the compliance measures examined did not fully achieve their expected outcomes, including savings and addressing the risks to payment integrity, as agreed.

7. Shortcomings were also identified in the Department of Human Services' approach to monitoring and reporting for all measures examined. As the entity responsible for the Administered appropriations against which savings were to be delivered, the Department of Social Services' oversight of the achievements of the measures was not effective. Improvements are warranted to both the bilateral and the internal monitoring arrangements presently in place, to support both entities' capacity to track progress against the Government's expected outcomes, including savings targets.

8. The Department of Social Services used an agreed methodology to calculate the savings expected from the compliance measures and the Department of Human Services developed useful implementation plans to support the delivery of the measures. There are opportunities to improve both the methodology and plans.

9. The monitoring and oversight arrangements for the compliance measures, set out under the Bilateral Management Arrangement between the Department of Social Services and the Department of Human Services, have not been effective as they were not followed. The Department of Social Services as the relevant policy entity did not take responsibility for monitoring outcomes, including impacts and actual savings, achieved from the measures.

10. The Department of Human Services' internal and external monitoring and reporting for compliance measures could be improved. While the Department of Human Services has well established monitoring and reporting arrangements, these mechanisms did not consistently provide clear and accurate advice on whether the compliance measures were achieving the desired outcomes, including savings and planned levels of activity.

Supporting findings

Designing and planning compliance measures

11. The Department of Social Services established and used a methodology, agreed with the Department of Finance, to support the design of the compliance measures, including for calculating projected savings. There would be benefit in regularly reviewing this methodology to improve assurance on the accuracy of the projected savings from compliance measures. In addition, documenting the underpinning evidence for the key assumptions used in calculating

the expected savings from the measures would improve transparency and the repeatability of the use of this evidence.

12. The Department of Human Services developed useful project plans for all of the compliance measures. There is scope to include information on how the key outcomes for each compliance measure will be measured. Using these plans consistently over the life of the measure would also assist in maintaining clarity on the expected outcomes and deliverables.

Monitoring and reporting on compliance measures

13. Monitoring and oversight arrangements in place between the Department of Human Services and the Department of Social Services for the compliance measures were not effective. Requirements set out under the Bilateral Management Arrangement between the two entities were not met. In addition, the Department of Social Services as the relevant policy entity did not take responsibility for monitoring the achievements of the measures.

14. The Department of Human Services' monitoring of savings and expenses associated with compliance measures could be improved. In the Department of Human Services' advice to its Minister on implementation progress, the department used a methodology that did not provide reliable advice on the (gross fiscal balance) savings achieved from the measures. The Department of Human Services also does not have the systems or processes in place to provide advice on the underlying cash savings realised, including debts recovered from the majority of the compliance measures—a key outcome expected from the measures.

15. The Department of Human Services' approach to monitoring compliance measure expenses considers whether the benefits outweigh the costs of monitoring. Developing and implementing a method to estimate the costs of compliance measures would allow the Department of Human Services to better inform its external reporting and evaluations of its compliance activities.

16. The Department of Human Services has well developed project monitoring mechanisms for reporting to its Executive. However, this monitoring system relies on accurate and consistent reporting by the responsible business areas. In this regard, the regular internal reporting on the progress of the measures has not provided a consistent and reliable indication of whether key performance outcomes, including expected savings and planned levels of activity, were on track, nor whether key risks were being effectively managed.

17. While the Department of Human Services has documented a process for its public reporting against its key performance indicators, the underlying systems and processes require greater maturity to support an accurate assessment. In this context, it is uncertain whether the Department of Human Services' public reporting against its key performance indicator is accurate.

18. The Department of Human Services' reporting to its Minister has been ad hoc. Following the lapsing of the previously required reporting arrangements due to the change of government in September 2013, the Department of Human Services has not reported to Government on the 2012–13 measures. The Department of Human Services also did not report annually to the Department of Finance on the outcomes realised, as it committed to do in place of reporting to Government.

Achieving compliance measure outcomes

19. The savings and other outcomes—including addressing risks to payment and business integrity—expected from the compliance measures have not been fully realised. Achievements against the expected levels of compliance activities, including business-as-usual activity agreed in the Budget, were mixed with four of the measures not achieving expected activity levels. The ANAO’s analysis indicated that the delivery against the expected savings was also mixed—four of the measures did not achieve their savings targets. Where achievements are likely to be significantly lower than commitments, the relevant minister should be promptly advised, to allow for a timely decision on whether the continued implementation of the relevant measure is the most efficient and effective use of public resources in the circumstances.

20. The Department of Human Services has project management processes in place to conduct reviews both at post implementation phase and at project closure and has completed three post implementation reviews and four closure reports for the compliance measures. The post implementation reviews could be improved by including a risk assessment of the broader implications of any issues identified and their potential impacts on the project’s overall objectives. The information reported in the closure reports could be improved by including more analysis regarding costs and effort expended on the measures, and the business-as-usual impacts.

Recommendations

Recommendation No.1

Paragraph 2.15

That in developing Budget-related compliance measures:

- (a) the Department of Social Services establishes a process to regularly review the inputs used to calculate expected savings for Budget-related compliance measures; and
- (b) the Department of Social Services and the Department of Human Services document the basis for assumptions and inputs used, including related data sources.

Department of Human Services response: *Agreed.*

Department of Social Services response: *Agreed.*

Recommendation No.2

Paragraph 3.52

That the Department of Human Services:

- (a) in consultation with the Department of Social Services, develops and implements a method to estimate and monitor the amount of debt recovered from compliance measures;
- (b) consistently reports internally on its progress and achievements for compliance measures against key performance targets and outcomes; and
- (c) develops and implements a method to estimate the costs of compliance measures, to provide improved assurance over its external reporting, and to better inform evaluations of its compliance activities.

Department of Human Services response: *Agreed with qualifications.*

**Recommendation
No.3**

Paragraph 4.24

That the Department of Human Services' assessment of the outcomes and achievements of compliance Budget measures includes a complete assessment against expected additional activity levels (where agreed) as well as the expected additional savings.

Department of Human Services response: *The Department already undertakes these assessments as demonstrated by the tables in **Appendix 1** of our response.*

Summary of entity responses

21. The Department of Human Services' and the Department of Social Services' summary responses to the report are provided below. Full responses are at Appendix 1.

Department of Human Services

The department has delivered savings of \$1.436 billion against a target of \$1.066 billion—a variance of \$367.7 million or 34.7% for all compliance budget measures. For the seven measures examined by the ANAO the department delivered savings of \$998 million in relation to a target of \$788 million, an excess of \$210 million or 26.7%.

Since 2012–13, the department has realised total annualised savings from its business as usual (BAU) compliance activity of \$2,485.7 million over four years. It has also increased the volume of compliance activity delivered as part of its Compliance Programme by 32%.

The department does not accept the key conclusion in the report that most of the compliance measures examined were not effectively implemented and the expected outcomes were not fully achieved, including savings.

In contrast to the report, the evidence demonstrates the department:

- exceeded expected outcomes from new measures;
- was effective in the implementation of the Compliance Programme; and
- provided clear and accurate reporting on progress of these measures in both public reporting and briefing to Ministers.

Consistent with the evidence provided to the ANAO, the department also cannot agree with Tables 3.2, 4.1, 4.3, 4.4 and 4.6 in the report or the suggestion that Ministers were briefed in an ad hoc manner. Tables that reflect the evidence provided to the ANAO during the audit are attached at **Appendix 1**.

The department has actively managed all compliance measures in a manner consistent with the *Public Governance, Performance and Accountability Act 2013*. The department does not agree with the input based methodology used in the report which does not take into account the requirement to use BAU resources efficiently and effectively to respond to emerging pressures and risks. The department considers that input based activity level targets are not necessarily an appropriate measure of performance. For this reason, the department's current outcomes approach to measuring the performance of compliance measures is considered appropriate.

The department notes that the ANAO has not made any recommendations which directly address its main conclusions and findings. The Department of Human Services agrees with Recommendation 1, and agrees with qualifications to Recommendation 2, and notes with

respect to Recommendation 3 the department already undertakes these assessments as demonstrated by the tables in **Appendix 1**.

ANAO comments on the Department of Human Services' response

The evidence and supporting data used in both the ANAO's analysis and the Department of Human Services' response are largely the same, with the differences in the tables due primarily to the differing methodologies:

- The ANAO's methodology is set out in paragraphs 4.3, 4.12, 4.14 to 4.16 and 4.21, with further detail in Appendix 4 to the report.
- The Department of Human Services' response to the ANAO's methodology is set out in paragraphs 4.5, 4.8 and 4.13.

Department of Social Services

The Department of Social Services (the Department) agrees to the first recommendation for which it has responsibility.

The Department will undertake an internal review of the costing model and inputs used to calculate expected savings of compliance measures. The Department will work with DHS to establish a register of assumptions and inputs.

The Department notes the view that the oversight of the achievement of the measures could be improved. The Department is currently working with DHS to review and implement revised arrangements under the Bilateral Management Arrangement between the two departments. This will include considering the most appropriate arrangements for the monitoring of fraud prevention and compliance Budget measures, noting that DHS is a separate Department of State accountable to its Minister for performance, and working arrangements and protocols between DSS and DHS need to reflect this.

Audit Findings

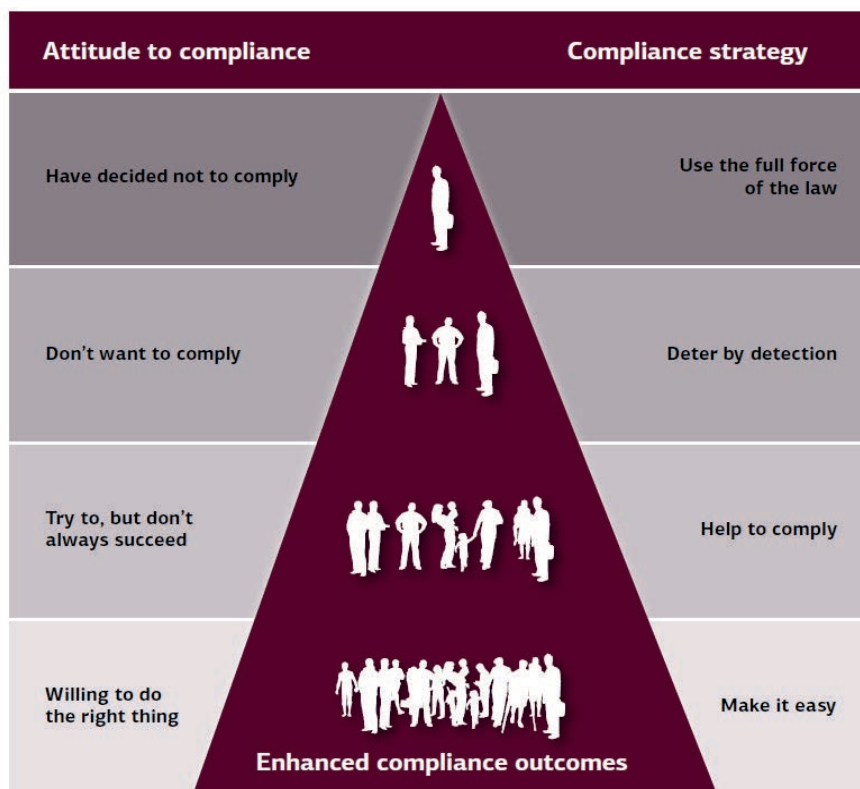
1. Background

Introduction

1.1 The Department of Social Services (DSS) is the policy department responsible for income security and support policies and programs, including the Administered appropriations from which income support payments are made. The Department of Human Services (Human Services) is responsible for the development of service delivery policy and administers a range of social, health and other payments and services.

1.2 As part of its ongoing operations, Human Services undertakes compliance activities aimed at protecting the integrity of the government outlays it administers, including for payments and services under the Centrelink program. Human Services' compliance model (Figure 1.1) shows a continuum of customer attitudes towards compliance and illustrates the strategies the department uses to respond. The model recognises that most people want to provide correct and up-to-date information, with the department's fraud control processes designed to focus intelligence and investigation activity on the most serious cases of non-compliance rather than on those people making honest mistakes.

Figure 1.1: Human Services compliance model



Source: Human Services.

1.3 Table 1.1 summarises key departmental statistics for Human Services' Centrelink compliance program for the period 2012–13 to 2015–16.

Table 1.1: Human Services' Centrelink compliance program activities, costs and staffing levels from 2012–13 to 2015–16

	2012–13	2013–14	2014–15	2015–16
Compliance activities completed ^a	866 597	869 082	923 462	987 895
Departmental direct costs (\$million) ^b	\$234.8	\$232.0	\$224.5	\$255.3
Direct staffing levels ^c	2349	1807	1996	2317

Note a: These figures show the compliance activities completed as reported in Human Services' Annual Reports from 2012–13 to 2015–16. The figures reported are specific to targeted compliance interventions only and do not include activities relating to serious non-compliance and fraud.

Note b: Human Services advised the ANAO that these costs are the direct compliance costs relating to: serious non-compliance; compliance review activities; payment integrity activities; customer-centric activities; debt management; strategic management; project management; and divisional support.

Note c: Full-time equivalent staffing levels as at 30 June in each year.

Source: Human Services documentation.

Fraud prevention and compliance related Budget measures

1.4 From 2012–13 to 2015–16, the Government announced seven Centrelink-related fraud prevention and compliance Budget measures² to address new and existing fraud and compliance risks affecting the integrity of the social security system.³ As part of these measures, Human Services received \$290.5 million in additional departmental funding, and committed to return to the Budget savings totalling \$2.1 billion in fiscal balance terms and \$1.4 billion in underlying cash balance terms over the relevant measure periods.⁴ These projected savings are then set out in the Administered expenses of the relevant policy entity.⁵ Table 1.2 outlines the funding provided to Human Services and the expected savings to be returned to the Budget for the seven compliance measures in the scope of this audit. Further information on the measures is provided at Appendix 2.

2 These specific Budget-funded fraud prevention and compliance measures are generally referred to as 'compliance measures' or 'measures' throughout this report.

3 During this period, Human Services was in parallel implementing three earlier Budget measures.

4 In this context, savings from the compliance measures comprise both 'fiscal balance' savings and 'underlying cash balance' savings. Fiscal balance savings comprise estimated amounts owing to the Government (debts raised) plus any 'reductions to payment' resulting from compliance activities. Savings from reductions to payment can arise when a recipient's fortnightly payment is cancelled or the payment amount is varied. Underlying cash balance savings comprise payment reductions plus debts recovered.

5 At the time of the 2012–13 and 2013–14 Budget, the relevant policy entities were: the Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA); the Department of Education, Employment and Workplace Relations; and the Department of Industry, Innovation, Science, Research and Tertiary Education. Following machinery of government changes in September 2013, DSS assumed responsibility for the relevant policy and Administered appropriations for these compliance measures.

Table 1.2: Selected fraud prevention and compliance Budget measures from 2012–13 to 2015–16

Budget measure	Funding provided to Human Services ^a (\$million)	Projected gross savings—in fiscal balance terms (\$million)	Projected gross savings—in underlying cash terms (\$million)
2012–13 Budget			
<i>Fraud prevention and compliance—Accelerated real estate review cycle</i>	\$13.1	\$63.1	\$61.0
<i>Fraud prevention and compliance—Increase in compliance review activity</i>	\$40.7	\$161.5	\$110.5
<i>Fraud prevention and compliance—Increased compliance for international risk</i>	\$8.3	\$100.4	\$83.6
<i>Fraud prevention and compliance—Increased recovery of high value non-current customer debt</i>	\$5.9	\$0.0	\$20.1
<i>Fraud prevention and compliance—New compliance data sources</i>	\$8.9	\$65.9	\$40.2
2013–14 Budget			
<i>Fraud prevention and compliance—Increase compliance for customers with earned income</i>	\$8.8	\$67.5	\$46.9
2015–16 Budget			
<i>Strengthening the Integrity of Welfare Payments^b</i>	\$204.8	\$1663.4	\$1075.2
Total funding and gross savings	\$290.5	\$2121.8	\$1437.5

Note a: Human Services is responsible for implementing the measures and an immaterial proportion of the funding was allocated to relevant policy entities.

Note b: The audit focussed on two particular initiatives under the *Strengthening the Integrity of Welfare Payments* measure that had identified savings for 2015–16: the *Employment Income Matching* initiative and the *AUSTRAC* initiative. The audit only assessed outcomes for these two initiatives for the 2015–16 financial year.

Source: ANAO analysis of Budget documentation.

1.5 Savings from compliance activities generally arise when a recipient's circumstances do not match the entitlement rules for a payment or benefit and the compliance activity results in:

- changes to a payment—either a payment cancellation or a reduction in the payment rate—due to a change to the recipient's circumstances; and/or
- a debt being raised against the recipient—for recovery of monies previously paid to which the recipient was not eligible.

Compliance measures announced since the 2015–16 Budget

1.6 In the 2015–16 Mid-Year Economic and Fiscal Outlook, the Government announced three further social security related compliance measures—one being an extension to the 2015–16 *Strengthening the Integrity of Welfare Payments* measure. For these three measures, Human Services received \$153 million, with projected net fiscal balance savings of \$1.9 billion to be delivered over the forward estimates.

1.7 In July 2016, the Government announced five new welfare integrity initiatives as part of the Coalition’s election commitments. Three of these initiatives build on the 2015–16 *Strengthening the Integrity of Welfare Payments* measure. On 19 December 2016, as part of the 2016–17 Mid-Year Economic and Fiscal Outlook, the Government announced the *Better Management of the Social Welfare System* measure to deliver on its election commitments. From this measure, Human Services receives \$498 million to expand its fraud prevention and debt recovery capability. In return, the Government expects to achieve net savings of \$3.7 billion in fiscal balance terms and \$2.1 billion in underlying cash terms from 2016–17 to 2019–20.

Administrative arrangements for social security related compliance measures

1.8 The business relationship between DSS and Human Services is governed by a Bilateral Management Arrangement (BMA) between the two departments.⁶ The BMA Head Agreement is supported by a number of protocols, which outline the agreed processes, frameworks and guidelines to support operational arrangements. The New Work and Changed Business Protocol governs the administrative relationship between DSS and Human Services for delivery of Budget measures.

