

The Auditor-General
Audit Report No.45 2000–2001
Performance Audit

Management of Fraud Control

**Department of Family and
Community Services**

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Canberra ACT
5 June 2001

Dear Madam President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in the Department of Family and Community Services in accordance with the authority contained in the *Auditor-General Act 1997*. I present this report of this audit, and the accompanying brochure, to the Parliament. The report is titled *Management of Fraud Control*.

Following its tabling in Parliament, the report will be placed on the Australian National Audit Office's Homepage—
<http://www.anao.gov.au>.

Yours sincerely



P. J. Barrett
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office. The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits and financial statement audits of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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

Telephone (02) 6203 7505
Fax (02) 6203 7519
Email webmaster@anao.gov.au

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Audit Team

Ann Thurley

George Sotiropoulos

Natalie Cooke

Steven Lack

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Abbreviations

AFP	Australian Federal Police
AIFS	Australian Institute of Family Studies
ANAO	Australian National Audit Office
APS	Australian Public Service
ATO	Australian Taxation Office
BPA	Business Partnership Agreement
CCSB	Child Care Services Branch
CEIs	Chief Executive Instructions
CEO	Chief Executive Officer
CLEB	Commonwealth Law Enforcement Board
CRS	CRS Australia
CSA	Child Support Agency
DPP	Director of Public Prosecutions
DSRB	Disability Service Reform Branch
DSS	(The former) Department of Social Security
FaCS	Department of Family and Community Services
FAO	Family Assistance Office
FMA Act	<i>Financial Management and Accountability Act 1997</i>
HIC	Health Insurance Commission
NGO	Non-Government Organisation
PBS	Portfolio Budget Statements
RAAC	Risk Assessment and Audit Committee
RACB	Risk, Audit and Compliance Branch
SLA	Service Level Agreement
SSAT	Social Security Appeals Tribunal

Summary and Recommendations

Summary

1. The prevention and management of fraud are important issues for the Australian Public Service (APS). Fraud is defined in the draft Commonwealth Fraud Control Policy as dishonestly obtaining a benefit by deception or other means.¹ The importance of effective fraud control arrangements has been recognised in legislative provisions in the *Financial Management and Accountability Act 1997* (FMA Act).

2. This audit of the Department of Family and Community Services (FaCS) is one of a series of fraud control audits, including a survey of fraud control arrangements in the APS², undertaken by the Australian National Audit Office (ANAO). A list of these audits is at Appendix 1. The audit discussed in this report is complemented by a separate audit of fraud control arrangements in Centrelink which is planned to be tabled later in 2001.

3. FaCS is a major purchaser of services from both government and non-government providers. Centrelink is the primary provider of services on the department's behalf. FaCS also purchases services from the Child Support Agency (CSA) and CRS Australia (CRS). In addition, FaCS has overall responsibility for the Family Assistance Office and the purchase of its services from Centrelink, the Australian Taxation Office and the Health Insurance Commission. Table 1 illustrates the total appropriations for each agency, as well as the arrangement by which the department's relationship with these agencies is governed.

Table 1

The department's appropriations for, and arrangements with, government providers

Agency	Appropriation for 2000–01 (\$ million)	Arrangements with FaCS
Centrelink	43 000	Business Partnership Agreement (BPA)
CRS Australia	102	Service Level Agreement (SLA)
Child Support Agency	211	Administrative Arrangements Order
Family Assistance Office	10 100	The BPA with Centrelink and SLAs with the other agencies.

¹ Taken from the Consultation Draft released in 2000.

² Auditor-General's Report No.47, *Survey of Fraud Control Arrangements in APS agencies*, ANAO, 20 June 2000.

4. The department also directly administers funds for a number of programs, predominantly through funding agreements with Non-Government Organisations (NGOs), to provide services such as child care and disability services.

5. Within FaCS, there were three cases of fraud reported in 1998–99, with a total value of \$190 000. There were eight cases of fraud in 1999–2000. However, these did not have a monetary value as they were related to misuse of the Internet.

6. Centrelink reports as fraud only those cases successfully prosecuted in a court of law. There were 2881 convictions for welfare fraud in 1999–2000 involving \$27.1 million in debts.³

7. No cases of fraud have been reported in CRS in the last two financial years. In CSA, 72 cases were investigated in 1999–2000. Many of these involved unauthorised access to, or disclosure of, information.

Audit objective, scope and criteria

8. The objective of this audit was to assess whether FaCS had:

- implemented appropriate fraud control arrangements in line with the Fraud Control Policy of the Commonwealth and that these arrangements operated effectively in practice; and
- fulfilled its responsibilities as a purchaser of services in relation to fraud control.

9. The scope of the audit included an examination of the arrangements in place for the department to manage internal and external fraud and the mechanisms that FaCS had established to obtain assurance regarding the effectiveness of fraud control in those agencies which deliver services and/or make payments on its behalf. These are agencies such as Centrelink, CSA and CRS.

10. In establishing the audit criteria, the ANAO had regard to the better practice guide published by the Commonwealth Law Enforcement Board, the Australian Standard on Risk Management (AS/NZS 4360:1999) and the criteria applied in earlier fraud control audits, as well as to more general principles of sound corporate governance.

³ Centrelink compliance measures are directed at both fraud and error in income support payments and services. For 1999–2000, Centrelink conducted approximately 2.3 million customer entitlement reviews resulting in savings of almost \$34.7 million per fortnight and debts of \$293.1 million being raised.

Audit methodology

11. The audit fieldwork was undertaken between August and December 2000. Interviews were held with key staff at both National Office and at the State Office in Victoria. Reviews of relevant documentation were conducted at National Office. Discussions were also held with relevant Centrelink, CSA and CRS staff at their respective National Offices.

Overall audit conclusion

12. The ANAO concluded that FaCS had implemented appropriate fraud control arrangements in line with the Commonwealth Fraud Control Policy and better practice. Within FaCS these arrangements operated effectively in practice.

13. The ANAO concluded that FaCS had fulfilled its responsibilities in relation to fraud control for Centrelink services, in that the BPA clearly specified the roles and responsibilities of both FaCS and Centrelink. As well, the BPA clearly specified key performance indicators. Reporting against these indicators was undertaken regularly and the reports were monitored. However, the indicators focussed on inputs and processes, that is the number of reviews undertaken, rather than measuring reductions in the level of fraud and incorrect payment occurring.

14. FaCS has recognised the need to shift the focus to reducing fraud and incorrect payment rather than just detecting it once it has occurred. The agency is undertaking research to better understand the causes of fraud and error as a first step in adopting a stronger preventative approach. The ANAO concluded that, deriving an estimate of the level of fraud and error by income support payment type, could also assist FaCS and Centrelink to develop more meaningful indicators to demonstrate the impact of compliance activities and other factors on the level of losses from fraud and error.

15. For services delivered by other providers, that is CRS, CSA and NGOs, the ANAO concluded that FaCS had adequate arrangements in place. These were being developed further to ensure that FaCS receives greater assurance about the fraud control arrangements in these agencies. Arrangements in relation to fraud control in FAO were also appropriate.

Key Findings

Fraud control policy, planning and risk assessment

16. The ANAO found that the department's fraud control framework had been developed in line with the Commonwealth Fraud Control Policy and better practice, and included:

- a fraud control policy statement and related documents providing guidance on fraud control;
- the use of the APS Code of Conduct, supported by values specific to FaCS;
- appropriate training for the Fraud Control Officer as well as awareness-raising sessions aimed at all staff. FaCS had also provided training for staff involved in managing contracts;
- a fraud risk assessment;
- a fraud control plan; and
- annual reporting to both Parliament and the Commonwealth Law Enforcement Board.

17. The ANAO identified two areas for improvement in relation to the department's fraud control framework, as follows:

- enhancing contractors' understanding the APS Code of Conduct and FaCS 'Core Values' to ensure that contractors were aware of the standard of behaviour expected from them; and
- improving the performance information in the Risk, Audit and Compliance Branch business plan as well as introducing monitoring of levels of fraud in FaCS by the Risk Assessment and Audit Committee (RAAC). The department has advised that reporting to the RAAC has now commenced.

Controlling fraud and incorrect payment: Arrangements between FaCS and Centrelink

18. The BPA between FaCS and Centrelink contains many of the elements necessary for effective fraud control, for example, it clearly identifies roles and responsibilities of the parties and specifies performance requirements.

19. The ANAO found that the current performance indicators for review activity in the 2000–2001 BPA were an improvement on indicators contained in earlier BPAs as it contains both qualitative and quantitative targets. However, the performance indicators continued to place too much emphasis on the number of reviews conducted rather than on the results of reviews and the effect of review activity. As a consequence, the primary focus has been on discovering fraud rather than reducing fraud. As well, the new indicators that have been developed offer little incentive for Centrelink to reduce fraud and error through preventative measures and do not encourage the pursuit of those more complex frauds which are more time consuming and difficult to prove. Work being undertaken by FaCS into voluntary compliance and the results of random sample surveys have the potential to provide useful management information to address these issues.

20. The ANAO considers that deriving an estimate on the level of fraud and error by income support payment type could also assist FaCS and Centrelink to develop more meaningful indicators to demonstrate the impact of compliance activities and other factors on the level of losses from fraud and error. Changes over time in this estimate may be useful in showing that compliance strategies are influencing customer behaviour, although the ANAO acknowledges that other factors may also affect the levels of losses from fraud and error.

21. Reporting requirements are clearly specified by the BPA. However, responsibility for analysing the information provided by Centrelink to FaCS in performance reports has not been clearly identified. The ANAO found that there was scope to use the information more effectively to inform fraud control strategies.

22. Current efforts to improve the rigour of the performance assessment framework for services delivered by Centrelink, underpinned by appropriate independent assurance, should provide FaCS with a greater degree of assurance regarding Centrelink controls to that provided by process monitoring. This should also contribute to the redevelopment of the performance indicator framework and allow FaCS to better monitor the achievement of agreed outcomes. This approach is appropriate and has the potential to deliver efficiency benefits to both organisations.

