

The Auditor-General  
Audit Report No.44 2002-03  
Performance Audit

# **Review of the Parenting Payment Single Program**

**Department of Family and Community Services**

**Centrelink**

Australian National Audit Office

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of Australia 2003

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Canberra ACT  
23 May 2003

Dear Mr President  
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in the Department of Family and Community Services and Centrelink in accordance with the authority contained in the *Auditor-General Act 1997*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit and the accompanying brochure. The report is titled *Review of the Parenting Payment Single Program*.

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

Yours sincerely

A handwritten signature in black ink, appearing to read 'P. J. Barrett'.

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

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# Abbreviations

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AAT	Administrative Appeals Tribunal
ABC	Area Based Checking
ABS	Australian Bureau of Statistics
ANAO	Australian National Audit Office
AQTF	Australian Quality Training Framework
ARO	Authorised Review Officer
ASO	Area Support Office
ATO	Australian Taxation Office
AWT	Australians Working Together
BAF	Business Assurance Framework
BPA	Business Partnership Agreement
CAO	Complex Assessment Officer
CDA	Centrelink Development Agreement
CEN	Centrelink Education Network
CEO	Chief Executive Officer
CIR	Customer initiated reassessment
CPI	Consumer Price Index
CRN	Customer Record Number
CRS	Centrelink Reference Suite
CSC	Customer Service Centre
CSDA Act	<i>Commonwealth Services Delivery Agency Act 1997</i>
CSO	Customer Service Officer
CtC	Check the Checking
DMP	Data Matching Program
DOC	On-line Documentation
FaCS	Department of Family and Community Services
FMA Act	<i>Financial Management and Accountability Act 1997</i>
GIR	Getting It Right
IT	Information and Technology

JET	Jobs, Education and Training
KPI	Key Performance Indicator
LMS	Learning Management System
LNA	Learning Needs Analysis
MLR	Marriage Like Relationship
NAV	National Accuracy Validation
NSO	National Support Office
NSRS	National Selective Review System
PAES	Portfolio Additional Estimate Statement
PBS	Portfolio Budget Statement
PPP	Parenting Payment Partnered
PPS	Parenting Payment Single
PRISM	Performance Related Information System for Managers
QOL	Quality On-Line
RA	Rent Assistance
RC	Rent Certificate
RRRS	Random Review Results System
RSS	Random Sample Survey
RTO	Registered Training Organisation
SSAT	Social Security Appeals Tribunal
TDF	Tax File Number Declaration Form

# Glossary

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Accuracy	Under the new Business Assurance Framework, Centrelink and the Department of Family and Community Services have agreed to definitions of 'accuracy'. A payment is accurate if: the right person is paid; under the right program; at the right rate; for the right date; and every time a payment is made. The last requirement recognises the obligation of the customer to advise of changes in circumstances that may affect their payment entitlements.
Administrative error	Under the new Business Assurance Framework, this type of error includes errors caused by Centrelink staff, systems or ambiguous rules.
Automated rate calculation	The automatic calculation of a customer's payment through the Centrelink information system based on information entered by Centrelink Customer Service Officers.
Confidence interval	The upper and lower confidence bounds within which the population estimate lies, with a specified degree of confidence. Confidence intervals are symmetrical about the point estimates and are expressed as the percentage point (pp) difference between the point estimate and the confidence bounds. For example, a statement that an estimate of 50 per cent (+/- 10pp) of assessments are subject to a particular error means that there is a 95 per cent probability that between 40 per cent and 60 per cent of assessments contain the error.
Correctness	Under the new Business Assurance Framework, Centrelink and the Department of Family and Community Services have agreed to definitions of 'correctness'. A payment is correct if: the right person is paid; under the right program; at the right rate; and for the right date(s). Correctness relates to decision-making processes within Centrelink's control.
Customer error	Error or omission by the customer in providing information to Centrelink.
Earnings reviews	A cyclic form-based program review of all Parenting Payment Single (PPS) customers with earnings, conducted every 12 weeks.



New child reviews	A risk based program review carried out if a PPS customer has a child more than 40 weeks after start day of PPS.
Payment effect	<p>In order to determine the impact of errors on outlays, the Department of Family and Community Services and Centrelink have also on agreed on definitions for three types of error. These are:</p> <ul style="list-style-type: none"> <li>• errors with no impact on outlays, that is errors that have no effect on the customer's payment;</li> <li>• errors with an impact on outlays, that is errors that have an immediate effect on the customer's payment; and</li> <li>• errors with a potential impact on future outlays, that is errors that have no immediate effect on the customer's payment but may in the future.</li> </ul>
Population	In total 68 875 earnings reviews, and 50 000 customer initiated reassessments were completed between 1 February 2002 and 30 April 2002.
Sample	In total 433 earnings reviews and 388 customer initiated reassessments drawn from their respective populations were processed by Centrelink between 1 February 2002 and 30 April 2002.
Service Profiling	A method of selectively targeting Centrelink services and Customer Service Officer assistance to Centrelink customers.



## **Summary and Recommendations**



# Summary

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## Background

1. Parenting Payment is a social security income support payment available to claimants meeting certain eligibility criteria<sup>1</sup> and whose income and assets are under certain limits. Parenting Payment Single (PPS) provides income support for single parents of workforce age.
2. The PPS payment contributes to the achievement of the Department of Family and Community Services' (FaCS) third Outcome: Economic and Social Participation. For the financial year 2001–02, \$4.2 billion was paid to approximately 437 000<sup>2</sup> PPS customers.
3. The program is delivered via a purchaser/provider agreement whereby FaCS, on behalf of the government, purchases program delivery and associated services from Centrelink. The relationship between Centrelink and its client agency, FaCS, is governed by a Business Partnership Agreement (BPA). The agreement 'blends elements of purchaser/provider responsibilities with elements of partnership and alliance.'<sup>3</sup> Under the agreement, FaCS is responsible for advising the government on policy issues related to the program and for ensuring that Centrelink delivers the program in accordance with government policy.
4. Centrelink is responsible for the operational delivery of the program, including assessing new claims for the PPS in accordance with the *Social Security Law* and the *Guide to the Social Security Law* and ensuring that ongoing payments under the program are made to eligible people accurately and in a timely manner. FaCS and Centrelink are dependent on each other to ensure that payments are delivered effectively and efficiently.
5. The BPA is anchored in legislation, particularly the *Commonwealth Services Delivery Agency Act 1997* (CSDA Act), under which the Secretary of FaCS has delegated to the Chief Executive Officer of Centrelink the responsibility for administering specified FaCS programs, including the PPS. Also under the CSDA Act, the activities agreed to in the BPA are the functions of Centrelink, and the agency's board is responsible for ensuring that those functions are properly, efficiently and effectively performed.<sup>4</sup> However, the Secretary of FaCS remains accountable under the *Financial Management and Accountability Act 1997*

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<sup>1</sup> To qualify for Parenting Payment a person must be the primary carer of a child under 16 years of age, and have met the qualifying residence requirements.

<sup>2</sup> Centrelink, *Parenting Assistance Performance Report*, Quarter 4, 2001–02.

<sup>3</sup> *FaCS-Centrelink Business Partnership Agreement 2001–04*, Strategic Partnership Statement.

<sup>4</sup> Section 12 of the CSDA Act.

(FMA Act) for program expenditure. Centrelink is therefore required to provide assurance to FaCS that payments, and therefore program outlays, have been made in accordance with the *Social Security Law*.

6. Consistent with the Commonwealth Government's *Outcomes and Outputs Framework*, PPS is delivered against specific performance indicators listed in FaCS' Portfolio Budget Statement (PBS). These include measures of effectiveness, quantity and price for the payment itself, and measures of quality and price for delivery of the payment. Additionally, the 2001–04 BPA describes performance information used to measure the effectiveness of the delivery of the program by Centrelink and the effectiveness of the relationship between FaCS and Centrelink.

7. During the development of its Business Assurance Framework (BAF), Centrelink applied a specific definition to the terms *correctness* and *accuracy* as they relate to outlays. A payment is deemed to be correct if it satisfies four criteria: the right person was paid; under the right program; at the right rate; and for the right date(s). These criteria are known as the four pillars. Accuracy is defined as Centrelink complying with the four pillars, with the qualifier, all of the time. This recognises the obligation of the customer to advise of changes in circumstances that may affect their payment entitlements.

8. Under the 2001–04 BPA, correctness and accuracy of payment are measured through a program of Random Sample Surveys (RSS) of key payments. FaCS and Centrelink conducted a RSS of Parenting Payment Single in 2001–02. FaCS uses the RSS results to assure itself that Centrelink is maintaining an adequate control framework to identify and correct instances of incorrect benefit payments to customers. In addition, the RSS residual results are used to assist in determining if the amount of incorrect payment would have a material impact on FaCS' financial statements.

9. Centrelink conducts reviews of customer's circumstances to ensure that the information it holds is up-to-date and correct. The level of review activity undertaken by Centrelink in the PPS program is specified in the 2001–04 BPA. Centrelink reassessments are of four kinds:

- customer initiated reassessments (CIRs), when the customer provides new information about his or her circumstances;
- as a result of a program review to ascertain whether a customer is receiving their correct entitlement;
- compliance reviews (where there is a perceived risk of incorrect payment or fraud, based on information not previously known about and/or not provided by the customer); and

- automated updates (such as the quarterly Consumer Price Index update) or automated rate calculations carried out by Centrelink information systems.

**10.** To ensure that a customer's payment is correct, Centrelink's Customer Service Officers (CSOs) must update the customer's circumstances as they are advised of changes and apply the rules of the program to reassess eligibility and determine the correct payment rate. The reliability and efficiency of these reassessments depends on appropriate design of these processes and activities, as well as on the capacity of customers to provide correct information. It also depends on preventive controls such as the training of CSOs, the availability of accurate guidance material and effective quality control mechanisms.

**11.** CSOs involved in delivering the PPS operate in an environment of considerable complexity. This complexity results from, among other things, the targeted nature of the income support system, the involvement of two agencies in administering the program, and the fact that the government, FaCS and Centrelink are continually working to improve the targeting of the PPS program and the effectiveness and efficiency of its delivery. This complexity involves CSOs making judgements. There are risks arising from these judgements that need to be appropriately managed by FaCS and Centrelink.

## Audit objective and scope

**12.** The objective of the audit was to determine whether the controls and measures employed by FaCS and Centrelink to deliver PPS payments are effective and efficient. To achieve this, the audit focused on four key areas. These were:

- the quality of performance measures used by FaCS and Centrelink to gauge the effectiveness, quality, quantity and price of the PPS program;
- the effectiveness of FaCS' methodology for estimating the levels of risk of incorrect payment to PPS customers and the impact of these incorrect payments on the integrity of program outlays, as measured through the 2001–02 RSS of the Parenting Payment Single payment;
- the correctness of Centrelink's processing of reassessments, including program reviews, CIRs and automated rate calculations; and
- the improvements to preventive controls such as training, guidance material, and the Quality On-Line (QOL) system, as applicable to the PPS program.

## Audit approach

13. Fieldwork for the audit was conducted between February 2002 and September 2002 at the national offices of FaCS and Centrelink, and in the Centrelink network. The Australian Bureau of Statistics' (ABS) Statistical Consultancy Unit helped to design the sampling strategy for stratified random samples of program reviews and CIRs. The ABS extrapolated the sample results and obtained unbiased estimates for the appropriate populations.

14. Two Centrelink staff with experience of delivering the PPS program were seconded to the ANAO to: assist with the development of the detailed audit test criteria for the assessment of program reviews, CIRs and automated rate calculations; examine customer records selected for audit against these audit test criteria; and assist in interpreting the results.

15. In working with the ANAO audit team, the Centrelink staff were authorised under the *Auditor-General Act 1997* and conducted their evaluation and analysis in accordance with the ANAO's Auditing Standards.

## Overall conclusion

16. FaCS and Centrelink have an extensive system of controls and measures that aim to safeguard the delivery of PPS payments, including performance information, RSS, reviews, and preventive controls. On the basis of practices in place at the time of audit fieldwork, the ANAO concluded, that, while generally contributing to the integrity of program outlays, these controls and measures had limitations in their effectiveness. These limitations relate to the reporting of performance information through the FaCS/Centrelink Outcomes/Outputs Framework, the RSS residual methodology, and the processing of earnings and new child program reviews.

17. These limitations affected individual customer payments and compromised customer service, efficiency and compliance with administrative requirements, all of which represent risks to the agencies, with attendant costs. FaCS and Centrelink are continuing to refine these controls and measures for PPS and more generally across Centrelink programs for improved effectiveness.

18. FaCS is responsible for reporting to the Parliament on the effectiveness and efficiency of the delivery of the PPS program. The ANAO assessed performance information for the PPS program in 2002–03 to ascertain whether it provided relevant, accurate, timely and comprehensive information to the Parliament and other major stakeholders about the performance of FaCS and Centrelink in delivering the program against its objectives. The ANAO concluded that performance measures for the PPS program reported externally by FaCS



were generally compliant with both Finance Guidelines<sup>5</sup> and ANAO better practice principles.<sup>6</sup> However, the ANAO noted shortcomings in four of the measures that report the effectiveness of the program in delivering its *Economic and Social Participation* outcome, and suggests these measures should be reviewed.

19. FaCS and Centrelink have agreed to a new Outcomes/Outputs Framework which includes a set of service delivery key performance indicators (KPIs) that aim to measure both the effectiveness of the delivery of FaCS programs by Centrelink, and the effectiveness of the service relationship. The ANAO concluded that the new framework could be a marked improvement on the present reporting of service level effectiveness, which is mainly based on operational information. However, at the time of the audit fieldwork, FaCS and Centrelink could not advise and confirm the exact definitions and data requirements of the revised KPIs. In particular, the ANAO notes limitations in measures relating to the *Accuracy of Program Outlays*, and whether they will clearly cover both Centrelink error and customer error. The ANAO considers that these measures should cover all outlays at risk and be transparent and complete. The ANAO suggests that FaCS and Centrelink apply ANAO better practice criteria<sup>7</sup> when formulating the KPIs, including the need for data continuity to allow for analysis of trends.

20. Under the Outcomes/Outputs Framework, FaCS and Centrelink propose to use the RSS to provide program performance information underpinning some of the KPIs for the *Accuracy of Program Outlays* outcome. FaCS already uses the RSS to estimate the efficacy of their controls in detecting error and non-compliance. The RSS residual methodology is also used by FaCS to estimate the material impact of such errors and non-compliance on FaCS' financial statements.

21. The ANAO notes that FaCS assesses the material impact of errors and non-compliance on the PPS program as low: some 2.5 per cent of total program outlays. Extrapolating this to the entire PPS program would mean that \$3.7 million is paid incorrectly of the approximately \$150 million paid to PPS customers every fortnight. This assessment by FaCS is provided to the ANAO for audit purposes, to assist, where required, in estimating the material impact of these errors on FaCS' financial statements.