1.9 Human Services is responsible for the implementation of the compliance program and related Budget measures. For Budget costing purposes, DSS is responsible for income support policy, including payment policies, and for calculating the estimated savings to be realised from the delivery of additional compliance activities.⁷

Audit approach

1.10 The objective of the audit was to assess Human Services’ and DSS’ management of selected fraud prevention and compliance Budget measures.

1.11 To form a conclusion against the audit objective, the ANAO adopted the following high-level audit criteria:

- Have sound processes and practices been established to support the design and implementation of specific Budget-funded compliance measures?
- Is there effective monitoring of the implementation and achievement of the measures?
- Have expected savings and other benefits from the measures been achieved?

6 The current BMA was signed on 22 October 2014. Following the machinery of government changes in September 2013, the current BMA superseded a previous arrangement between Human Services and the then Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA).

7 Following the machinery of government changes in September 2013, FaHCSIA was re-named the Department of Social Services (DSS). In the following chapters, references to DSS refer to both DSS and the former FaHCSIA, as well as the relevant areas transferred into DSS in the 2013 machinery of government changes.

1.12 The audit focussed on seven Centrelink-related compliance measures announced in the relevant Budgets from 2012–13 to 2015–16 (see Appendix 2). In examining the *Strengthening the Integrity of Welfare Payments* measure, the audit focussed on two specific initiatives that had identified savings for 2015–16—that is, the *Employment Income Matching* initiative and the *AUSTRAC* initiative. The audit scope covered the 2012–13 to 2015–16 financial years and did not include the Mid-Year Economic and Fiscal Outlook and Election commitment measures announced since the 2015–16 Budget. Further, the audit scope did not examine Human Services' broader Centrelink compliance program.

1.13 The audit methodology included:

- interviews with Human Services and DSS staff;
- interviews with the Department of Finance and the Department of the Prime Minister and Cabinet;
- examination and analysis of documentation relating to the development and implementation of the seven compliance measures in the scope of this audit; and
- an analysis of the extent to which expected savings had been monitored, reported on and achieved.

1.14 The performance audit was conducted in accordance with ANAO auditing standards at a cost to the ANAO of approximately \$567 000.

2. Designing and planning compliance measures

Areas examined

This chapter examines the processes and practices established to support the design and implementation of the relevant Budget-funded compliance measures.

Conclusion

The Department of Social Services (DSS) used an agreed methodology to calculate the savings expected from the compliance measures and the Department of Human Services (Human Services) developed useful implementation plans to support the delivery of the measures. There are opportunities to improve both the methodology and plans.

Areas for improvement

The ANAO recommends establishing a process to regularly review DSS' savings methodology for compliance measures, and documenting the evidence underpinning key assumptions in calculating expected savings.

The ANAO also suggests that Human Services includes in the implementation plans for the compliance measures an explanation for how key outcomes would be measured.

Have sound processes been established to support the design and implementation of the compliance measures?

DSS established and used a methodology, agreed with the Department of Finance, to support the design of the compliance measures, including for calculating projected savings. There would be benefit in regularly reviewing this methodology to provide better assurance on the accuracy of the projected savings from compliance measures. In addition, documenting the underpinning evidence for the key assumptions used in calculating the expected savings from the measures would improve transparency and the repeatability of the use of this evidence.

Human Services developed useful project plans for all of the compliance measures. There is scope to include information on how the key outcomes for each compliance measure will be measured. Using these plans consistently over the life of the measure would also assist in maintaining clarity on the expected outcomes and deliverables.

2.1 The policy cases for the measures were developed to address compliance risks identified by Human Services, and government priorities at the time. In broad terms, the measures aimed to address risks and deliver savings to the Budget by:

- increasing the number of compliance activities for a particular area of risk;
- addressing gaps in the compliance program; and/or
- expanding on current capabilities and activities through implementing new processes.

2.2 Human Services advised the ANAO that a range of information informed the development of the compliance measures, including:

- past experience—in particular, earlier measures informed the development of the *Strengthening the Integrity of Welfare Payments* measure;
- data relating to key risk areas from prior compliance work undertaken; and
- pilot activity undertaken.

Modelling savings estimates for compliance measures

2.3 Compliance reviews are designed to test whether an income support recipient's payment amount is accurate. Where a recipient's circumstances have changed or do not meet the entitlement rules, the compliance review can result in a change to the recipient's payment. This change can be a cancellation of payment or a variation to the fortnightly payment amount and may relate to a historical or current pay period, or both. A debt is raised where an income support recipient has received payment in excess of their entitlement.

2.4 Relevant policy entities were responsible for calculating expected savings for the compliance measures during the Budget process, using key assumptions, generally supplied by Human Services, and a methodology agreed with the Department of Finance.⁸

Key compliance activity assumptions

2.5 Calculating the expected savings for the measures is dependent upon key assumptions made about the relevant compliance activity.⁹ Human Services developed the key assumptions for the majority of compliance measures in the audit scope.¹⁰ These assumptions included:

- the number of compliance reviews to be conducted;
- the percentage of reviews expected to result in a cancellation, and the average fortnightly dollar value of cancellations;
- the percentage of reviews expected to result in a downward variation to the fortnightly payment rate, and the average dollar value of the variation; and
- the percentage of reviews expected to result in a debt being raised, and the average dollar value of the debt.

2.6 Human Services and DSS advised the ANAO that the assumptions for the compliance measures were based on the analysis of historical data; however, with a few exceptions, neither department was able to provide the underpinning evidence relating to the basis of the key assumptions.¹¹

8 DSS was responsible for calculating the majority of the expected savings for the compliance measures in the scope of this audit.

9 Activities refer to a range of compliance interventions completed for Budget measures, including investigation referrals and compliance reviews.

10 Human Services developed the compliance activity assumptions for all measures in the scope of this audit, except the assumptions for the *Accelerated real estate review cycle* measure, which were developed by DSS.

11 These shortcomings are consistent with findings from the ANAO's audit of the Australian Taxation Office's implementation of compliance measures. See ANAO Audit Report No. 15 of 2016–17 *Meeting Revenue Commitments from Compliance Measures*, paragraph 2.11.

2.7 There would be merit in Human Services and DSS setting out the basis for the assumptions used in these calculations and maintaining a register of such assumptions (to provide a record of their source). Documenting the evidence underpinning these assumptions would aid transparency and repeatability, and should also reduce the time taken to prepare savings estimates. It would also help to align expected savings calculations with outcomes realised from similar recent compliance activities. This record could include the last date of review, the owner of the assumption and, where the measure is an extension of a previous measure, the reasons for any changes to previous assumptions.

Expected savings over the forward estimates

2.8 The compliance activity assumptions (see paragraph 2.5) are used by DSS to calculate the expected savings over the forward estimates from: fortnightly payment reductions; debts raised; and debts that will be recovered. The methodology used by DSS determines both the fiscal balance and underlying cash savings, with the total fiscal balance savings derived from summing the calculated payment reductions and debts raised, and the total underlying cash savings derived from summing the calculated payment reductions and debts recovered.¹²

2.9 There are a number of complexities in calculating expected savings to be generated from compliance activities. Key issues can include¹³:

- diminishing rates of return over time from some compliance activities;
- differences in estimating savings achieved from fortnightly payment reductions;
- time lags in collecting debts that have been raised; and
- differences between the debt amounts initially assessed and the amounts that are actually collected.¹⁴

2.10 In calculating savings from payment reductions, DSS assumed that the incorrect payment would have continued for a defined number of fortnights into the future, had the compliance review not been conducted. The number of fortnights used by DSS to calculate future payment reductions differs by payment. DSS also applied indexation to payment reductions, and calculated the expected overall savings based on the measure's implementation date.¹⁵ Savings from payment reductions were apportioned between the year in which the planned compliance activity would take place and the following year/s. This is to account for compliance activities being undertaken at different times throughout a given year. In calculating the value of debts expected to be recovered, DSS excluded a proportion—which varies by payment type—of the debt raised as

12 See Footnote 4.

13 See also ANAO Audit Report No. 15 of 2016-17 *Meeting Revenue Commitments from Compliance Measures*, paragraph 2.7.

14 This can, for example, be due to: an amendment to the debt following an objection and review of the debt; a debt being waived; or a person not being able to pay the amount of the debt within the specified timeframe.

15 Indexation is based on either the Consumer Price Index (CPI) or Male Total Average Weekly Earnings (MTAWE) index, depending on payment type. At the time the compliance measures were costed, interest was not applied to income support payment debts. In September 2016, the *Budget Savings (Omnibus) Act 2016* came into force. This Act amended the *Social Security Act 1991* to apply an interest charge to outstanding debts owed by former recipients of social welfare payments who have failed to enter into, or have not complied with, an acceptable repayment arrangement.

‘doubtful debt’ that will not be recoverable over the measure period. The recoverable debt amount was then apportioned over the relevant forward estimates’ period.

2.11 DSS advised the ANAO that the methodology and key inputs used to calculate expected savings for the compliance measures were developed ‘around eight to ten years ago’ in consultation with actuaries. DSS was unable to provide the ANAO with any documentation relating to the development of the methodology or relevant inputs, and DSS further advised the ANAO that:

Notwithstanding that the documentation is not available, the methodology has been agreed with the Department of Finance, and has been in place since the time the agreement was reached.

The basis for calculating the projection of variations was based on the duration of debts detected by the Random Sample [Survey] and the overall debt levels, whilst the recovery projections were based on the amounts recovered for debts raised in a given year. The methodology is monitored for exceptions regularly and has remained consistent over time. As our overall monitoring of Social Security debt has not shown major exceptions over the past years we are satisfied that the cancellation/variation projection methodology also remains sound.

2.12 In addition, DSS advised the ANAO that although the overall methodology has not had a major review for some time, individual assumptions/inputs for any new measures are reviewed with the Department of Finance, including for the measures in the scope of this audit.

2.13 However, the ANAO was not provided with documentation relating to reviews of the two key inputs into DSS’ methodology—which vary by payment type:

- (a) the estimated number of fortnights that a particular type of payment may have continued for, had the compliance review not been conducted; and
- (b) the estimated proportion of debt recovered over four years for particular payments.

2.14 There would be merit in DSS establishing a process to regularly review its model to provide better assurance on the relevancy of the key inputs used to calculate expected savings for compliance measures.

Recommendation No.1

2.15 That in developing Budget-related compliance measures:

- (a) the Department of Social Services establishes a process to regularly review the inputs used to calculate expected savings for Budget-related compliance measures; and
- (b) the Department of Social Services and the Department of Human Services document the basis for assumptions and inputs used, including related data sources.

Department of Human Services response: *Agreed.*

2.16 *The department will work with the Department of Social Services to document the underlying evidence that support assumptions and inputs used to develop new compliance budget measures.*

Department of Social Services response: *Agreed.*

2.17 *DSS will undertake an internal review of the costing model used to calculate expected savings of compliance measures, including reviewing the inputs and assumptions used. DSS will work with the DHS to establish a register of assumptions and inputs used in costings and will ensure that each assumption is reviewed at least once every three years to ensure they remain relevant.*

Project plans for compliance measures

2.18 Human Services developed project plans for all of the compliance measures within the scope of this audit. These project plans aim to provide a single source of reference for the project, and to support its implementation and management.

2.19 The ANAO's analysis indicates that:

- the project plans for each of the measures were mostly consistent with the originating policy case;
- the project plans provided a useful summary of the purpose of the measure; and
- the majority of project plans contained key information, including key outcomes and expected benefits such as targets for compliance activities and savings to be achieved each year, to support the implementation of the measures.¹⁶

2.20 The ANAO also identified some shortcomings with the information included in the project plans for some of the measures, as discussed below.

2.21 The project plans did not provide a clear explanation of the methodology Human Services intended to use to monitor the achievement of savings from the measures. Including an explanation of how key outcomes would be measured—such as the methodology to be used to calculate savings for a measure—would be beneficial to help ensure that the approach to measuring outcomes was consistent and clear (see also paragraphs 3.8 to 3.13).

16 This included: a statement of the measure's objective; governance arrangements for the measure; a summary of key risks to the measure; and reporting mechanisms for the measures— including the frequency and type of reporting required.

2.22 The savings targets identified in project plans for the *New compliance data sources* and *Increase in compliance review activity* measures were for the net savings targets only, rather than the gross or total savings target. In this regard, the savings targets in these plans did not account for Human Services' costs of delivering the measures. For the *Increased compliance for international risk* measure, the project plan cited a lower target number of review activities (26 300 reviews) compared to the target outlined in the policy case agreed to by government (33 800 reviews).

2.23 While the purpose of the project plan was to be a single source of reference to support a measure's management, the project plans were not always actively used over the life of the measures. For example, during the early implementation phase for the *Increased recovery of high value non-current customer debt* measure, project documentation identified some departmental confusion as to the correct savings target for the measure, despite the relevant project plan setting out the correct savings target. Further, the evaluation report for the *Accelerated real estate review cycle* measure outlined the need to identify a key risk early; however, this risk had already been set out in the relevant project plan. Using the project plans to inform the ongoing implementation of the measures would also provide relevant project teams with clarity around expected outcomes and deliverables.

3. Monitoring and reporting on compliance measures

Areas examined

This chapter examines the effectiveness of the Department of Human Services' (Human Services') and the Department of Social Services' (DSS') arrangements for monitoring and reporting on compliance measures.

Conclusion

The monitoring and oversight arrangements for the compliance measures, set out under the Bilateral Management Arrangement between DSS and Human Services, have not been effective as they were not followed. DSS as the relevant policy entity did not take responsibility for monitoring outcomes, including impacts and actual savings, achieved from the measures.

Human Services' internal and external monitoring and reporting for compliance measures could be improved. While Human Services has well-established monitoring and reporting arrangements, these mechanisms did not consistently provide clear and accurate advice on whether the compliance measures were achieving the desired outcomes, including savings and planned levels of activity.

Areas for improvement

The ANAO has recommended that Human Services consistently track and report key outcomes achieved from compliance measures as part of its established project monitoring arrangements, and develops and implements a method to estimate both its actual costs and debt recoveries from compliance measures.

The ANAO has also suggested that Human Services adopt a methodology consistent with the approach used in Budget processes to calculate the actual savings achieved for compliance measures.

Were the monitoring and oversight arrangements in place between Human Services and the Department of Social Services effective?

Monitoring and oversight arrangements in place between Human Services and DSS for the compliance measures were not effective. Requirements set out under the Bilateral Management Arrangement between the two entities were not met. In addition, DSS as the relevant policy entity did not take responsibility for monitoring the achievements of the measures.

3.1 During the course of the audit, DSS and Human Services commenced a broad review of the Bilateral Management Arrangement (BMA). Under the BMA in place at the time of the audit, arrangements for undertaking new work—including Budget measures—are set out in the New Work and Changed Business Protocol. These arrangements include the following in relation to the delivery of Budget measures:

Where projects are established to implement Budget Measures or New Work in either department, the project management team responsible for delivery is required to report progress

on the delivery of the Budget Measure or New Work to the other department via their project-based communications and stakeholder engagement plan.

Project teams are required to report progress toward implementation of Budget Measures or New Work until such time as the project transitions to Business as Usual (BAU) and its monitoring for assurance to executives and government is encompassed under the BMA governance and reporting arrangements.

3.2 For each of the compliance measures, Human Services outlined their proposed stakeholder engagement in Stakeholder Engagement and Communication Plans or (where separate plans were not developed) in the relevant Project Management Plans. The proposed approach to stakeholder engagement with policy entities for the compliance measures was not consistent across the compliance measures:

- for three out of the seven plans, the relevant policy entities were not identified as stakeholders; and
- for the four plans that did include policy entities, the communication channels and frequency of communications with the relevant policy entities varied between projects, from emails and phone calls as required to monthly project status reports.

3.3 Human Services was unable to provide any evidence confirming that its plans to engage with the identified policy entities had been implemented, as set out in its Stakeholder Engagement and Communications Plans or Project Management Plans, where relevant.

3.4 Separately, as part of its regular reporting to policy entities, Human Services provided quarterly Agency Reports throughout the measure periods. These reports set out information on the outcome of fraud and compliance activities for Human Services' compliance program as a whole; however, the progress and achievements realised (to date) of individual measures was not reported.

3.5 Until the ANAO's audit, DSS and Human Services had not cooperated to calculate the actual savings realised from the measures (actual savings achieved are discussed in Chapter 4). As the policy entity responsible for the Administered outlays against which the savings are accrued, DSS should have taken more responsibility for monitoring expected achievements from the measures.

Did Human Services effectively monitor savings and expenses associated with compliance measures?

Human Services' monitoring of savings and expenses associated with compliance measures could be improved. In Human Services' advice to its Minister on implementation progress, the department used a methodology that did not provide reliable advice on the (gross fiscal balance) savings achieved from the measures. Human Services also does not have the systems or processes in place to provide advice on the underlying cash savings realised, including debts recovered from the majority of the compliance measures—a key outcome expected from the measures.

Human Services' approach to monitoring compliance measure expenses considers whether the benefits outweigh the costs of monitoring. Developing and implementing a method to estimate the costs of compliance measures would allow Human Services to better inform its external reporting and evaluations of its compliance activities.

Monitoring savings achieved from compliance measures

3.6 For the measures examined in this audit, the relevant Government decisions set out the expected savings to be delivered by the measures in both fiscal balance and underlying cash balance terms.¹⁷ Savings from the compliance measures were expected to derive from the following:

- fortnightly payment reductions—that is, savings from compliance and review activities that result in a reduction to, or cancellation of, a payment rate (expressed as both expected fiscal balance and underlying cash balance savings);
- debts raised—that is, liabilities owing to the Government from compliance review or investigation activities (expressed as expected fiscal balance savings); and
- debts recovered (expressed as expected underlying cash balance savings).¹⁸

Fortnightly reductions and debts raised

3.7 In estimating the gross fiscal balance savings achieved from the measures, Human Services summed the savings from fortnightly payment reductions and the savings attributed from debts raised, consistent with the methodology outlined in paragraph 2.8. Human Services attributed compliance savings (from fortnightly payment reductions and debts raised) to individual compliance measures through the use of pre-defined business rules that allow data relating to specific measure activities to be extracted from its systems.