Managing fraud control in relationships with other providers

23. The ANAO found that FaCS has put in place some elements of an appropriate framework for monitoring the performance of CSA and CRS in relation to fraud control although the arrangements with CRS were at an early stage and did not therefore contain all the necessary elements. Both are represented on the department's Risk Assessment and Audit Committee, and are covered by the department's program of internal audits. To further improve fraud control arrangements, FaCS is considering developing the links between the fraud control frameworks of each agency.

24. The roles and responsibilities of each of the partners of the Family Assistance Office are clearly specified in relation to fraud control. Appropriate arrangements have also been established to monitor the effectiveness of the fraud control framework as well as ensuring fraud risks are minimised. These arrangements are considered to be appropriate.

25. In relation to funding agreements with NGOs, the ANAO found that the FaCS is also applying better practice. The ANAO also noted that a project aimed at harmonising business processes currently being undertaken by FaCS should ensure greater consistency between branches. Appropriate practices have been adopted when deciding whether cases of mismanagement should be pursued as fraud.

Recommendations

Set out below are the ANAO's recommendations with the Report paragraph reference. Given that there are only two recommendations, the ANAO considers that they should both be implemented as soon as practicable.

**Recommendation
No.1
(Para. 3.23)**

The ANAO recommends that FaCS, in consultation with Centrelink, develop in a timely manner, an estimate on the level of losses from fraud and error by income support payment type in order to better assess the impact of compliance activities and other factors on the level of losses from fraud and error. The estimate should distinguish between losses from Centrelink error and those resulting from customer error and fraud.

FaCS response: Agreed

Centrelink response: Agreed

**Recommendation
No.2
(Para. 3.24)**

To facilitate more effective targeting of compliance to areas of highest risk, the ANAO recommends that FaCS, in consultation with Centrelink, develop performance indicators that provide more incentive for Centrelink to reduce losses from fraud and error as well as discovering fraud.

FaCS response: Agreed

Centrelink response: Agreed

Audit Findings and Conclusions

1. Introduction

This chapter describes the background to the audit and sets out the objective and methodology for the audit. It also outlines the department's arrangements for fraud control.

Background

1.1 The Australian Public Service (APS) has a broad client base and large levels of expenditure, making the prevention and management of fraud an important issue. The Federal Government has demonstrated its ongoing commitment to the protection of its revenue, expenditure and property from fraudulent activity through the release of a Fraud Control Policy for the Commonwealth⁴ (the Commonwealth Fraud Policy). The first policy was released in 1987 with a subsequent update in 1994, while a Consultation Draft has been circulated for comment. Fraud is defined as dishonestly obtaining a benefit by deception or other means.⁵

1.2 The importance of agencies establishing effective fraud control arrangements has been recognised in legislative provisions in the *Financial Management and Accountability Act 1997* (FMA Act). Under section 45 of the FMA Act, Chief Executive Officers (CEOs) are responsible for the implementation of a fraud control plan and for reporting to the Portfolio Minister on fraud control within their agencies.

1.3 This audit of the Department of Family and Community Services (FaCS) is one of a series of fraud control audits, including a survey of fraud control arrangements in the APS⁶, undertaken by the Australian National Audit Office (ANAO). A list of these audits is at Appendix 1. The audit discussed in this report is complemented by a separate audit of fraud control arrangements in Centrelink which is planned to be tabled in Parliament later in 2001.

⁴ Fraud Control Policy of the Commonwealth in *Best Practice for Fraud Control*, Canberra, 1994.

⁵ Taken from the Consultation Draft released in 2000.

⁶ Auditor-General's Report No.47, *Survey of Fraud Control Arrangements in APS agencies*, ANAO, 20 June 2000.

Department of Family and Community Services

1.4 FaCS is the core department in the Family and Community Services Portfolio. It is the principal policy formulation and advising body within the Portfolio and has a total appropriation of \$55.1 billion for 2000–01.⁷ Its purpose is to deliver social policy outcomes for Australian families, communities and individuals. It achieves this through policy advice to the Government and managing services delivered on its behalf by a range of service providers⁸, including:

- Centrelink;
- the Child Support Agency (CSA); and
- CRS Australia (CRS).⁹

1.5 Centrelink delivers the majority of FaCS' payments and services, that is, approximately \$43 billion each year. Centrelink reports to FaCS regularly on funds it administers on behalf of the department and provides reports against specified performance information, including prosecutions and compliance activities aimed at detecting and minimising the incidence of welfare fraud. Under the FaCS/Centrelink partnership arrangements, Centrelink undertakes to develop and implement all fraud control measures in relation to fraud against the *Social Security Act 1991*, the *Social Security (Administration) Act 1999*, the *Family Assistance (Administration) Act 1999* and the *Child Care Act 1972*. Centrelink has a fraud control plan for 2000–01 and provides a separate annual report to Parliament each year.

1.6 The CSA and CRS operate within the department's overall management and accountability framework but set their own policies and practices within this framework. CSA had a total appropriation of \$211 million for 2000–01.¹⁰ It is responsible for its own fraud control arrangements and these are provided to it by the Australian Taxation Office (ATO) under a Service Level Agreement (SLA). CRS had a total

⁷ Taken from the Portfolio Budget Statement for Family and Community Services 2000–01.

⁸ Other agencies include the Australian Institute for Family Studies (AIFS), and the Social Security Appeals Tribunal (SSAT). The AIFS is an independent statutory authority established in 1980 to promote the identification and understanding of factors affecting marital and family stability. The SSAT is an independent statutory body established under the *Social Security Act 1991*. It operates independently of Centrelink, FaCS and other agencies for which it has the powers to review decisions. Both agencies provide separate annual reports to Parliament each year and their operations are not discussed in this report.

⁹ CRS Australia was formerly known as the Commonwealth Rehabilitation Service.

¹⁰ FaCS Portfolio Budget Statement 2000–01.

appropriation of \$102.33 million in 2000–01. It is considered to have unique corporate needs from the department and approval was obtained from the Attorney-General’s Department for CRS to develop a separate risk assessment and fraud control plan. In CRS, responsibility for fraud control matters lies with the fraud control officer. Details of CSA and CRS performance are included in the FaCS Annual Report.

1.7 FaCS also has overall responsibility for the Family Assistance Office (FAO) and the purchase of its services from Centrelink, the ATO and the Health Insurance Commission (HIC), using existing infrastructure. The FAO delivers family assistance payments which has a total administered appropriation of \$10.1 billion.¹¹ In addition to its responsibilities associated with developing policy for family assistance, FaCS has responsibility for the development of appropriate management plans, including fraud control arrangements and reporting to Parliament.

1.8 The department also directly administers funds for a number of programs predominantly through funding agreements with Non-Government Organisations (NGOs), to provide services such as child care and disability services.

1.9 To assist with implementing government policy to best meet the needs of different geographical areas, build strong stakeholder relations and understand local factors, FaCS has an office in each State and Territory capital.

Operating environment

1.10 As is the case for many APS agencies, the environment in which FaCS operates and its administrative arrangements have been subject to substantial change over the last few years. In July 1997, with the establishment of the Commonwealth Services Delivery Agency (Centrelink), the then Department of Social Security’s (DSS) focus became the provision of policy advice and purchasing services rather than actual service provision.

¹¹ *ibid.*

1.11 Under the October 1998 Administrative Arrangements Order, the FaCS department was created from an amalgamation of two agencies and defined areas within two other agencies:

- the former DSS;
- the Childcare Assistance and Services, Family Services, Crisis Assistance, Partnership and Disability Services sections of the former Department of Health and Family Services¹² (including CRS);
- the Family Relationships area of the Attorney-General's Department; and
- the CSA, formerly part of the ATO.

1.12 In July 2000, the FAO became operational, delivering the new family assistance payments, including Family Tax Benefits, Child Care Benefit, Maternity Allowance, the Maternity Immunisation Allowance and the Family Adjustment Payment Scheme.

1.13 The delivery of the majority of services for which FaCS is responsible is undertaken by providers through arrangements established in Business Partnership and Service Level Agreements (SLAs).

Levels of fraud

1.14 Within FaCS, there were three cases of fraud reported in 1998–99, with a total value of \$190 000. There were eight cases of fraud in 1999–2000. However, these did not have a monetary value as they were related to misuse of the Internet.

1.15 Centrelink reports as fraud only those cases successfully prosecuted in a court of law. There were 2881 convictions for welfare fraud in 1999–2000 involving \$27.1 million in debts.¹³

1.16 No cases of fraud have been reported in CRS in the last two financial years. In CSA, 72 cases were investigated in 1999–2000. Many of these involved unauthorised access to, or disclosure of, information.

¹² Now the Department of Health and Aged Care.

¹³ Centrelink compliance measures are directed at both fraud and error in income support payments and services. For 1999–2000, Centrelink conducted approximately 2.3 million customer entitlement reviews resulting in savings of almost \$34.7 million per fortnight and debts of \$293.1 million being raised.

Audit objective, scope and criteria

1.17 The objective of this audit was to assess whether FaCS had:

- implemented appropriate fraud control arrangements in line with the Fraud Control Policy of the Commonwealth and that these arrangements operated effectively in practice; and
- fulfilled its responsibilities as a purchaser of services in relation to fraud control.

1.18 In order to assess FaCS' fraud control arrangements, the ANAO examined the following:

- fraud control policy and planning;
- the effectiveness of existing fraud prevention and detection mechanisms, particularly in relation to the administration of funding agreements; and
- the department's framework for assessing the performance of Centrelink and other agencies with which FaCS has business/service agreements, in meeting their obligations under the agreements.

1.19 The scope of the audit included an examination of the arrangements in the department to manage internal and external fraud and the mechanisms that FaCS¹⁴ had established to obtain assurance regarding the effectiveness of fraud control in those agencies which deliver services and/or make payments on its behalf.

1.20 In establishing the audit criteria, the ANAO had regard to the better practice guide published by the Commonwealth Law Enforcement Board (CLEB), the Australian Standard on Risk Management¹⁵ (AS/NZS 4360:1999) and the criteria applied in earlier ANAO fraud control audits, as well as to more general principles of sound corporate governance.