22. The ANAO has an ongoing program of audits assessing the effectiveness and efficiency of the delivery of income support payments, including a continuing investigation of the RSS methodology. In the course of this audit,

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<sup>5</sup> Department of Finance and Administration's (Finance's), *Outcome and Outputs Framework Guidance Document*, November 2000.

<sup>6</sup> From the ANAO Better Practice Guide for *Performance Information in Portfolio Budget Statements*, May 2002.

<sup>7</sup> *ibid.*

the ANAO reviewed the methodology used by FaCS and Centrelink to establish the impact on program outlays. The ANAO concluded that the RSS residual methodology has a number of limitations. These limitations have the potential to cause FaCS to incorrectly estimate the effectiveness of the control framework in detecting error and non-compliance and potentially misinform any calculations of the material impact of this error and non-compliance on FaCS' financial statements. Given the significance of the methodology, the ANAO concludes that FaCS should take early steps to improve the robustness and transparency of the RSS residual methodology.

23. FaCS and Centrelink have stated that the RSS methodology is being revised as part of the implementation of the BAF. As well, the agencies are progressing a new methodology for estimating the impact of error on program outlays. In response to the concerns raised in this audit, the ANAO is planning a further audit comprising a comprehensive review of the BAF and the RSS methodology. As the implementation of the BAF is currently in progress, the ANAO has scheduled this audit to commence in 2004, when it is expected that sufficient data will be available to enable this review.

24. FaCS and Centrelink have been progressing other changes to their preventive controls for PPS processing, such as training, quality control and guidance and the QOL tool being used by Centrelink managers to monitor payment correctness. The ANAO notes that, as part of the implementation of the BAF, changes to QOL continue to be progressed. However, in the absence of consistent validation mechanisms such as the proposed Area Based Checking, Centrelink is not as yet able to assure the quality and reliability of QOL results. Improvements to QOL reliability are required, and are possible, through the continuing analysis of validation checks, particularly once changes have been introduced to the sampling regime and to the selection, training and certification of QOL-checkers, as described in ANAO Audit Report No.17 2002–03, *Age Pension Entitlements*.

25. Findings of previous ANAO audits<sup>8</sup> of major Centrelink programs show that the effectiveness and efficiency of controls to ensure correctness of program reassessments varies depending largely on whether processing by CSOs involved simple or complex assessments. Where processing tasks were relatively simple, or Centrelink had been able to automate them or bring other decision support tools to bear, the proportion of errors attributable to Centrelink was low. Findings from this audit reinforced these earlier findings.

26. The ANAO found that the PPS reviews themselves contained errors, with a similar relationship between complexity and error rates. Where processing

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<sup>8</sup> Audit Report No.20 1999–2000, *Special Benefit*, Audit Report No.34 2000–01; *Assessment of New Claims for the Age Pension by Centrelink*; and Audit Report No.17 2002–03, *Age Pension Entitlements*.

tasks required a more complete reassessment of a complex range of customers' circumstances, such as earnings and new child reviews, the error rate was higher.

27. The ANAO found the following errors in the earnings reviews it examined:

- 16 per cent contained an administrative error that had an immediate impact on outlays;
- at least 2 per cent contained an administrative error with a potential impact on outlays;
- at least 6 per cent contained a customer error; and
- at least 24 per cent contained an administrative error that had no impact on outlays.

28. In some of the above cases, there was more than one error. In these instances, only one error was counted.<sup>9</sup>

29. Overall, these errors generally had a moderate impact on individual recipients payments. However, within the 16 per cent of review cases which contained an error with an immediate impact on payment, the ANAO identified that nearly a third of these cases (some four per cent of the earnings reviews examined) contained errors of over \$30 per fortnight, which represented a considerable portion of these customers' entitlements.

30. At least 24 per cent of the earnings reviews examined contained an administrative error that had no impact on outlays. These errors would have failed to meet the agreed BAF criteria for correct payment.<sup>10</sup> In these cases, the administrative errors had no immediate impact on payments. However, they are a departure by CSOs from expected practice, and represent a risk to quality customer service, the efficiency of program delivery, and Centrelink's ability to conduct compliance activity.

31. Customer error was also an important contributor to errors in earnings reviews with one or more types of error. While neither FaCS nor Centrelink can be totally responsible for customer error, both organisations should consider ways to further improve customer service to ensure that customers adhere to their obligations.

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<sup>9</sup> In classifying each of the errors, those with an immediate impact on outlays took precedence, in order, over those with a potential impact on outlays; those that contained a customer error; and those that contained an administrative error with no impact on outlays. Consequently, the number of earnings reviews that contained an error with a potential impact on outlays, a customer error, or an administrative error that had no impact on outlays, may be higher than that reported.

<sup>10</sup> The BAF criteria for correct payment reflect legislative requirements under *Social Security Law*. The criteria for correct payment were agreed between FaCS and Centrelink for all income support payments in June 2002.

32. The ANAO found that the most common causes of earnings review errors that required immediate changes to payments were failures to correctly process information about the customer's income allowances and leave entitlements. The ANAO concluded that Centrelink should continue to take action to improve the technical assessment skills of CSOs in these areas, as well as improve the vigilance of CSOs in recording all information that customers provide.

33. Similarly, the ANAO concluded that Centrelink should take action to improve the technical assessment skills of CSOs in conducting and processing new child reviews. The focus of such training should be to better equip CSOs with investigative skills and with suitable approaches to asking sensitive personal questions, in order to determine whether a customer is in a marriage like relationship.<sup>11</sup>

34. On the other hand, the ANAO also found that Centrelink has improved consistency in the delivery of its training and notes further potential benefits from incorporating technical training into accredited training for staff delivering PPS.

35. The ANAO assessed specific aspects of technical training at Centrelink. In reviewing the changes to reference tools available to CSOs delivering PPS, the ANAO concluded that both FaCS and Centrelink have improved the consistency of their respective on-line resources. They are currently discussing establishing a mechanism to streamline and align the *Guide to the Social Security Law* and *e-Reference*. In accessing specialists or expert advice, the ANAO concluded that CSOs had little difficulty in accessing social worker support when needed and had adequate access to helpdesks providing advice on PPS policy issues. In view of the importance of providing timely advice, the ANAO suggests that FaCS should continue to plan and initiate its proposed review of helpdesk protocols.

## Agencies' responses

### Department of Family and Community Services

36. FaCS agrees with all four recommendations. The audit report is generally positive indicating low material impact on outlays. Improvement/s to most of the findings/recommendations are in progress or have been implemented.

### Centrelink

37. Centrelink agrees with all four recommendations and believes that the outcomes of this report are positive and constructive.

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<sup>11</sup> The *Social Security Act 1991* sets out the criteria for forming an opinion as to whether a marriage like relationship exists between two people. Section 4 of the *Social Security Act 1991* prescribes the key determinants in assessing whether a person is a member of a couple.

# Key Findings

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## Performance Information (Chapter 2)

38. The ANAO found that FaCS' Outcome 3: *Economic and Social Participation* complied with both Finance guidelines and ANAO better practice principles. The outcome focused on the result the government was seeking and identified the target group, namely participation in society by people receiving welfare benefits. The outputs relating to the delivery of the PPS program were generally compliant with both Finance guidelines and better practice. The performance information accompanying the outputs also generally complied with Finance guidelines and better practice. Fourteen indicators identified the effectiveness of contributions to outcomes; the price, quality and quantity of outputs; and the characteristics of administered items. The ANAO found that four indicators of these 14 indicators did not meet ANAO better practice.

39. The ANAO considers that when reporting on the Shared Outcome No.1. *Accuracy of program outlays*, the measures should be transparent and complete. In the reporting of payment error, all errors should be reported, whether they are made by Centrelink or the customer. The performance measures should identify all variations, whether they are upward, downward or cancellations. This has been the practice in the past and should continue under the new framework. FaCS, and ultimately the Parliament, should be able to easily assess the accuracy of program outlays, and the range and number of errors made, irrespective of their source.

## Measuring Risks of Payment Incorrectness and Materiality Through the Random Sample Survey (Chapter 3)

40. The ANAO found that the RSS methodology was incomplete and that there were problems with its implementation. Specifically, the ANAO found that:

- the results of the RSS provided to the ANAO were not consistent with the detailed data (on the reasons for incorrectness) later provided by FaCS and that FaCS was not able to completely explain this variance;
- the RSS methodology excluded certain key controls from its estimate of the effectiveness of the control framework. The exclusions have the potential to cause FaCS to report higher levels of incorrectness than is actually the case;

- the RSS methodology overestimated the effectiveness of certain Centrelink controls in detecting incorrect payment. The overestimation leads to quantifiable and potential risks of FaCS reporting lower levels of incorrectness than is actually the case;
- the RSS methodology introduced opportunities for incorrect categorisation (between the residual<sup>12</sup> and controlled categories<sup>13</sup>) of instances of incorrect payment by relying on the concept of the longest debt; and
- the RSS data set contained a small number of cases with inconsistent or incomplete data.

## Reviews (Chapter 4)

41. The ANAO found that around 16 per cent of earnings reviews processed during the audit assessment period had administrative error with an immediate impact on outlays. These errors generally had a moderate impact on individual recipients, although they were more significant for nearly a third of these cases (some four per cent of the earnings reviews examined). The errors tended to balance out, with a low material impact on outlays. Furthermore, in a significant number of cases, CSOs had made administrative errors, or procedural faults, which had no impact on outlays. The most common causes of immediate payment impacts were failures to correctly process information about the customer's income allowances and leave entitlements.

42. In the sample of new child reviews examined, the ANAO found a high rate of error. In particular, in around one third of all cases there was no evidence that the right questions were asked. In around 20 per cent of cases, CSOs did not fully record all the information provided by the customer. Whilst these errors had a very low immediate impact on payment, they are a departure from expected practice. This represents a risk to quality customer service, the efficiency of program delivery and Centrelink's ability to conduct compliance activity, all of which have associated costs.

## Customer Initiated Reassessments and Automated Rate Calculations (Chapter 5)

43. The ANAO found that Centrelink was able to achieve a high degree of correctness in processing CIRs, that is, updating the agency's records on the advice of the customer. The ANAO identified CIR processing errors with an

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<sup>12</sup> Where FaCS considers it highly probable that Centrelink would **not** have detected the incorrect payment through the FaCS-Centrelink control framework under normal conditions.

<sup>13</sup> All cases assumed as having a high probability of being detected by the FaCS-Centrelink control framework in its normal operations.

immediate impact on outlays in only two per cent of the sampled cases, representing low risks to program outlays.

44. The ANAO found a high level of accuracy for Centrelink's Information Technology Systems in calculating PPS rates for customers' payment. Due to the sampling methodology, this result cannot be extrapolated statistically to the population of PPS customers.<sup>14</sup> However, it does suggest that even such minor system faults have the potential to cause considerable errors, if applied to a large number of PPS customers.

## Quality Control (Chapter 6)

45. The ANAO found that as part of its implementation of BAF stage 1, Centrelink had introduced payment correctness questions to QOL. Introducing the payment correctness questions led to some early fluctuations in the QOL results, with the overall QOL results showing a slight downward movement. Check the Checking (CtC) results obtained for audit suggest that significant numbers of QOL checks were being passed inappropriately. A contributory factor to the fluctuations in the QOL results and CtC results may have been uncertainty on the part of some QOL-checkers about the definition of error and the activities to be passed or failed under the BAF.

46. The ANAO also further found that, following the introduction of the payment correctness questions and during the fieldwork for the audit, Centrelink was still not obtaining reliable information from its validation mechanisms to provide assurance on the reliability of QOL results.

## Decision Support (Chapter 7)

47. The ANAO found that Centrelink has improved consistency in the delivery of training by updating the training modules for PPS. Consistency in planning and assessing technical training remains limited. However, Centrelink's planned initiative to incorporate technical training into accredited training, under the Australian Quality Training Framework managed by the Australian National Training Authority can be expected to improve consistency and quality assurance.

48. The ANAO found that Centrelink helpdesks for PPS policy issues provided adequate expert advice to CSOs in the processing and administration of PPS payments. The ANAO also found that both FaCS and Centrelink have improved the consistency of the presentation of their on-line reference information by

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<sup>14</sup> PPS population was 436 883 as at June 2002, based on Centrelink, *Parenting Assistance Performance Report*, Quarter 4, 2001–2002.

establishing separate organisations responsible for the formatting and presentation of their respective on-line resources. Devolving responsibility for the content of updates to functional and program branches should ensure that updates to the reference information are prepared by staff with the expertise in the relevant area.



# Recommendations

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*Set out below are the ANAO's recommendations with abbreviated responses from FaCS and Centrelink. More detailed responses are shown in the body of the report together with the relevant audit findings.*

**Recommendation No.1**  
**Para.2.45**

The ANAO recommends that, in further developing the Outcomes/Outputs Framework, FaCS and Centrelink apply ANAO better practice performance information criteria. In particular, in reporting on the accuracy of outlays, the measures should be comprehensive and complete. The methods of calculating them should be transparent. Additionally, in reporting on payment errors, all errors should be reported, whether they are made by Centrelink or the customer. The performance measures should include all variations, whether they are upward, downward or cancellations.

*FaCS response:* Agreed.

*Centrelink response:* Agreed.

**Recommendation No.2**  
**Para. 3.69**

In order to ensure a high level of robustness and transparency of its estimates of the levels of risks of incorrect payment to PPS customers, and the integrity of program outlays, the ANAO recommends that FaCS should:

- (a) review its methodology for measuring the levels of residual incorrectness, taking into account the concerns identified in this report relating to the reliability of its estimates, especially the exclusion of relevant controls and FaCS' estimation of the effectiveness of controls in detecting incidences of incorrect payments;
- (b) investigate the use of data from Centrelink information systems on the actual levels of payment incorrectness detected by the Centrelink controls in their normal operation; and
- (c) ensure that the limitations of the RSS methodology are transparent to relevant stakeholders and that all stakeholders are made aware of the degree of confidence FaCS has in the methodology.

*FaCS response:* Agreed.

*Centrelink response:* Agreed.

**Recommendation  
No.3  
Para. 4.57**

The ANAO recommends that Centrelink increase and target training, guidance and monitoring of CSOs involved in processing earnings reviews to improve:

- technical assessment skills required to process PPS customers' income allowances and leave entitlements; and
- the vigilance of CSOs in recording all information provided by customers.

*FaCS response:* Agreed.

*Centrelink response:* Agreed.

**Recommendation  
No.4  
Para. 4.84**

The ANAO recommends that Centrelink improve the technical and investigative skills of CSOs involved in processing new child reviews, particularly to enable them to more effectively probe all issues that must be addressed to establish whether PPS customers are in a marriage like relationship.

*FaCS response:* Agreed.

*Centrelink response:* Agreed.

# **Audit Findings and Conclusions**



# 1. Introduction

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*This chapter provides background to the audit. It reports on the audit objectives and approach and discusses the operating environment in which the Parenting Payment Single (PPS) program is delivered.*

## Background

**1.1** Parenting Payment is a social security income support payment available to claimants meeting certain eligibility criteria<sup>15</sup> and whose income and assets are under certain limits. PPS provides income support for single parents of workforce age.