3.8 Human Services used two methods to determine estimates of savings achieved from fortnightly payment reductions:

- (a) multiplying fortnightly payment reductions by a factor of 26, to ‘annualise’ the fortnightly payment reduction amount; or
- (b) using savings calculators, provided by the relevant policy entities, chiefly DSS.¹⁹

3.9 The first methodology was used by Human Services to advise its Minister on savings achieved from the measures.²⁰ However, there are limitations on the accuracy of this methodology, as any savings from payment reductions are fully attributed to the year in which the compliance activity took place, rather than being apportioned across future years. As such, any savings from payment reductions are calculated as having a full year impact, irrespective of whether the activity may have occurred in the beginning or end of a given financial year—an approach inconsistent with the methodology used by DSS in the Budget process (see paragraph 2.10).

17 See Footnote 4.

18 For all measures, except for the *Increased recovery of high value non-current customer debt* measure, all three types of savings were included in the measure costings. As the *Increased recovery of high value non-current customer debt* measure focussed on recovery of debt, all expected savings from this measure were derived solely from debt recovery efforts.

19 There are three different calculators used by Human Services: the calculator used to determine estimated savings for payments previously administered by the Department of Education, Employment and Workplace Relations; the calculator used to determine estimated savings (underlying cash only) for payments previously administered by the Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA); and a calculator—modified by Human Services—to calculate estimated Fiscal Balance Savings for FaHCSIA (now DSS) Administered payments.

20 For further information on reporting to the Minister, see paragraph 3.46.

3.10 This approach could lead to incorrect assessments being made—including by the Minister for Human Services—of progress and achievements from the compliance measures. For example, in June 2016, in a report to its Minister, Human Services advised that:

- (a) the *Accelerated real estate review cycle* measure achieved \$41.7 million in gross fiscal balance savings—31 per cent or \$9.8 million above DSS calculations for the same period; and
- (b) the *Increased compliance for international risk* measure achieved \$37.7 million gross fiscal balance savings—34 per cent or \$19.8 million below DSS calculations for the same period.

3.11 The second methodology outlined in paragraph 3.8(b) is generally used to provide the relevant project team with an indication of progress against the relevant savings targets for the measures. Human Services advised the ANAO that in using these savings calculators, Human Services can estimate the savings achieved by the measures using a methodology aligned to that used by DSS in the Budget costing process. Human Services also advised that the savings estimations using this methodology provide a ‘useful indicative view’ of measure performance; however, Human Services considers the savings estimations are not appropriate for external reporting as, according to Human Services, DSS is responsible for calculating actual savings achieved from the measures.

3.12 In September 2016, during the course of the audit, DSS separately calculated the savings achieved from the compliance measures. The methodology used by DSS was aligned to the methodology used to determine projected savings, and distributed savings from any fortnightly reductions across the forward financial years, based on relevant implementation dates and different payment factors. The ANAO’s analysis indicates that the savings calculations derived by Human Services from the use of the policy entities’ savings calculators (the second methodology) were more reliable and aligned to the calculations supplied by DSS, than those derived from ‘annualising’ the savings (the first methodology).

3.13 For more reliable monitoring and reporting of actual savings achieved from compliance measures, and in cooperation with DSS, Human Services should use both a consistent approach throughout the measure reporting period, as well as use the methodology agreed during the Budget process, particularly in reporting to its Minister.

Debts recovered

3.14 One of the key indicators of the success of a measure is the extent to which Human Services achieves the projected debt recovery targets—as reflected in the Government’s targets for underlying cash savings for the compliance measures.²¹

3.15 However, for the majority of measures, Human Services did not monitor its progress against the Government’s underlying cash savings targets during the period 2012–13 to 2015–16.²²

21 This issue was also raised in a previous ANAO performance audit of Human Services. See ANAO Audit Report No.26 2013–14 *Medicare Compliance Audits*, pp. 77-78. See also ANAO Audit Report No. 15 of 2016–17 *Meeting Revenue Commitments from Compliance Measures*, paragraph 3.15.

22 For the *Increased recovery of high value non-current customer debt* measure, Human Services used a spreadsheet to calculate the debts recovered that could be attributed to the measure.

3.16 Human Services advised the ANAO that the department did not have mechanisms in place to report the total value of debts recovered by measure. However, debts recovered could be measured via separate tracking, or they could be modelled using more contemporary or actual performance estimates (for example, through using average debt recovery rates for the relevant financial year), whichever is the most cost-effective.

Monitoring expenses incurred on compliance measures

3.17 As part of the Budget process for the 2012–13 compliance measures, Human Services was required to report annually to Government on its actual expenditure for all fraud and compliance programs, including individual measures, in the Minister for Human Services' *Strategic Fraud and Non-Compliance (SFNC) Performance Report*.²³

3.18 Despite these reporting requirements and the department's own key performance indicators (KPIs)—which include assessing whether the measures are delivered 'on budget' (see paragraph 3.31)—the department's actual expenses for implementing the 2012–13 and 2013–14 compliance measures were not tracked or reported as they were classified by Human Services as 'financially simplified' projects.²⁴ For the *Strengthening the Integrity of Welfare Payments* measure, only a proportion of the measure's funding was tracked; funding relating to its operational work and corporate overheads was not accounted for. In this regard, from the 2015–16 financial year appropriation of \$71.4 million, Human Services monitored and reported (both internally and externally) against its project management allocation of \$27.3 million (38 per cent of the measure's Budget appropriation for that year).

3.19 Although Human Services did not track the compliance expenses or effort spent on the measures, the department provided the ANAO with some information relating to the expenses for four of the 2012–13 and 2013–14 compliance measures, as outlined in Table 3.1. Note, Human Services' attribution of expenses and activities to the compliance measures differs to the ANAO's attribution as outlined in Chapter 4.

Table 3.1: Human Services' estimated expenses for four 2012–13 and 2013–14 compliance measures

	2012–13 (\$)	2013–14 (\$)	2014–15 (\$)	2015–16 (\$)	Total (\$)
<i>Increase in compliance review activity</i>					
Budgeted expense ^a	8 774 500	8 774 500	4 387 300		21 936 300
Actual expense ^{b,c}	8 282 307	9 586 945	10 103 045		27 972 297
Difference	492 193	(812 445)	(5 715 745)		(6 035 997)

²³ See paragraphs 3.47 to 3.51 for further discussion on the *SFNC Performance Report*.

²⁴ The extent to which project expenses are monitored is determined by Human Services' categorisation of internal projects as 'financially simplified' or 'financially complex'. Financially complex projects are managed within Human Services' central finance structure and financially simplified project budgets are allocated to the relevant branches within the department, and form part of the business-as-usual budgets as one-off adjustments. Human Services advised the ANAO that because the funding for all measures (except the *Strengthening the Integrity of Welfare Payments* measure) were classified as 'financially simplified', (separate) expenditure against these measures was not able to be captured.

	2012–13 (\$)	2013–14 (\$)	2014–15 (\$)	2015–16 (\$)	Total (\$)
<i>Increased compliance for international risk</i>					
Budgeted expense ^a	1 656 300	456 000	549 300	463 100	3 124 700
Actual expense ^b	6 149 174	2 610 567	560 811	4 586 ^d	9 325 138
Difference	(4 492 874)	(2 154 567)	(11 511)	458 514	(6 200 438)
<i>Increased recovery of high value non-current customer debt</i>					
Budgeted expense	1 759 961	1 715 694	1 726 776	1 743 586	6 946 017
Actual expense	1 333 841	1 512 038	1 957 359	1 273 300	6 076 538
Difference	426 120	203 656	(230 583)	470 286	869 479
<i>Increase compliance for customers with earned income</i>					
Budgeted expense ^a		4 723 370			4 723 370
Actual expense ^{b,e}		3 289 444			3 289 444
Difference		1 433 926			1 433 926
Total difference between budgeted and actual expenses					(9 933 030)

Note a: Human Services advised the ANAO that the 'Budgeted expense' figures outlined differ from the total departmental funding allocated to the department through the Budget process. Human Services advised the 'Budget expense' figures includes only the funding internally allocated to the particular business area undertaking the compliance activities for these measures. The remainder of the departmental funding allocated to Human Services through the Budget process is internally allocated to other business areas within the department to cover the cost of corporate overheads and other flow on activities (such as appeals or debt management). These business areas do not distinguish between the expenses associated with Budget measure activity and the expenses associated with business-as-usual activity.

Note b: Human Services advised that the 'Actual expense' data relates only to the direct compliance activity expenses. The 'Actual expense' data does not include expenses for corporate overheads or other flow-on activities (such as appeals or debt management) as the responsible business areas do not distinguish between the expenses associated with Budget measure activity and the expenses associated with business-as-usual activity.

Note c: Human Services advised the ANAO that because the *Increase in compliance review activity* measure activity is an increase on yearly compliance activity, expenses for the measure could be interpreted as the difference between the 2011–12 (pre-measure) costs of \$8.98 million and the total activity expenses for the 2012–13 to 2014–15 years.

Note d: 'Actual expense' as at 2 June 2016. Human Services was unable to provide data for the full 2015–16 financial year.

Note e: Human Services advised the ANAO that because the *Increase compliance for customers with earned income* measure activity is an increase on yearly compliance activity, expenses for the measure could be interpreted as the difference between the 2012–13 (pre-measure) costs of \$27.89 million and the total activity expenses for 2013–14.

Source: ANAO analysis of Human Services' data.

3.20 As shown in Table 3.1, for the four compliance measures for which Human Services provided indicative expenditure, the department's estimated total actual expenses exceeded the budgeted expenses by \$9.9 million (or 27 per cent). For example, for the *Increased compliance for international risk* measure the department allocated significantly more staff to implement the measures than were estimated during its original planning. Human Services advised the ANAO that in implementing these measures, it took a number of actions including: approved overtime for current staff; undertook temporary recruitment internal to the department; and/or realigned

compliance staff from other activities. In this regard, the actual costs of these measures were significantly greater than originally estimated.

3.21 Establishing a practical and cost-effective mechanism to separately track or estimate the actual cost of some measures (for example, through using the average cost of the relevant compliance activity that is the focus of a measure or the level of full-time equivalent (FTE) staffing²⁵) would:

- provide enhanced assurance when reporting on the achievements of measures against the department's KPIs (see discussion from paragraph 3.31);
- provide a more complete and accurate summary of the performance of a measure, for example to calculate the net savings realised; and
- enable the cost-effectiveness and efficiency of those compliance activities to be evaluated²⁶, including to inform the development of new measures.

Has Human Services' internal monitoring and reporting on the compliance measures been effective?

Human Services has well-developed project monitoring mechanisms for reporting to its Executive. However, this monitoring system relies on accurate and consistent reporting by the responsible business areas. In this regard, the regular internal reporting on the progress of the measures has not provided a consistent and reliable indication of whether key performance outcomes, including expected savings and planned levels of activity, were on track, nor whether key risks were being effectively managed.

Arrangements for monitoring compliance measures

3.22 Human Services' monitoring of its compliance measures includes weekly or fortnightly reporting at the project level, as well as monthly reporting to its departmental Executive. Under Human Services' Programme and Project Management Framework, monthly Project Status Reports (PSRs) are to be completed for all programs and projects. The aim of these reports is to provide the Project Board²⁷ and other team members with up-to-date information on project risks, issues, scope, budget, schedule, tasks and activities delivered and forecasted into the future. PSRs had been completed for each compliance measure since the outset.

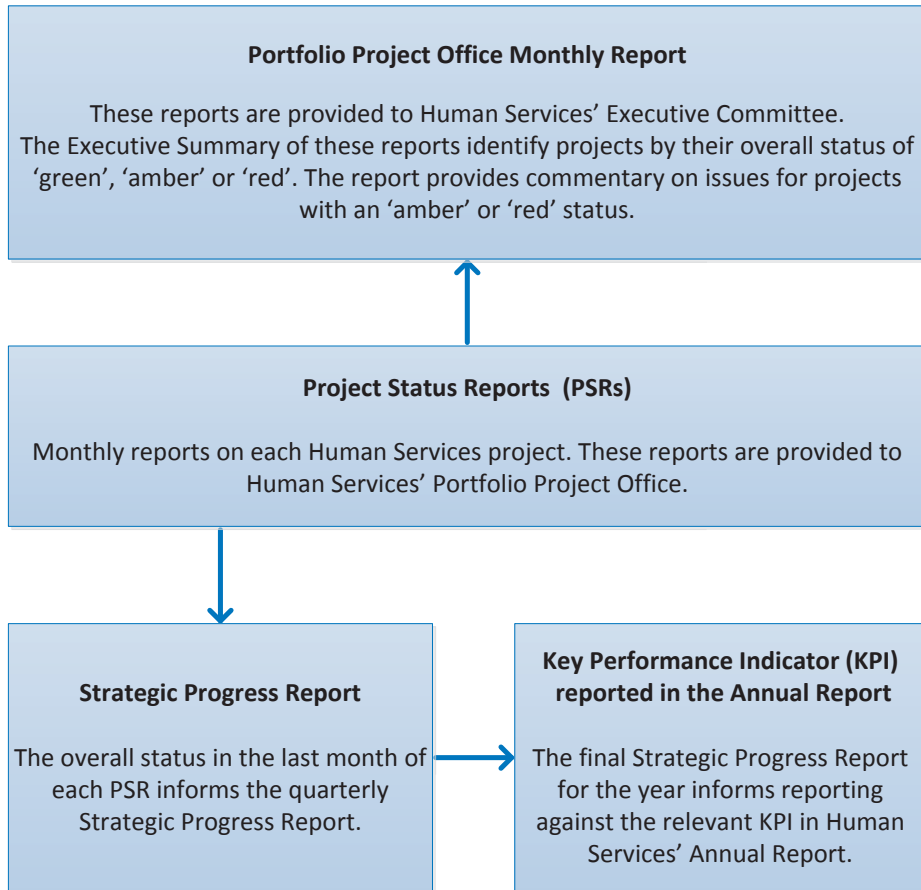
3.23 Figure 3.1 shows the reporting structure for compliance measures, and how the PSRs contribute to broader reporting arrangements within the department.

25 Where the department has a methodology in place for reporting on a broader component of compliance work relating to a specific measure, the department should be able to reasonably estimate the costs for the measure. For example, Human Services has in place a methodology for reporting on costs associated with the broader Data-Matching Program in which the *Increase in compliance review activity* measure is included.

See also ANAO Audit Report 15 of 2016–17 *Meeting Revenue Commitments from Compliance Measures*, paragraph 3.12.

26 This could include: comparisons between the average cost of measure-related and business-as-usual funded activities; rates of return on investment; and comparisons between different compliance activities.

27 The Project Board's role includes: making key decisions required to resolve issues impacting the project; providing strategic advice and guidance; and approving changes to a project's scope, cost or schedule.

Figure 3.1: Human Services' internal reporting structure for compliance measures

Source: ANAO analysis of Human Services documentation.

3.24 Human Services uses departmental project tolerances to report project performance within PSRs using a traffic light rating system.²⁸ Figure 3.2 shows the department's project tolerances for the overall project status in place during the implementation of the measures.

28 The project tolerances consist of a series of thresholds for the following aspects of the project: overall health; budget; schedule; scope; risk; issues; resources and staffing; benefits; and quality. The PSRs contain traffic light ratings against individual aspects of the project as well as an overall project status.

Figure 3.2: Human Services' project tolerances for overall project status^a

Green	Amber	Red
Implementation is on track as per agreed Programme/Project Business Case and Programme/Project Management Plan.	Problematic implementation e.g. time slippage and/or budget issues, unforeseen consequences have arisen (regardless of how well they are being managed), it is recoverable with the right amount of attention—the area of concern is not necessarily within the Programme/Project Manager's direct control, but the Executive and others need to be aware of the difficulties.	Implementation is highly problematic; implementation failure is likely without intervention, has not had the desired effect, requires intervention to move ahead e.g. revisit objectives and develop a different strategy/approach—resolution is not likely to be within the Programme/Project Manager's control and requires higher authority attention.

Note a: These tolerances were outlined in Human Services' Project Management Framework in place at the time of the audit and the implementation periods for measures in the scope of this audit (Human Services' Project Management Framework was updated in July 2016).

Source: Human Services documentation.

3.25 The ANAO reviewed a sample of 22 PSRs for the compliance measures²⁹ and reviewed the overall project status contained in these reports compared to the achievement of key outcomes—savings³⁰ and activity levels (see Table 3.2). The ANAO identified:

- the overall project status reported at the end of each financial year did not always reflect the department's overall project status tolerance levels in place at the time; and
- there were inconsistencies in the information reported, both within and across measures. In particular, key outcomes—number of activities completed and savings achieved—were not consistently reported.

29 The sample consisted of the June reports from relevant financial years for each compliance measure. For the *Strengthening the Integrity of Welfare Payments* measure, the ANAO reviewed the PSRs for the *Employment Income Matching* and *AUSTRAC* projects.

30 The ANAO was unable to determine the methodology Human Services used to estimate the savings achieved for some of the compliance measures in the PSRs. See paragraphs 3.8 to 3.13 further discussion on Human Services monitoring of savings achieved.