Methodology

1.21 The audit fieldwork was undertaken between August and December 2000. Interviews were held with key staff at both National Office and at the State Office in Victoria. Reviews of relevant documentation were conducted at National Office. Discussions were also held with relevant Centrelink, CSA and CRS staff at their respective National Offices.

1.22 This audit was conducted in accordance with ANAO auditing standards at a cost of \$176 000.

¹⁴ Throughout this report, the terms FaCS, the department and FaCS core are used interchangeably to mean only the department, excluding CRS and CSA.

¹⁵ Standards Australia and Standards New Zealand, AS/NZS4360:1999, *Risk Management*, April 1999.

Departmental arrangements for fraud control

1.23 The Risk Assessment and Audit Committee (RAAC) within FaCS has overall responsibility for ensuring that the department's approach to the implementation of its control framework is effective. It functions in an oversight, review and advisory role. The RAAC's charter specifically refers to the need to 'satisfy itself that the Centrelink control framework addresses significant risks to outlays and contracted outcomes delivered on the department's behalf'.¹⁶ At the time of the audit fieldwork the charter did not specifically refer to CRS or CSA. However, FaCS advised that the General Managers of both CRS and CSA are members of the Committee.¹⁷

1.24 Operational responsibility for fraud control in FaCS lies with the Risk, Audit and Compliance Branch (RACB). A Fraud Control Officer, with specific responsibility for fraud control within FaCS, was appointed in May 1999. The Fraud Control Officer's main duties are establishing the department's framework for fraud control and investigating cases of suspected fraud as they arise. The Fraud Control Officer also plays an advisory role in relation to both allegations and the application of the fraud control policy.

1.25 The RACB also has responsibility for compliance issues relating to the department's SLAs with its provider agencies.

1.26 As well as any arrangements that FaCS has in place, there are three external agencies which have very specific roles and responsibilities in relation to fraud control. These are CLEB, the Australian Federal Police and the Director of Public Prosecutions. Each of these is discussed briefly below.

Commonwealth Law Enforcement Board (CLEB)

1.27 CLEB is a non-statutory body which was established in 1994 with the aim of:

- improving the quality of policy for law enforcement and information and related advice to government;
- improving communication and priority setting between government and law enforcement agencies;

¹⁶ FaCS RAAC Charter, p. 2.

¹⁷ The General Manager of CSA was appointed to the RAAC late in 2000, while the General Manager of CRS has been a long-standing member of the RAAC.

- providing standards to enhance the management and performance of government law enforcement agencies; and
- facilitating improvements in coordination between agencies.

Australian Federal Police (AFP)

1.28 The AFP has the responsibility for the investigation of serious fraud against the Commonwealth and, as the Commonwealth's primary law enforcement agency, also provides police services in relation to:

- laws of the Commonwealth;
- property of the Commonwealth, including places;
- the safeguarding of Commonwealth interests; and
- anything incidental or conducive to the performance of its functions.

Director of Public Prosecutions (DPP)

1.29 The primary responsibility of the DPP is to prosecute people who commit offences against Commonwealth law, including Corporations law, and to conduct related criminal assets recovery. All prosecutions and related decisions are made in accordance with the guidelines set out in the Prosecution Policy of the Commonwealth.

1.30 The DPP conducts all prosecutions for offences against Commonwealth law except for purely private prosecutions. The DPP can provide advice on investigations, questions of law, the sufficiency of evidence and proceedings to recover the proceeds of crime.

This report

1.31 Chapter 2 discusses the department's fraud control policy and planning framework, including risk assessment. It also examines the performance information, monitoring and reporting framework in relation to the fraud control framework in FaCS.

1.32 Chapter 3 examines the department's arrangements to fulfil its fraud control obligations as a major purchaser of government services from Centrelink and Chapter 4 discusses the department's fraud control arrangements in relation to its other providers, that is CRS, CSA, HIC and the ATO as well as non-government organisations.

2. Fraud Control Policy, Planning and Risk Assessment

This chapter discusses fraud control policy and planning, including risk assessment. The creation of an ethical workplace is discussed, including the provision of appropriate training to both staff and contractors. The chapter also discusses performance information.

Introduction

2.1 Key elements of sound corporate governance for fraud control include the need for each agency to have an overall policy and planning regime in place. These elements are set out in the Commonwealth Fraud Policy.¹⁸

2.2 The ANAO therefore assessed whether FaCS had:

- a specific policy on fraud control relevant to the agency's business operations;
- codes of conduct and ethics to foster an ethical climate, including for contractors and third party providers;
- fraud awareness raising and training initiatives;
- a risk assessment undertaken on a regular basis to underpin planning;
- an agency-wide fraud control plan based on the fraud risk assessment and reflective of agency (and overall Commonwealth) policy in relation to fraud control. This plan should include treatment for those areas of higher risk identified by the risk assessment;
- guidance on the operational aspects of fraud control which should be provided to all staff; and
- performance monitoring and reporting in relation to fraud control within the department. Monitoring arrangements for the department's service providers is discussed in Chapters 3 and 4.

2.3 Each of these matters is discussed under separate headings below and an overall conclusion is provided at the end of this chapter.

¹⁸ *Fraud Control Policy of the Commonwealth*, op. cit. pp. 2, 5.

Fraud control policy

2.4 An agency's policy on fraud prevention and control should clearly articulate its commitment to fraud control and should be available to all staff.

2.5 FaCS has in place a policy that clearly sets out the department's commitment to fraud control. The policy outlines the responsibilities of individual staff members, as well as the roles and responsibilities of the relevant groups with operational and review responsibilities. The department's policy also contains a clear definition of fraud, using the definition given in the Commonwealth Fraud Policy current at the time the FaCS policy was developed.

2.6 The policy is available to staff on the Intranet and is linked to the Chief Executive Instructions (CEIs)¹⁹ to enable staff to find out more detailed information on fraud control arrangements in the department. The CEIs on fraud clearly outline the responsibility of all staff members to familiarise themselves with the policy and its application, and to *'contribute to sound financial, legal and ethical practices'*. The CEIs also indicate the need for prompt reporting of any suspected fraud.

2.7 A practical guide to fraud control and management is linked to the CEIs on fraud control and is available to all staff on the Intranet. The practical guide is a high-level document, which outlines:

- the need for a fraud control plan;
- the delegate responsible for the preparation of the fraud control plan;
- contact officers for reporting fraud;
- the process for handling reports of fraud; and
- where to seek further information.

2.8 The CEIs and the practical guide to fraud control and management provide staff with a reference for making decisions consistent with departmental policy. The Fraud Control Officer is responsible for keeping the fraud control CEIs and practical guide up-to-date.

2.9 The ANAO considered that the policy statement and related CEIs on fraud control met CLEB guidelines and represented sound practice generally.

¹⁹ The CEIs were launched by the Secretary of FaCS in July 2000.

Code of conduct

2.10 Agencies should have in place a code of conduct/ethics that establishes the basic principles under which officers should act and make decisions and these standards should be widely communicated.

2.11 FaCS uses the APS Code of Conduct, which was released in December 1999²⁰ and which is applicable to all APS staff. The ANAO also found that FaCS had established its own set of 'Core Values', as follows:

- professionalism, which includes exercising responsibility and accountability, acting with integrity, and being fair, ethical, impartial and honest;
- collaboration;
- openness to new ideas and to learning; and
- creativity and adaptability.

2.12 These Values are widely publicised throughout the department and are displayed as wall posters in many offices. The Core Values are also included as a leaflet inserted into the FaCS 'tool kit', a collection of relevant information provided to all staff, and are incorporated in the department's strategic plan. In addition, the Values are promoted to new staff as part of the fraud control and protective security component of induction training.

2.13 A recent staff survey evaluated staff members' perception of the worth of the Core Values. Between two thirds and three quarters of staff believed that FaCS as an organisation practised these Values.

2.14 As well as ensuring that values and ethics are well understood by the department, it is important that services delivered through external service providers are conducted in line with relevant public sector values and ethical standards.

2.15 In its standard contracts used for purchasing services to be provided to the department (as opposed to services purchased by the department and provided to third parties) FaCS includes various clauses outlining expected standards of behaviour in relation to matters such as protection of confidential information. This aims to promote ethical behaviour by contractors.

²⁰ APS Code of Conduct, Public Service and Merit Protection Commission, released in its most recent form in December 1999.

2.16 However, FaCS does not advise these service providers of APS values or ethics or provide them with information on managing conflicts of interest. Given the increasing use of external service providers by FaCS, the ANAO considers that the department could enhance awareness by the parties of their contractual obligations and ethical responsibilities further when providing services under contract with the Government. These measures should also ensure that external service providers are aware of the standards of accountability that are required when public money is involved. Examples of this include:

- providing information regarding relevant APS values and standards of conduct in tender documents; and
- providing the agency fraud control policy to external service providers.

2.17 As well as contractors understanding APS values it is important to address conflicts of interest, which can be described as a conflict arising between duty and interest.²¹ The standard FaCS contracts contain clauses on declaring conflicts of interest, both at the time of signing the contract and should a conflict arise during the term of the contract. Similar conditions apply to FaCS staff under the department's code of conduct for purchasing officers.

2.18 The ANAO considered that the use of the APS Code of Conduct supported by values specific to FaCS represents sound practice to assist the development of an ethical workplace culture. The evaluation of the utility of core values also helps to identify whether further action in this area is needed. Awareness by external service providers of their responsibilities in relation to fraud control would be improved by providing instruction on the APS Code of Conduct and the Commonwealth fraud control policy. Notwithstanding this, the ANAO found that arrangements regarding conflict of interest were satisfactory.

Awareness raising and training

2.19 To facilitate staff involvement in fraud control, agencies should provide information and conduct awareness raising sessions on an ongoing basis in order to ensure visibility and awareness of fraud issues is maintained. The ANAO assessed whether FaCS had conducted:

- awareness raising and training for all staff; and
- training and support for officers with specific responsibility for fraud or in high risk areas.