**1.2** The PPS payment contributes to the achievement of the Department of Family and Community Services' (FaCS) third Outcome: *Economic and Social Participation*. This outcome recognises that:

participation in the labour force and community life is facilitated by income support measures and services that encourage independence and contribution to the community.

**1.3** For the financial year 2001–02, \$4.2 billion was paid to approximately 437 000<sup>16</sup> PPS customers.

**1.4** Payment of the PPS is made under the *Social Security Act 1991*, the *Social Security (Administration) Act 1999*, and the *Social Security (International Agreements) Act 1999*, known collectively as the *Social Security Law*. *Social Security Law* is interpreted by the *Guide to the Social Security Law* prepared by FaCS.

**1.5** The program is delivered via a purchaser/provider agreement whereby FaCS, on behalf of the government, purchases program delivery and associated services from Centrelink. The relationship between Centrelink and its client agency, FaCS, is governed by a Business Partnership Agreement (BPA). The agreement 'blends elements of purchaser/provider responsibilities with elements of partnership and alliance.'<sup>17</sup>

**1.6** Under the agreement, FaCS is responsible for advising the government on policy issues related to the program and for ensuring that Centrelink delivers the program in accordance with government policy. Centrelink is responsible for the operational delivery of the program, including assessing new claims for the PPS in accordance with the *Social Security Law* and the *Guide to the Social*

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<sup>15</sup> To qualify for Parenting Payment a person must be the primary carer of a child under 16 years of age, and have met the qualifying residence requirements.

<sup>16</sup> Centrelink, *Parenting Assistance Performance Report*, Quarter 4, 2001–02.

<sup>17</sup> *FaCS-Centrelink Business Partnership Agreement 2001–04*, Strategic Partnership Statement.

*Security Law* and ensuring that ongoing payments under the program are made to eligible people accurately and in a timely manner. FaCS and Centrelink are dependent on each other to ensure that payments are delivered effectively and efficiently.

**1.7** The BPA is anchored in legislation, particularly the *Commonwealth Services Delivery Agency Act 1997* (CSDA Act), under which the Secretary of FaCS has delegated to the Chief Executive Officer of Centrelink the responsibility for administering specified FaCS programs, including the PPS. Also under the CSDA Act, the activities agreed to in the BPA are the functions of Centrelink, and the agency's board is responsible for ensuring that those functions are properly, efficiently and effectively performed.<sup>18</sup> However, the Secretary of FaCS remains accountable under the *Financial Management and Accountability Act 1997* (FMA Act) for the program expenditure. Centrelink is therefore required to provide assurance to FaCS that payments, and therefore program outlays, have been made in accordance with the *Social Security Law*.

## **Operating environment**

**1.8** Income support payments are delivered in an environment of considerable complexity. This complexity results from, among other things, the targeted nature of the income support system, the involvement of two agencies in managing the program, and the fact that the government, FaCS and Centrelink are continually working to improve the targeting, effectiveness and efficiency of program delivery.

**1.9** The complexity of the operating environment, together with the volume of customers and the diversity of their circumstances, provides considerable challenges to FaCS and Centrelink in delivering the PPS payment. The challenges include: assessing the impact on customer entitlements for customers on fluctuating and variable income; assessing and identifying changes in domestic circumstances or marriage like relationships; and encouraging voluntary participation in job, education and training programs targeted towards preparing the customer for the transition from welfare to the workforce. These challenges require Customer Service Officers (CSOs) to make judgements. There are risks arising from these judgements that need to be appropriately managed by FaCS and Centrelink.

**1.10** At the time of the audit, the outcomes, delivery and measurement of social security programs were undergoing the first stage of a program of welfare reform being implemented through the Australians Working Together initiative (AWT). AWT was launched by the government in December 2000 and incorporated a

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<sup>18</sup> Section 12 of the CSDA Act.

number of significant changes in the way the federal government delivers social security programs. The initiative responds to the recommendations of the Reference Group on Welfare Reform's Final Report, *Participation Support for a More Equitable Society* (McClure Report), by making the social security system more focused on individuals. Tailored programs aim to encourage social security recipients to take an active role in society through access to individual advice, training, community based initiatives, and paid employment at a pace appropriate to the customer and her/his circumstances. The implementation of AWT began on 1 July 2002, and will be implemented gradually with further steps planned for 2002–03.

**1.11** The implementation of AWT will result in a number of changes to the PPS program. The most significant of these changes is the introduction of a compulsory structured 'participation' framework for customers whose youngest child is six or over. Prior to AWT, PPS was available to a person who was the primary carer of a dependant child under the age of 16, who satisfied the payment criteria. The main participation component, access to the Job, Education and Training (JET) program, was voluntary.<sup>19</sup>

**1.12** The introduction of a compulsory participation framework to the program, under the requirements of AWT, has resulted in significant modifications to the processes required to deliver PPS. These modified processes include:

- discussion of participation at the PPS new claim interview;
- an annual participation planning interview for PPS recipients whose youngest child is over the age of 12 (from September 2002); and
- a compulsory part-time participation requirement for PPS customers whose youngest child is over the age of 13 (from September 2003).

**1.13** In anticipation of the changes under the AWT, Centrelink is undertaking a range of projects that may affect how PPS is delivered, how performance is measured and how controls are structured. Known collectively as 'Business Transitions', these projects include changes to the job roles of CSOs under the 'Job Redesign' initiative; the development of a customer-centred approach underpinned by the customer account; and the implementation of Service Profiling, a method of selectively targeting Centrelink services and CSO assistance to Centrelink customers.

**1.14** This audit has endeavoured to capture elements of this dynamic environment within the time-frame of fieldwork for this audit. Where possible,

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<sup>19</sup> PPS recipients who elected to participate in the JET program were able to access a structured labour market readiness assessment; workforce entry assistance; education and training assistance; JET training funds; assistance in finding suitable child care; referral to additional help to overcome barriers to employment; and ongoing support.

the audit acknowledges the progress made by FaCS and Centrelink in implementing changes to improve program delivery. However, at the completion of fieldwork, certain proposed changes continued to be subject to further discussions between FaCS and Centrelink. In these instances, the ANAO was unable to analyse or comment on the impact of these proposed changes on the delivery of the PPS program.

## The audit

### Objective and scope

**1.15** The objective of the audit was to determine whether the controls and measures employed by FaCS and Centrelink to deliver PPS payments are effective and efficient. To achieve this, the audit focused on four key areas, these were:

- the quality of performance measures used by FaCS and Centrelink to gauge the effectiveness, quality, quantity and price of the PPS program;
- the effectiveness of FaCS' methodology for estimating the levels of risk of incorrect payment to PPS customers and the impact of these incorrect payments on the integrity of program outlays, as measured through the 2001–02 Random Sample Survey (RSS) of the PPS payment;
- the correctness of Centrelink's processing of reassessments, including program reviews, customer initiated reassessments (CIRs) and automated rate calculations; and
- the improvements to preventive controls such as training, guidance material, and the Quality On-Line (QOL) system, as applicable to the PPS program.

**1.16** Each of these is discussed immediately below.

**1.17** The first component of the audit determined whether performance information regarding the PPS program was appropriate. Consistent with the Commonwealth Government's Outcomes and Outputs Framework, PPS is delivered against specific performance indicators listed in FaCS' Portfolio Budget Statement. These include measures of effectiveness, quantity and price for the payment itself, and measures of quality and price for delivery of the payment. Additionally, the 2001–04 BPA describes performance information used to measure the effectiveness of the delivery of the program by Centrelink and the effectiveness of the relationship between FaCS and Centrelink. In this audit, the ANAO reviewed the quality of this performance information.



**1.18** The second component of the audit focused on the effectiveness and efficiency of measures employed by FaCS and Centrelink to ensure correctness of payment and provide business assurance for the PPS program. Under the 2001–2004 BPA, correctness and accuracy of payment are measured through a program of RSS of key payments. FaCS and Centrelink conducted a RSS of Parenting Payment Single in 2001–02. This audit reviewed the effectiveness of FaCS' methodology for estimating the levels of risk of incorrect payment to PPS customers and the impact of these incorrect payments on the integrity of PPS program outlays, as applied in the 2001–02 RSS of Parenting Payment Single.

**1.19** Centrelink processes customer's PPS payments and circumstances in two ways: when a new claim for PPS is made; or when a reassessment<sup>20</sup> of customers' entitlements is undertaken (based on new information becoming available about the customer's circumstances). Centrelink's processing of new claims for income support payments has been the subject of recent ANAO audits<sup>21</sup> and a Centrelink internal audit.<sup>22</sup> Centrelink is continuing to respond to the issues identified in those audits. The ANAO thus did not examine PPS new claims processing in this audit. Rather, the third component of this audit focused on the correctness of Centrelink's processing of reassessments of existing PPS customers.

**1.20** The effectiveness and efficiency of all the above-mentioned processes depend on appropriate design and effective implementation. They also depend on four preventive quality controls: training; the availability of accurate guidance material; correct processing by Centrelink information systems; and effective quality control mechanisms. These controls are generally delivered across payment types and processes.

**1.21** Training of CSOs, the availability and accuracy of guidance material, and the operation of the QOL quality control system were examined in previous ANAO audits.<sup>23</sup> Centrelink is continuing to respond to the deficiencies identified in these past audits. The fourth component of the audit work in this area therefore reviewed the progress of initiatives to improve these preventive controls, as they applied to the PPS program.

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<sup>20</sup> Reassessments of customer circumstances can be: customer initiated, (that is, when the customer provides new information about his or her circumstances); as a result of a review (that is, an activity to ascertain whether a customer is receiving their correct entitlement); or through automated updates (such as the quarterly Consumer Price Index update) and automated rate calculations.

<sup>21</sup> The processing of new claims was examined by the ANAO in Audit Report No.20 1999–2000, *Special Benefit*, and Audit Report No.34 2000–01, *Assessment of New Claims for the Age Pension by Centrelink*.

<sup>22</sup> Centrelink Internal Audit, CA01080, *Audit of Parenting Payment*, June 2002.

<sup>23</sup> Audit Report No.34 2000–01, *Assessment of New Claims for the Age Pension by Centrelink*; Audit Report No.9 2001–02, *Learning for Skills and Knowledge—Customer Service Officers*, and Audit Report No.17 2002–03, *Age Pension Entitlements*.

## Criteria

**1.22** Audit criteria were established to assess:

- performance measures for the PPS program;
- FaCS' RSS methodology for estimating the levels of controlled and residual risk of incorrect payment and the impact of these incorrect payments on the integrity of PPS program outlays;
- correctness of processing reassessments, including program reviews, CIRs and automated rate calculations; and
- progress of initiatives aimed at improving preventive controls (as applied to the PPS program).

**1.23** Each of these is discussed immediately below.

**1.24** To assess the effectiveness of the performance measures for the PPS program, relevant performance measures in the PBS and FaCS-Centrelink 2001–04 BPA were assessed qualitatively against ANAO better practice criteria.

**1.25** To assess the reliability of FaCS' estimates of the levels of controlled and residual risk of incorrect payments and the impact of these incorrect payments on the integrity of PPS program outlays, the ANAO examined the RSS methodology to determine whether the business rules and assumptions underlying that assessment were correct.

**1.26** To assess the correctness of processing program reviews, CIRs and automated rate calculations, the ANAO developed test sheets that incorporated relevant legislation, policies and guidelines for the PPS program. The test sheets aimed to determine whether the right person was paid under the right program at the right rate for the right date(s): that is, according to FaCS and Centrelink's agreed definition of correctness under the Business Assurance Framework (BAF). To ensure that the test sheets accurately reflected the rules of the PPS program and the BAF definitions, copies were provided to FaCS and Centrelink for comment prior to commencing the assessment. The final sheets were revised to incorporate the agencies' comments.

**1.27** In addition, the ANAO examined whether the PPS program reviews were targeted effectively.

**1.28** Previous ANAO audit reports<sup>24</sup> reviewed preventive controls such as training, guidance material, and the QOL system. To gauge the progress of initiatives taken by FaCS and Centrelink to improve preventive controls, the ANAO conducted a qualitative review to assess whether the associated actions

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<sup>24</sup> Audit Report No.17 2002–03, *Age Pension Entitlements*; Audit Report No.34 2000–01, *Assessment of New Claims for the Age Pension by Centrelink*, and Audit Report No.20 1999–2000, *Special Benefit*.

would correct the deficiencies identified in previous ANAO audits (as applied to the PPS program).

## Methodology

**1.29** Fieldwork for the audit was conducted between February 2002 and September 2002 at the national offices of FaCS and Centrelink, and in the Centrelink network.

**1.30** To assess performance information for the PPS program, the audit examined:

- the quality of performance information in the 2002–03 FaCS Portfolio Budget Statement. The ANAO examined PPS performance information against the legislation, mandatory guidelines<sup>25</sup> and the ANAO's Better Practice Guide for *Performance Information in Portfolio Budget Statements*; and
- the quality of performance information in the 2001–04 BPA, used to measure the effectiveness of the delivery of the PPS program and the relationship between FaCS and Centrelink.

**1.31** To assess whether the Parenting Payment Single RSS methodology provides reliable estimates of the levels of risk of incorrect payment, the audit team:

- discussed the RSS methodology with staff in the national offices of FaCS and Centrelink;
- reviewed FaCS' assumptions underpinning the methodology;
- reviewed the business rules for the FaCS and Centrelink control framework; and
- undertook data quality checks to ensure the quality of the Parenting Payment Single RSS data.

**1.32** To assess the correctness of program reviews, CIRs and automated rate calculations, the audit team:

- discussed the framework for program reviews, CIRs and automated rate calculations with staff in the national offices of FaCS and Centrelink;
- reviewed relevant files and documents;
- discussed the conduct of program reviews and CIRs with staff in five

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<sup>25</sup> FMA Act, *Public Service Act 1999*, Department of Finance and Administration's, *Outcome and Outputs Framework Guidance Document*, November 2000 and Department of the Prime Minister and Cabinet's *Requirements for Annual Reports*, May 2000.

Area Support Offices (ASOs) and 15 Customer Service Centres (CSCs)<sup>26</sup>;

- in consultation with the Australian Bureau of Statistics (ABS), selected samples of customer records from the populations of program reviews and CIRs conducted between 1 February 2002 and 30 April 2002;
- for automated rate calculations the ANAO selected a sample of 100 customers chosen at random from the program review and CIR samples;
- examined the samples of customer records to determine whether they were processed correctly; and
- returned files containing an administrative error to Centrelink to determine the impact of the error on payment.

**1.33** To assess progress related to preventive controls, the audit team:

- discussed the progress in implementing changes to preventive controls with staff in the national offices of FaCS and Centrelink;
- reviewed relevant files and documents; and
- discussed the impact of changes with staff in five ASOs and 15 CSCs.

## Assistance to the audit

**1.34** The ANAO sought the assistance of technical experts to assist in designing sampling strategies and in assessing customer records.

**1.35** The ABS' Statistical Consultancy Unit helped to design the sampling strategy for stratified random samples of program reviews and CIRs. The ABS extrapolated the sample results and obtained unbiased estimates for the appropriate populations.