Table 3.2: Comparison between Human Services' assessment of activity level and savings achievements and the reported overall status in the June Project Status Reports

	2012–13	2013–14	2014–15	2015–16
Accelerated real estate review cycle				
Activity level met	(Not reported in PSR) ^a ✓	✓	✗	!
Savings met	(Not reported in PSR) ^a ✗	✗	✗	(Not reported in PSR) ^a ✓
Overall Status of June Project Status Report	Green	Green	Red	Closing ^b
Increase in compliance review activity				
Activity level met	✗	✗	PSR not completed for final year of measure ^c	Measure project concluded
Savings met	(Not reported in PSR) ^a ✓	✓		
Overall Status of June Project Status Report	Green	Green		
Increased compliance for international risk				
Activity level met	✓	✓	✓	✓
Savings met	✗	(Not reported in PSR) ^a ✗	(Not reported in PSR) ^a ✗	✗
Overall Status of June Project Status Report	Green	Green	Green	Closing ^b
Increased recovery of high value non-current customer debt				
Activity level met	(Not reported in PSR) ^d	(Not reported in PSR) ^d	(Not reported in PSR) ^d	(Not reported in PSR) ^d ✓
Savings met	✓	✓	✓	✓
Overall Status of June Project Status Report	Green	Green	Green	Green

2012–13		2013–14	2014–15	2015–16
New compliance data sources				
Activity level met	(Not reported in PSR) ^a ✗	✓	✓	(Not reported in PSR) ^a ✗
Savings met	(Not reported in PSR) ^a ✗	✓	✓	✓
Overall Status of June Project Status Report	Green	Green	Green	Green
Increase compliance for customers with earned income				
Activity level met	Measure commencing	!	Measure project concluded	Measure project concluded
Savings met		✓		
Overall Status of June Project Status Report	Green	Closing ^b		
Strengthening the Integrity of Welfare Payments—Employment Income Matching				
Activity level met	Measure commenced 2015–16			✓
Savings met				Not reported in PSR) ^a ✓
Overall Status of June Project Status Report				Amber
Strengthening the Integrity of Welfare Payments—AUSTRAC				
Activity level met	Measure commenced 2015–16			✗
Savings met				✓
Overall Status of June Project Status Report				Green

Key developed by the ANAO based on Human Services' project tolerances:

✓ ≥95% of target ✗ <90% of target ! ≥90% and <95% of target

'Green', 'Amber' and 'Red' project tolerances for the Overall Status of June PSR are explained in Figure 3.2.

Note a: Where achievements were not reported in the PSRs, other Human Services documentation, including weekly project reports, were used to assess the achievement.

Note b: Where Human Services had assessed the measure was in the 'close phase' of the project management framework, the overall status against project tolerance was not stated; instead the PSR status was 'closing'.

Note c: The last PSR for the *Increase in compliance review activity* measure was completed in September 2014 because the project was closed in October 2014. The closure of this measure is discussed further in paragraph 4.36.

Note d: For the *Increased recovery of high value non-current customer debt* measure, Human Services did not report through the PSR on the number of activities undertaken; however, Human Services' information shows that over the measure period the four year target was achieved (see Appendix 3, Table A.9 and Table A.10).

Source: ANAO analysis of Human Services documentation and data.

3.26 The two key outcomes for the majority of the measures were targets for savings and activity levels. In the sample of reports reviewed, the ANAO identified six reports where the overall project status was ‘green’ even though the savings target (as determined by Human Services) had not been achieved. For one of these reports, the activity level target had also not been met.

3.27 Based on Human Services’ documentation, the *Increased compliance for international risk* measure did not achieve its savings target for any of the four years of the measure; however, its overall PSR status remained ‘green’ from July 2012 until January 2016, when the status turned to ‘amber’.

3.28 The *Accelerated real estate review cycle* measure’s overall PSR status remained ‘green’ from July 2012 until January 2015, when the status changed to ‘amber’. It did not achieve its savings target for any of the first three financial years of the measure. In addition, there were two other significant issues that affected implementation of this measure: the closure of the Australian Valuation Office (AVO) in 2014³¹; and the introduction of a new risk-based real estate model by Human Services in July 2014, which superseded the *Accelerated real estate review cycle* measure. There was some commentary about these issues in the PSRs during 2014. Human Services advised the ANAO that ‘the project reported green through to December 2014 on the basis the required volume of activity could still be delivered in the second half of the financial year.’ Human Services’ project tolerance descriptions for a project’s overall status (see Figure 3.2) are that where a project’s implementation is problematic, its overall status should be reported as ‘amber’ or ‘red’.

3.29 Human Services advised the ANAO that: the PSR template in use at this time indicated that where a project was on track, there was no requirement to report on specific deliverables; three or more criteria with a changed status were required to change the overall status of the project; and this indicates that partial achievement is an acceptable justification to report a status of ‘green’. Human Services further advised that the PSRs for the measures clearly stated that where there was an underachievement of savings, the over achievement of other measures within the overall suite of measures offset this discrepancy.

3.30 In reporting on compliance measures through the PSRs, Human Services should consistently report on all key performance targets and include performance against these key targets in assessing a project’s overall status. This would provide the department’s Executive with a more reliable snapshot of progress, as well as allow the PSRs to serve as a more accurate and accountable basis for determining achievements of the measures—including against the department’s public KPIs.

31 The AVO was a business unit within the Australian Taxation Office. The Australian Government announced in January 2014 that the AVO would close in June 2014, as the AVO’s revenue declined sharply due to technological changes in the valuation industry and government departments decreasing their use of the AVO’s services. In particular, Human Services—as the largest Australian Government customer for AVO services—decided to cease its arrangements with the AVO effective from June 2014.

Has Human Services’ external reporting on the outcomes of the compliance measures been accurate and timely?

While Human Services has documented a process for its public reporting against its KPIs, the underlying systems and processes require greater maturity to support an accurate assessment. In this context, it is uncertain whether Human Services’ public reporting against its KPI is accurate.

Human Services’ reporting to its Minister has been ad hoc. Following the lapsing of the previously required reporting arrangements due to the change of government in September 2013, Human Services did not report to Government on the 2012–13 measures. Human Services also did not report annually to the Department of Finance on the outcomes realised, as it committed to do in place of reporting to Government.

Public reporting against key performance indicators

3.31 Human Services reported publicly on the performance of the compliance measures through two KPIs, as outlined in successive Human Services Portfolio Budget Statements since 2012–13:

- Fraud Prevention and Compliance Budget measures: Key initiatives delivered within timeframes and on budget and outcomes are achieved (2012–13 to 2014–15); and
- *Strengthening the Integrity of Welfare Payments* Budget measure: Key initiatives delivered as agreed within timeframes and on budget (2015–16 and 2016–17).

3.32 The target for both KPIs was ‘Achieved’, with results reported in Human Services’ Annual Reports. Table 3.3 outlines Human Services’ reported achievements against the performance targets for both KPIs from 2012–13 to 2015–16.

Table 3.3: Human Services’ assessment against its public key performance indicators for compliance measures from 2012–13 to 2015–16

Financial Year	Fraud Prevention and Compliance Budget measures <i>Key initiatives delivered within timeframes and on budget and outcomes are achieved^a</i>		Strengthening the Integrity of Welfare Payments Budget measure <i>Key initiatives delivered as agreed within timeframes and on budget^a</i>	
	Target	Actual	Target ^b	Actual
2012–13	Achieved	Achieved		
2013–14	Achieved	Achieved		
2014–15	Achieved	Achieved		
2015–16			Achieved	Achieved

Note a: Human Services’ Portfolio Budget Statements from 2012–13 to 2015–16 note that ‘the list of key initiatives is determined by government priorities each financial year’.

Note b: This performance measure has a target of ‘achieved’ until 2017–18, as outlined in Human Services’ 2016–17 Portfolio Budget Statements.

Source: Human Services documentation.

3.33 Accurate reporting on its public KPIs for compliance Budget measures involves Human Services:

- (a) establishing a reliable mechanism to support this reporting requirement;
- (b) defining the key initiatives (Budget measures) that contribute to the KPIs; and
- (c) assessing whether the relevant key measures were delivered within the agreed timeframes, according to the agreed budget, and whether expected outcomes were achieved.

Establishing a mechanism for public reporting

3.34 Human Services has established a process for the department's public KPI reporting. The methodology, calculation and reporting procedures for the public KPIs are formally approved by Human Services' Executive at the commencement of the financial year and documented in KPI Measure Records. Human Services advised the ANAO that these KPI Measure Records are reviewed on a quarterly basis. Internally, the progress against relevant targets is reported quarterly to Human Services' Executive through the Strategic Progress Report.

3.35 For the public KPIs listed in Table 3.3, Human Services' preparation of the Strategic Progress Reports for its Executive relied on the quarterly results and commentary from the compliance measure's most recent PSR. However, as set out in Table 3.2, the ANAO's analysis indicates that the overall project status reported in some of these PSRs is not always accurate or reliable. Further, the ANAO's analysis identified that for the *Employment Income Matching* initiative under the *Strengthening the Integrity of Welfare Payments* measure, there was a different overall project status recorded in the Strategic Progress Reports and the PSRs. The second to fourth quarter PSRs recorded the overall project status as 'amber', yet reporting for the Strategic Progress Reports during the same period showed the overall project status as 'green'.

Defining relevant 'key initiatives'

3.36 It is not clear which 'Fraud Prevention and Compliance' measures were included in the department's public reporting against the KPI from 2012–13 to 2014–15³²:

- Human Services was unable to advise the ANAO which compliance measures were included in its reporting against the KPI for the 2012–13 and 2013–14 financial years.
- In 2014–15, the number of compliance measures included in Human Services' internal quarterly reporting against the KPI varied throughout the financial year, as the department did not define which compliance measures were to be included.
- The 2014–15 Strategic Progress Report for the fourth quarter aggregated the result reported for three measures, whereas Human Services advised the ANAO that nine compliance measures contributed to the performance indicator for that quarter.

32 In addition to the compliance measures within the scope of this audit, there have been four compliance measures with the prefix 'Fraud Prevention and Compliance' (with savings attributable across the forward estimates) since 2011–12. Further, six 'Fraud and compliance' measures were announced between 2009–10 and 2011–12 (with savings attributable across the forward estimates). Human Services advised the ANAO that, in 2014–15, another measure—the 2011–12 *Early Intervention to Prevent Debts for Customers Commencing Workforce Participation*—was also included in reporting against the KPI.

3.37 Additionally, for Human Services' reporting against the KPI for the *Strengthening the Integrity of Welfare Payments* measure, ANAO analysis showed that the 2015–16 Strategic Progress Reports included two additional initiatives: the 2012–13 *Improve billing practices within public hospitals* measure (included in the first quarter) and *Increased recovery of high value customer debt* (included in the first and second quarters). These two compliance measures were not included in the KPI Measure Records for the 2015–16 KPI and were individual measures separate to the *Strengthening the Integrity of Welfare Payments* measure.

Assessing whether timeframes, budget and outcomes were achieved

3.38 As part of its broader project monitoring arrangements, Human Services has established mechanisms for regular reporting on implementation progress, including key timing/milestones for relevant measures. However, these mechanisms are also reliant on the quality and consistency of the reporting of key deliverables and outcomes in the PSRs. As Table 3.2 indicates, this PSR reporting has not been consistent over the relevant periods for the measures.

3.39 As discussed at paragraph 3.18, Human Services does not monitor or report on the costs of 'financially simplified' compliance measures, and does not monitor the operational compliance costs relating to the *Strengthening the Integrity of Welfare Payments* measure. In the absence of tracking its own costs, it is not clear how Human Services determined that the measures were 'on budget', as publicly reported in Human Services' 2012–13 to 2015–16 Annual Reports.

3.40 Human Services advised the ANAO that, although individual costs were not tracked for the compliance measures, the compliance division did not exceed its overall internal budget from 2012–13 to 2015–16. Using the overall divisional budget (which includes Human Services' business-as-usual funding) as a basis for determining whether individual measures were 'on budget' has limitations, as it cannot demonstrate whether the funds provided for individual measures were expended as planned.

3.41 As shown in Table 3.3, Human Services' public reporting in its Annual Reports from 2012–13 to 2015–16 show that the relevant KPIs had been 'achieved'. In Human Services' reporting against its single KPI from 2012–13 to 2014–15, Human Services aggregated the department's internal calculations of the gross fiscal balance savings achieved for all the compliance measures included in the KPI³³, but did not track its debt recovery achievements (underlying cash savings) for the relevant measures. Similarly, the debt recovery achievements were not tracked for the 2015–16 KPI.

3.42 Human Services' public reporting of 'achieved' was also assessed in isolation of the department's commitment that activities for certain measures would be additional to the department's business-as-usual activities (see paragraphs 4.2 to 4.10).

3.43 Overall, there is no clarity and transparency in Human Services' public reporting on the performance of the compliance measures from 2012–13 to 2015–16. While the department has documented a process for its public reporting against its KPIs, the underlying systems and processes require greater maturity to support an accurate assessment to be made.

33 Human Services' internal calculations of the fiscal balance savings achieved for the 2015–16 KPI on the *Strengthening the Integrity of Welfare Payments* measure were an aggregate of all the initiatives under the measure.

Reporting back to Government

3.44 The Minister for Human Services has responsibility for the delivery of, and reporting on, fraud and compliance activities to the Government. The stakeholder engagement and communication plans for five of the seven compliance measures noted that the Minister would be provided with quarterly reports on the progress of the measures—including information on the achievement of goals and delivery of benefits.

3.45 The ANAO's analysis shows that Human Services' advice to its Minister on the implementation and achievement of the compliance measures had been ad hoc and not consistent with the stakeholder engagement and communication plans developed at those times. Towards the end of 2015, following the early implementation stage of the *Strengthening the Integrity of Welfare Payments* measure in 2015–16, the department provided its Minister with more information than in previous years.

3.46 During the course of the audit, Human Services developed a report on compliance and debt activity within the department, with a plan for this report to be submitted to the Minister on a monthly basis. The first report was provided to the Minister in early May 2016.³⁴ The report provides information on the proportion of targeted activities completed and estimated gross fiscal savings achieved³⁵ (current financial year and the whole period of the measure) for nine selected compliance measures, five within the scope of this audit.³⁶

Strategic Fraud and Non-Compliance Performance Report

3.47 As part of the 2012–13 Budget, Human Services was required to report annually to the Government on the success of the 2012–13 measures³⁷, including savings realised, through the *SFNC Performance Report*.³⁸

3.48 Following the change of government (in September 2013) Human Services advised the ANAO that the SFNC submission and performance report did not continue as these reporting mechanisms were an initiative of the previous government. Consequently, the department completed its last SFNC report in 2011–12.

3.49 Following a change of government, the Minister for Human Services would have had to seek authority for the SFNC performance report to continue. In these circumstances, the ANAO would have expected that Human Services would have provided advice to its Minister outlining

34 As of September 2016, Human Services had continued to provide monthly reports to its Minister.

35 As discussed in paragraphs 3.9 to 3.10, the ANAO found limitations on the accuracy of the methodology used to calculate the gross fiscal savings reported to the Minister, and that these varied to the savings calculations made by DSS.

36 The report also provided specific detail on four *Strengthening the Integrity of Welfare Payments* initiatives: *Employment Income Matching*; *Taskforce Integrity*; *AUSTRAC*; and *Strengthening Obligations for Students*.

37 The 2013–14 and 2015–16 measures considered in this audit did not have specific requirements to report back on progress of the measures.

38 At the time the 2012–13 compliance measures were agreed, Human Services provided an annual SFNC performance report to the Government. The report outlined the compliance priorities for the Australian Government's social, health, welfare and child support payments system for the coming financial year, including the department's strategies and activities to address identified areas of risk. The performance report provided the Government with the compliance performance for the previous year. The Strategic Partnership Interdepartmental Committee oversighted the achievement of the SFNC agenda.

the earlier reporting requirements, and seeking the Minister's views on whether to continue with the requirements—this did not occur.

3.50 Instead, in March 2014, Human Services' Executive decided not to continue with the SFNC submission and the Strategic Partnership Interdepartmental Committee which oversighted that process. The department advised relevant policy entities³⁹ of its decision, and in its place the department committed to continue to report to the Department of Finance on the performance of the compliance measures.

3.51 Since the 2012–13 Budget, Human Services had not reported to either the Government or the Department of Finance on its performance and relative achievements in implementing the compliance measures.⁴⁰

Recommendation No.2

3.52 That the Department of Human Services:

- (a) in consultation with the Department of Social Services, develops and implements a method to estimate and monitor the amount of debt recovered from compliance measures;
- (b) consistently reports internally on its progress and achievements for compliance measures against key performance targets and outcomes; and
- (c) develops and implements a method to estimate the costs of compliance measures, to provide improved assurance over its external reporting, and to better inform evaluations of its compliance activities.

Department of Human Services response: *Agreed with qualifications.*

3.53 *The department recognises that there are opportunities for improving monitoring and reporting arrangements for its compliance measures. Recommendations 2(a) and (c) are considered long term goals that will be considered as part of the Welfare Payment Infrastructure Transformation Programme, which will deliver enhanced capability. These system improvements are expected to provide the department with better management information to support improved program management and monitoring.*

Department of Social Services comment: *DSS will work with DHS to develop and implement a method to estimate and monitor the amount of debt recovered from compliance measures.*

39 Entities that Human Services advised of this decision were the: Department of Veterans' Affairs; DSS; and Department of Health.

40 The ANAO has previously identified Human Services' failure to report back to Government, when required, on outcomes achieved from selected Budget measures. See ANAO Report No.26 2013–14 *Medicare Compliance Audits*, pp. 19 and 76.

4. Achieving compliance measure outcomes

Areas examined

This chapter examines whether the Department of Human Services (Human Services) has achieved the expected savings and other outcomes from the compliance measures, including whether the measures were evaluated.

Conclusion

Achievements against the expected outcomes from the measures were mixed and the majority of the compliance measures examined did not fully achieve their expected outcomes, including savings and addressing the risks to payment integrity, as agreed. While Human Services has established processes for undertaking evaluation of compliance measures, some improvements could be made.

Area/s for improvement

The ANAO has recommended Human Services improve its methodology for assessing outcomes from compliance measures.

The ANAO has also suggested some areas to build on Human Services' established approach to post implementation reviews and evaluation.

Have the expected savings and other outcomes been realised?

The savings and other outcomes—including addressing risks to payment and business integrity—expected from the compliance measures have not been fully realised. Achievements against the expected levels of compliance activities, including business-as-usual activity agreed in the Budget, were mixed with four of the measures not achieving expected activity levels. The ANAO's analysis indicated that the delivery against the expected savings was also mixed—four of the measures did not achieve savings targets. Where achievements are likely to be significantly lower than commitments, the relevant minister should be promptly advised, to allow for a timely decision on whether the continued implementation of the relevant measure is the most efficient and effective use of public resources in the circumstances.