²¹ *NZ Netherlands Society v Kuys* [1973] 2 AC 46. Conflicts of interest are discussed in detail in Report No.42 of 1999–2000, *Magnetic Resonance Imaging Services—effectiveness and probity of the policy development process and implementation*, ANAO, 10 May 2000.

2.20 A presentation on fraud awareness is included in induction training for new FaCS staff. This presentation covers such issues as:

- the APS Code of Conduct and the FaCS Core Values;
- ethical behaviour;
- the definition of fraud, including a basic test for determining whether an action constitutes fraud. This test includes questions about whether deceit was employed, whether the action was lawful, and whether it resulted in the receipt of money or benefits to which the person or entity was not entitled; and
- where employees can seek further information on fraud and other related issues.

2.21 The presentation also incorporates information on protective security, including the responsibilities of both the relevant groups with operational and policy responsibilities in relation to protective security, and the responsibilities of individual members of staff.

2.22 The induction training is available to all staff. It has new starters as its particular focus, but is also available to those staff members wishing to undertake a 'refresher course'. The training is advertised both via the Intranet and through the department's Change Agent network.²² A 'poll' of participants is conducted after each session to assess how participants viewed the effectiveness of the course.

2.23 The Fraud Control Officer has appropriate training in order to undertake the duties of his position effectively, that is Certificate IV training.²³

2.24 The department also provides training to staff involved in managing contracts. This training covers the contract management process, including developing and negotiating contracts, planning and managing the tendering process and developing strategies to assist in future contract management activities. It is available to all staff. The department has identified contract management as a priority skill and also offers a purchaser/provider workshop to staff. Training provided to staff managing funding agreements is discussed in Chapter 4.²⁴

²² The Change Agent network was established by the department to facilitate the dissemination of information to all staff. Each Branch has a Change Agent, a contact point who is responsible for broadcasting information to the rest of the Branch.

²³ The Commonwealth Fraud Policy states that CEOs are to ensure that all personnel engaged in the prevention, detection and investigation of fraud receive appropriate fraud control training. Certificate IV meets the current prescribed standard.

²⁴ The department makes the distinction between 'contracts', which are used to engage providers to deliver services to the department, and 'funding agreements', which are contracts used to engage providers to deliver services to third parties on the department's behalf.

2.25 The ANAO considers that FaCS provides appropriate fraud awareness raising and training to its staff members. In addition, the Fraud Control Officer has been trained to an appropriate standard.

Fraud risk assessment

2.26 An agency's fraud risk assessment process should be sufficiently robust to enable all key fraud risks to be identified. Risk assessments should address both the internal and external environments for the agency and they should cover all functions and operations to establish the level, nature, form and likelihood of risk exposures.

2.27 The process of risk assessment should be:

- undertaken on a regular basis and as necessitated by changing conditions; and
- based on a sound methodology.

Timing and changing conditions

2.28 A fraud risk assessment was undertaken in June 2000 to replace the previous risk assessment, which was completed in October 1998. FaCS had therefore complied with the biennial time-frame set out in the Commonwealth Fraud Policy which applied at that time.

2.29 However, the risk assessment completed in October 1998 considered only those areas which had been the responsibility of the former DSS. Given the significant changes which occurred as a result of the Administrative Arrangements Order in October 1998, the department should have reviewed its risk assessment to take account of the changed arrangements. The ANAO acknowledges that there would have been many issues requiring priority attention but an up-to-date-risk assessment is a fundamental element of sound governance. The department has subsequently completed a risk assessment addressing all its areas of responsibility.

Fraud risk assessment methodology

2.30 The current fraud risk assessment was based on the method outlined in AS/NZS 4360:1999. A questionnaire was designed and circulated to both program and corporate areas as well as to State and Territory offices for completion. It addressed a wide range of issues, including:

- information security;
- management of grant monies and funding arrangements;
- program management;
- policy development;
- physical security; and
- personal security.

2.31 The questionnaire sought to:

- establish the context of the assessment. This included rating the importance of the successful management of the activity to the overall operation of the section;
- identify, prioritise and analyse fraud risks. These risks were considered in the light of controls that already exist to mitigate the risk; and
- treat the fraud risks. This involved identifying further controls that could be implemented to further reduce the risk.

2.32 Fraud risks were ranked using a qualitative ranking system. An explanation of this system was provided to the area or staff responsible for completing the questionnaire. In this way FaCS ensured consistency between the rankings provided by each line area, which allowed it to prioritise risks at an agency-wide level. The results of the survey were then consolidated into an overall risk assessment covering the entire department. Subsequently the rankings of some risks were adjusted to take into account their impact at a departmental level.

2.33 The ANAO noted that FaCS had specifically considered the fraud risks to policy development. This represents good practice given that policy development is the core function of the department and a significant public sector activity. We also noted that the risk assessment also covered those areas in which fraud had been reported.

2.34 The ANAO considered that the risk assessment was based on a sound methodology appropriate to the needs of the department, although FaCS should ensure that when significant change occurs, a risk assessment is conducted in a timely manner to respond to changing conditions.

Fraud control plan

2.35 A fraud control plan is a specific requirement of both the Commonwealth Fraud Policy and the FMA Act.²⁵ The fraud control plan provides a mechanism for outlining an agency's overall approach to fraud control and should²⁶:

- reflect the risks identified in the fraud risk assessment;
- present strategies to rectify shortcomings identified in the risk assessment;
- provide a timetable for implementation of the strategies;

²⁵ Section 45 of the FMA Act requires CEOs to implement an agency wide fraud control plan that includes and addresses fraud by external parties as well as internal fraud.

²⁶ Taken from *Best Practice for Fraud Control*, Fraud Control Policy of the Commonwealth, CLEB, 1994, pp. 21–22. This was current at the time that the department developed its Fraud Control Plan.

- nominate action areas responsible for implementing each strategy; and
- be linked to other relevant plans and internal audit and protective security arrangements.

2.36 The results of the ANAO's assessment of the department's fraud control plan against these criteria are contained in Table 2.

Table 2

Fraud control plan assessment

Criterion	Met criterion		ANAO comments
	Yes	No	
Reflects risks identified in risk assessment	✓		The fraud control plan was appropriately linked to the results of the fraud risk assessments.
Includes strategies to rectify shortcomings identified in the risk assessment	✓		Program areas assessed as being 'medium' or 'significant' risk through the risk assessment had strategies developed and included in the plan.
Provides timetable for implementation of strategies	✓		Several strategies contained in the plan had commenced or been completed by the time the fraud control plan was developed. However, the timing for a number of strategies was 'ongoing' and did not provide a date by which the action should have been commenced. Where appropriate, specifying a date for the commencement of action assists the monitoring of its implementation.
Nominates action areas responsible for developing and implementing each strategy	✓		Relevant program areas were identified as being responsible for developing and implementing strategies included in the plan.
The plan is linked to other relevant plans and internal audit and protective security arrangements	✓		The fraud control plan is linked to both the Strategic Plan and the RACB's business plan. The review of both fraud and protective security of both fraud and protective security was undertaken together. Internal audit examines both areas of risk and controls as part of its audit program.

2.37 The department's fraud control plan also outlined progress with implementing the previous plan. If a strategy was not implemented, the reasons were documented. For example, in some cases the significance of the risk had been reduced, while in another case an alternative strategy which achieved the appropriate objective was implemented.

2.38 The fraud control plan was comprehensive as it also included a discussion of the mechanisms in place to assure FaCS that Centrelink had adequate measures in place to control fraud against payments delivered on behalf of the department. However, while reasons were given for not including CSA and CRS in the conduct of the department's risk assessment and fraud control plan, no assurance was given about these agency's plans or their fraud control arrangements.²⁷ The department has advised that, if both of these agencies continue to have separate fraud control arrangements, it will provide commentary on the fraud control arrangements in both CSA and CRS in the next fraud control plan.

2.39 The ANAO considered that the department's fraud control plan met the requirements of the Commonwealth Fraud Policy. As well, the review of the previous fraud control plan is a useful practice, as it identified areas that may need to be considered as part of the next fraud control plan.

Operational guidance for dealing with fraud

2.40 Procedures should be developed by agencies to provide detailed guidance on how to prevent fraud and deal with allegations and instances of fraud, especially for those officers with direct fraud control responsibilities. Information on how to report suspected fraud should be available to all staff.

2.41 FaCS has established appropriate fraud control guidelines²⁸ which detail comprehensively the steps to be undertaken when dealing with fraud-related matters such as:

- identifying and detecting fraud;
- reporting fraud;
- receiving and handling allegations of fraud;
- distinguishing between minor and major incidents;
- the role of external agencies;
- writing off proven or suspected debts; and
- other fraud-related issues such as the receipt of gifts and benefits, the department's internet policy and public interest disclosures and whistleblowing.

²⁷ The ANAO notes that at the time that the department's fraud control plan was developed, neither CSA nor CRS had completed the development of their plans. However, FaCS could have indicated in its plan that it was aware of this situation.

²⁸ These guidelines were released in April 2001.

2.42 The guidelines included a form for use when making an allegation of fraud. A number of alternative channels to report fraud are listed; this is particularly important should a person to whom the report can be made happen to be the subject of the allegation. The guidelines detail steps to be undertaken when a written report or allegation²⁹ is received, including consideration by an appropriate officer. In this way they provide a useful resource for staff.

2.43 The guidelines are aimed at all staff within FaCS, are available on the Intranet and are linked to the fraud control plan. They have also been publicised through the Executive Assistant network and the department's newsletter, *Getting to the FaCS*.

2.44 The ANAO considers that the guidelines are comprehensive and therefore provide a useful resource for any staff member who suspects they have identified fraud, as well as for those officers with specific fraud control duties.

Performance information, monitoring and reporting

2.45 Performance assessment arrangements in relation to fraud control are a valuable part of an agency's accountability to key stakeholders such as the Minister, clients and the public. As discussed in Chapter 1, CEOs have particular responsibilities in relation to fraud under the FMA Act which serves to increase the importance of monitoring of fraud related matters.

2.46 Performance assessment arrangements for fraud should set out a balanced range of indicators to measure key aspects of performance. As well, agencies need to establish monitoring arrangements, including appropriate reporting on fraud matters.