**1.36** Two Centrelink staff with experience of delivering the PPS program were seconded to the ANAO to:

- assist with the development of the detailed audit test criteria for the assessment of program reviews, CIRs and automated rate calculations;
- examine customer records selected for audit against these audit test criteria; and
- assist in interpreting the results.

**1.37** In working with the ANAO audit team, the Centrelink staff were

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<sup>26</sup> The 15 CSCs selected were located in: Caloundra, Nundah, Mt Gravatt each in Area Brisbane; Glenorchy, Mowbray, Devonport each in Area Tasmania; Watergardens, Geelong, Warrnambool each in Area West Victoria; Dubbo, Tuggeranong, Woden each in Area South West; Palmerston, Broome and Alice Springs each in Area North Australia.

authorised under the *Auditor General Act 1997* and conducted their evaluation and analysis in accordance with the ANAO Auditing Standards.<sup>27</sup>

**1.38** Staff in Centrelink's Parenting Assistance Team provided logistical support in coordinating the retrieval of customer records corresponding to the several samples examined, in organising visits to ASOs and CSCs, and in determining the impact on PPS payments of administrative errors identified in the sample records.

**1.39** The ANAO is grateful for the significant contribution and expertise of all FaCS and Centrelink staff involved, particularly the secondees who were part of the audit team.

## Previous audit coverage

**1.40** The controls and procedures that underpin the delivery of income support payments by Centrelink on behalf of FaCS have been the subject of a number of recent audits by the ANAO.

**1.41** Audit Report No.17 2002–03, *Age Pension Entitlements* examined the business arrangements between FaCS and Centrelink and the development of the BAF; the attribution of error in the 2000–01 Age Pension RSS; the correctness of processing reassessments and progress in implementing the recommendations of previous ANAO audits concerning the preventive quality controls that underpin correct payments. The audit concluded that FaCS and Centrelink had made significant progress in developing the foundations of the BAF; and that three per cent of incorrect cases identified through the Age Pension RSS were attributable to Centrelink error. The audit found that the effectiveness and efficiency of the controls employed by Centrelink to ensure the correctness of Age Pension reassessments varied depending on the complexity of the assessment. Centrelink errors were significantly higher in tasks requiring complex processing. However, the dollar impact of these errors was less than two per cent of fortnightly program outlays for customers subject to reassessments.

**1.42** As mentioned earlier, new claims for certain payments were examined in Audit Report No.20 1999–2000, *Special Benefit* and Audit Report No.34 2000–01, *Assessment of New Claims for the Age Pension by Centrelink*. Both audits concluded that there was a significant degree of non-compliance of new claim assessment decisions with the *Social Security Law* and relevant guidelines, but that the impact

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<sup>27</sup> In order to ensure appropriate audit independence, the Centrelink experts were formally seconded to and paid by the ANAO. They worked in a facility separate from their normal place of work, and under the direct supervision of ANAO staff. The secondees' work was subjected to extensive quality control procedures.

on outlays was relatively small. The audits further concluded that performance reports provided by Centrelink to FaCS were not reliable and that preventive controls were not working effectively.

**1.43** Audit Report No.26 2001–02, *Management of Fraud and Incorrect Payment in Centrelink* examined another aspect of Centrelink’s control framework for ensuring correct payments. It concluded that Centrelink had implemented appropriate fraud control arrangements and that compliance reviews would detect a significant proportion of fraud and error. However, FaCS and Centrelink could improve the collection and use of information on the effectiveness of compliance activities.

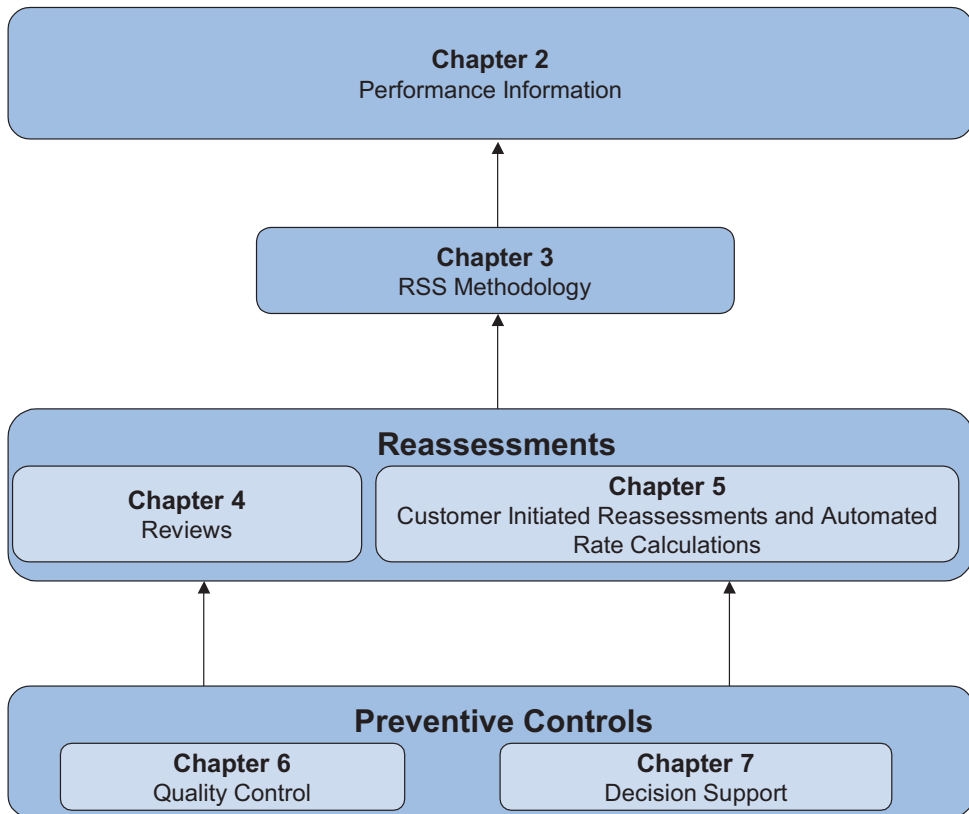
**1.44** FaCS’ role as the purchasing agency for Centrelink’s income support payment delivery services was examined in Audit Report No.35 2000–01, *Family and Community Services’ Oversight of Centrelink’s Assessment of New Claims for the Age Pension* and Audit Report No.45 2000–01, *Management of Fraud Control*. These audits concluded that, while arrangements for fraud control and risk management generally were appropriate, FaCS was unable to monitor and evaluate Centrelink’s performance effectively.

## Report structure

**1.45** Following this introductory chapter, Chapter 2 assesses the quality of performance measures used by FaCS and Centrelink to measure the effectiveness, quality, quantity and price of the PPS program. In a similar vein, in Chapter 3, the ANAO examines FaCS’ RSS methodology for determining the levels of risks of incorrect benefit payments to PPS customers and for estimating the impact of these incorrect payments on PPS program outlays. The following two chapters examine the correctness of Centrelink’s processing of reassessments. Chapter 4 assesses the correctness of processing PPS reviews and Chapter 5 assesses the correctness of processing CIRs and automated rate calculations. Finally, Chapters 6 and 7 examine Centrelink’s progress on improving preventive controls in the context of the PPS program. Chapter 6 reviews the changes to QOL. Chapter 7 reviews developments to improve the quality of decisions made by CSOs, including identifying training needs, the use of subject matter experts and reference tools.

**1.46** Figure 1.1 outlines the structure of the remainder of the report.

**Figure 1.1**  
**Report structure**



## 2. Performance Information

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*This chapter examines the performance information used by FaCS to inform the Parliament how well the Parenting Payment Single (PPS) program has contributed to the achievement of outcomes, and also examines the Outcomes/Outputs Framework used to report on FaCS and Centrelink's shared outcomes.*

### Introduction

**2.1** The Department of Family and Community Services (FaCS) is responsible under the *Financial Management and Accountability Act 1997* (FMA Act) for reporting on the effectiveness and efficiency of the delivery of programs under its control, including the PPS program. FaCS reports the performance of its programs to the Parliament through its annual report, against the plans that are detailed in its Portfolio Budget Statements (PBS), and in its Portfolio Additional Estimate Statements (PAES).

**2.2** The way in which agencies report their performance to Parliament has undergone significant changes over recent years. These changes have mainly focused on agencies more regularly reporting their progress in achieving government outcomes. These changes have been accompanied by an increased level of scrutiny by the Parliament. As a result, agencies have had to develop a performance reporting structure that demonstrates how their outputs, or programs, have contributed to government outcomes.

**2.3** The reporting of performance information is anchored in both legislation and mandatory guidelines, including the:

- FMA Act;
- *Public Service Act 1999*;
- Department of Finance and Administration's (Finance's), *Outcome and Outputs Framework Guidance Document*, November 2000; and
- Department of the Prime Minister and Cabinet's *Requirements for Annual Reports*, May 2000.

**2.4** Funding for the PPS program is appropriated to FaCS, which is accountable for these funds under the FMA Act (as discussed above). Centrelink is a major provider of services on behalf of FaCS, and delivers the PPS program to target customers. The relationship between FaCS and Centrelink is governed by a Business Partnership Agreement (BPA), which acknowledges joint responsibility for performance. FaCS and Centrelink are also jointly responsible for meeting the wider outcomes that the government is seeking through the FMA Act and the *Commonwealth Services Delivery Agency Act 1997* (CSDA Act). (See Chapter 1).



2.5 As the successful delivery of the PPS program relies on both agencies, the performance measuring and reporting framework must take into account not only the effectiveness of the PPS program, but also the effectiveness of the relationship between FaCS and Centrelink. The ANAO, therefore, examined performance measures and performance reporting at two levels:

- firstly, the performance information used to inform the Parliament of how well the PPS program has contributed to the achievement of FaCS' Outcomes; and
- secondly, the performance information used to inform FaCS of how well Centrelink has delivered the PPS program to the target population.

2.6 In order to undertake this examination, the ANAO analysed the quality of performance information in the 2002–03 FaCS PBS as well as the quality of the performance information used to measure the effectiveness of the delivery of the PPS program by Centrelink and the effectiveness of the relationship between FaCS and Centrelink.

2.7 The ANAO assessed the PPS performance information against the legislation and mandatory guidelines above, as well as better practice, specifically, the ANAO's Better Practice Guide for *Performance Information in Portfolio Budget Statements*, May 2002.

## Reporting to the Parliament

2.8 Outcome statements should define the impact government expects from the work the agency undertakes and the administered items it manages. Outcome statements are the basis for developing and defining agency outputs, as well as providing the Parliament and other stakeholders with a clear statement of the broad goals the government wishes to achieve.

2.9 The ANAO assessed FaCS' Outcome 3: Economic and Social Participation, to which the PPS program contributes. The criteria for this assessment were based on Finance's, *Outcome and Outputs Framework Guidance Document*, November 2000. The ANAO sought to determine whether FaCS' Outcome 3:

- focused on the result the government was seeking;
- provided a base for the formulation of indicators that measured the degree to which actual agency outputs contributed to the achievement of the desired outcome. That is, the effectiveness of the agency strategies;
- was stated in a way that allowed the relevant target groups to be identified;
- was capable of being measured; and
- was clearly and succinctly defined.

**2.10** The ANAO found that FaCS' Outcome 3: *Economic and Social Participation* complied with both Finance guidelines and ANAO better practice. The outcome focused on the result the government was seeking and identified the target group, namely participation in society by people receiving welfare benefits.

**2.11** While the outcome statement does appear broad and aspirational, particularly the Social Participation component, FaCS has complemented the outcome with the further explanation: 'participation in the labour force and community life is facilitated by income support measures and services that encourage independence and contribution to the community.' The use of this further explanation by FaCS substitutes the need for the development of intermediate outcomes to link high level outcomes and outputs, and allows FaCS' outcomes to comply with Finance guidelines by providing a base for the development of outputs and performance indicators. This, in turn, provides a framework to measure the outcome.

### **Assessment of outputs and performance indicators for the PPS program in the 2002–03 FaCS Portfolio Budget Statement**

**2.12** The ANAO assessed outputs and performance information for the PPS program in the 2002–03 FaCS Portfolio Budget Statement based on Finance's *Outcome and Outputs Framework Guidance Document, November 2000*, and the ANAO Better Practice Guide for *Performance Information in Portfolio Budget Statements*.

**2.13** Finance defines outputs as:

the actual deliverables—goods and services agencies produce to generate the desired outcomes specified by the government.

**2.14** FaCS has structured its outputs into output groups. PPS is delivered as part of Output Group 3.1: Labour Market Assistance (see Table 2.1). According to Finance guidelines, output groups relate to the business-specific aspects of the agency's operations and can be used to enable aggregated reporting of a number of related outputs. The aggregation process promotes accountability by allowing an agency to provide an overview of a unit of its operations. As well, more detailed information on the contributing outputs is available.

**2.15** The ANAO examined FaCS' outputs to determine if they met ANAO better practice<sup>28</sup>, that is, they:

- described goods or services provided to external individuals or

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<sup>28</sup> From ANAO Better Practice Guide for *Performance Information in Portfolio Budget Statements*, May 2002.

organisations;

- expressed clearly and succinctly what is to be produced rather than how goods or services are produced;
- could be mapped to the agencies organisational structure and management systems;
- contributed to the specified outcome (the contribution should be specified);
- were fully or partially controlled by the agency, either directly or through contractual arrangements with third parties; and
- covered departmental expenses and administered items.

**2.16** As well, the ANAO assessed the performance indicators accompanying the FaCS outcome and output groups. Performance information appearing in the PBS should assist the Parliament and public to assess performance, and in particular identify links between outcomes, outputs and strategies. Performance information should identify the:

- effectiveness of contributions to outcomes;
- price, quality and quantity of outputs; and
- characteristics of relevant administered items.