4.1 In broad terms, the policy cases for the measures examined in this audit were developed to address compliance risks identified by Human Services, and government priorities at the time. The measures aimed to address risks and deliver savings (both in fiscal and underlying cash terms⁴¹) to the Budget by:

- increasing the number of compliance activities for a particular area of risk;
- addressing gaps in the compliance program; and/or
- expanding on current capabilities and activities through implementing new processes.

41 Fiscal and underlying cash savings are defined in Footnote 4.

Achievement of compliance measure activities and expected business-as-usual activities

4.2 Selected compliance measures provided funding to Human Services to increase the quantum of its existing compliance activities, as a means to better address, or mitigate, identified risks to payment integrity. In order to achieve the desired level of risk mitigation (and realise the associated Budget savings) the relevant measure activities, agreed by Government during the Budget process, were expected to be **additional** to the existing activity underway prior to the implementation of the measure (that is, the business-as-usual compliance activity).

4.3 The New Policy Proposals (NPPs) for the 2012–13 Budget measure *Increase in compliance review activity* and the 2013–14 Budget measure *Increase compliance for customers with earned income* clearly outlined both the expected business-as-usual compliance activities Human Services planned to undertake as well as the additional compliance activities to be completed under the measures. In a similar manner, the NPP for the 2015–16 measure *Strengthening the Integrity of Welfare Payments* also noted that funding under the proposal would provide for additional investigations and compliance interventions, with the volume of both measure and business-as-usual activities set out in Human Services' annual Compliance Programme.⁴² The respective NPPs for the remaining four measures in the scope of this audit proposed a new or different type of compliance activity to the business-as-usual activity in the corresponding area of risk. As such, the agreed levels of business-as-usual activity for these measures were assessed by the ANAO to be nil.

4.4 Human Services tracked and reported its compliance measure activities and business-as-usual activities separately.

4.5 Human Services advised the ANAO that business-as-usual compliance activity is different each year depending on a range of factors, including: new payment accuracy risks; risk trends; and data acquisition. Human Services further advised the ANAO that:

The delivery of the compliance programme is not a defined commitment to government but rather a living document which is subject to change according to a number of factors, including but not limited to, government/ministerial priorities, coverage across all areas of payment risk, high-profile risks in the media, other influencing factors such as emergency responses or other department priorities.

4.6 Table 4.1 sets out the ANAO's analysis (see Appendix 4 for the ANAO's methodology), by measure and financial year, of Human Services' delivery against the level of compliance activities agreed by Government for:

- business-as-usual activity (where applicable);
- compliance measure activity; and
- compliance measure activity achievement in addition to business-as-usual activities.⁴³

42 For the *Strengthening the Integrity of Welfare Payments* measure, the business-as-usual and measure activity levels for the *Employment Income Matching* initiative were specifically noted in the Compliance Programme.

43 See Appendix 3 for further details.

Table 4.1: ANAO's assessment of Human Services' achievement of additional compliance measure activities^a

Year	Measure activity target	Business-as-usual activity agreed ^b	Total activity target	Total activities completed	Measure activities completed	Achievement of additional measure activities
<i>Accelerated real estate review cycle measure</i>						
2012–13	15 000	0	15 000	18 144	18 144	✓
2013–14	30 000	0	30 000	28 536	28 536	✓
2014–15	30 000	0	30 000	196	196	✗
2015–16	30 000	0	30 000	22 237	22 237	✗
<i>Increase in compliance review activity measure</i>						
2012–13	30 000	30 000	60 000	32 316	2316	✗
2013–14	30 000	30 000	60 000	27 632	0	✗
2014–15	15 000	30 000	45 000	24 178	0	✗
<i>Increased compliance for international risk measure^{c,d}</i>						
Total	33 800	0	33 800	53 710	33 800	✓
<i>New compliance data sources measure</i>						
2012–13	900	0	900	180	180	✗
2013–14	1200	0	1200	1617	1617	✓
2014–15	1200	0	1200	1252	1252	✓
2015–16	1200	0	1200	499	499	✗
<i>Increase compliance for customers with earned income measure</i>						
2013–14	19 000	20 000	39 000	17 672	0	✗
<i>Strengthening the Integrity of Welfare Payments—Employment Income Matching^d</i>						
2015–16	84 000	2241	86 241	101 563	84 000	✓
<i>Strengthening the Integrity of Welfare Payments—AUSTRAC</i>						
2015–16	626	0	626	287	287	✗

Key: ✓ ≥95% of expectation/target achieved

✗ <95% of expectation/target not achieved

Note a: Excludes the *Increased recovery of high value non-current customer debt* measure as this measure sought to improve the recovery of Commonwealth outlays as opposed to targeting a specific compliance risk.

Note b: The agreed levels of business-as-usual activity were based on information outlined in: the relevant NPPs for the *Increase in compliance review activity* and *Increase compliance for customers with earned income* measures; and from the Compliance Programme for the *Strengthening the Integrity of Welfare Payments—Employment Income Matching* initiative.

Note c: The activity level target Human Services used for the *Increased compliance for international risk* measure was lower than the target agreed in the NPP. This reduced target, as used by Human Services, made a year-by-year assessment of activity achievement difficult. For this measure the ANAO has presented aggregated figures only showing the total activity completed and the total measure activity target for the entire measure period. This matter is further discussed at Appendix 3.

Note d: While the 'total activities completed' by Human Services exceeded the 'total activity target', the additional activities have not been counted as contributing towards the 'additional measure activities', on the basis that the department used significantly more full-time equivalent staffing resources to complete these activities than was allocated in the Budget process and the department's original planning. As such, the additional activities are considered to contribute toward the achievement of the department's broader compliance program. See paragraph 4.16.

Source: ANAO analysis of Human Services' data.

4.7 As outlined in Table 4.1, achievement of agreed compliance activity levels for the compliance measures was highly variable. Notably, with respect to the *Increase in compliance review activity* and *Increase compliance for customers with earned income* measures, the volume of measure activity completed, after accounting for the expected business-as-usual activity, was significantly lower than planned. Across both measures, the total number of compliance activities completed was less than the expected business-as-usual levels across all years, with the exception of 2012–13 for the *Increase in compliance review activity* measure.

4.8 Human Services advised the ANAO that it disagrees with the ANAO's methodology for assessing achievement of additional compliance measure activities (as set out in Table 4.1 and Appendix 4). In particular, Human Services advised:

Compliance measures are managed as part of the department's broader Compliance Programme and aims to address risks to the integrity of government payments. The Compliance Programme is underpinned by a comprehensive assessment of key risks to payment accuracy and is managed in a flexible manner to support a responsive and agile approach that addresses emerging risks. This flexibility has also enabled the department to adopt more preventive, self-correction strategies that do not always represent an overall increase in business-as-usual compliance activity, but supports more effective and efficient approaches to addressing payment integrity risks and achieving outcomes. Consistent with this focus on outcomes, the department assesses the achievement of its compliance measures based on agreed savings targets and not activity levels.

4.9 In addition, Human Services advised the ANAO that a number of factors impacted the department's ability to complete the planned activity for these two measures and related business-as-usual, including:

- the effort required for the *Increase in compliance review activity* measure was more than the funding provided;
- delays in the commencement of compliance reviews in 2012–13 impacted on the period available to achieve the planned compliance reviews for that year;
- instability in departmental systems, which led to significant periods of down time for staff;

- the natural disasters of 2010–11 (particularly the Brisbane floods in January 2011) had a major impact on the department’s compliance activities that extended into the 2012–13 financial year⁴⁴; and
- during the period 31 October 2013 to 30 June 2015, due to the APS-wide recruitment freeze, there was reduced ability for the department to both recruit new staff and fill vacancies.

4.10 Notwithstanding the above, Human Services did not complete the additional activity agreed in the NPPs for the *Increase in compliance review activity* and *Increase compliance for customers with earned income* measures. In this regard, the outcomes achieved (including the level of risk addressed through compliance reviews and the expected savings) were not additional to those that would have been expected had existing compliance activities continued.

4.11 In relation to the *Accelerated real estate review cycle* measure, Human Services advised the ANAO that the delivery of the measure was impacted by the closure of the Australian Valuation Office in June 2014.⁴⁵ Human Services also advised that in 2014–15 the emergence of significant compliance problems associated with the family day care sector impacted on the department’s ability to deliver the required level of activity (both under this measure and the compliance program more broadly). Human Services advised the ANAO that after briefing the Minister for Human Services, 50 compliance staff were reallocated from the measure to assist with the family day care risk as a priority.

4.12 In respect to the *Increased compliance for international risk* measure and the *Strengthening the Integrity of Welfare Payments* measure—*Employment Income Matching* initiative, the activity levels completed and attributed to the measures by Human Services exceeded the agreed combined activity levels for both the business-as-usual (where relevant) and the compliance measure. The ANAO notes; however, that in order to achieve these activity levels, the department used significantly more full-time equivalent (FTE) staffing resources to complete these activities than were allocated in the Budget and the department’s original planning (see Table 4.2). As such, those additional activities (beyond the agreed measure targets) are considered by the ANAO to contribute toward the achievement of Human Services’ broader compliance program.

4.13 Human Services advised the ANAO that it disagreed with the ANAO’s methodology for attributing compliance activity and calculating savings (see also paragraph 4.16) from the above two measures. In particular, the department advised the ANAO that:

Any additional staffing effort attributed to these Budget measures is at the discretion of ... executive and is managed from within existing budget allocations. If [the department] uses existing staff effort to deliver on outcomes that are required by Government, then this is an example of effective use of resources to deliver on Government requirements.

44 The Project Business Case for the *Increase compliance for customers with earned income* measure stated that the measure would provide the department with the capability to manage the program risk associated with the 2010–11 financial year, as the compliance activities in that year were interrupted by the Government’s response to natural disasters.

45 See Appendix 3, from paragraph 5.

Table 4.2: Comparison between the allocated and actual full-time equivalent staffing resources for the *Increased compliance for international risk measure* and the *Employment Income Matching* initiative of the *Strengthening the Integrity of Welfare Payments* measure

Year	Allocated FTE	Actual FTE ^a
<i>Increased compliance for international risk measure</i>		
2012–13	24.74	100.53
2013–14	7.48	25.87
2014–15	7.48	N/A ^b
2015–16	7.48	N/A ^b
<i>Strengthening the Integrity of Welfare Payments—Employment Income Matching</i>		
2015–16	254.20	368.80 ^c

Note a: Human Services advised the ANAO that the actual FTE figures relate to the direct compliance activity components of the compliance measures and do not include FTE relating to any management overheads, corporate costs or subsequent activities such as debt recovery or appeals. The actual FTE figures are as at 30 June for the relevant financial year.

Note b: Human Services advised that from 2014–15 onwards, the compliance activities for this measure were delivered as part of the broader compliance program. As the project was financially simplified, and undertaken as a subset of a larger group, there is no breakdown available.

Note c: Human Services advised the ANAO that the activity for this measure addresses the risk of employment income and is one of a number of compliance controls that are used to manage this risk. As this activity was delivered as a part of broader activity managing the employment income risk the specific FTE cannot be isolated. Human Services; however, provided the ANAO with an estimate of the actual FTE derived by comparing the difference between the FTE for compliance activity associated with Earned Income in the 2014–15 financial year (pre-budget measure) and the 2015–16 financial year.

Source: Human Services' data.

Achievement of savings

4.14 During the course of the audit, the Department of Social Services (DSS) calculated the savings achieved from each of the Budget measures in the scope of this audit. DSS' calculations used data supplied by Human Services, including the number of compliance activities completed under each measure (noting that Human Services tracked and reported compliance measure activity and business-as-usual activity separately). However, as discussed above, it is not consistent with the basis of the funding agreed by Government during the Budget to attribute compliance activities to a measure where the agreed volume of business-as-usual activities has not been maintained. Likewise, any savings associated with these business-as-usual activities also cannot be attributed to the measure. The ANAO's view is that these business-as-usual savings should have been realised regardless of the compliance measures, where the Budget measure proposed additional activity.

4.15 As such, where a measure was an extension of expected business-as-usual activities, the ANAO re-calculated the savings estimated to have been achieved, based on the ANAO's assessment of the additional compliance measure activities completed (as per Table 4.1)—that is, the savings associated with the compliance activity that was additional to the expected

business-as-usual activity levels. See Appendix 3 for further details and Appendix 4 for information on the ANAO's methodology.

4.16 In addition, while the department exceeded the agreed combined activity level for both the *Increased compliance for international risk* measure and *Strengthening the Integrity of Welfare Payments—Employment Income Matching* initiative, the ANAO revised the actual gross savings to only count towards the compliance activity level agreed with government. This is on the basis that the NPP substantially underestimated the costs of delivery; as a consequence, the implementation of these two measures was not as cost-effective as the proposals put to government. In this context, the ANAO considered these additional activities and their corresponding savings to contribute towards the achievement of Human Services' broader compliance program, rather than the compliance measures.

4.17 As noted in paragraph 4.13, Human Services advised the ANAO that it disagreed with the ANAO's methodology for (attributing compliance activity and) calculating savings from the above two measures.

4.18 Table 4.3 compares the target and actual gross savings in fiscal balance terms for the 'Fraud prevention and compliance' measures from 2012–13 to 2015–16 and Table 4.4 compares the target and actual gross savings in fiscal balance terms for the *Strengthening the Integrity of Welfare Payments* measure—*Employment Income Matching* and *AUSTRAC* initiatives for 2015–16.

Table 4.3: Comparison between target and achieved overall fiscal balance savings for 'Fraud prevention and compliance' measures, 2012–13 to 2015–16^a

Measure	Target gross savings—in fiscal balance terms (\$million)	Achieved gross savings—in fiscal balance terms (\$million)	Difference between target and actual savings (\$million)
<i>Accelerated real estate review cycle</i>	\$63.11	\$31.95 ^b	(\$31.16) under target
<i>Increase in compliance review activity</i>	\$161.54	\$11.31 ^c	(\$150.23) under target
<i>Increased compliance for international risk</i>	\$100.41	\$36.23 ^c	(\$64.18) under target
<i>New compliance data sources</i>	\$65.94	\$81.24 ^b	\$15.30 over target
<i>Increase compliance for customers with earned income</i>	\$67.53	\$0 ^c	(\$67.53) under target
Total	\$458.53	\$160.73	(\$297.80) under target

Note a: Excludes the *Increased recovery of high value non-current customer debt* measure as this measure only has savings in underlying cash terms. This measure recovered \$33.3 million in gross underlying cash savings against a target of \$20.1 million (see Table 4.5).

Note b: DSS calculation of achieved gross fiscal balance savings

Note c: ANAO estimates of achieved gross fiscal balance savings.

Source: ANAO analysis of DSS' and Human Services' data.

Table 4.4: Comparison between target and achieved gross fiscal balance savings for the *Strengthening the Integrity of Welfare Payments* measure, *Employment Income Matching* and *AUSTRAC* initiatives for 2015–16

Measure	Target gross savings—in fiscal balance terms (\$million)	Achieved gross savings—in fiscal balance terms (\$million)	Difference between target and actual savings (\$million)
<i>Employment Income Matching</i>	\$329.10	\$331.18 ^a	\$2.08 over target
<i>AUSTRAC</i>	\$3.03	\$7.60 ^b	\$4.57 over target
Total	\$332.13	\$338.78	\$6.65 over target

Note a: ANAO estimation of achieved gross fiscal balance savings.

Note b: DSS calculation of achieved gross fiscal balance savings.

Source: ANAO analysis of DSS' and Human Services' data.

4.19 As discussed in paragraph 3.14, the extent to which Human Services achieves the projected debt recovery targets—as reflected in the Government's targets for underlying cash savings—is also a key indicator of the success of a measure. The *Increased recovery of high value non-current customer debt* measure was solely focused on debt recovery and the measure's savings target was only in underlying cash terms. Table 4.5 shows that this measure exceeded its underlying cash gross savings target by \$13.24 million.

Table 4.5: Comparison between target and achieved gross underlying cash savings for the *Increased recovery of high value non-current customer debt* measure, 2012–13 to 2015–16

Target gross savings—in fiscal balance terms (\$million)	Achieved gross savings—in fiscal balance terms (\$million)	Difference between target and actual savings (\$million)
\$20.06	\$33.30	\$13.24 over target

Source: ANAO analysis of Human Services' data.

4.20 As Human Services did not track its debt recovery achievements for the remaining measures, the ANAO was unable to quantify Human Services' achievement of delivering underlying cash savings to the Budget over the relevant periods.⁴⁶ During the course of the audit, DSS calculated the estimated underlying cash savings for the measures for the ANAO, using the inputs and methodology used in costing the measures. As outlined in paragraph 2.11, the key inputs and methodology used by DSS to complete the estimation were developed around eight to ten years ago. As such, the DSS calculations may not reflect more contemporary data such as average debt recovery rates for relevant financial years. In addition, DSS' calculations were based on advice from Human Services on key assumptions, which do not have regard to agreed

46 Human Services advised the ANAO that: 'The methodology used to calculate underlying cash savings is owned by DSS and agreed by Government. Underlying cash is; however, not a publicly disclosed figure and as such is not measured by [Human Services] to determine Budget measure achievement.'

additionality and therefore do not match the ANAO's methodology for calculating savings (see Appendix 4). Consequently, the ANAO is unable to verify the reliability of these underlying cash savings calculations.

ANAO overall assessment of compliance measures' achievements

4.21 In summary, in assessing whether each of the compliance measures had achieved its expected outcomes, the ANAO considered the following areas of performance:

- fiscal balance savings achieved against the relevant targets;
- underlying cash savings achieved against expected targets; and
- whether the number of compliance activities completed were additional to the compliance activities usually completed by the department—that is, business-as-usual activities were maintained—where clearly set out in the policy case.

4.22 Table 4.6 shows the ANAO's assessment of the individual achievements of the compliance measures. The ANAO's detailed analysis of each measure's achievements is at Appendix 3.