Performance information

2.47 The business plan for the RACB lists a number of 'measures of success' for its fraud control function. These focus on actions to be achieved within a set time frame, such as the development of the department's fraud control plan. The measures of success are linked to the key outcome, which is to provide an effective fraud control framework in accordance with the Commonwealth Fraud Policy. This link is important to ensure that the implementation of the activity included in the plan can be monitored effectively.

²⁹ The guidelines specify that all reports of suspected fraud are to be made in writing.

2.48 However, the ANAO considered that the Business Plan would benefit from the inclusion of a number of additional performance measures. For example, the business plan could specify that the fraud risk assessment should meet AS/NZS 4360:1999 and that the fraud control plan should meet the requirements of the Commonwealth Fraud Policy and be based on the risk assessment. This would improve the department's ability to monitor the performance of its fraud control function against legislative requirements and better practice.

2.49 As well, performance indicators which include the number of allegations or cases of fraud and which set standards for the quality³⁰ and timeliness of investigations had not been incorporated into the business plan. Such measures should be considered for inclusion in the business plan, as they would assist monitoring and reporting of the department's processes, as well as enabling the identification of fraud trends.

2.50 The ANAO concluded that the performance information set out in the RACB's business plan could be improved by the inclusion of indicators on the quality of the risk assessment process and the fraud control plan. As well, standards for handling allegations and cases of fraud could be established. This would allow for more effective monitoring of the fraud control framework.

Monitoring

2.51 An effective monitoring framework should provide assurance that agreed goals are being met as well as promoting accountability in responsible areas by providing information that demonstrates their contribution towards achieving corporate goals.

Implementation of the fraud control plan

2.52 The ANAO sought to establish whether action had been taken to implement the fraud control plan.

2.53 The department advised that the Fraud Control Officer is monitoring implementation of the current plan. The current plan states that a report is to be provided to the RAAC quarterly, in order to provide assurance regarding the implementation of the strategies put forward by the plan. This establishes more formal monitoring arrangements and enhances accountability of the responsible areas for implementation of the strategies.

Allegations/cases of fraud

2.54 As well as monitoring plans, agencies also need to ensure that at an operational level, allegations of fraud are recorded and monitored, to ensure both that appropriate action is taken on them and that trends and risk areas can be identified. Section Heads or Managers are given responsibility for deciding whether further action is warranted on an allegation. All allegations must be reported to the Fraud Control Officer. The Fraud Control Officer maintains an allegations register on an Excel spreadsheet.

2.55 However, at the time that the audit fieldwork was conducted, there was no regular reporting of fraud allegations or cases to the RAAC. It is important that the RACB provide at least a brief report that indicates the number of allegations cases of fraud reported, even if no allegations were made during the reporting period, in order to assure the RAAC about the effectiveness of fraud control arrangements in the department. This would also maintain the visibility of the fraud control framework function and reinforce the message that effective fraud control is an important aspect of the department's corporate governance arrangements. Following the completion of audit fieldwork, the RAAC endorsed a quarterly risk management framework. The department advised that reporting to the RAAC on the levels of fraud commenced in March 2001 and includes reports of fraud incidents (including nil responses).

Reporting

Annual reporting

2.56 The Department of Prime Minister and Cabinet issues departmental annual report requirements to assist departments to provide sufficient information in their annual reports for Parliament to make a fully informed judgement on departmental performance, including in relation to fraud control. The 1999–2000 Annual Report for FaCS focused on a broader risk management framework, but reports that the fraud and protective security risk assessment was undertaken.

2.57 Agencies are required to report annually to the Attorney-General's Department on fraud-related matters. FaCS provided an annual report for 1999–2000 in February 2001. This involved completing a pro forma to indicate whether particular activities had been undertaken. The pro forma covered for example, the conduct of risk assessments, the existence of a fraud control plan and information on referrals, prosecutions and staff awareness. The ANAO noted that eight investigations were carried out during the period July 1999 to June 2000 and all resulted in either counselling being provided or in administrative action being taken against the staff involved.

2.58 The Commonwealth Fraud Policy requires agencies to advise their Minister of the fraud control process, that is the risk assessment, fraud control plan and review. FaCS advised that it was currently preparing to inform the Minister about its fraud control arrangements. The ANAO notes that the Secretary had only recently signed off on the fraud control plan.

2.59 The ANAO considers that FaCS has met its annual reporting obligations so far, but must ensure that the Minister is informed of the new fraud control arrangements as soon as practicable.

Overall conclusion

2.60 The ANAO concluded that the department's fraud control policy and planning arrangements, including the fraud risk assessment, reflected sound practice. The framework FaCS proposes to implement for monitoring fraud allegations and cases should provide the RAAC with a greater level of assurance than it currently receives.

2.61 The conclusions drawn in this chapter are summarised in Table 3.

Table 3
FaCS achievements against audit criteria

<i>Criterion</i>	<i>Met criterion?</i>	<i>Comment</i>
Fraud control policy	✓	The policy was consistent with the Commonwealth Fraud Policy and was supported by the CEIs.
Code of Conduct and APS values	✓	FaCS used the APS Code of Conduct but also has in place its own 'Core Values'.
Information for service providers	partial achievement	Standard contracts contained clauses on expected behaviours but FaCS did not provide any training to contractors.
Awareness raising and training		
Fraud control	✓	Induction training incorporating information on both protective security and fraud control was provided to staff.
Risk management	partial achievement	General risk assessment training has been provided to staff.
Contract management	✓	Training has been provided to staff involved in contract management.

Criterion	Met criterion?	Comment
Risk assessment Timely Sound methodology	✓	<p>The risk assessment was undertaken within two years of the previous assessment. However, there were considerable changes in the department during this time. Updating the risk assessment earlier would have assisted the department to identify any additional fraud risks sooner.</p> <p>The risk assessment was consistent with AS/NZS 4360:1999.</p>
Fraud control plan	✓	The fraud control plan was consistent with the Commonwealth Fraud Policy and reflected the risks identified by the risk assessment.
Fraud control guidelines	✓	The guidelines were comprehensive and provided a useful resource for staff.
Performance assessment Performance information Monitoring Reporting	partial achievement partial achievement ✓	<p>The performance information specified in the RACB's business plan could contain additional performance measures that would improve the department's ability to monitor the performance of its fraud control function against legislative requirements and better practice. In addition, standards for the quality and timeliness of investigations could be established.</p> <p>Reports could be made to the RAAC to assure it of progress against the fraud control plan. FaCS should also consider providing regular reports to the RAAC regarding the number of allegations of fraud made, even if this number is nil.</p> <p>FaCS met its reporting requirements to both Parliament and the Attorney-General's Department.</p>

3. Controlling Fraud and Incorrect Payment: Arrangements Between FaCS and Centrelink

This chapter discusses the means by which the control of both fraud, and incorrect payment more generally, is managed in the relationship that FaCS has with Centrelink, the primary provider of FaCS services. As well, the chapter examines the business arrangement governing the relationship.

3.1 Centrelink is a major provider of services on behalf of FaCS. The funding for these services is appropriated to FaCS, which is therefore accountable for these funds under the FMA Act. For this reason it is important that FaCS is able to assess the overall service performance of Centrelink against desired outcomes. These outcomes should include effective measures to prevent, detect and treat fraud in order to maintain the integrity of the social security system.

3.2 Centrelink compliance measures are directed at both fraud and error in income support payments and services.³¹ Therefore, it was not possible for the ANAO to consider fraud in income support payments and services separately from the broader compliance effort in Centrelink aimed at ensuring customers receive their correct entitlements.³²

3.3 For reporting purposes, Centrelink defines as fraud only those cases which are successfully prosecuted as fraud in a court of law. There were 2881 convictions for welfare fraud in 1999–2000, involving \$27.1 million in debts.

3.4 The discussion in this chapter refers to the arrangements FaCS has in place to gain assurance that Centrelink has an appropriate framework to minimise losses from fraud and error.

3.5 Key elements of a sound assurance framework include:

- clear identification of roles and responsibilities;
- specification of performance indicators; and
- sound reporting and monitoring arrangements.

³¹ For 1999–2000, Centrelink conducted approximately 2.3 million customer entitlement reviews resulting in savings of almost \$34.7 million per fortnight and debts of \$293.1 million being raised.

³² The ANAO report on fraud control arrangements in Centrelink is due to be tabled in July 2001. It will discuss Centrelink's fraud control measures in more detail.

3.6 The relationship between FaCS and Centrelink regarding fraud control is discussed against these criteria under separate headings below.

Roles and responsibilities

3.7 The relationship between FaCS and Centrelink is governed by a Business Partnership Agreement (BPA) which acknowledges shared responsibility for performance. The BPA is comprised of three components, that is a core agreement, a series of protocols and a number of output specifications. These documents specify where responsibility lies for performance, standards of performance, reporting requirements and dispute resolution mechanisms.

3.8 In relation to the management of fraud, the ANAO found that the BPA clearly outlines the roles and responsibilities of the two parties. The core agreement stipulates that FaCS will provide to Centrelink appropriate policy advice, direction and support to enable effective service delivery under this agreement at the specified standards.³³ This includes setting proof of identity policy and debt recovery policy for payments delivered by Centrelink. While FaCS and Centrelink jointly set compliance priorities, Centrelink is responsible for implementing effective strategies for payment control as part of its approach to service delivery.

3.9 To support the core agreement, there is a specific protocol 'Outcomes, Strategies and Performance Protocol' (the protocol)³⁴ and an output specification 'Correctness of payments and outlays' (the specification) that provide more detailed information on fraud-related matters.³⁵ For example, the protocol establishes that Centrelink is responsible for developing, implementing and supporting systems and procedures for the prevention, identification, investigation and deterrence of incorrect payments and fraud by undertaking review activities as well as activities in debt prevention, debt identification and prosecution. Assurance of the correctness of payments and outlays is to be provided by Centrelink through a number of strategies including the conduct of random sample surveys, risk assessments of FaCS products and services and the provision of performance information on the accuracy of decisions. In addition, as part of business development, Centrelink is to '*continue to explore innovative ways to prevent, detect and deter incorrect payment and fraud*'.