**2.17** A summary of these assessments appears in Table 2.1.

**Table 2.1**

**Summary of performance information for Parenting Payment Single in the 2002–03 FaCS PBS. (Output group 3.1: Labour Market Assistance)**

Administered Items	Output	Type	Indicator	Meets audit criteria
	Labour Market Assistance for People of Workforce Age	Effectiveness	Adequacy - Ratio of adult rates of income support to minimum wage (estimate Parenting Payment Single: 5.51:1).	✓
			Independence - Average duration on income support in weeks (Parenting Payment 80-100).	✗
			- Percentage of Parenting Payment recipients with a duration of five years or more (26% of Parenting Payment Single clients).	✗
			- Percentage of clients with earnings (Parenting Payment 5.0% - 10.0%).	✓
			- Average amount of earnings per fortnight (Parenting Payment \$250.00 – 275.00).	✗
			Targeting - Percentage on part rate due to means test (Parenting Payment 5.5% - 6.5%).	✓
			Quantity - Number of clients in receipt of assistance (Parenting Payment Partnered and Single estimate: 646,595).	✓
			Price - Parenting Payment Partnered and Single: \$5.8 billion.	✓
	Purchasing, Funding and Relationship Management	Quality	Assurance - Department ensures that service providers meet terms and conditions of funding. Service agreements/contracts meet legislative, government policy and departmental requirements in place with all service providers.	✓
		Quantity	- Number of contracts/service agreements under management (estimate: 2). Number of service providers under management (estimate: nil).	✓
		Price	\$5.9 million.	✓
	Research and Evaluation	Quality	Assurance - Research and evaluation is of a high standard (timely, fulfils objectives, complete, methodologically sound) and contributes to policy understanding and development.	✓
		Quantity	- Major pieces of research and evaluation completed (estimate: 1). \$2.8 million.	✓
		Price		✓
	Service Delivery	Quality	Assurance - Service providers deliver the services to the standards agreed with FaCS.	✓
			Client Rights and Obligations - Number of reviews and appeals (estimate: ARO – 1 784, SSAT – 3 052, AAT – 530)*.	✓
			- Control of incorrect payment and fraud: savings in administered items arising from compliance activities (estimate: \$26.3 million in fortnightly savings and \$177.01m annually for debts).	✓
		Price	Centrelink - \$635.4 million. Other - \$4.4 million.	✓

Source: Department of Family and Community Services, 2002, *Portfolio Budget Statements 2002–03: Family and Community Services Portfolio*: Budget related paper 1.8; and ANAO analysis.

\* ARO—Authorised Review Officer, SSAT—Social Security Appeals Tribunal, AAT—Administrative Appeals Tribunal.

**2.18** The ANAO found that FaCS' outputs relating to the delivery of the PPS program were generally compliant with both Finance guidelines and ANAO better practice. Output Group 3.1: Labour Market Assistance, and its aggregated outputs Labour Market Assistance for People of Workforce Age; Purchasing, Funding and Relationship Management; Research and Evaluation; and Service Delivery described the services provided, and expressed clearly and succinctly what was to be delivered. The use of explanatory text allowed FaCS to demonstrate how Output Group 3.1 would contribute to Outcome 3, and combined with the Outcomes/Outputs (Table 2.1), mapped the outputs and outcomes to the Agency's structure. The outputs identified were either fully controlled, or partially controlled, by FaCS through the BPA with Centrelink, and covered both administered and departmental items.

**2.19** The performance information accompanying the outputs also generally complied with Finance guidelines and better practice. Fourteen indicators identified the effectiveness of contributions to outcomes; the price, quality and quantity of outputs; and the characteristics of administered items. However, the ANAO found that four indicators did not meet the audit criteria listed in paragraph 2.15. Table 2.2 contains a summary of the reasons for these indicators' non-compliance. The ANAO considers that FaCS should review the use of these indicators in its PBS.

**2.20** The ANAO can see the intent of the first three indicators in Table 2.2 that the shorter time on PPS payments and the greater earnings of recipients, the more successful the payment in encouraging economic participation. However, the ANAO considers that these indicators are not effective in measuring 'contribution to economic participation', for the reasons discussed in Table 2.2. Moreover, there are no output measures that indicate the payments' success in promoting social participation—the second component of the outcome statement. The fourth indicator does not measure quality, which is the intention of the measure.

**Table 2.2****Summary of non-compliant performance indicators for Parenting Payment Single in FaCS' 2002–03 PBS**

Indicator	Reason for non-compliance
<b>Effectiveness</b> —Average duration on income support in weeks. (Parenting Payment 80-100)	This indicator does not measure the <b>effectiveness</b> of the PPS program. It measures how long people stay on the PPS program, and is accompanied by a target that lacks justification by FaCS. It also does not measure the client's destination after leaving the PPS program. Is the destination into employment (i.e. labour market participation), or into another social security program? The indicator is also likely to be affected by a number of other issues outside of FaCS' control, such as general economic trends and demographics.
<b>Effectiveness</b> —Percentage of Parenting Payment recipients with a duration of five years or more (26% of Parenting Payment Single clients)	This indicator does not measure the <b>effectiveness</b> of the PPS program. It does not measure the destination of the recipients who have left the program, and therefore the effectiveness of any intervention measures within the program. As well, it will be affected by economics and demographics. The target also lacks justification and is not linked to a strategy within the PPS program.
<b>Effectiveness</b> —Average amount of earnings per fortnight (Parenting Payment \$250.00–\$275.00)	This indicator does not measure the <b>effectiveness</b> of the PPS program. The PPS program would have no effect on the recipients' level of earnings. The employment market and award wage rates, not a social security program, would determine this.
<b>Quality</b> —Client Rights and Obligations - Number of reviews and appeals (estimate ARO–1 784, SSAT–3 052, AAT–530)	This indicator does not measure <b>quality</b> . The results of these reviews and appeals would measure quality.

Source: Department of Family and Community Services, 2002, *Portfolio Budget Statements 2002–03: Family and Community Services Portfolio*: Budget related paper 1.8; and ANAO analysis.

**2.21** While the ANAO acknowledges that FaCS' outcomes, outputs and performance information in its present form is generally compliant with both Finance guidelines and better practice, the changes occurring to the composition and delivery of social security programs through the process of welfare reform (subject to the passage of legislation), means that FaCS will need to revise its performance information. The present set of performance indicators in the FaCS Portfolio Budget Statements do not reflect the new outcome specific nature of the social security system.

**2.22** The first phase of welfare reform Australians Working Together (AWT) contains a budgeted appropriation of \$1.7 billion over four years<sup>29</sup>, and with such a large appropriation its effectiveness should be measured. Possible measures include: the number of people gaining employment as a direct result of AWT initiatives; the number of Community Agreements signed under AWT; and the outcomes of these Community Agreements.

<sup>29</sup> Department of Family and Community Services, *Australians Working Together, Helping People to Move Forward, At a Glance*, Commonwealth of Australia, 2001.

## Conclusion

**2.23** The ANAO concluded that the information used to report the performance of the PPS program to Parliament by FaCS was generally compliant with both Finance Guidelines and ANAO better practice. FaCS' Outcome 3: Economic and Social Participation, though aspirational, is able to meet the audit criteria through the use of further explanatory text which adds detail, and substitutes the need for intermediate outcomes. The outcome focused on the result the Government was seeking, and identified its target group.

**2.24** FaCS outputs and accompanying performance information largely complied with the audit criteria. The ANAO concluded that FaCS outputs were compliant with most Finance Guidelines and ANAO better practice. However, there were shortcomings in measuring the effectiveness of the payment to promote economic participation and there were no output measures linked to social participation. In particular, four of the performance indicators used by FaCS in its PBS should be reviewed as they were found to be ineffective in measuring the intended impact of the payment.

## Reporting between FaCS and Centrelink

**2.25** Two streams of information relating to the performance of the PPS program flow from Centrelink to FaCS. The first stream is management information. This is raw data relating to FaCS programs (such as the number of transactions, number of customers, and value of outlays) which, when extracted and grouped, contributes to the development of performance information that is reported in FaCS' Annual Report.

**2.26** The second stream of information relates specifically to the quality of the service delivery of social security programs by Centrelink, including the PPS program. This information is provided by Centrelink to FaCS in quarterly reports. It details Centrelink's performance against the service delivery performance indicators present in the BPA. This section of the chapter assesses this second stream of information.

## Service level performance information

**2.27** The service delivery relationship between FaCS and Centrelink for PPS is based on the current BPA which was signed in 2001 and covers the period 2001–2004. The Outcomes, Strategies and Performance Protocol within the BPA envisaged that FaCS and Centrelink would review the then current set of Key Performance Indicators (KPIs) during the BPA period. This review was undertaken during 2002. The aim of this review was to develop a set of performance indicators that provided a strategic view of the performance of the partnership to the executive management of both agencies, and to the Parliament.

**2.28** On 1 November 2002, FaCS and Centrelink agreed, in principle, to a set of service delivery KPIs that aimed to measure both the effectiveness of the delivery of FaCS programs by Centrelink, and the effectiveness of the service relationship. The indicators form part of a reporting structure titled 'FaCS/Centrelink Outcomes/Outputs Framework' and were intended to be first used in the December 2002 Quarterly Report to FaCS. However, FaCS and Centrelink have agreed that, while measures are being developed, and associated reporting mechanisms and frequencies developed and agreed, the existing performance management and reporting framework will continue. FaCS and Centrelink anticipate that full implementation of the framework across all programs will now commence on 1 July 2003. The structure of the proposed new framework is illustrated in Figure 2.1.



**Figure 2.1****FaCS/Centrelink Outcomes/Outputs Framework**

Portfolio Responsibility		Centrelink-FaCS Shared Outcomes		Centrelink Contribution to Shared Outcomes and Outputs (KPIs)
<b>Centrelink</b>		<i>FaCS and Centrelink will work together to achieve portfolio outcomes</i>		<i>Centrelink will report quarterly on the KPIs listed below</i>
<b>A. Contribution to FaCS Outcomes</b>	→	1. Accuracy of Program Outlays	→	1.1 Overall level of payment correctness
			→	1.2 Effective prevention, detection and deterrence strategies, noting FaCS' role.
			→	1.3 Identification of debt.
			→	1.4 Recovery of debt.
	→	2. Effective customer servicing and support (all customers)	→	2.1 Appropriate needs identified and actions agreed, including referrals.
			→	2.2 Effective interaction with other service providers.
			→	2.3 Effectively stream the flow of customers to services.
	→	3. Economic and social participation for identified customers	→	3.1 Appropriate and ongoing assessment.
			→	3.2 Appropriate requirements and ongoing actions agreed.
			→	3.3 Customer motivation.
	→	4. Customer and community knowledge of FaCS programs and Centrelink services	→	4 Customer and community awareness and understanding of assistance, support and obligations.
<b>B. Responsiveness to Government</b>	→	5. Policy development includes analysis of ongoing and emerging issues	→	5.1 Provision of feedback on emerging policy and service delivery issues, including service gaps and need for simplification.
			→	5.2 Input to development and review of new and ongoing policy.
			→	5.3 Provision of accurate data.

Source: Centrelink Business Development Unit.

**2.29** The new framework replaces the current indicators present in the quarterly reporting system. The quarterly reports currently provided to FaCS by Centrelink are not outcome or performance focused and mainly concentrate on reporting operational issues. A major theme in the development of the new framework was to move away from reporting on what FaCS and Centrelink termed ‘micro-management’ issues, or operational issues, to reporting on contributions to outcomes.

**2.30** The proposed structure (Figure 2.1) consists of five shared outcomes that would be reported on quarterly to FaCS. Linking into these outcomes are a number of performance indicators, which would only be formally reported on to FaCS if the level of performance fell outside the agreed parameters. However, while there is otherwise no formal reporting on these indicators, FaCS’ program branches would have access to the values of these indicators. It is envisaged that FaCS would be able to ‘drill down’ into these indicators to examine the performance of specific programs such as PPS. FaCS and Centrelink have agreed on a shared protocol for the framework which includes agreement that FaCS will clearly state and prioritise its requirements for assurance and analysis, and that consideration will be given to the complexity and cost of data extraction.

**2.31** The ANAO examined the proposed new framework to determine if it had the potential to adequately measure the effectiveness of both the service delivery and the service level relationship. In particular, the ANAO assessed whether the FaCS/Centrelink Outcomes/Outputs Framework would provide an accurate and balanced view of Centrelink’s performance in meeting the agreed standards of the BPA. The ANAO assessed the framework against the principles of better practice outlined in the Better Practice Guide for Performance Information. These criteria included the *Six Dimensions of Data Quality*<sup>30</sup> which require performance information to be:

- **relevant**—shed light on the issues relevant to stakeholders, and should contribute to an understanding of agency performance;
- **accurate**—the information should correctly describe the attribute;
- **timely**—the information should be reported in an acceptable timeframe;
- **accessible**—stakeholders should be able to access the information with ease;
- **interpretable**—stakeholders should be able to interpret the performance information with ease. A particular facet of interpretability that must be considered is data continuity, as stakeholders need information over a

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<sup>30</sup> Gordon Brackstone, *Managing Data Quality in a Statistical Agency*, Statistics Canada, Survey Methodology, Vol 25 No. 2, December 1999.

number of years if they are to analyse trends over time. As well, the level of aggregation of performance information was identified by the Senate Finance and Public Administration Committee as a factor that reduced the interpretability of performance information. The provision of performance information for a large number of low level activities, or aggregated performance information for a number of significant areas, can make interpretation difficult; and

- **coherent**—data items form one coherent suite of information.

**2.32** A summary of this assessment appears in Table 2.3.

**Table 2.3**

**ANAO Assessment of the FaCS/Centrelink Outcomes/Outputs Framework against the audit criteria**

Portfolio responsibility	Centrelink/ FaCS Shared Outcomes	Adequate	Centrelink Contribution to Shared Outcomes and Outputs (KPIs)	Adequate
<b>A. Contribution to FaCS Outcomes</b>	1. Accuracy of program outlays	✓	1.1 Overall level of payment correctness 1.2 Effective prevention, detection and deterrence strategies, noting FaCS' role 1.3 Identification of debt 1.4 Recovery of debt	x
	2 Effective customer servicing and support (all customers)	✓	2.1 Appropriate needs identified and actions agreed including referrals 2.2 Effective interaction with other service providers 2.3 Effectively stream the flow of customers to services	✓
	3. Economic and social participation for identified customers	✓	3.1 Appropriate and ongoing assessment 3.2 Appropriate requirements and ongoing actions agreed 3.3 Customer motivation	x
	4. Customer and community knowledge of FaCS programs and Centrelink services	✓	4.1 Customer and community awareness and understanding of assistance, support and obligations	✓
<b>B. Responsiveness to Government</b>	5. Policy development includes analysis of ongoing and emerging issues	✓	5.1 Provisions of feedback on emerging policy and service delivery issues, including service gaps and need for simplification 5.3 Input to development and review of new and ongoing policy 5.4 Provision of accurate data	✓

Source: Centrelink Business Development Unit and ANAO analysis.

**2.33** The ANAO found that the new framework could be a marked improvement on the present reporting of service level effectiveness, which is mainly based on operational information. The new framework has the potential to provide a more strategic view of the service level performance by linking the five Centrelink/FaCS shared outcomes to FaCS' performance framework through measuring *Centrelink's Contribution to FaCS Outcomes*, and *Responsiveness to Government*.

**2.34** However, the framework was not finalised at the time of the audit and the program level performance measurements were not agreed. While the ANAO found the new framework represents an improvement, and the KPIs are reasonable in broad concept, until the ANAO has an opportunity to examine the specific measures and analyse the data used to determine the KPIs, it is unable to comment fully on the framework. Once measures are decided, it is important that they are maintained, as data continuity is a significant criterion for KPIs.

**2.35** At this stage, however, the ANAO has particular concerns relating to the indicators connected to Shared Outcome No.1 *Accuracy of program outlays*, and the indicator 3.3 *Customer motivation*. These two sets of indicators are examined below.