Table 4.6: ANAO's assessment of the achievements of the compliance measures^a

Measure	Fiscal balance savings achieved	Underlying cash savings achieved ^b	Measure activities completed ^c	ANAO assessment of overall expectations met
Fraud prevention and compliance measures				
<i>Accelerated real estate review cycle</i>	✗	✗	✗	Not met
<i>Increase in compliance review activity</i>	✗	✗	✗	Not met
<i>Increased compliance for international risk</i>	✗	✗	✓	Partially met
<i>Increased recovery of high value non-current customer debt</i>		✓	✓	Met
<i>New compliance data sources</i>	✓	?	✗	Partially met
<i>Increase compliance for customers with earned income</i>	✗	✗	✗	Not met
Strengthening the Integrity of Welfare Payments measure^d				
<i>Employment Income Matching</i>	✓	?	✓	Met
<i>AUSTRAC</i>	✓	?	✗	Partially met

Key: ✓ ≥95% of expectation/target achieved

✗ <95% of expectation/target not achieved

? ANAO unable to determine

Note a: For the 2012–13 and 2013–14 Fraud Prevention and Compliance measures, the assessed achievements relate to the whole measure period. For the 2015–16 *Strengthening the Integrity of Welfare Payments* measure, the assessed achievements relate only to the 2015–16 results for those two individual projects that had identified savings targets for the 2015–16 year.

Note b: Where the ANAO has assessed the underlying cash savings as ‘not met’, the ANAO’s estimate of actual fiscal balance savings achieved for a measure was lower than the underlying cash savings target. Therefore, even if all debts raised had been recovered over the measure period, the underlying cash savings could not have been achieved.

Note c: The review activity targets that the ANAO used to assess the compliance measure achievements against were set out in the relevant policy proposals brought to Government. For the *Strengthening the Integrity of Welfare Payments* measure, the proposal outlined the total compliance activities for the measure period. The ANAO assessed the 2015–16 achievements for the two projects in this measure against the targets outlined in the *Employment Income Matching* and *AUSTRAC Project Plans*.

Note d: In making an overall assessment of the achievement of the *Strengthening the Integrity of Welfare Payments* measure, the ANAO aggregated the achievements of these two projects.

Source: ANAO analysis of Human Services and DSS data.

4.23 Human Services should undertake a more complete assessment of its achievements against relevant compliance measures. Where a measure is agreed to as an extension of business-as-usual activity, the achievements of the measure should be seen in the context of whether the achievements were in addition to its business-as-usual outcomes. It is also acknowledged that unforeseen risks, unplanned events or other emerging priorities, including those outside an entity’s control, can affect the implementation and expected achievements of Budget measures.⁴⁷ Where issues arise affecting the achievement of Budget commitments, Human Services and DSS should assess their continued ability to meet the Government’s expectations. Where achievements are likely to be significantly lower than commitments, the relevant minister should be promptly advised, to allow for a timely decision on whether the continued implementation of the relevant measure is the most efficient and effective use of public resources in the circumstances.⁴⁸

Recommendation No.3

4.24 That the Department of Human Services’ assessment of the outcomes and achievements of compliance Budget measures includes a complete assessment against expected additional activity levels (where agreed) as well as the expected additional savings.

Department of Human Services response: *The Department already undertakes these assessments as demonstrated by the tables in **Appendix 1** of our response.*

47 Factors that impacted on the achievements of individual measures are outlined at Appendix 3.

48 As noted in paragraph 3.45, Human Services’ reporting to its Minister on implementation and outcomes from these compliance measures was ad hoc.

Have the measures been evaluated?

Human Services has project management processes in place to conduct reviews both at the post implementation phase and at project closure and has completed three post implementation reviews and four closure reports for the compliance measures. The post implementation reviews could be improved by including a risk assessment of the broader implications of any issues identified and their potential impacts on the project's overall objectives. The information reported in the closure reports could be improved by including more analysis regarding costs and effort expended on the measures, and the business-as-usual impacts.

4.25 Evaluating compliance measures during and at the conclusion of projects provides the opportunity to assess the effectiveness and efficiency of the activities, including the outcomes achieved, the returns on investment realised, and informs the evidence base for future compliance actions.

Evaluating compliance measures

4.26 In Human Services' project management framework, closure reports and post implementation reviews (PIRs) are the principle mechanisms for assessing impacts and setting out lessons learned:

- closure reports are mandatory for all projects, and their purpose is to seek the Project Board's approval to close the project;
- PIRs aim to provide an overall review assessment of whether the intent of a project was achieved and the desired benefits have been or are in the process of being realised. The requirement to complete PIRs varies depending on the complexity of a project.⁴⁹ PIRs are mandatory for Human Services' most complex, Tier 1 projects, recommended for Tier 2 projects, and optional for Tier 3 projects.

4.27 Table 4.7 sets out the relevant measure, tier level, and the status of each PIR and Closure Report.

49 Human Services' project management framework categorises projects as being Tier 1, 2 or 3. A Tier 1 project is considered the highest strategic importance, highest risk, greatest difficulty, longest duration and largest budget; a Tier 2 project is considered to be of medium complexity; and a Tier 3 project is considered to be the least complex.

Table 4.7: Measure, tier level and completion status of Post Implementation Reviews and Closure Reports

Measure	Tier Level	Post Implementation Review Completed	Closure Report Completed
<i>Accelerated real estate review cycle</i>	1	Completed 27 July 2013	Completed 10 August 2016
<i>Increase in compliance review activity</i>	1	Completed 27 September 2013	Completed 13 October 2014
<i>Increased compliance for international risk</i>	1	Completed 27 September 2013	Completed 10 August 2016
<i>Increased recovery of high value non-current customer debt</i>	3	Not yet completed at time of audit	Not yet completed
<i>New compliance data sources</i>	2	To be combined with Closure Report	Not yet completed
<i>Increase compliance for customers with earned income</i>	2	Not required—not completed	Completed 9 September 2014
<i>Strengthening the Integrity of Welfare Payments—AUSTRAC</i>	1	Expected: three months after project closure	Expected to close in 2019
<i>Strengthening the Integrity of Welfare Payments—Employment Income Matching</i>	2	Not yet completed	Expected to close in 2018

Source: ANAO analysis of Human Services' documentation.

Post implementation reviews

4.28 At the time of the audit, PIRs had been undertaken for three of the six compliance measures that were to close by the end of 2015–16. Each of these PIRs was completed shortly after the end of the first year, and focused on the measures' achievements in the first year of implementation.

4.29 According to Human Services' documentation, PIRs are expected to provide 'an overall review' and to assess whether 'the intent was achieved' and 'desired benefits' realised. However, an assessment after only one year of implementation is unlikely to be as informative as a summative analysis of three-to-four years of activity.⁵⁰

4.30 The PIRs for each measure made an assessment of the measure's performance against expectations by providing a comparison between the measure's actual performance and the assumptions⁵¹ used to develop the compliance measure. The PIRs reported findings in a number

50 The Human Services Project Management Framework outlined the PIR as a key document in the 'close phase' of a project.

51 As discussed in paragraph 2.5 to 2.7, savings targets for compliance measures are derived from assumptions developed by Human Services about the likely average values of debts raised, fortnightly payment reductions that will be achieved and the number of activities that will be completed for a measure.

of areas and made recommendations to support improvement in those areas.⁵² While the reports identified areas for improvement, they did not contain an assessment of the impact of the issues on the achievement of the measure's objectives for the duration of the measure period. The PIRs could be improved by including a summary, including risk assessment, of the broader implications of any issues identified and their potential impacts on the project's overall objectives.

Closure reports

4.31 Six of the seven compliance measures were completed by the end of the 2015–16 financial year. At the time of the audit, closure reports had been prepared for four measures.⁵³ All four closure reports identified:

- Human Services' calculation of the measure's fiscal balance savings achieved against the target for the measure⁵⁴;
- the reason for recommending the project for closure; and
- lessons learned to improve the management of future projects.

4.32 Information reported in the closure reports could be improved in relation to: costs and effort expended on the measures; and business-as-usual impacts.

Costs and effort

4.33 Both the closure reports for *Increased compliance for international risk* and *Increase in compliance review activity* identified that resourcing levels were increased to address underachievement of measure targets.⁵⁵ However, neither report provided any assessment on whether these additional resources had any impacts on the net savings from the measures, or cost effectiveness of the measures.

4.34 Human Services advised the ANAO that it uses a number of methods to determine the effectiveness of compliance activity, linked to the management of risk, the impact on customer behaviour, the impact on third parties, and the amount of staff effort. To assist in the development of new measures and provide a more complete summary of the performance of compliance measures, closure reports should include an estimate of total actual costs for the measure, compared with the budgeted cost.⁵⁶ This would provide a more accurate indication of the net benefits achieved from the measure and assist Human Services to assess whether the measure (and the particular compliance interventions used) was a cost-effective way to address the compliance risk.⁵⁷

52 These areas included: lower outcomes achieved than expected; case selection; and workload management.

53 The four measures were: *Accelerated real estate review cycle*; *Increase in compliance review activity*; *Increased compliance for international risk*; and *Increase compliance for customers with earned income*. Human Services advised the ANAO that the remaining two closure reports were in progress.

54 The closure reports for two of the measures—*Accelerated real estate review cycle* and *Increased compliance for international risk*—also provided an explanation of some of the factors that prevented the measures from achieving expected outcomes.

55 The under achievement for the *Increased compliance for international risk* measure was in terms of savings achievements and the *Increase in compliance review activity* was not meeting its compliance review target.

56 The budgeted cost of a measure may not be the same as the additional funding provided in the Budget, where Human Services may have been required to absorb part of the costs.

57 See also ANAO Audit Report 15 of 2016-17 *Meeting Revenue Commitments from Compliance Measures*, paragraph 3.20.

Impacts on the compliance program's business-as-usual activities

4.35 Neither closure report for the *Increase in compliance review activity* and the *Increase compliance for customers with earned income* measures discussed the impact of the measure on the department's business-as-usual activities, nor quantified the number of business-as-usual activities. Where the department's policy case sets out that the Budget-funded compliance activities are 'additional' to its business-as-usual activities, Human Services should include the measure's achievements against planned outcomes and any relevant information relating to its business-as-usual activities in its evaluation of the measure.

Timing of closure report preparation

4.36 The PIR for the *Increase in compliance review activity* measure was completed in September 2013—fifteen months after the measure's commencement. The closure report for this measure was then documented in October 2014—eight months before the actual completion date for the measure. Human Services' documentation notes that the measure was put forward for early closure because the measure's expected savings and agreed business deliverables had been achieved. The policy case for this measure outlined that the first two years of the measure would target customers who were considered 'high' to 'very high' risk, with the final year (2014–15) of the measure to focus on customers that would be unlikely to lodge income tax returns in the future. One implication of the early completion of the closure report for the measure is that the report could not fully explore whether the expected focus on compliance risks in the final year had been achieved. Combined with the early PIR, an overall evaluation of the measure was not completed.



Grant Hehir
Auditor-General

Canberra ACT
28 February 2017

Appendices

Appendix 1 Entity responses

Department of Human Services



Australian Government
Department of Human Services

Kathryn Campbell CSC
Secretary

Ref: EC16-002583

Mr Grant Hehir
Auditor-General
Australian National Audit Office
GPO Box 707
CANBERRA ACT 2601

Dear Mr Hehir

Thank you for the opportunity to comment formally on the proposed report arising from the Australian National Audit Office's (ANAO) performance audit of the *Management of Selected Fraud Prevention and Compliance Budget Measures*, dated 22 December 2016 and subsequent revisions to the report, dated 10 February 2017.

The Department of Human Services (the department) has delivered savings of \$1.436 billion against a target of \$1.066 billion – a variance of \$367.7 million or 34.7% for all compliance budget measures. For the seven measures examined by the ANAO the department delivered savings of \$998 million in relation to a target of \$788 million, an excess of \$210 million or 26.7%.

The department does not accept the key conclusion in the report that most of the compliance measures examined were not effectively implemented and the expected outcomes were not fully achieved, including savings.

In contrast to the report, the evidence demonstrates the department:

- overall exceeded expected outcomes from new measures;
- was effective in the implementation of the compliance programme; and
- provided clear and accurate reporting on progress of these measures in both public reporting and briefing to Ministers.

Consistent with the evidence provided to the ANAO, the department also cannot agree with Tables 3.2, 4.1, 4.3, 4.4 and 4.6 in the report or the suggestion that Ministers were briefed in an ad hoc manner. Tables that reflect the evidence provided to the ANAO during the audit are attached at **Appendix I**.

PO Box 7788, Canberra Business Centre ACT 2610 • Telephone (02) 6223 4411 • Facsimile (02) 6223 4489
Internet www.humanservices.gov.au

The department has achieved or exceeded expected savings for five of the seven compliance measures examined. The overall savings targets for the seven measures have been exceeded in both fiscal and underlying cash terms. In particular, the department delivered savings of \$998 million in relation to a target of \$788 million, an excess of \$210 million or 26.7%. See Tables 4.3 and 4.4 in **Appendix 1**. While savings targets for two of the measures examined were not achieved, this was not a result of ineffective implementation.

Taking into account all compliance budget measures during that period, the department delivered savings of \$1.436 billion against a target of \$1.066 billion – a positive variance of \$367.7 million or 34.7%. See Tables 4.3, 4.4 and Table A in **Appendix 1**. The overall activity undertaken to achieve this outcome shows an immaterial negative variance of 5,994 (0.41%) against a target of 1,450,258. See Table B in **Appendix 1**.

Since 2012-13, the department has realised total annualised savings from its business as usual (BAU) compliance activity of \$2,485.7 million over four years. It has also increased the volume of compliance activity delivered as part of its compliance programme by 32%. This increase is separate to the delivery of all budget measures, including the seven examined by the ANAO. See Table C in **Appendix 1**.

The department has actively managed all compliance measures in a manner consistent with the *Public Governance, Performance and Accountability Act 2013* and APS-wide financial management and governance frameworks. The department does not agree with the input based methodology used in the report which does not take into account the requirement to use BAU resources efficiently and effectively to respond to emerging pressures and risks.

The department notes the methodology assumes BAU activity as a baseline as well as 'additional' activity levels as a measure of success. This approach assumes that payment accuracy risks will remain the same throughout the life of the measure and that the department should not respond to emerging high priority risks. For example, in recent years Family Day Care fraud has been a high priority for Government linked to community expectations. The methodology used in the report would suggest that departmental resources not be used to address such risks.

The department considers that activity level input targets are not necessarily an appropriate measure of performance. For this reason, the department's current outcomes based approach to measuring the performance of compliance measures (i.e. based on savings targets) is considered appropriate. Compliance activities are considered to be inputs estimated for costing purposes and used to derive savings targets to be delivered by the compliance measures.

The department notes that the ANAO has not made any recommendations which directly address its main conclusions and findings. The Department of Human Services agrees with Recommendation 1, and agrees with qualifications to Recommendation 2, and notes with respect to Recommendation 3 the department already undertakes these assessments as demonstrated by the tables in **Appendix 1**.

Attachment A to this letter details the department's overall response to the proposed report.

Yours sincerely



Kathryn Campbell

17 February 2017

APPENDIX 1

Table 4.3: Comparison between target and achieved overall fiscal balance savings for 'Fraud prevention and compliance measures', 2012-13 to 2015-16

Measure	Target gross savings – in fiscal balance terms (\$million)	Achieved gross savings – in fiscal balance terms (\$million)	Difference between target and actual savings (\$million)
<i>Accelerated real estate review cycle</i>	\$61.60	\$31.95	(\$29.65) under target
<i>Increase in compliance review activity</i>	\$160.80	\$293.67	\$132.87 over target
<i>Increased compliance for international risk</i>	\$100.40	\$57.57	(\$42.83) under target
<i>New compliance data sources</i>	\$65.90	\$81.24	\$15.34 over target
<i>Increased compliance for customers with earned income</i>	\$67.43	\$126.33	\$58.90 over target
<i>Total</i>	\$456.13	\$590.76	\$134.63 over target

Note a: DSS calculation of achieved gross fiscal balance savings

Note b: The gross savings target are those used by DHS as per the PBS. They do include any DSS costs.

Table 4.4: Comparison between target and achieved gross fiscal balance savings for *Strengthening the Integrity of Welfare Payments* measure, *Employment Income data matching* and *AUSTRAC* Initiatives for 2015-16

Measure	Target gross savings – in fiscal balance terms (\$million)	Achieved gross savings – in fiscal balance terms (\$million)	Difference between target and actual savings (\$million)
<i>Employment Income Matching</i>	\$329.10	\$400.42	\$71.32 over target
<i>AUSTRAC</i>	\$3.03	\$7.60	\$4.57 over target
<i>Total</i>	\$332.13	\$408.02	\$75.89 over target

Note a: DSS calculation of achieved gross fiscal balance savings

Table A: Comparison between target and achieved overall fiscal balance savings for remaining 'Fraud prevention and compliance measures', 2012-13 to 2015-16

Measure	Target gross savings – in fiscal balance terms (\$million)	Achieved gross savings – in fiscal balance terms (\$million)	Difference between target and actual savings (\$million)
<i>Improving compliance with income reporting</i>	\$54.70	\$99.21	\$44.51 over target
<i>Early intervention to prevent debts for customers commencing workforce participation</i>	\$195.00	\$266.33	\$71.33 over target
<i>Increased data matching reviews</i>	\$28.43	\$71.92	\$43.50 over target
Total for all ten measures	\$1066.39	\$1436.24	\$369.86 over target

Note a: DSS calculation of achieved gross fiscal balance savings

Note b: Improving compliance with income reporting measure does not include 2011-12 calculations

Table B: Comparison between target and achieved activity for all 'Fraud prevention and compliance' measures, 2012-13 to 2015-16

Measure	Target	Achieved	Difference
<i>Accelerated real estate review cycle</i>	105,000	69,113	(35,887) under target
<i>Increase in compliance review activity</i>	75,000	68,894	(6,106) under target
<i>Increased compliance for international risk</i>	26,300	53,710	27,410 over target
<i>New compliance data sources</i>	4,800	3,548	(1,252) under target
<i>Increased compliance for customers with earned income</i>	19,000	24,982	5,982 over target
<i>Employment Income Matching</i>	84,000	101,563	17,563 over target
AUSTRAC	626	287	(339) under target
<i>Improving compliance with income reporting</i>	125,532	113,417	(12,115) under target
<i>Early intervention to prevent debts for customers commencing workforce participation</i>	1,000,000	996,053	(3,947) under target
<i>Increased data matching reviews</i>	10,000	12,697	2,697 over target
Total	1,450,258	1,444,264	(5,994) under target

Table C: Business as Usual Compliance Programme 2012-13 to 2015-16

	Metric	2012-13	2013-14	2014-15	2015-16	Total
Compliance Programme	Compliance Activity	450,729	550,589	610,811	594,478	2,206,607
	Annualised Savings	\$640,753,606	\$529,490,794	\$549,054,766	\$766,396,217	\$2,485,695,383

Note a: Table excludes all activity and savings associated with the ten budget compliance measures

Note b: Over this period the BAU compliance programme had an increased focus on managing risk through early intervention to prevent debt being accumulated by customers. The success of the early intervention approach directly led to lower levels of debt and annualised savings.