³³ *Business Partnership Agreement 2000-2001*, Section 2.1 at page 8.

³⁴ In particular, Part 4.1 'A high level of correctness of payment'.

³⁵ The protocol and specifications describe the services and payments to be delivered on behalf of FaCS and the key performance indicators against which Centrelink will report to FaCS.

3.10 The ANAO concluded that the roles and responsibilities of the FaCS and Centrelink are clearly defined in the BPA.

Performance indicators

3.11 For performance indicators to be useful, they should contain a balance of input, process, output and outcome measures which address both quantitative and qualitative aspects of performance.

3.12 The BPA specifies performance indicators related to incorrect payments that cover:

- the number of reviews to be conducted (input, quantity);
- the percentage of compliance reviews in which incorrect payment is identified (process, output); and
- the percentage of cases referred to the DPP that can be actioned (output/outcome, quality).

3.13 An examination of the indicators found that there was an appropriate balance of quantitative and qualitative indicators.

3.14 The ANAO found that the current performance indicators for review activity were an improvement on indicators contained in earlier BPAs.³⁶ In particular, the replacement of savings targets for compliance review activity with a focus on encouraging targeting of compliance reviews (so that at least 30 per cent of reviews identify incorrect payment) should improve the quality of review selections. However, the ANAO considered that the performance indicators place too much emphasis on the number of reviews conducted, rather than offering an incentive for Centrelink to reduce fraud and error through preventative measures. This focus on the number of reviews undertaken does not encourage the pursuit of more complex frauds which are more time consuming and difficult to prove. FaCS advised that under a joint working party with Centrelink, it was continuing to refine the BPA and associated performance measures with increasingly more attention being given to identifying appropriate indicators that measure the achievement of desired outcomes. The department has also advised that it will shortly commence an internal audit of performance information in the BPA.

³⁶ This finding was supported by a recent internal audit conducted by FaCS, which found that the 1999–2001 BPA contained a number of performance measures that related to process and that FaCS program branches focussed heavily on monitoring Centrelink processes. Department of Family and Community Services, 1999, *Audit of the management of the purchaser provider relationship with Centrelink: Program Branches' perspective*, unpublished departmental Internal Audit report.

3.15 The current performance indicators do not include a measure to indicate whether losses from fraud and error are increasing or decreasing. A key issue is that the incentive regime for Centrelink, has to date, been based on discovering fraud and error and not on reducing fraud and error. That is, the number of reviews conducted by Centrelink has at times been seen as more important than the quality and effectiveness of the reviews in both detecting and reducing fraud and error.³⁷ This has been recognised by both FaCS and Centrelink.

3.16 The ANAO considers that deriving an estimate of the level of fraud and error in income support payments could assist FaCS and Centrelink develop more meaningful indicators to demonstrate the impact of compliance activities and other factors on the level of losses from fraud and error. Changes over time in this estimate may be useful in showing that compliance efforts are influencing customer behaviour, although the ANAO acknowledges that other factors may also affect the levels of losses from fraud and error.³⁸ This would nonetheless provide the basis for a better indicator for the effectiveness of compliance activities than current indicators which, despite the gradual shift away from a focus on inputs, are still focused on the number of reviews conducted.³⁹

3.17 It would be important for such an estimate to distinguish between Centrelink error and customer fraud and error. This would more accurately reflect the compliance and fraud risks associated with programs and services delivered by Centrelink as well as improvements over time in voluntary compliance.

3.18 In 1998 FaCS began a rolling program of random sample surveys to measure the level of incorrect payment.⁴⁰ The surveys, which are undertaken by Centrelink on behalf of FaCS, aim to derive a reasonable measure of the percentage of incorrect payment for the selected programs that are reviewed. They also provide useful information on reasons for incorrectness.

³⁷ The ANAO's report on fraud control arrangements in Centrelink, which is due to be tabled later in 2001, discusses these processes in more detail.

³⁸ The level of fraud and error is not only affected by the effectiveness of Centrelink's performance in addressing fraud and error but also by other factors such as changes in program design and policy as a result of government initiatives, changes in the underlying customer demographics and changes in the macroeconomic environment. Another factor is public perceptions of the chances of fraudulent activity being detected and of the penalties likely to be imposed, which is influenced by the amount and type of media coverage devoted to this issue.

³⁹ An estimate of losses arising from fraud and error could also complement current risk assessment practices and help to guide resource allocation to areas of highest risk and is therefore very important if a more strategic approach to improving compliance is to be achieved.

⁴⁰ Random sample surveys involve an in-depth review of entitlement to FaCS income support payments.

3.19 Ongoing work conducted through the random sample surveys may provide useful information to allow FaCS to revise the current suite of performance indicators. For example, estimates of the percentage of benefits incorrectly paid that are derived from the random samples may allow meaningful targets to be developed on reductions in losses from fraud and error that should be achieved by Centrelink as a result of its compliance activities.

3.20 Another result of the random sample surveys is to detect incorrectness of payments that would not otherwise have been detected by Centrelink controls. This should assist to redirect review resources to those areas. This in turn should help to realign incentive structures and funding arrangements for Centrelink away from the number of reviews and towards the main goal of ensuring that only those people that are entitled to receive benefits actually receive benefits and also that they receive their correct entitlement.

3.21 The ANAO noted that random sampling is the review methodology used in the United Kingdom (UK) to determine the incidence and magnitude of customer error and fraud. Notably, results from this review work are published on an annual basis by the Department of Social Security in the UK.⁴¹

3.22 The ANAO concluded that changes to the current performance indicators are necessary if FaCS and Centrelink are to demonstrate that they have been effective in reducing the total level of fraud and error in income support payments in the longer term. An estimate on the level of fraud and error in income support payments would provide valuable information to assist FaCS and Centrelink to redevelop the performance indicator framework. Importantly, any changes to performance indicators may in fact result in fewer reviews being conducted by Centrelink than are currently required under the BPA as the focus should be clearly on the quality and effectiveness of reviews as opposed to the number of reviews conducted and the savings achieved.

⁴¹ Analytical Services Division, *Results of the Area benefit Review from April 1998 to March 1999 and Measurement of the Public Service Agreement; Fraud and Error in Income Support and Jobseeker Allowance* (2000), United Kingdom Department of Social Security, Government Statistical Service, Leeds.

Recommendation No.1

3.23 The ANAO recommends that FaCS, in consultation with Centrelink, develop in a timely manner, an estimate of the level of losses from fraud and error by income support payment type in order to better assess the impact of compliance activities on the level of losses from fraud and error. The estimate should distinguish between losses from Centrelink error and those resulting from customer error and fraud.

FaCS response: Agreed.

Centrelink response: Agreed.

Centrelink supports the development of estimates of the level of losses from fraud and error in income support payments noting the range of factors which can influence the level of losses from fraud and error.

Recommendation No.2

3.24 To facilitate more effective targeting of compliance to areas of highest risk, the ANAO recommends that FaCS, in consultation with Centrelink, develop performance indicators that provide more incentive for Centrelink to reduce losses from fraud and error as well as discovering fraud.

FaCS response: Agreed.

Centrelink response: Agreed.

Centrelink is happy to discuss with FaCS ideas for developing new performance indicators which provide incentives for Centrelink to reduce losses from fraud and error in particular areas and will do so in the context of the new BPA negotiations.

Reporting and monitoring

3.25 A rigorous monitoring and reporting framework is important to assure FaCS in its role as purchaser that Centrelink has an appropriate fraud control framework in place. This framework should include:

- clear specification of reporting requirements, with reporting undertaken on a regular basis; and
- monitoring of performance against stated indicators as well as mechanisms to assure FaCS of the quality and accuracy of the information it receives.

Reporting

3.26 Reporting requirements are clearly specified in the BPA. Under the BPA Centrelink is to provide FaCS with a bimonthly performance report for all FaCS services that are delivered by Centrelink. The ANAO found that these reports have been provided as required and contain the information prescribed in the BPA. These reports are distributed to relevant program areas in FaCS and are used to assess the effectiveness of programs and to inform policy development. However, these performance reports are the only ongoing performance reporting mechanism. Other issues are raised on an ad hoc basis.

3.27 Performance reports provided by Centrelink to FaCS contain a significant amount of information on the results of compliance activities. However, the ANAO found that responsibility for analysing this information had not been clearly identified in the BPA. Consequently, there was only limited analysis of this information provided in the reports and there was scope to make better use of the information. To address this issue, FaCS is conducting ongoing negotiations with Centrelink to define more clearly the responsibilities for both information gathering and analysis.

Monitoring and assurance

3.28 The BPA requires Centrelink to prepare an annual assurance statement on the effectiveness of its internal controls and that it has complied with the requirements contained in the BPA. Broadly, Centrelink documents the risks to the services it delivers on FaCS's behalf and the controls it has in place to manage those risks. The statement for 1999–2000 was provided to FaCS on 4 August 2000. FaCS and Centrelink are considering the most appropriate way to validate this statement.

3.29 FaCS program areas are also able to obtain additional assurance on Centrelink controls by reviewing relevant Centrelink internal audit reports or parts thereof (where a report also has elements sensitive to another party or is of purely internal concern). Provision for FaCS and Centrelink to consult on audit matters is clearly identified in the BPA. However, the process does not always work effectively in practice, particularly where a FaCS program area is not in a position to assess the relevance of Centrelink's audit results. The ANAO considers that FaCS and Centrelink could improve this aspect of accountability. To improve the provision of relevant information, FaCS needs to obtain from Centrelink a more strategic view of the risk to service delivery and the confidence that Centrelink has in the controls in place. This approach would allow FaCS to request, and focus on, relevant internal audit results from Centrelink.

3.30 FaCS has in place a program of quality assurance for random sample results to assure itself on the accuracy of results reported through these reviews. Given the central importance of these reviews in a number of business improvement projects, this approach is necessary and proper.