### **KPIs for accuracy of program outlays**

**2.36** During the development of its Business Assurance Framework (BAF), Centrelink applied a specific definition to the terms *correctness* and *accuracy* as they relate to outlays. A payment is deemed to be correct if it satisfies four criteria: the right person is paid; under the right program; at the right rate; and for the right date(s). These criteria are known as the four pillars. Accuracy is defined as Centrelink complying with the four pillars, with the qualifier, all of the time. This recognises the obligation of the customer to advise of changes in circumstances that may affect their payment entitlements.

**2.37** Under the FMA Act and the CSDA Act, both agencies are responsible for the integrity of outlays, and for promoting efficiency and effectiveness in program delivery. In accounting to government and the Parliament, the total amount of outlays at risk should be reported. Therefore, the performance indicators measuring the accuracy of outlays should include the overall error rates, that is Centrelink error (correctness) and Customer error (accuracy).

**2.38** KPI 1.1 *Overall level of payment correctness* is the measure of Centrelink error. KPI 1.2 *Effective prevention, detection and deterrence strategies, noting FaCS' role* is designed to identify customer error. However, at the time of the audit, the precise way in which KPI 1.2 will be measured was not agreed between FaCS and Centrelink. Therefore the ANAO is unable to comment on the completeness of the measures for *Accuracy of program outlays*.

**2.39** In addition, the ANAO understands that the Random Sample Survey (RSS) will be one tool used to measure KPI 1.1 and 1.2. The ANAO has concerns relating to the RSS and the residual methodology and these are discussed in Chapter 3. The ANAO would therefore also have concerns about the reporting of KPI 1.1 and 1.2 if the RSS and the residual methodology are to be used in their current form.

**2.40** The ANAO considers that when reporting on the accuracy of program outlays, the measures should be comprehensive and complete, and the methods of calculating them should be transparent. In reporting on payment error, all errors should be reported, whether they are made by Centrelink or the customer, and the performance measures should identify all variations, whether they are upward, downward or cancellations. This has been the practice in the past and should continue under the new framework. FaCS, and ultimately the Parliament, should be able to easily assess the accuracy of program outlays, and the range and number of errors made, irrespective of their source.

**2.41** The ANAO suggests that FaCS and Centrelink use the ANAO's Better Practice Guide for *Performance Information in Portfolio Budget Statements* and the *Six Dimensions of Data Quality* listed above, when formulating the measures for the KPIs for *Accuracy of program outlays*.

## **Customer motivation**

**2.42** The KPI 3.3 *Customer Motivation*, which aims to indicate the level of economic and social participation for identified customers, is of concern to the ANAO. Motivation is a state of mind, not a tangible or easily measurable indicator. Motivation may not correlate with participation, as some customers may participate but not be motivated, and vice versa. As FaCS and Centrelink are aiming to measure social and economic participation, they should consider using indicators that measure the participation of their customers in various social and economic activities, taking into account changes in economic performance.

**2.43** Centrelink provided further information on how it intended to measure motivation, including that a consultant had been engaged with experience in helping organisations achieve and measure desired behavioural change. The ANAO considers that measures should be simple and easily measured. The indicator *Customer Motivation* would appear to be complex and costly to measure.

## **Conclusion**

**2.44** The ANAO concluded that the framework being developed for reporting on the effectiveness of the service delivery relationship has the potential to provide a balanced and accurate assessment of the service provided by Centrelink. However, this analysis was limited because the framework has not yet been finalised. Questions arise over the measurement of KPIs related to the *Accuracy of program outlays* and *Economic and social participation*.

## Recommendation No.1

**2.45** The ANAO recommends that, in further developing the Outcomes/Outputs Framework, FaCS and Centrelink apply better practice performance information criteria. In particular, in reporting on the accuracy of outlays, the measures should be comprehensive and complete. The methods of calculating them should be transparent. Additionally, in reporting on payment errors, all errors should be reported, whether they are made by Centrelink or the customer. The performance measures should include all variations, whether they are upward, downward or cancellations.

### *FaCS response*

**2.46** FaCS agrees. The Rolling Random Sample program will ensure that data is available to facilitate reporting of all payment errors, and improved reporting of the accuracy of outlays. FaCS is working with Centrelink to develop additional quantitative and qualitative performance measures for inclusion in the framework.

### *Centrelink response*

**2.47** Centrelink agrees. Centrelink notes that through the Random Sample Survey all payment errors are reported. This is part of the Outcomes/Outputs Framework and a subset of the Business Assurance Framework.

### 3. Measuring Risks of Payment Incorrectness and Materiality Through the Random Sample Survey

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*This chapter examines FaCS' methodology for estimating the levels of risk of incorrect payments to Parenting Payment Single (PPS) customers and the impact of these incorrect payments on PPS program outlays.*

#### Introduction

**3.1** As described in Chapter 1, both FaCS and Centrelink are jointly responsible for the stewardship of Commonwealth funds under their management and for promoting the efficient, effective and ethical use of Commonwealth resources.

**3.2** The Secretary of FaCS delegates responsibility for program administration to Centrelink. The Secretary discharges his/her accountabilities and manages the major risks arising from outsourcing services to Centrelink through the Business Partnership Agreement (BPA). The BPA identifies key risks and specifies assurance tools used by both parties in reporting on those risks. A key principle underpinning the BPA is the ability of both parties to demonstrate to each other that they are discharging their responsibilities correctly, including the management of risk and the absence of material error.

**3.3** In assessing the key risks facing FaCS and Centrelink, the current BPA (2001–04) notes 'Incorrectness of payment and government outlays is the most significant financial risk that FaCS has with the delivery of payments and services'.<sup>31</sup>

**3.4** The ANAO therefore examined:

- FaCS' methodology for estimating the levels of risks of incorrect payments; and
- the material impact of these incorrect payments on the PPS program.

**3.5** This examination is detailed below.

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<sup>31</sup> FaCS-Centrelink Business Partnership Agreement 2001–04, Business Partnership Assurance Protocol.



## Measuring risks to payment correctness through the Random Sample Survey

**3.6** Under the *Social Security Law*<sup>32</sup>, customers are required to disclose information about changes in their personal and financial circumstances that affect their entitlement.

**3.7** However, there are risks associated with a reliance on voluntary disclosure by customers because individuals can fail to report relevant changes when they occur either through lack of understanding of their obligations, omissions, mistakes, or deliberately misrepresenting their circumstances. FaCS and Centrelink have a risk management strategy to minimise the potential for incorrect payments by involving customers in a variety of review processes. The risk management strategy focuses on three objectives—prevention, detection and deterrence.<sup>33</sup>

**3.8** As part of their risk management strategy and to gather performance information on payment correctness, FaCS and Centrelink have been conducting Random Sample Surveys (RSS) of major payments since 1999. During 1999–2002, FaCS and Centrelink conducted RSS of major payment programs to measure the levels and reasons for incorrect payments and to test, for audit purposes, whether the amount of incorrect payment would have a material impact on FaCS' financial statements. The surveys were funded through annual budget measures and targeted at individual payments.

**3.9** As a key component of the FaCS and Centrelink Business Assurance Framework (BAF)<sup>34</sup> the scope of the RSS has been expanded to provide annual assurance for all major payments<sup>35</sup>, and for minor payments over a three-year cycle. These surveys commenced in July 2002 and FaCS proposes to conduct a total of 8750 reviews, sampled on a rolling quarterly basis, in 2002–03.

**3.10** The RSS involves sampling a number of customers to verify their entitlements. FaCS, through Centrelink, reviews customers to ascertain if they

<sup>32</sup> The *Social Security Law* comprises the *Social Security Act 1991*, the *Social Security (Administration) Act 1999* and the *Social Security (International Agreements) Act 1999*.

<sup>33</sup> The BPA 2001–04 defines these as:

Prevention—having systems and procedures in place to minimise the risk of incorrect payment occurring.

Detection—having processes aimed at detecting incorrect payments as soon as possible and promptly correcting any incorrect payments that have occurred.

Deterrence—promoting voluntary compliance through creating a public recognition of the risks and penalties involved in attempting to defraud Centrelink, including the likelihood of detection, recovery of debts and possible prosecution.

<sup>34</sup> The BAF is described in Chapter 6, and in more detail in Audit Report No.17 2002–03, *Age Pension Entitlements*.

<sup>35</sup> Major payments are Age Pension, Youth Allowance, Parenting Payment (Single and Partnered), Disability Support Pension, and Newstart Allowance.

have notified Centrelink of changes to their circumstances in a timely manner, as well as ensuring that decisions made by Centrelink staff in relation to the payment have been correct. The raw level of incorrect payment is determined for the sample by identifying instances of incorrect payments (cases with either increases, decreases or cancellations to fortnightly customer payments) in the recipient population.

**3.11** The raw<sup>36</sup> level of incorrectness represents all incorrect payments identified through the RSS. In addition to measuring the raw level of incorrectness, FaCS attempts to identify whether Centrelink would have detected these instances of incorrect payment under normal circumstances. If FaCS considers it highly probable that Centrelink would not have detected the incorrect payment through the FaCS-Centrelink control framework under normal conditions then it is categorised as residual<sup>37</sup> and reported as the residual level of incorrectness. All cases assumed as having a high probability of being detected by the FaCS-Centrelink control framework in its normal operations are categorised as controlled by the RSS methodology.

**3.12** FaCS uses the RSS results to assure itself that Centrelink is maintaining an adequate control framework to identify and correct instances of incorrect benefit payments to customers. In addition, the RSS residual results are used to assist FaCS to determine whether the amount of incorrect payment would have a material impact on its financial statements and also to calculate that impact.

**3.13** The FaCS methodology for estimating the levels of controlled and residual risks of incorrect benefit payments is examined in further detail below.

### *FaCS' methodology for estimating levels of controlled and residual risks of incorrect payments*

**3.14** The RSS methodology for estimating controlled and residual levels of incorrectness is based on a series of assumptions, designed to simulate the workings of specific elements of the existing control framework.<sup>38</sup>

**3.15** FaCS determines the RSS methodology assumptions based on information provided by Centrelink on its controls for the payment being reviewed. FaCS consults Centrelink in the design of the RSS methodology but retains primary carriage for its implementation.

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<sup>36</sup> The raw or inherent risk is the potential risk for impropriety that exists for a payment by its very nature, based on factors such as the number of beneficiaries receiving payment, complexity of legislation, use of discretion in decision-making and the level of voluntary disclosure by the beneficiary.

<sup>37</sup> Residual risk is the risk that remains after considering the effectiveness of controls put in place to treat/address inherent risk.

<sup>38</sup> In line with the objective of evaluating the effectiveness of current review activity in detecting instances of payment incorrectness, the RSS methodology limits its scope to compliance reviews.

**3.16** During a RSS review, a reason is attributed for each identified incorrect payment. The reason for incorrect payment is tested against the RSS methodology assumptions for the payment type being reviewed and the case is assigned to one of the following two categories:

- Category 1: cases that meet the criteria for detection by the relevant FaCS-Centrelink control are treated as highly probable that the control framework would have detected the incorrectness. All such cases are deemed as being controlled.
- Category 2: cases that fail to meet the criteria for detection by the relevant FaCS-Centrelink control are treated as highly probable that the control framework would not have detected the incorrectness. All such cases are deemed as being residual.

**3.17** The example reported in Table 3.1 below highlights the intricacies that often exist when determining whether incorrect payments should be specified as Category 1 or Category 2. In this case, the reason for incorrectness is that the recipient declared an incorrect (low) level of income from employment. The control is data matching with the Australian Taxation Office (ATO). Table 3.1 illustrates that income from employment is assumed by the RSS methodology to be Category 1 (controlled) and detectable by current FaCS-Centrelink controls **if** the debt related to income from a customer undertaking employment is **less than** 39 fortnights<sup>39</sup> old. Conversely, if the reason for incorrectness is that the debt related to income from employment is **greater than** 39 fortnights, the income is treated as being undetectable, and the case is categorised as Category 2 or residual. The rationale is that, if the debt is greater than 39 fortnights old, the ATO data matching control has failed, so the debt would not have been detected by normal controls.

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<sup>39</sup> The length of time comes from a full 12 months (26 fortnights) of earnings for the financial year and then up to a further six months (13 fortnights) for the customer to lodge a tax return, in total, 39 fortnights.

**Table 3.1****Example of FaCS' assumptions for categorising residual incorrect payments**

RSS reason for incorrectness	Control	Category
Incorrect income from employment and any debt is <b>less</b> than 39 fortnights old.	Data matching with the ATO.	Category 1 (controlled)
Incorrect income from employment and any debt is <b>greater</b> than 39 fortnights old.		Category 2 (residual)

Source: Information provided by FaCS.

**Results of the 2001–02 Parenting Payment Single RSS**

**3.18** During 2001–02, FaCS and Centrelink used the RSS to review the entitlements of 3000 PPS customers. Table 3.2 shows the results of the 2001–02 Parenting Payment Single RSS in estimating the raw level of incorrect payment and the further categorisation into the controlled and residual levels of incorrect payment.

*Raw, controlled and residual risks of incorrect payment*

**3.19** FaCS' results described in Table 3.2 indicate that the total (raw) level of errors identified through the RSS process was quite high for the PPS in 2001–02, at 16.1 per cent of the sample or 483 out of 3000 PPS customers reviewed (customers with rate increases, decreases and cancellations to their fortnightly payments).

**Table 3.2****FaCS' estimates of the levels of raw, controlled and residual incorrect payment in the 2001–02 Parenting Payment Single RSS**

	Raw level of incorrect payment	Category 1 (Controlled)	Category 2 (Residual)
Number of incorrect cases in sample	483	209	274
Percentage of incorrect cases in sample	16.1	7.0	9.1

Source: ANAO analysis based on FaCS results.

**3.20** The 483 incorrect payment cases in the sample were then subjected to the RSS methodology. On the basis of this methodology and assumptions, FaCS considered that the control framework would have detected and rectified these incorrect payments in over 40 per cent of cases. The controlled or Category 1 cases were thus 7.0 per cent or 209 of the 3000 customers reviewed during the 2001–02 Parenting Payment Single RSS.

**3.21** FaCS calculated that 9.1 per cent, or 274 out of the 3000 customers reviewed during the 2001–02 Parenting Payment Single RSS, would not have had the errors identified and corrected through existing controls and thus were classified as Category 2 cases.

### *Materiality*

**3.22** FaCS estimated the impact on its financial statements of incorrect payments to PPS customers identified through the 2001–02 Parenting Payment Single RSS. To do so, it extrapolated the fortnightly amounts paid incorrectly for Category 2 cases identified during the 2001–02 Parenting Payment Single RSS to the entire PPS population. The net residual result (customers with rate decreases and cancellations less rate increases to their fortnightly payments) was used by FaCS to determine the impact of these incorrect payments on its outlays. Table 3.3 shows that FaCS calculated this to be 2.5 per cent or \$3.7 million paid incorrectly to PPS customers every fortnight in 2001–02. This is out of the approximately \$150 million paid to PPS customers every fortnight. FaCS also provides this figure to the ANAO, to assist, where required, in estimating the material impact of these errors on FaCS' financial statements.