Note c: The increased savings in 2015-16 can be attributed to an increased focus on family day care and the incorporation of a previous budget measure into the business as usual compliance programme.

Table D: Total Compliance Programme (Business as usual and all budget measures) 2012-13 to 2015-16

Metric	2012-13	2013-14	2014-15	2015-16	Total	Variance across four year period
Total Compliance Programme and Budget Measure Activity	866,777	870,699	924,714	988,681	3,650,871	121,904
Budget measure Fiscal Balance Savings	\$185,861,013	\$324,931,692	\$379,723,953	\$545,724,804	\$1,436,241,462	\$359,863,791
Compliance Programme Annualised Savings	\$640,753,606	\$529,490,794	\$549,054,766	\$766,396,217	\$2,485,695,383	\$125,642,611

Department of Social Services



Australian Government Department of Social Services

Finn Pratt AO PSM
Secretary

Ms Michelle Kelly
Group Executive Director
Performance Audit
Australian National Audit Office
GPO Box 707
CANBERRA ACT 2601

Dear Ms Kelly

Australian National Audit Office Proposed Report on Fraud Prevention and Compliance Initiatives in Human Services

Thank you for your letter of 22 December 2016 providing the Department of Social Services (the Department) with the opportunity to make comments on the Australian National Audit Office's proposed report on Fraud Prevention and Compliance Initiatives in Human Services under section 19 of the *Auditor-General Act 1997*.

The Department agrees to the recommendations as they relate to the Department. However, the Department notes that the ANAO has used a methodology that assumes that Business as Usual (BAU) compliance activity undertaken by the Department of Human Services (DHS) is static across time. The Department does not agree with this assumption. This is not always the case, as BAU activities may vary from year to year based on the identification of Government Priorities, risks and other resourcing requirements.

As the Department responsible for social security policy and expenditure, the Department has a strong interest in fraud prevention and compliance measures implemented by DHS. The Department assists in the development of these measures by undertaking costing estimates of the administered savings from these measures.

In line with the first recommendation, the Department will undertake an internal review of the costing model and inputs used to calculate expected savings of compliance measures. The Department will establish a register to better document the basis for assumptions and inputs to costings.

GPO Box 9820 Canberra, ACT 2601
Email Finn.Pratt@dss.gov.au • Facsimile 02 6293 9692 • Telephone 02 6146 0010
National Relay Service: TTY – 133 677, Speak and listen – 1300 555 727, Internet relay – www.relayservice.com.au
www.dss.gov.au

The Department notes the view that the oversight of the achievement of the measures could be improved. The Department is currently working with DHS to review and implement revised arrangements under the Bilateral Management Arrangement between the two departments. As part of this process, the Department is considering the most appropriate and workable arrangements for the monitoring of fraud prevention and compliance Budget measures.

DSS recognises that there has been considerable effort by DHS towards implementation of the fraud prevention and compliance measures.

In addition, it is important to recognise that DHS is a separate Department of State accountable to its Minister for performance, and working arrangements and protocols between DSS and DHS need to reflect this.

The Department will work with DHS on the development of a method to estimate and monitor the amount of debt recovered from compliance measures.

A summary of the Department's overall response to the proposed report is at Attachment A. Responses and comments in relation to recommendations 1 and 2 are at Attachment B.

I understand that your officers have worked closely with my Department in developing the findings of the Report and I would like to thank you for your agency's cooperation.

If you would like further information on the Department's response, please do not hesitate to contact Ms Cath Halbert, Group Manager, Payments Policy Group on 02 6146 0036 or via email at cath.halbert@dss.gov.au.

Yours sincerely



Finn Pratt

31 January 2017

Appendix 2 List of the seven fraud prevention and compliance Budget measures within the scope of this audit

2012–13 Budget

Fraud prevention and compliance—Accelerated real estate review cycle

The Government will provide \$14.6 million over four years to change the frequency of asset reviews for certain income support recipients from once every two years to once a year for those deemed to be most at risk of changes in the value of their real estate investments. This comprises \$13.1 million to the Department of Human Services and \$1.5 million to the Department of Families, Housing, Community Services and Indigenous Affairs. Currently around 200 000 Age Pension, Disability Support Pension and Carer Payment recipients own real estate in addition to their own home, which can affect their rate of payment.

The Department of Human Services will undertake up to 60 000 reviews annually, providing greater certainty for affected payment recipients about their pension assessment through a more frequent assessment cycle. The measure is expected to provide net savings of \$48.6 million over four years.

Fraud prevention and compliance—Increase in compliance review activity

The Government will provide \$41.3 million over three years to increase the number of data-matching reviews. This comprises \$40.7 million to the Department of Human Services and \$0.7 million to the Department of Families, Housing, Community Services and Indigenous Affairs. The Department of Human Services will review an additional 75 000 high risk customers between 2012–13 and 2014–15 to identify and recover inaccurate payments.

This measure is an extension of existing compliance programs which improve the accuracy of social welfare payments and minimise debt accrued by customers. The measure is expected to provide net savings of \$120.2 million over four years.

Fraud prevention and compliance—Increased compliance for international risk

The Government will provide \$8.4 million over five years to undertake additional customer reviews to address risks to the accuracy of payments to recipients living overseas or living in Australia and receiving a foreign pension.

This comprises \$8.3 million to the Department of Human Services (DHS) and \$0.1 million to the Department of Families, Housing, Community Services and Indigenous Affairs.

DHS will review certain customers residing overseas to ensure that payments are not continuing after the customer has deceased. DHS will also perform additional reviews of customers in Australia who receive a foreign pension to ensure that Australian pensions are adjusted to account for any changes in international pensions, where these have not been reported to DHS.

The measure is expected to provide net savings of \$92.1 million over five years.

Fraud prevention and compliance—Increased recovery of high value non-current customer debt

The Government will provide \$5.9 million over four years to recover debts from former Centrelink customers, focusing on high value debts. An investigative taskforce will be established to locate former customers with large outstanding debts and analyse their income and assets. Resources will also go towards debt recovery, including legal proceedings where appropriate.

The measure is expected to provide net savings over four years of \$14.2 million in underlying cash terms. There will be no impact on the fiscal balance from debt recovery because these debts are already recorded as an existing asset.

2012–13 Budget***Fraud prevention and compliance—New compliance data sources***

The Government will provide \$8.9 million over four years from 2012–13 to expand the range of data used by the Department of Human Services (DHS) to reduce inappropriate access to welfare payments.

The measure will allow DHS to better identify welfare fraud through new data sources, and the more frequent use of existing sources. A number of data sources including Medicare card usage data, Australian Passport Office information, and Australian Business Register data will be utilised.

Expanding the range of data sources will result in more customer investigations and the recovery of more incorrectly-claimed payments. The measure will target emerging fraud risks, including online interactions with DHS, false identities or undeclared income from business.

The measure is expected to provide net savings of \$57.1 million over four years.

2013–14 Budget***Fraud prevention and compliance—Increase compliance for customers with earned income***

The Government will provide \$8.9 million in 2013–14 to increase the number of compliance reviews in the payments system. This comprises \$8.8 million to the Department of Human Services (DHS) and \$0.2 million to the Department of Families, Housing, Community Services and Indigenous Affairs.

DHS will review 19,000 cases where it identifies inconsistencies between Pay-As-You-Go income tax payment summaries and the income reported to DHS for the 2010–11 financial year.

The measure is expected to provide net savings of \$58.6 million over three years.

2015–16 Budget***Strengthening the Integrity of Welfare Payments^a***

The Government will achieve savings of \$1.7 billion over five years by enhancing the Department of Human Services (DHS) fraud prevention and debt recovery capability, and improving assessment processes.

From 1 July 2015 DHS will implement an integrated package of compliance and process improvement initiatives including improved automation and targeted strategies for fraud prevention in areas of high risk.

The savings from this measure will be redirected by the Government to repair the Budget and fund policy priorities.

Note a: The audit focussed on two particular initiatives under the *Strengthening the Integrity of Welfare Payments* measure that had identified savings for 2015–16: the *Employment Income Matching* initiative and the *AUSTRAC* initiative. The audit only assessed outcomes for these two initiatives for the 2015–16 financial year.

Source: Australian Government's Budget Papers No.2. for 2012–13, 2013–14 and 2015–16.

Appendix 3 Case studies—achievements of individual compliance measures

1. The case studies below outline the achievements of individual measures based on information available to the ANAO, and the ANAO's methodology for calculating compliance measure achievements at Appendix 4.

Fraud prevention and compliance—Accelerated real estate review cycle

2. The *Accelerated real estate review cycle* measure was designed to improve the accuracy of pension payments by accelerating the review cycle for 30 000 pensioners with high value real estate investments from biennial to annual. In 2012–13 the Department of Human Services (Human Services) received \$13.1 million over four years to implement the measure.

3. The measure was expected to return gross fiscal balance savings of \$63.1 million over four years. The New Policy Proposal (NPP) for the measure outlines that the four year project would conduct 105 000 compliance activities, with 15 000 activities in 2012–13 and 30 000 activities per year from 2013–14 to 2015–16.

4. Human Services completed 66 per cent of the required 105 000 compliance activities. Table A.1, outlines the number of activities completed over the measure period.

Table A.1: Comparison between target and completed compliance activities for the *Accelerated real estate review cycle* measure, 2012–13 to 2015–16

	2012–13	2013–14	2014–15	2015–16	Total
Total activity target	15 000	30 000	30 000	30 000	105 000
– Business-as-usual activity agreed	0	0	0	0	0
– Measure activity target	15 000	30 000	30 000	30 000	105 000
Total activities completed	18 144	28 536	196	22 237	69 113
– Business-as-usual activities completed	0	0	0	0	0
– Measure activities completed	18 144	28 536	196	22 237	69 113
Difference between measure activity target and measure activities completed	3144 over target	(1464) under target	(29 804) under target	(7763) under target	(35 887) under target

Source: ANAO analysis of Human Services' data.

5. Human Services advised the ANAO that a number of factors impacted on the achievements of the *Accelerated real estate review cycle* measure, including the closure of the Australian Valuation Office (AVO) and issues with the savings and debt assumptions developed by the Department of Social Services (DSS).

6. Human Services' internal documentation noted that the AVO's closure was a consequence of the arrangements between Human Services and the AVO ceasing in June 2014 following the

department's implementation in 2013–14 of an efficiency Budget measure aimed at transitioning all real estate evaluations in the department to a risk based model. Human Services' internal documentation noted that the new model potentially superseded the intent and approach of the compliance measure.

7. Human Services internal documentation outlines that engagement occurred with DSS regarding terminating the measure. While it was acknowledged that the new model potentially superseded the intent and approach of the measure, Human Services documentation notes that DSS agreed that the 30 000 activities for the 2014–15 financial year would proceed. Human Services' internal documentation also noted that 'the process to cease the Budget measure is much more complex than the process to see it through.' Human Services advised the ANAO that further discussions with DSS recognised that the measure needed to continue to assist with managing the compliance risk until the time the new risk based model was fully operational.

8. Human Services also advised the ANAO that due to the closure of the AVO, the department did not have access to a suitable valuations provider and was unable to complete the required volume of compliance activities for 2014–15, with only 196 activities completed that year. Human Services also advised the ANAO that in 2014–15 the emergence of significant compliance problems associated with the family day care sector impacted on the department's ability to deliver the required level of activity (both under this measure and the compliance program more broadly). Human Services advised that after briefing the Minister for Human Services, 50 compliance staff were reallocated from the measure to assist with the family day care risk as a priority.

9. Human Services' internal documentation also outlined that the case selection undertaken by DSS for the measure did not identify sufficient 'high risk' cases to meet the required volume of activities for 2012–13. The department's internal reporting estimated that approximately 57 per cent of customers selected for the measure were non-asset tested customers.⁵⁸ Consequently, the achievement of outcomes was much lower than expected for 2012–13 and 2013–14.

10. As shown in Table A.2, the measure did not achieve the expected fiscal savings outcomes over the measure period—achieving \$31.95 million against the \$63.11 million target.

Table A.2: Comparison between target and achieved gross fiscal balance savings for the *Accelerated real estate review cycle measure*, 2012–13 to 2015–16

	Total (\$million)
Target gross savings—in fiscal balance terms	\$63.11
Actual gross savings—in fiscal balance terms	\$31.95
Difference between target and achieved savings	(\$31.16) under target

Source: ANAO analysis of DSS' and Human Services' data.

58 As this measure targets incorrect asset (investment property) values, non-asset tested customers are less likely to result in a reduction outcome.

Fraud prevention and compliance—Increase in compliance review activity

11. In 2012–13 Human Services received \$40.7 million over three years to implement the *Increase in compliance review activity measure*. This measure aimed to increase the number of Data-Matching Program compliance activities undertaken by Human Services. The policy case for the measure outlined that Human Services completed approximately 30 000 Data-Matching Program activities annually as part of its business-as-usual activities. The measure was expected to return gross fiscal balance savings of \$161.5 million over four years through Human Services' review of an additional 75 000 Data-Matching Program reviews of 'high risk' customers.

12. During 2012–13 Human Services separately received \$11.9 million to complete 31 250 activities, as part of an earlier 2009–10 Budget measure *Fraud and compliance – increased Centrelink compliance review activity*. Human Services advised these activities were included as part of its business-as-usual Data-Matching Program reviews for 2012–13.⁵⁹

13. As Table A.3 outlines, after accounting for the expected Data-Matching Program business-as-usual activities, Human Services completed 2316 additional activities over the three years of the Budget measure.

Table A.3: Comparison between target and completed compliance activities for the *Increase in compliance review activity measure*, 2012–13 to 2014–15

	2012–13	2013–14	2014–15	Total
Total activity target	60 000	60 000	45 000	165 000
– Business-as-usual activity agreed	30 000	30 000	30 000	90 000
– Measure activity target	30 000	30 000	15 000	75 000
Total activities completed	32 316	27 632	24 178	84 126
– Business-as-usual activities completed	30 000	27 632	24 178	81 810
– Measure activities completed	2316	0	0	2316
Difference between measure activity target and measure activities completed	(27 684) under target	(30 000) under target	(15 000) under target	(72 684) under target

Source: ANAO analysis of Human Services' data.

14. Based on the ANAO's analysis, the 2316 additional activities completed under the Budget measure achieved an estimated \$11.31 million in gross fiscal balance savings from 2012–13 to 2015–16, as outlined in Table A.4.

59 In assessing the level of compliance activities for the 2012–13 *Increase in compliance review activity measure* (see Table A.3), the ANAO instead used the 30 000 business-as-usual activity target as outlined in the New Policy Proposal.

Table A.4: Comparison between target and achieved gross fiscal balance savings for the *Increase in compliance review activity measure*, 2012–13 to 2015–16

	Total (\$million)
Target gross savings—in fiscal balance terms	\$161.54
Actual gross savings—in fiscal balance terms	\$11.31
Difference between target and actual savings	(\$150.23) under target

Source: ANAO analysis of DSS' and Human Services' data.

15. The policy proposal for this measure outlined that the focus of the measure was to review all 'high risk' to 'very high risk' cases identified through the Data-Matching Program prior to the implementation of the new tax free threshold. Human Services' documentation shows that case selections for this measure were adjusted to include lower risk cases to ensure there was an adequate volume of activity being progressed to achieve the required volume of completions. Table A.5 shows the percentage of compliance activities completed in 2012–13 for each risk category.

Table A.5: Risk classification of compliance activities undertaken in 2012–13 for the *Increase in compliance review activity measure*^a

Risk	Percentage of overall completed compliance activities
Very High	17.38
High	36.12
Medium	21.15
Low	0.05
No Risk Applied ^b	25.30
Total	100

Note a: This is based on the number of activities Human Services' calculated as being completed under the compliance measure.

Note b: Human Services advised the ANAO that 'no risk applied' indicates that a risk rating had not been applied to the case prior to the commencement of the review, and does not indicate these are 'low risk' or 'no risk' cases.⁶⁰

Source: ANAO analysis of Human Services' data.

Fraud prevention and compliance—Increased compliance for international risk

16. In 2012–13, Human Services received \$8.2 million over five years to undertake additional compliance reviews addressing risk to the accuracy of payments to recipients living overseas or living in Australia and receiving a foreign pension. As part of the measure the department committed to complete a total of 33 800 additional compliance reviews over the four years.

⁶⁰ Human Services further advised that a risk classification of 'no risk applied' can occur when a secondary review is initiated as a result of information linked to the initial review. Human Services also advised that the risk rating of compliance reviews is a manual process, which can be subject to human error, where cases can be initiated without a risk rating applied manually and for this reason, risk ratings are used as a guide to the type of reviews being completed.

17. Human Services advised the ANAO that the expected savings from this measure were not realised due to the compliance outcomes being lower than the assumptions underpinning the original savings estimates. Documentation relating to the measure notes that Human Services found it challenging to identify a sufficient number of high risk cases, and to achieve the target compliance numbers the department included a greater number of lower risk cases which were more likely to have lower savings outcomes.

18. Data provided by Human Service shows that the department used significantly more full-time equivalent (FTE) staffing resources to implement the measure than were allocated in the Budget process and the department's original planning. As shown in Table A.6, the actual level of staffing resources used by Human Services was four times greater than those allocated for 2012–13 and three times greater than the allocated level of staffing for 2013–14.