3.31 Regular monitoring of performance reports and the annual assurance statement should provide a solid basis for an effective performance assessment framework. However, as previous ANAO audits have found, the quality of some of the performance information provided by Centrelink to FaCS may be subject to error.⁴² These issues are being addressed in the current BPA which requires FaCS and Centrelink to jointly develop and agree on arrangements for FaCS to obtain appropriate independent assurance of the adequacy of Centrelink's control framework and the accuracy of performance information provided by Centrelink. FaCS can use a variety of means to obtain verification and can legitimately rely on a Centrelink Internal Audit as one of the means. FaCS can also conduct third party audits of Centrelink activity that relates to FaCS programs. Such independent validation is recognised as better practice in purchaser/provider arrangements.⁴³

3.32 The ANAO concluded that measures contained in the current BPA, including provision for appropriate independent assurance, provide a sound framework for FaCS to assess the performance of Centrelink. FaCS should use this mechanism periodically to assure itself of the accuracy of performance information and the effectiveness of Centrelink's fraud control framework.

Overall conclusion

3.33 The BPA between FaCS and Centrelink contains many of the elements necessary for effective fraud control. For example, it clearly identifies roles and responsibilities of the parties and specifies performance requirements.

⁴² Audit Report No.20, 1999–2000, *Special Benefit*, Centrelink and Family and Community Services; Audit Report No.34, 2000–01, *Assessment of New Claims for the Age Pension by Centrelink*, Centrelink.

⁴³ Management Advisory Board/Management Improvement Advisory Committee (1197), *MAB/MIAC Report No.23, Before you sign on the dotted line ... Ensuring contracts can be managed*, AGPS, Canberra; OECD (1997), PUMA policy brief No. 2, *Best Practice Guidelines for Contracting Out Government Services*, OECD, Paris.

3.34 The ANAO concluded that the current performance indicators for review activity were an improvement on indicators contained in earlier BPAs. However, the ANAO considers that the performance indicators continue to place too much emphasis on the number of reviews conducted rather than on the results of reviews and the effect of review activity. As a consequence, the primary focus has been on discovering fraud rather than reducing fraud. As well, the new indicators offer little incentive for Centrelink to reduce fraud and error through preventative measures and do not encourage the pursuit of those more complex frauds which are more time consuming and difficult to prove. Work being undertaken by FaCS into voluntary compliance and the results of random sample surveys have the potential to provide useful information to address these issues.

3.35 The ANAO considers that deriving an estimate on the level of fraud and error by income support payment type could also assist FaCS and Centrelink develop more meaningful indicators to demonstrate the impact of compliance activities and other factors on the level of losses from fraud and error. Changes over time in this estimate may be useful in showing that compliance efforts are influencing customer behaviour, although the ANAO acknowledges that other factors may also affect the levels of losses from fraud and error.

3.36 Reporting requirements are clearly specified in the BPA. However, responsibility for analysing the information provided by Centrelink to FaCS in performance reports has not been clearly identified. The ANAO concluded that there was scope to make better use of this information.

3.37 Current efforts to put in place a rigorous performance assessment framework for services delivered by Centrelink, underpinned by appropriate independent assurance, should provide FaCS with a greater degree of assurance regarding Centrelink controls to that provided by process monitoring. This should also contribute to the redevelopment of the performance indicator framework and allow FaCS to monitor the achievement of agreed outcomes. The ANAO considers that this approach is appropriate and has the potential to deliver efficiency benefits to both organisations.

4. Managing Fraud Control in Relationships with Other Providers

This chapter discusses the mechanisms that FaCS has in place to manage fraud control in its relationships with government providers, including CSA, CRS and FAO as well as with Non-Government Organisations (NGOs).

4.1 Whether services are delivered by government or non-government providers, it is important that there is a clear understanding between the purchaser and the provider on the rules governing the relationship. To this end, a business partnership or service level agreement should exist between FaCS and government agencies and formal contracts should be in place with NGOs. These agreements and contracts should include fraud control arrangements and identify the roles and responsibilities of each party in relation to fraud control as well as outlining a performance assessment framework.

4.2 For this report the ANAO is only discussing these matters in relation to fraud control. Fraud control arrangements in place with each provider are discussed under separate headings below.

Child Support Agency (CSA)

4.3 The CSA has in place its own fraud control framework. It recently conducted a fraud risk assessment and developed a new fraud control plan, in conjunction with the Australian Taxation Office (ATO).

4.4 The ATO provides fraud control services to CSA. This relationship is governed by a SLA between the ATO and CSA, which clearly specifies the services that the ATO is to provide to CSA. Under the SLA, the ATO assists CSA in its fraud control planning, conducts investigations of alleged fraud and provides training to CSA staff. In addition, the ATO represents CSA in external forums on fraud issues and provides advice and assistance to CSA staff on fraud control matters.

4.5 The SLA also outlines reporting requirements to be met and the measures against which the ATO is required to report. The ATO provides periodic reports to CSA regarding fraud control activities. These reports cover the number of matters under investigation as well as the number of briefs being prepared for the DPP or referred for disciplinary action. The reports also provide a brief outline of each case reported or investigated during the period in question. Seventy-two cases of fraud were investigated in 1999–2000. Many of these involved unauthorised access to or disclosure of information.

4.6 However, these reports were not being provided to FaCS at the time of audit fieldwork. Therefore FaCS's Risk Assessment and Audit Committee (RAAC) has had little awareness of CSA's fraud control framework or its effectiveness in minimising the agency's exposure to fraud even though CSA has been part of the department since 1998. While FaCS has a copy of the SLA between CSA and the ATO, it has not implemented appropriate measures that would provide it with assurance about the quality and effectiveness of the services that the ATO provides.

4.7 More recently, however, FaCS has been able to gain assurance on the general control environment through a program of internal audit work commenced in 2000.⁴⁴ As well, a representative of CSA, the General Manager, was appointed to the RAAC last year. For effective monitoring, the RAAC should request regular reports on fraud control activity in CSA so that it can be assured of the ongoing effectiveness of fraud control arrangements in CSA. FaCS has advised that a reporting and monitoring framework is currently being developed, and that CSA has undertaken to provide FaCS with regular reports on the ATO's fraud control activities in FaCS.

Conclusion

4.8 The ANAO noted that FaCS has recently been able to gain assurance on the general control framework in CSA through the internal audit function. As well, the General Manager of CSA is now a member of the RAAC. If regular reports are provided to the RAAC, this should allow FaCS to be more informed about the effectiveness of fraud control arrangements in CSA.

⁴⁴ FaCS provides internal audit services to CSA under a corporate services SLA.

CRS Australia (CRS)

4.9 FaCS and CRS have a SLA covering the period of 1 July 2000 to 30 June 2001.⁴⁵ This agreement has been in place since September 2000. The agreement does not specifically refer to fraud control arrangements and does not specify any requirements for notification or ongoing reporting to FaCS by CRS on allegations or cases of fraud.

4.10 However, the General Manager of CRS is a member of the RAAC. As well, internal audit work is undertaken by FaCS's internal audit and the reports are presented to the RAAC. This provides a level of assurance to FaCS on the control environment in CRS. There was no fraud reported in CRS in the last two financial years.

4.11 The ANAO's discussions with CRS indicated that it had:

- employed a risk management officer who is conscious of the need to establish appropriate fraud control arrangements;
- established a fraud control policy which provides a definition of fraud and discusses responsibilities for fraud control;
- outlined an approach to risk assessment which encompasses consideration of fraud risks. FaCS advised that CRS had recently commenced a risk assessment of both fraud and more general risks; and
- developed a draft fraud control strategy which describes a comprehensive range of steps that CRS will undertake to establish appropriate fraud control arrangements.

4.12 At the time that fieldwork was conducted, CRS was preparing to conduct risk assessments that focused on both fraud and more general risks, with a view to then developing a fraud control plan. This methodology is consistent with AS/NZS4360:1999 and should provide a more holistic view of business risks, including fraud risks.

Conclusion

4.13 While fraud control arrangements were at an early stage of development in CRS, measures are in place to assure FaCS on their effectiveness once implemented. This includes the General Manager being a member of the RAAC and a structured program of internal audit work undertaken by FaCS of the CRS control environment.

⁴⁵ The Disability Service Reforms Branch is the signatory to the SLA on behalf of FaCS.

Family Assistance Office (FAO)

4.14 From 1 July 2000, 10 types of assistance for families (including Family Assistance) were combined through the tax and social security systems into three new payments delivered through the FAO. A summary of these changes is at Appendix 2. FaCS has overall management of FAO and the purchase of its services from Centrelink, the ATO and HIC. The FAO was designed to enable families to deal with just one office and one set of rules. Working families are also able to choose whether they take their financial assistance through fortnightly payments or through the tax system.

4.15 The BPA for 2000–01 developed between Centrelink and FaCS contains a specific FAO protocol. There are also SLAs in place between FaCS, HIC and the ATO. As well, Centrelink has an agreement with the last two agencies in relation to such things as access to data. Each of these agreements clearly specify the roles and responsibilities of each of the parties.

4.16 The BPA contains a schedule covering compliance issues for benefits administered by the FAO. In relation to fraud control, Centrelink has responsibility for compliance issues for the FAO. Full compliance checks have only been undertaken where there are allegations of fraud, as the focus in the early stages has been on education and outreach. This approach has been adopted to inform customers of the significant changes implemented for family benefits and the impact of the changes on payments. The program of education aims to minimise overpayments and debts incurred by customers caused by a lack of understanding of the new payments.

4.17 As well as arrangements set out in the above agreements, an internal fraud protocol has been developed for the FAO. Under this protocol the agencies delivering family assistance are each responsible for any internal fraud occurring in their own agency. The protocol is comprehensive and covers:

- the procedures to be followed when an allegation of internal fraud has been made;
- the procedures for communicating between agencies;
- time-lines for reporting internal fraud to the relevant program area in FaCS; and
- requirements for reporting performance and management information.

4.18 Performance information in relation to external fraud and compliance issues is addressed in the BPA. The ANAO noted that some of the performance targets which relate specifically to the FAO are initially

set at a relatively low level and then increased on specified dates to more challenging levels during the transition to FAO. This is appropriate as it takes into account changing conditions in service delivery arrangements and the initial focus on customer education.