**Table 3.3**

**FaCS' calculation of the material impact of Category 2 incorrect PPS payments in 2001–02**

Residual Measure	Rate decreases and cancellations	Rate increases	Net rate decreases and cancellations less rate increases
Percentage of number of Category 2 errors in RSS cases	6.1	3.0	3.1
Percentage change in fortnightly outlays from Category 2 errors	2.8	0.4	2.5
Estimated fortnightly amount of above on entire PPS population	\$4.2 million	\$0.5 million	\$3.7 million

Source: ANAO analysis based on FaCS results.

## **ANAO examination of the Random Sample Survey methodology**

**3.23** To assess whether the 2001–02 Parenting Payment Single RSS methodology provides reliable estimates of the levels of controlled and residual risk of incorrect payment, the audit team:

- discussed the RSS methodology with staff in the national offices of FaCS and Centrelink;

- reviewed FaCS' assumptions underpinning the methodology;
- reviewed the business rules for the FaCS-Centrelink control framework; and
- undertook data quality checks to ensure the quality of the Parenting Payment Single RSS data.

### *Key issues with the methodology*

**3.24** The ANAO found that the RSS methodology was incomplete and that there were problems with its implementation. The ANAO concluded that these issues could lead to potential and identifiable errors in FaCS' estimates of the levels of controlled and residual risks of incorrect benefit payments. The ANAO found that:

- the detailed data provided to the ANAO was not consistent with the aggregate results provided by FaCS (see Table 3.4). FaCS was not able to completely explain the variance in the data. Together, this casts doubt on the reliability of the results obtained through the RSS methodology;
- the RSS methodology excluded certain controls from its estimate of the control framework. The exclusions have the potential to cause FaCS to report higher levels of incorrectness than is actually the case.
- the RSS methodology overestimated the effectiveness of certain Centrelink controls. The overestimation leads to quantifiable and potential risks of FaCS reporting lower levels of incorrectness than is actually the case.
- the RSS methodology introduced opportunities for incorrect categorisation (between the residual and controlled categories) of instances of incorrect payment by relying on the concept of the longest debt; and
- the RSS data set contained a small number of cases with inconsistent or incomplete data. Instances with incomplete or inconsistent data are highly likely to be incorrectly categorised and thus impact on the estimates of the levels of residual and controlled incorrect payment.

**3.25** Each of these issues is discussed below.

### *Variance of results*

**3.26** FaCS provided the ANAO with the aggregate results for the 2001–02 Parenting Payment Single RSS. Data set 1 in Table 3.4 lists these results (also see Table 3.2). The ANAO requested and received further detailed data from FaCS (Table 3.4, data sets 2 and 3) explaining the aggregate results provided earlier.<sup>40</sup>

<sup>40</sup> Data set 2 contained all instances of incorrect payments categorised into the residual and controlled categories. Data set 3 contained all incorrect payments categorised as controlled or detectable by the control framework. The data was further disaggregated to the level of individual controls.

The ANAO aggregated the detailed data in data sets 2 and 3. The ANAO found that the aggregated results lacked consistency with the results provided earlier by FaCS in data set 1. FaCS was not able to support its initial results nor was it able to identify the reasons for the inconsistencies in the data provided to the ANAO. This poses questions about the methodology and raises doubt about the reliability of the results reported in Table 3.2.

**Table 3.4**

**Variance in FaCS' results for the 2001–02 Parenting Payment Single RSS**

	Data Set 1		Data Set 2		Data Set 3	
	Number of cases	per cent	Number of cases	per cent	Number of cases	per cent
<b>Raw Incorrectness</b>	483	16.1	468	15.6	N/A	N/A
<b>Residual</b>	274	9.1	229	7.6	N/A	N/A
<b>Controlled</b>	209	7.0	239	8.0	220	7.3

Source: FaCS and ANAO analysis.

*The RSS methodology excludes key Centrelink controls*

**3.27** Any estimation of the residual level of incorrectness should include all relevant controls designed to detect incorrect payments to Centrelink customers. The RSS methodology for PPS excludes certain elements of the Centrelink control framework. The main exclusions are program reviews<sup>41</sup> and certain types of compliance reviews.<sup>42</sup> Excluding these controls can result in instances of incorrect payment that could have been detected by these controls being categorised as residual rather than controlled. Additionally, the methodology is limited in its ability to reflect compliance activity related to tip-off information obtained from the public, thereby excluding a significant amount of review activity. Thus FaCS may potentially be overstating the levels of residual incorrectness.

**3.28** The exclusion of program reviews from the RSS methodology is significant given the large number of program reviews conducted for PPS customers. Program reviews such as the earnings review, function as a control to confirm a customer's earnings and thus to minimise the incorrect or incomplete reporting

<sup>41</sup> A program review is a review activity initiated to ascertain whether a customer is receiving his/her correct entitlement. The review may be generated by the computer system or it may come from a staff member. Examples of program reviews are cyclic reviews and event based reviews.

<sup>42</sup> A compliance review is selected because there is a justified, documented risk of incorrect payment, which is a result of fraud, misrepresentation, error or omission on the part of the customer, rather than a system, coding or assessment error. It is a review activity either initiated by compliance staff (in either Customer Service Centres, Area Support Offices or the National Support Office), or triggered from an external source or third party. A compliance review is usually generated by matching Centrelink data with the data of an external department or agency, or tip-offs from members of the public. It is selected to examine the correctness of a customer's payment, based on information not previously known about and/or not provided by the customer.

of income from employment. Other program reviews such as the new child review have a compliance aspect to identify if any marriage like relationship exists.

**3.29** The move by FaCS and Centrelink towards Service Profiling further necessitates the recognition of program reviews in controlling incorrect payments to Centrelink customers. Service Profiling (discussed further in Chapter 4) aims to identify customers with higher risk profiles and subsequently treat this identified risk by conducting a higher level of review activity (or interventions) for these customers.

**3.30** As well as excluding program reviews, the RSS methodology does not recognise the impact of certain types of compliance reviews. This is significant as the methodology relies solely on compliance reviews in estimating residual incorrectness. The types of compliance reviews excluded from the methodology are:

- investment property matching with the ATO;
- data matching with the ATO to detect an undeclared interest in a trust;
- data matching with the Australian Securities and Investments Commission (ASIC) to detect undeclared companies; and
- superannuation matching.

**3.31** The above compliance reviews target risks that the RSS methodology does not include in its estimate of the levels of residual incorrectness. Table 3.5 demonstrates that a sizeable number of PPS customers are targeted for these particular compliance reviews. By not including these compliance reviews, the RSS methodology assumes that the control framework will be unable to detect non-compliance for the above categories.

**Table 3.5**

**Compliance reviews excluded from the 2001–02 Parenting Payment**

Type of review	All reviews	PPS reviews only	PPS customers as percentage of total reviews
Investment Property Matching	10 581	1 008	10
Trust Matching	2 061	120	6
Company Matching	1 357	144	11
Comsuper matching	N/A	37	N/A

Source: ANAO analysis of Centrelink data.

**3.32** The ANAO identified 13 cases in the RSS data which potentially could have been detected by the above controls. By not including these controls in the RSS methodology, these 13 cases are categorised as residual by default. While



not a large number, the correct classification of these cases would have increased the Category 1 controlled group from 7.0 to 7.4 per cent and decreased the Category 2 or residual incorrect payment cases from 9.1 to 8.7 per cent.

**3.33** As discussed earlier, the RSS methodology categorises individual instances of incorrect payment into the controlled and residual categories. As tip-off information is obtained at random from the public, it is not possible to predict the impact of such information on a given individual instance of incorrect payment. However, while it is not possible to predict the impact on individual instances, the aggregate impact of tip-offs for PPS customers is available from Centrelink information systems. It represents a significant level of review activity impacting on the estimate of the levels of incorrectness detected by the control framework and, consequently, on the estimates of program outlays at risk.

**3.34** During 2001–02, approximately 28 000 PPS customers were reviewed due to tip-off information. The reviews resulted in cancellations and reductions to payments of 7752 PPS customers, resulting in approximately \$2.5 million in fortnightly savings for the 2001–02 financial year. By not including this significant level of compliance activity for the PPS payment, FaCS potentially risks overstating the level of residual risk of payment incorrectness.

### **The RSS methodology overestimates the impact of the control framework**

**3.35** In its analysis of the RSS methodology, the ANAO identified that the methodology overestimated the impact of the control framework because:

- the RSS methodology incorrectly categorises income from self-employment as a controlled risk that would be detected by the control framework; and
- the RSS methodology assumes that controls such as data matching function at 100 per cent effectiveness for all customer payment types. In doing so the RSS methodology does not take into account the key factors influencing the selection of a customer for a compliance review.

**3.36** Each of these issues is discussed below.

#### *Income from self-employment*

**3.37** The RSS methodology incorrectly assumes that income obtained through self-employment is identifiable through the control framework. Currently, Centrelink does not have controls to detect the non-reporting of such income. The ANAO found that the RSS methodology incorrectly categorised 23 cases as being detectable by the control framework. Including these cases in the residual

category will result in an increase of 0.8 percentage points in the final estimate of residual category (that is, from 9.1 per cent to 9.9 per cent).

### *Effectiveness of individual controls*

**3.38** ANAO analysis of the cases considered by the RSS methodology as controlled or detectable by the control framework indicates that the two key controlled risks of most interest for PPS customers are income from employment and incorrect rent assistance payments. These two categories represent the majority of cases deemed to be detectable by the control framework.

**3.39** The RSS methodology assumes 100 per cent effectiveness in the workings of the control. This assumption does not reflect that:

- the assumptions do not account for the complexity of the business rules<sup>43</sup> implicit to the control;
- the possibility that a type of control may have varying levels of effectiveness for the different payment types—that is, the effectiveness of the control may vary due to the nature of the customer population; and
- the successful detection of non-compliance (through compliance reviews) is contingent on the skills and experience of the reviewer.

**3.40** Table 3.6 shows the two significant types of non-compliance leading to incorrect payment for PPS customers and the controls FaCS and Centrelink have put in place to treat these risks. Each of the above mentioned issues is discussed in the context of these controls.

**Table 3.6**

#### **Key types of non-compliance by PPS customers and associated controls**

Non-compliance	Control
Incorrect declaration of income from employment	Tax File Number Declaration Form matching with the ATO  Data matching with the Australian Taxation Office under the Data Matching Program (DMP)
Incorrect declaration of rent	Rent certificates

Source: Information provided by FaCS.

<sup>43</sup> Business rules specify the type of customer records to be matched; the matching criteria (or match keys) used to match one record against another; and the refining criteria (sub-sets) to be applied to match keys in order to further eliminate cases where there is no need for review. The matching parameters for the different matching projects conducted are selected on a risk-based approach.

### *Matching Tax File Number Declaration Forms with the ATO*

**3.41** Centrelink matches Tax File Number Declaration Forms (TDF) with ATO data to identify and reassess those customers that do not declare income from new employment.<sup>44</sup> TDF matches do not detect non-compliant customers with income from ongoing employment with an existing employer. The RSS methodology, however, does not differentiate between ongoing employment with an existing employer and the customer entering into new employment. The RSS methodology incorrectly assumes that the TDF matching will detect all income from employment within certain time parameters (all income with debts less than 13 fortnights in duration).

**3.42** Similarly, at the time of the Parenting Payment Single RSS in 2001–02, the TDF business rules excluded certain PPS customers based on the type of industry the customer was working in. Again, this is not reflected in the methodology.<sup>45</sup>

**3.43** The methodology, thus, does not accurately reflect the scope of the TDF control, and therefore potentially overestimates the impact of TDF matching in detecting non-compliance associated with declaring income from employment.

### *Data matching with the Australian Taxation Office under the Data Matching Program*

**3.44** Selections for the Data Matching Program (DMP) are based on a series of risk based business rules, which are designed to target the DMP reviews at detecting high risk cases. This limits the number of non-compliant customers that can be detected by DMP. The methodology, however, does not adequately reflect the limitations or the complexity of these business rules and assumes 100 per cent effectiveness for the control (within certain time parameters). Consequently, this risks overestimating the effectiveness of the DMP as a control for detecting non-reporting of income.

**3.45** Furthermore, customer behaviour may impact on a control's effectiveness. For example, income matching through the DMP only matches customers who lodge an income tax return and declare their earnings to the ATO. In this particular example there are two points of note:

- there is an expectation that the whole customer population will behave in a consistent manner (in this case lodge tax returns); and

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<sup>44</sup> TDF matches use employee data sent to the ATO by employers at the time a new employee commences work. This matching previously used details from Employment Declaration Forms (EDF). However, these were replaced by the TDF on 1 July 2000 as part of the new tax system.

<sup>45</sup> Centrelink continually changes TDF business rules to reflect identified risks and to refine the selection of customers for compliance reviews.

- the assumption that a non-compliant customer populace (not declaring income to Centrelink) will show compliant behaviour elsewhere (declare income on a tax return to the ATO).

**3.46** Finally, the skills and experience of the review officer can impact on the quality of the review. A recent Centrelink internal audit<sup>46</sup> on the DMP highlighted that:

- seven per cent of completed DMP reviews were either incorrect or incomplete<sup>47</sup>; and
- in 16 per cent of discontinued DMP reviews<sup>48</sup>, the decision to abort the review was inappropriate<sup>49</sup> (that is, a material impact could have resulted from progressing the review, such as overpayment action).

**3.47** The Centrelink internal audit also found that ‘the results indicate either a deficiency in the level of skill on the part of some staff undertaking the DMP review or the lack of adherence to current procedure.’ This impacted in some instances on the quality and outcome of the reviews.

**3.48** As noted above, both customer behaviour and the effectiveness of the reviewer impact on the function of the control. The RSS methodology based on assuming 100 per cent effectiveness of the control does not account correctly for the impact of these issues in its estimate of the levels of controlled and residual risk of incorrect payment.

**3.49** In summary, the ANAO identified that the RSS methodology does not account for the complexity of the business rules implicit in the DMP, nor does it account for customer behaviour or the role of the reviewer in determining the outcomes of the review. Thus the methodology risks overestimating the impact of the DMP as a control for detecting non-compliance associated with income from employment. The ANAO concluded that the impact of this would be to understate the levels of residual incorrectness reported by FaCS.

## *Rent Certificates*

**3.50** The RSS methodology incorrectly relies on the Rent Certificate (RC) as a control to mitigate the risk associated with all instances of incorrect Rent Assistance (RA) payments identified through the RSS. The RC, however, only functions as a control for a specific proportion of customers receiving rent assistance payments.

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<sup>46</sup> Centrelink Audit, CA01025, *Audit of Data Matching*, May 2002.

<sup>47</sup> The audit examined 149 completed DMP reviews from Cycle 56.

<sup>48</sup> The review officer can choose to discontinue a review for several reasons, including that, the customer may have already declared the income in the past, or the review may have been the result of an incorrect match.

<sup>49</sup> The audit examined 86 deleted reviews from Cycle 59.

**3.51** Customers receiving rent assistance can be categorised by the nature of their renting arrangement. Broadly, customers can be in either formal or informal renting arrangements.