Table A.6: Comparison between costed and actual full-time equivalent staffing resourcing for *Increased compliance for international risk measure*

Year	Allocated FTE	Actual FTE
2012–13	24.74	100.53
2013–14	7.48	25.87
2014–15	7.48	N/A ^a
2015–16	7.48	N/A ^a

Note a: Human Services advised that from 2014–15 onwards, the compliance activity for this measure was delivered as part of the broader compliance program. As the project was financially simplified and undertaken as a subset of a larger group there is no breakdown available.

Source: Human Services' data.

19. While Human Services exceeded the target compliance activities for the *Increased compliance for international risk measure*, it required significantly greater staffing resources than provided for in the Budget in order to do so. The ANAO therefore considered that the activities completed above the measure target activities (and their corresponding savings) were contributions towards the achievement of Human Services' broader compliance program, rather than the measure. Table A.7 shows that Human Services reached the compliance measure target of 33 800 reviews and also completed an additional 19 910 reviews.

20. While the policy case for the *Increased compliance for international risk measure* outlined a target of 33 800 reviews would be completed, Human Services project plan cited a target of 26 300 reviews. Human Services tracked and reported against this lower target over the life of the measure. Consequently, for this measure the ANAO has presented the aggregated figures showing the total activity completed and the total compliance measure activity target, as presented in the NPP over the measure period, rather than including a year by year assessment of activity level achievements.

Table A.7: Comparison between total target and completed compliance reviews for the *Increased compliance for international risk* measure, 2012–13 to 2015–16

	Total
Total activity target	33 800
– Business-as-usual activity agreed	0
– Measure activity target	33 800
Total activities completed	53 710
– Business-as-usual activities completed	19 910
– Measure activities completed	33 800
Difference between measure activity target and measure activities completed	0 target met

Source: ANAO analysis of Human Services' data.

21. The measure was expected to return gross fiscal balance savings of \$100.4 million over four years. As shown in Table A.8, based on ANAO's analysis of savings, the 33 800 activities completed for the *Increased compliance for international risk* measure achieved an estimated \$36.23 million in gross fiscal balance savings. If the additional (business-as-usual) reviews completed for this measure were to be included towards the measure target, the total savings achieved for the measure would be \$57.57 million.

Table A.8: Comparison between target and achieved gross fiscal balance savings for the *Increased compliance for international risk* measure, 2012–13 to 2015–16

	Total (\$million)
Target gross savings—in fiscal balance terms	\$100.41
Actual gross savings—in in fiscal balance terms	\$36.23
Difference between target and actual savings	(\$64.18) under target

Source: ANAO analysis of DSS' and Human Services' data.

Fraud prevention and compliance—Increased recovery of high value non-current customer debt

22. The aim of the *Increased recovery of high value non-current customer debt* measure was to recover debts from former Centrelink customers, focusing on debts with a value greater than \$10 000. The measure included establishing an investigative taskforce and resources towards debt recovery, including legal proceedings where appropriate.

23. The NPP and the project plan for the compliance measure noted that the taskforce sought to improve recovery of Commonwealth outlays through targeted administrative action for 600 cases where the debt value is greater than \$10 000, with 40 selected cases proceeding for legal action. Project documentation indicates no target was set or monitored for the specific number of

debt recovery cases to be undertaken as part of the measure. Human Services advised the ANAO this was an annual target, and the target for the life of the project was 2400 cases, with 160 proceeding to legal action. As shown in Table A.9, Human Services advised the ANAO that 6540 cases were targeted for administrative action—nearly three times the internal target of 2400—and 186 selected cases proceeding for legal action against an internal target of 160.

Table A.9: Comparison between the overall internal target and completed cases for the *Increased recovery of high value non-current customer debt* measure, 2012–13 to 2015–16

	Cases for administrative action	Cases proceeding for legal action
Internal target number of cases	2400	160
Completed number of cases	6540	186
Difference between target and actual cases completed	4140 over target	26 over target

Source: ANAO analysis of Human Services' data.

24. Human Services received \$6.0 million over four years to implement the compliance measure, which was expected to provide \$20.1 million gross underlying cash savings over four years.⁶¹ As shown in Table A.10 Human Services recovered \$13.2 million more than the target of \$20.1 million in gross underlying cash savings over the measure period.

Table A.10: Comparison between target and achieved gross underlying cash savings for the *Increased recovery of high value non-current customer debt* measure, 2012–13 to 2015–16

	Total (\$million)
Target gross savings—in underlying cash terms	\$20.06
Actual gross savings—in underlying cash terms	\$33.30
Difference between target and actual savings	\$13.24 over target

Source: ANAO analysis of Human Services' data.

Fraud prevention and compliance—New compliance data sources

25. In 2012–13 Human Services received \$8.8 million over four years to implement the *New compliance data sources* measure which aimed to expand the range of data used by the department to reduce inappropriate access to welfare payments. As outlined in the NPP, this proposal was to result in 3000 customer assessments and approximately 1200 investigation referrals per annum. This measure involved the use of new data sources, a level of business-as-usual activity was not specified in the policy proposal for this measure.

26. Despite the number of customer assessments listed as a key deliverable for the project, the department only monitored and reported on the number of investigation referrals

61 As this compliance measure focuses on the recovery of debts already raised, there were no fiscal balance savings, as the fiscal impact would have been realised in the financial year in which the debts were raised.

completed. As outlined in Table A.11, Human Services did not meet the planned number of investigation referrals, completing 3548 investigation referrals against a target of 4500.

Table A.11: Comparison between target and completed investigation referrals for the *New compliance data sources* measure, 2012–13 to 2015–16

	2012–13	2013–14	2014–15	2015–16	Total
Total activity target	900	1200	1200	1200	4500
– Business-as-usual activity agreed	0	0	0	0	0
– Measure activity target	900	1200	1200	1200	4500
Total activities completed	180	1617	1252	499	3548
– Business-as-usual activities completed	0	0	0	0	0
– Measure activities completed	180	1617	1252	499	3548
Difference between measure activity target and measure activities completed	(720) under target	417 over target	52 over target	(701) under target	(952) under target

Source: ANAO analysis of Human Services' data.

27. Human Services was expected to achieve gross fiscal balance savings of \$65.94 from 2012–13 to 2015–16. As shown in Table A.12, based on the ANAO's calculations, Human Services achieved a total of \$81.2 million in gross fiscal balance savings from the measure—20 per cent more than the target of \$65.94 million.

Table A.12: Comparison between target and achieved gross fiscal balance savings for the *New compliance data sources* measure, 2012–13 to 2015–16

	Total (\$million)
Target gross savings—in fiscal balance terms	\$65.94
Actual gross savings—in fiscal balance terms	\$81.24
Difference between target and actual savings	\$15.30 over target

Source: ANAO analysis of DSS' and Human Services' data.

28. Human Services monitored the savings achieved for this measure against the net fiscal balance savings of \$57.1 million, which did not include its costs associated with implementing the compliance measure.⁶² The department advised the ANAO that this was due to an administrative oversight. This issue did not impact on the gross fiscal savings achievement of the measure overall.

⁶² In order to achieve the net fiscal balance savings, the savings achieved by Human Services would need to account for the costs of implementing the measure. Therefore, gross fiscal balance savings is a more appropriate target against which to monitor savings achieved.

Fraud prevention and compliance—Increase compliance for customers with earned income

29. In 2013–14, Human Services received \$8.8 million for the *Increase compliance for customers with earned income* measure. The NPP outlined that the department expected to undertake 20 000 Pay-As-You-Go (PAYG) triggered activities in 2013–14 and that the one year measure would provide for an additional 19 000 compliance activities where the department had identified inconsistencies between PAYG income tax payment summaries and the income reported to Human Services for the 2010–11 financial year. The one year measure was expected to achieve gross fiscal balance savings of \$67.5 million from 2013–14 to 2015–16.

30. As shown in Table A.13, the department completed a total of 17 672 activities in 2013–14, 2328 activities below the business-as-usual expectation.

Table A.13: Comparison between target and completed compliance activities for the *Increase compliance for customers with earned income* measure for 2013–14

2013–14	
Total activity target	39 000
– Business-as-usual activity agreed	20 000
– Measure activity target	19 000
Total activities completed	17 672
– Business-as-usual activities completed	17 672
– Measure activities completed	0
Difference between measure activity target and measure activities completed	(19 000) under target

Source: ANAO analysis of Human Services' data.

31. As there were no additional activities completed in 2013–14 to contribute toward the measure target, the ANAO considers that the measure did not achieve any savings. Table A. 14 compares the target and achieved gross fiscal balance savings for the *Increase compliance for customers with earned income* measure, 2013–14 to 2015–16.

Table A. 14: Comparison between target and achieved gross fiscal balance savings for the *Increase compliance for customers with earned income* measure, 2013–14 to 2015–16

Total (\$million)	
Target gross savings—in fiscal balance terms	\$67.53
Actual gross savings—in fiscal balance terms	\$0
Difference between target and actual savings	(\$67.53) under target

Source: ANAO analysis of DSS' and Human Services' data.

32. Human Services tracked the compliance measure activity and business-as-usual activity for this measure separately and advised the ANAO the department completed 17 672 activities toward the measure and zero business-as-usual activities in 2013–14. Human Services documentation notes that the required savings had been achieved with approximately 2000 fewer activities than expected, due to improved targeting of compliance activity. Human Services advised the ANAO that by identifying a larger proportion of debts per completed activity, the department realised additional savings. Human Services further advised the ANAO that the department expended a larger amount of staff resources to complete the volume of activity as the higher percentage of activities that required a debt to be raised significantly increased the effort to complete the compliance activities.

Strengthening the Integrity of Welfare Payments

33. Commencing 1 July 2015, this measure was to provide for approximately one million additional fraud investigations and compliance interventions over four years, and is expected to deliver \$1.7 billion in gross fiscal balance savings over four years. The measure includes a package of initiatives, including the *Employment Income Matching* and *AUSTRAC* initiatives, which were included in the scope of this audit.

Strengthening the Integrity of Welfare Payments—Employment Income Matching

34. The *Employment Income Matching* initiative targets identified discrepancies from the PAYG file obtained from the Australian Taxation Office, and is expected to return \$1.5 billion in gross fiscal balance savings over the forward estimates, with \$329 million gross fiscal balance savings to be delivered in the first year. As outlined in the NPP, 866 857 compliance activities are planned to be undertaken as part of the initiative from 2015–16 to 2018–19. Human Services was to undertake 84 000 compliance activities in 2015–16 via a new streamlined manual business process.

35. The compliance activities for the *Employment Income Matching* initiative activity was targeted at the 2010–11, 2011–12 and 2012–13 financial years. These are the same financial years that were previously targeted through earlier compliance measures and business-as-usual activity.⁶³

36. Human Services reported completing 101 563 activities for the measure, 17 563 more than the measure review target of 84 000 activities. However, as outlined in Table A.15, data provided by Human Services shows that significantly more staffing resources were used to achieve these additional activities.

63 For example: the 2013–14 *Increase compliance for customers with earned income* measure was to focus on the PAYG file for the 2010–11 financial year; business-as-usual compliance activity planned for 2013–14 was to focus on the 2012–13 PAYG file; and the 2014–15 *Fraud Prevention and Compliance - Increase Compliance of Customers with Earned Income* measure (announced in the August 2013 Economic Outlook) was to focus on the 2012–13 and 2013–14 PAYG files.

Table A.15: Comparison between costed and actual full-time equivalent staffing resourcing for *Employment Income Matching*

Year	Allocated FTE	Actual FTE
2015–16	254.2	368.8 ^a

Note a: Human Services advised the ANAO that the activity for this measure addresses the risk of employment income and is one of a number of compliance controls that are used to manage this risk. As this activity was delivered as a part of broader activity managing the employment income risk the specific FTE cannot be isolated. Human Services; however, provided the ANAO with an estimate of the actual FTE derived by comparing the difference between the FTE for compliance activity associated with Earned Income in the 2014–15 financial year (pre-budget measure) and the 2015–16 financial year.

Source: Human Services' data.

37. As Human Services used significantly greater staffing resources than provided in the Budget to achieve the additional activity completed for this measure, the ANAO considered the activities completed above the measure target activities (and their corresponding savings) were contributions towards the achievement of Human Services' broader compliance program, rather than the measure. The 84 000 activities that were resourced through the compliance measure do contribute towards the measure's savings achievements. Table A.16 shows the number of activities completed as part of the measure initiative and the number of activities completed as part of the broader compliance program.

Table A.16: Comparison between target and completed compliance activities for the *Employment Income Matching* initiative for 2015–16

	2015–16
Total activity target	86 241
– Business-as-usual activity agreed	2241
– Measure activity target	84 000
Total activities completed	101 563
– Business-as-usual activities completed	17 563
– Measure activities completed	84 000
Difference between measure activity target and measure activities completed	0 target met

Source: ANAO analysis of DSS' and Human Services' data.

38. Table A.17 shows, based on ANAO's analysis of savings, the 84 000 activities completed for the *Employment Income Matching* initiative achieved an estimated \$331.18 million in gross fiscal balance savings in the first year of the measure—\$2.08 million above the measure target. If the total 101 563 activities completed were to be counted toward the savings target, the *Employment Income Matching* initiative achieved \$400.42 million in gross fiscal balance savings in the first year of the measure—\$71.32 million above the target.

Table A.17: Comparison between target and achieved gross fiscal balance savings for the *Employment Income Matching* initiative for 2015–16

	Total (\$million)
Target gross savings—in fiscal balance terms	\$329.10
Actual gross savings—in fiscal balance terms	\$331.18
Difference between target and actual savings	\$2.08 over target

Source: ANAO analysis of DSS' and Human Services' data.

Strengthening the Integrity of Welfare Payments—AUSTRAC

39. The *AUSTRAC* initiative aims to introduce an automated data match with the Australian Transaction Reports and Analysis Centre to supplement Human Services' existing data acquisition and sharing arrangements. The initiative is expected to return \$53 million in gross fiscal balance savings to government over the forward estimates, with \$3.03 million gross fiscal balance savings to be delivered in the first year. To achieve these savings Human Services was to complete 5000 serious non-compliance activities and investigations over the four years of the measure, with 626 activities to be completed in 2015–16.

40. The *AUSTRAC* initiative did not meet the number of compliance activities for the first year of the measure, completing only 287 compliance activities, less than half the target of 626 compliance activities. Table A.18 compares the 2015–16 target and completed activities for this initiative.

Table A.18: Comparison between target and completed compliance activities for the *AUSTRAC* initiative for 2015–16

	2015–16
Total activity target	626
– Business-as-usual activity agreed	0
– Measure activity target	626
Total activities completed	287
– Business-as-usual activities completed	0
– Measure activities completed	287
Difference between measure activity target and measure activities completed	(339) under target

Source: ANAO analysis of Human Services' data.

41. In 2015–16, the *AUSTRAC* initiative achieved significantly more than the 2015–16 target of \$4.57 million in gross fiscal balance savings—achieving \$7.6 million. Table A. 19 compares the targeted and achieved gross fiscal balance savings for the *AUSTRAC* initiative for the 2015–16 financial year.

Table A. 19: Comparison between target and achieved gross fiscal balance savings for the *AUSTRAC* initiative for 2015–16

Total (\$million)	
Target gross savings—in fiscal balance terms	\$3.03
Actual gross savings—in fiscal balance terms	\$7.60
Difference between target and actual savings	\$4.57 over target

Source: ANAO analysis of DSS' and Human Services' data.

Appendix 4 ANAO methodology for calculating compliance measure achievements

1. Where the relevant Budget measure set out that a level of compliance activity (and, therefore, the associated savings) were expected to be **additional** to Human Services' business-as-usual compliance activities, the ANAO sought to calculate—and differentiate between—the selected outcomes (activity levels and savings) that should be attributed to Human Services' business-as-usual compliance activities from those selected outcomes (activity levels and savings) that can be attributed to the relevant measure.
2. In doing so, the ANAO firstly calculated—and attributed—relevant outcomes achieved against Human Services' agreed level of business-as-usual activities; the remaining outcomes (activity levels and associated savings) were then attributed to the relevant compliance measure.

Data sources

3. Where applicable, the data for agreed level of business-as-usual activities for each measure was sourced from either: the New Policy Proposals (NPPs) from the relevant Budget process; or Human Services' annual Compliance Programme (where not separately specified in the NPP).
4. Where no business-as-usual activity levels were agreed, including for those measures where the compliance activity was new and/or represented a new process to address an identified risk, the ANAO adopted '0' or nil as the agreed level of business-as-usual activity.
5. The source for all measure targets—both activity levels and savings—was from the relevant Budget documentation, with the exception of the *Strengthening the Integrity of Welfare Payments* measure, where the proposal outlined the total compliance activities for the measure period. For the initiatives assessed under this measure, the ANAO assessed the 2015–16 achievements for the two projects against the activity targets outlined in *Employment Income Matching* and *AUSTRAC* Project Plans.
6. Human Services' data on the total number of completed compliance reviews, for the purposes of the relevant measure and business-as-usual activity, was used.
7. DSS advice on savings for each measure, based on established methodology and use of Human Services' advice on relevant measure activity levels, were used.

Calculating the total additional activities completed for each measure

8. The following formula was used to calculate the compliance activities attributable to each of the measures.

Step 1: Number of completed compliance reviews (by measure) *plus* number of completed business-as-usual reviews *equals* Total compliance review activities.

Step 2: Total compliance review activities *less* target for business-as-usual reviews *equals* ANAO assessment of measure activities completed.

Calculation of compliance measure savings achievement

9. The following formula was used to calculate the savings attributable to each of the measures.

Step 1: Calculate the average savings per completed review, by measure: *Divide* the total value of measure savings (DSS advice) *by* the total number of compliance reviews (Human Services' data) for each measure, *equals* average savings per completed review, by measure.

Step 2: Calculate the savings attributable to each measure: *Multiply* the average savings per completed review, by measure, *by* the ANAO assessment of new measure activities completed, *equals* savings attributable to each measure.