4.19 Monitoring arrangements are also in place to assess the performance of FAO as well as the effectiveness of its fraud control framework. For example, National and Local Management Committees have been established. The role of the National Management Committee is to *'manage the performance and outcomes of the FAO'* and provide a forum for partner agencies to raise high level strategic, policy or administration issues for consideration. The role of the Local Management Committees is to support the National Committee and monitor the performance of local FAO networks, resolve disputes or differences between agencies and consider issues that are brought to its attention by local managers. These committees should facilitate the exchange of information and identification of issues, including those that are fraud related, which need to be addressed.

4.20 As well, the annual business assurance statement provided to FaCS by Centrelink is to contain a section relating solely to FAO. This statement is to be developed through discussions held jointly between FaCS and Centrelink, as well as with the other FAO partners. This statement should provide additional assurance to FaCS on the effectiveness of Centrelink's control framework and business processes as they relate to the FAO.

Conclusion

4.21 The ANAO concluded that appropriate arrangements have been implemented to ensure fraud risks are minimised in FAO. The roles and responsibilities of each of the joint venture partners are clearly specified in relation to fraud control, while appropriate monitoring arrangements have been established to monitor the effectiveness of the fraud control framework.

Non-Government Organisations (NGOs)

4.22 As well as a range of services being delivered by government providers, services are also delivered on behalf of FaCS by NGOs through more than 6000 funding agreements between NGOs and FaCS. These services include:

- child care;
- family relationships;
- disability employment services;
- advocacy; and
- assistance to young people.

4.23 Where services are delivered by the private sector, agencies need to ensure that agreements in place are managed appropriately to ensure outcomes are achieved. This should include, among other things, the prevention of fraud and overpayments. In particular, agencies should make sure that agreements:

- include appropriate accountability measures;
- contain clauses relating to conflicts of interest, in order to ensure that third party providers do not have interests that conflict with the use of funds for their specified purposes;
- clearly specify expected behaviours and responsibilities to assist in preventing accidental or intentional mismanagement of funds by providers; and
- are monitored. This is important to provide assurance to the agency that the terms of the agreements are being met.⁴⁶

4.24 Two areas in FaCS which use funding agreements are the Disability Service Reforms Branch (DSRB) and the Child Care Services Branch (CCSB). Providers deliver a range of services on behalf of DRSB, in particular employment services, to people with a disability. The CCSB provides support to the child care industry. Funding is also provided for family day care and for Multifunctional Aboriginal Centres.

4.25 The ANAO examined whether the standard agreements used by these branches met the criteria detailed above. Table 4 illustrates the findings against these criteria as well as examples of better practice relating to the respective agreements.

⁴⁶ These criteria are drawn from the ANAO Better Practice Guide *Administration of Grants*, as well as from previous fraud control audits, including Report No.47 1999–2000 *Survey of Fraud Control Arrangements in APS Agencies*.

Table 4**Assessment of funding agreements**

Criterion	CCSB	DSRB
Agreements should contain appropriate accountability measures	✓ All agreements require funded NGOs to create an annual budget or plan, provide an accountability statement at the end of each year and provide an audited statement of expenditure.	✓ NGOs are required to provide an audited statement to FaCS at the end of each financial year. A pro forma letter is given to service providers, setting out the performance information requirements, including audited financial statements. The NGOs are required to provide this letter to an independent auditor for certification.
Agreements should contain clauses on conflict of interest	✓ Standard agreements contain clauses requiring providers to declare any conflicts of interest that exist or which arise during the term of the agreement.	✓ Standard agreements contain clauses requiring providers to declare any conflicts of interest that exist or which arise during the term of the agreement.
Expected behaviours and responsibilities should be specified	✓ Standard agreements specify the procedures for the use and acquittal of funds, the need to provide an audited statement at the end of each year and information disclosure and protection procedures.	✓ DSRB has developed a brochure that outlines expected standards of conduct as well as contact information so that NGOs can seek assistance in relation to corporate governance arrangements, including financial management. In addition, the Disability Service Standards Handbook specifies service management standards to be met by NGOs.
Agreements should be monitored	✓ Child Care service providers supply an annual certified statement to FaCS. While all statements are examined, they are verified by CCSB on a risk management basis.	✓ Financial management training has been provided to Branch staff so that they can better analyse the financial information provided in the annual audited reports by NGOs.

4.26 The agreements used by both branches met the better practice criteria for contracting NGOs, defined at paragraph 4.23. However, as the table above demonstrates, there are differences between the specific content of the agreements used by each branch, as well as the way in which the agreements are managed. This is a result of the fact that FaCS was created from areas drawn from a number of different departments, each with its own established practices. To address this lack of consistency, FaCS has initiated a business harmonisation project which seeks to identify better practice in managing funding agreements and aims to create guidelines which identify a set of basic principles under which agreements should be created and managed across the department.

4.27 During fieldwork the ANAO noted that there have been a number of cases of mismanagement of funds by NGOs. While the cases were not treated as fraud by the responsible areas, advice was sought from the Fraud Control Officer on the most appropriate course of action. The ANAO considers that this process is appropriate, as it provides a means for assuring the department that cases of mismanagement of funds are not inappropriately classified when they should have been considered and treated as fraud.

Conclusion

4.28 In relation to funding agreements, the ANAO considers that the FaCS is applying better practice. The ANAO also noted that the business harmonisation project currently being undertaken by FaCS should ensure greater consistency between branches. The ANAO considers that appropriate practices have been adopted when deciding whether cases of mismanagement should be pursued as fraud.



Canberra ACT
5 June 2001

P. J. Barrett
Auditor-General

Appendices

Appendix 1

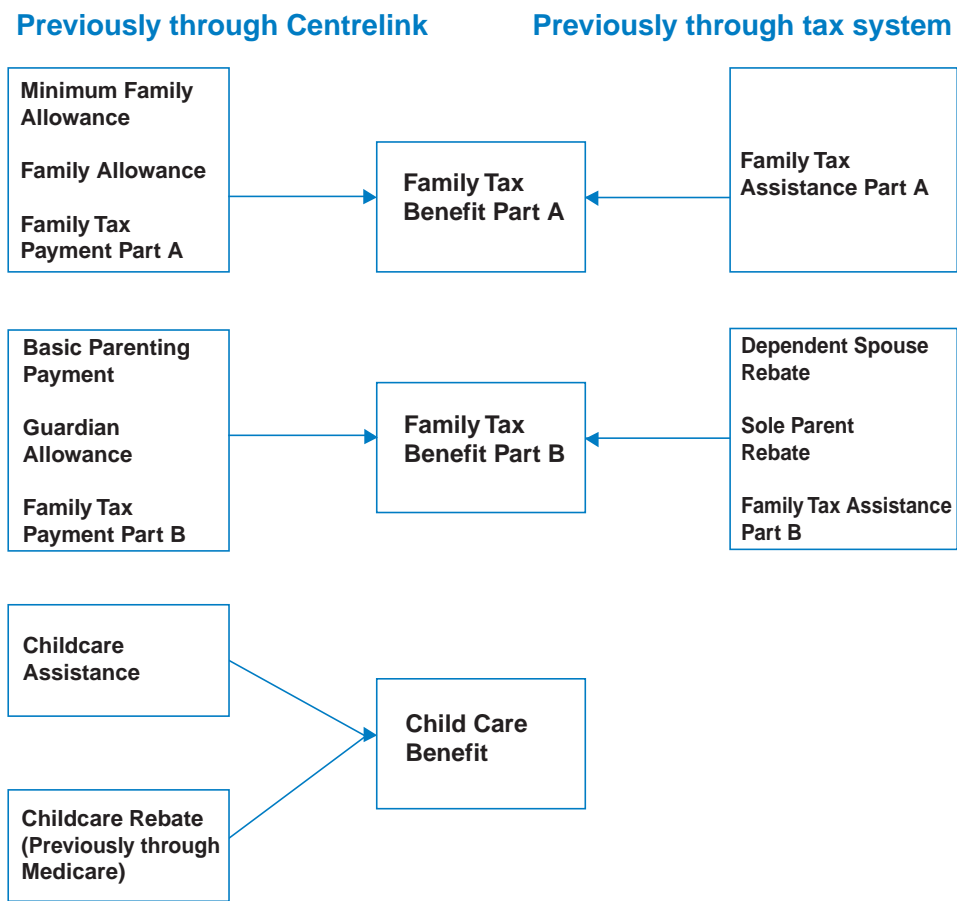
Previous audit reports dealing with fraud control arrangements

<i>Agency</i>	<i>Report Number</i>	<i>Focus</i> (Internal/ External)	<i>Prevention</i> (Ethics, Training)	<i>Planning</i> (Risk assessment, fraud control plan)	<i>Detection</i>	<i>Investigation</i>	<i>Performance reporting</i> (including quality assurance)	<i>Key Findings</i>
EETYA	No.4 of 1999–2000	Internal		✓			✓	EETYA requires effective links in planning processes. Broad range of performance indicators needed to provide a balanced assessment
HAC	No.6 of 2000–01	Internal	✓	✓				New risks require new approaches to manage fraud risks (for example, risk assessment methodologies need to be tailored). Developing an ethical workplace culture is an important prevention strategy.
ISR	No.5 of 2000–01	Internal		✓				ISR needs an up-to date fraud control strategy, including a performance assessment framework and fraud control guidelines.
ATO	No.16 of 2000-01	Internal	✓	✓	✓	✓	✓	The ATO has recognised the importance of creating an ethical environment. The ATO would benefit from a more holistic approach to risk management and planning. Risks to IT systems could be managed better. The performance assessment framework could be refined.
Defence	No.22 of 2000–01	Internal	✓	✓		✓		Fraud intelligence and corporate governance arrangements could be improved. Development of the fraud control plan had not been timely, while there were also concerns about the fraud risk assessment process.

✓ denotes key issues addressed in the audit.

Appendix 2

Family Payment Arrangements



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