**3.52** The means of verification differ based on the renting arrangements of the customer. Customers renting formally are required to present their lease agreements as verification and customers with informal arrangements are required to have completed a RC signed by the owner of the property. Further, a small proportion of RA customers in informal renting arrangements are exempt from verification.

**3.53** Customers living in formal renting arrangements have to provide third party verification of their renting arrangements and are thus considered a controlled group. Customers living in informal arrangements were not always required to provide similar evidence and were considered to be at a higher risk of incorrect payment.

**3.54** FaCS and Centrelink introduced the RC to serve as a control to mitigate the risks associated with incorrect payments to customers in informal living arrangements. However, at the time of the RSS review, significant proportions of customers living in informal renting arrangements were not subject to the RC as a control (see Table 3.7).

**Table 3.7**

**Verification mechanism for PPS Rent Assistance customers  
(as at 06/06/2001)**

Verification mechanism	Proportion of Rent Assistance population
Formal lease	45.3 %
Informal subject to Rent Certificates	28.8 %
Informal but not subject to Rent Certificate	22.8 %
Other	3.0 %
Exempt from verification	0.1 %
<b>Total</b>	<b>100 %</b>

Source: Information provided by FaCS.

**3.55** The ANAO reviewed the renting arrangements and means of verification for customer cases categorised as being detectable by the control framework in the 2001–02 Parenting Payment Single RSS. ANAO analysis indicates that 23 out of 59 cases were incorrectly categorised as detectable by the control framework. These cases would not have been subjected to the RC as a control (at the time of the RSS) and would likely have remained undetectable by the control framework. The ANAO found that including these cases in the residual level of incorrectness will result in an increase of approximately 0.8 percentage points in the final estimate of 9.1 per cent reported as residual.

## **The use of the longest debt**

**3.56** The categorisation of a case with debt, as either residual or controlled, is based on linking the reason for payment incorrectness with the duration of the longest debt. The longest debt serves as a proxy indicator of the duration of non-compliance by the customer. ANAO analysis found two issues with this construct, which potentially leave the RSS methodology at a risk of incorrectly categorising a case into the controlled or residual categories. Each of these issues is discussed below.

**3.57** Firstly, a case identified with an incorrect payment may have a debt (in some instances multiple debts) associated with it. The methodology assumes that the longest of these debts is the reason for the incorrectness at the time of the RSS. This however may not be the case. A debt due to non-compliance in the past may not be the reason for incorrectness at the time of the RSS review and thus the reason for the debt. For example, the reason for incorrectness at the time of the review may be income from employment. However, the reason for the debt may be related to incorrect payment of rent assistance. Thus linking incorrectness at the time of the RSS to the reason for the longest debt may lead to incorrect categorisation of a case. This issue is being addressed in the RSS under the BAF, whereby each debt will be given a reason for incorrectness.

**3.58** Secondly, the length of the debt does not indicate when the debt arose. As such the non-compliance may not be detectable by the control framework. Here, the duration of the debt does not indicate the actual dates of non-compliance. Thus the methodology views a debt of 12 weeks length in 1997 in the same manner as a 12 week debt in 2001, regardless of the fact that non-compliance may have occurred several years previously and would be beyond the scope of any existing controls.

**3.59** Thus, the RSS methodology introduces opportunities for incorrect categorisation of RSS cases into the controlled and residual categories, resulting in potential risks to its reliability.

## **Data quality issues**

**3.60** The ANAO conducted a series of tests to verify the quality of the RSS data used in categorising cases into the controlled and residual categories for the 2001–02 Parenting Payment Single RSS. The ANAO found four cases in the RSS dataset that contained either incomplete or inconsistent data, resulting in these cases being incorrectly categorised. These cases, while incorrectly categorised, represent low levels of risks to the reliability of levels of raw and residual incorrectness.

## Proposed changes to the RSS methodology under the BAF

**3.61** As of July 1 2002, FaCS and Centrelink started to implement key components of the BAF.<sup>50</sup> The introduction of the BAF, with its agreed definitions of error, correctness and accuracy aims to improve assurance regarding the levels of payment correctness and the integrity of program outlays.

**3.62** FaCS and Centrelink have made changes to the RSS methodology under the BAF. These include the introduction of the rolling RSS. The rolling RSS is a significant improvement over the static, point in time data provided by the previous approach.

**3.63** The rolling quarterly snapshot may provide the basis for a direct comparison of the levels of incorrect payment in any given period with that of a comparable previous period. FaCS notes that this may potentially provide a direct measure of control effectiveness rather than rely on the current approach of making assumptions on the effectiveness of the control framework based on complex rule analysis.

**3.64** However, the proposed changes to the RSS methodology, especially those related to estimating the impact of the control framework in detecting incorrect payments and the risks to the integrity of program outlays, are at the early stages of development. Furthermore, as noted in Chapter 2, FaCS and Centrelink are yet to reach agreement on details of performance information related to the accuracy of program outlays. Consequently, the ANAO is unable to comment at the time of this audit on the effectiveness of these proposed changes.

**3.65** However, in response to the concerns raised in this audit, the ANAO is planning a further audit comprising a comprehensive review of the BAF and the RSS methodology. As the implementation of the BAF is currently in progress, the ANAO has scheduled this audit to commence in 2004, when it is expected that sufficient data will be available to enable this review.

## Conclusion

**3.66** The ANAO found that FaCS' RSS methodology excluded certain key controls from its estimate of the control framework. The exclusions have the potential to cause FaCS to report higher levels of incorrectness than is actually the case. Concomitantly, the RSS methodology overestimated the effectiveness of certain controls. The overestimation has the potential to cause FaCS to report lower levels of incorrectness than is actually the case.

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<sup>50</sup> The BAF is described in Chapter 6, and in more detail in Audit Report No.17 2002–03, *Age Pension Entitlements*.



**3.67** The ANAO has also identified limitations in the methodology related to the use of the longest debt in categorising controlled and residual levels of incorrect payment. The ANAO further found that the current methodology is limited in its ability to measure the impact of information related to tip-off reviews, and the impact of customer and reviewer behaviour on the levels of controlled and residual payment incorrectness.

**3.68** The ANAO concluded that the residual methodology in its current form is subject to both quantifiable and potential risks of being incorrect. The limitations inherent in the methodology pose questions about the reliability of FaCS' estimates of the effectiveness of the control framework and the impact of incorrect payments on the integrity of program outlays for the PPS program.

## **Recommendation No.2**

**3.69** In order to ensure a high level of robustness and transparency of its estimates of the levels of risks of incorrect payment to PPS customers, and the integrity of program outlays, the ANAO recommends that FaCS should:

- a. review its methodology for measuring the levels of residual incorrectness, taking into account the concerns identified in this report relating to the reliability of its estimates, especially, the exclusion of relevant controls and FaCS' estimation of the effectiveness of controls in detecting incidences of incorrect payments;
- b. investigate the use of data from Centrelink information systems on the actual levels of payment incorrectness detected by the Centrelink controls in their normal operation; and
- c. ensure that the limitations of the RSS methodology are transparent to relevant stakeholders and that all stakeholders are made aware of the degree of confidence FaCS has in the methodology.

### ***FaCS response***

**3.70** FaCS agrees to this recommendation.

- a. FaCS is currently revising its methodology for reporting residual incorrectness after the introduction of the Rolling Random Sample program announced in the 2002/2003 Budget. These arrangements were implemented from 1 July 2002.
- b. FaCS is considering the use of data from Centrelink information systems about the detected levels of incorrectness as part of the new arrangements to report a residual error.



- c. Future reporting will include explanation of the Rolling Random Sample methodology allowing users to form their own views about the accuracy of the data. The raw data will be available to inform FaCS policy development, including the development of new compliance proposals, identification of emerging areas of risk and provision of data for the business assurance arrangements.

### *Centrelink response*

**3.71** Centrelink agrees. The new Business Assurance Framework (BAF) will incorporate a new methodology of determining the level of accuracy of outlays from the Rolling Random Sample Surveys. The new methodology will not rely on assumptions of control effectiveness for determining residual levels of error.

## 4. Reviews

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*This chapter assesses the correctness of processing Parenting Payment Single (PPS) reviews.*

### Introduction

**4.1** Under section 68(2) of the *Social Security (Administration) Act 1999*, customers are required to disclose information about changes in their personal and financial circumstances that affect their entitlement to income support payments. However, there are risks to program outlays associated with a reliance on voluntary disclosure as customers can fail to report relevant changes when they occur either through lack of understanding of their obligations, omission, mistake, or deliberately misrepresenting their circumstances. Centrelink, therefore, conducts reviews of customers' circumstances to ensure that the information it holds is correct.

**4.2** The level of review activity undertaken by Centrelink in relation to the PPS program is agreed with the Department of Family and Community Services (FaCS) and specified in the 2001–04 Business Partnership Agreement (BPA).

**4.3** Program reviews are activities to ascertain whether customers are receiving their correct entitlement. At the commencement of the audit, the PPS review regime included:

- post-grant reviews (undertaken eight weeks after the customer is granted PPS);
- cyclical reviews of customers with earnings (undertaken every 12 weeks);
- random sample mail reviews of non-earning customers; and
- new child reviews of customers who give birth to a child more than nine months after being granted PPS.

**4.4** For the current audit, the ANAO examined whether:

- earnings reviews were processed correctly, based on Centrelink's and FaCS' own definition of correctness; and
- new child reviews were processed correctly, based on Centrelink's and FaCS' own definition of correctness.

**4.5** The ANAO did not examine post-grant reviews or random sample mail reviews of non-earning customers during this audit. These reviews were being replaced as part of Service Profiling, which will be evaluated by both FaCS and Centrelink after its implementation. However, Service Profiling may be examined

by the ANAO at a future point in time. Service Profiling and its implications for the PPS review regime are outlined below.

## Service Profiling

**4.6** As outlined in Chapter 1, the PPS review regime is undergoing change with the introduction of Service Profiling. Service Profiling is a government initiative, funded in the 2001–02 Budget, aimed at providing a more focused service to customers with a greater need. While Service Profiling was not examined as part of the audit it is discussed in order to provide context for the focus on new child reviews and earnings reviews.

**4.7** An initiative to implement Service Profiling of all Centrelink customers was announced as part of a compliance package in the additional estimates to the 2001–02 Budget. It is designed to ultimately lead to Centrelink identifying the most appropriate pattern of contact, based on the associated risk.

**4.8** Service Profiling is a method of selectively targeting Centrelink services and Customer Service Officer (CSO) assistance to Centrelink customers. The initial aim of Service Profiling is to identify those customers who need a more focused level of service in order to meet program outcomes.

**4.9** The initial priority of the Service Profiling initiative for the PPS program was to develop preliminary service profiles that identified risks to achieving payment correctness and economic and social participation.<sup>51</sup> Service profiles will be a set of characteristics that identify and link a customer to the most appropriate service contact strategy for meeting customer and program objectives.

**4.10** The implementation of Service Profiling is staggered, with the first of the new customer review mechanisms, the Parenting Payment Service Update (the Service Update), having been implemented on 16 September 2002. For PPS, the Service Update replaces the 8-week post-grant review and the random sample mail reviews for non-earning customers. While the post-grant review was a mandatory review for all customers under the previous PPS review regime, the Service Update is based on a risk assessment, mainly relating to the incorrect declaration of earnings or income.

**4.11** Table 4.1 sets out the implementation schedule for the PPS program.

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<sup>51</sup> Since the introduction of the Government's Australians Working Together initiative, Centrelink has increased the emphasis on encouraging workforce age customers to become less reliant on their income support by encouraging them to get work or to participate in their communities in ways that suit them best. For example, through voluntary and community work.

**Table 4.1****Schedule for current customer reviews of PPS customers to be replaced by Service Updates.**

Current reviews	Service Profiling reviews implemented or planned for implementation
8 week face to face post grant review	16 September 2002 (Service Update)
12 week cyclical mail review of customers with earnings	March 2003
Random Sample mail review of non-earning customer group	16 September 2002 (Service Update)
New child face to face review of customers who give birth to a child more than 40 weeks after being granted PPS	22 January 2003—the predictor identifying these customers will be rated as high and every customer will be reviewed

Source: ANAO analysis based on a schedule provided by Centrelink (2003).

**4.12** The ANAO held discussions with CSOs during fieldwork in several Area Support Offices (ASOs) across the country. The ANAO found that the majority of CSOs used the post-grant review to ensure that customers were receiving their correct entitlement but, more importantly, that customers were aware of their rights and obligations and availability of specialist services such as the Jobs, Education and Training program. Most CSOs reported that customers were not necessarily in the right frame of mind to absorb the information provided to them at the initial claim interview and that the follow-up interview was valuable for this purpose.

**4.13** As mentioned in paragraph 4.5, at the time of the audit it was too early to assess the effectiveness of the new Service Update and the current service profiles. However, both FaCS and Centrelink will be involved in evaluating Service Profiling. Centrelink will focus on service strategies and FaCS will focus on the profiles, predictors and the profiling model.

## Earnings reviews

**4.14** Under the 2001–04 BPA, Centrelink is required to conduct earnings reviews. All PPS customers with earnings are required to lodge an earnings review form every 12 weeks. This includes customers with income assessed for PPS from business or real estate and other income.

**4.15** Information for earnings reviews are collected by using a review form. The form is mailed to the customer who must respond within 28 days or face suspension, and ultimately cancellation of the payment. Processing earnings reviews involves an assessment of many factors, including the customer's income, employment and accommodation details. As a result, the complexity of individual reviews varies considerably.

**4.16** The ANAO assessed whether earnings reviews were processed correctly by CSOs in accordance with Centrelink and FaCS' own definition of correctness, the *Social Security Law* and the *Guide to the Social Security Law*. To undertake this assessment the ANAO:

- examined a random sample of earnings reviews from the total population of reviews; and
- conducted interviews with staff from the Centrelink network.

## Reported results

**4.17** During the 2001–2002 financial year, Centrelink reported the results of its PPS cyclical review of customers, as displayed in Table 4.2. This section of the chapter will examine the results reported by Centrelink and will then report the ANAO's assessment of the correctness of such reviews.

**Table 4.2**

### PPS cyclical review of customers with earnings in 2001–02 financial year

	Reviews	Cancellations		Downward variations			Upward variations			Debts	
Year	Number	Number	% of reviews	Number	% of reviews	Fortnightly savings (\$)	Number	% of reviews	Fortnightly savings (\$)	Number	Debts %
2001-02	327 240	1 383	0.4	57 999	17.7	2 805 747	57 784	17.7	5 935 356	24 709	7.60

Source: ANAO analysis based on information provided by Centrelink (2002).

**4.18** The statistics outlined in Table 4.2 were extracted from Centrelink's National Selective Review System (NSRS). Centrelink uses statistics derived from the NSRS to report information to FaCS. Centrelink have advised the ANAO that any statistics extracted from the NSRS may not be accurate.

**4.19** Table 4.2 shows that the earnings reviews resulted in many changes to existing PPS payment levels, stemming from changes in customers' circumstances and errors in 'assessed entitlements'. For example, around 35 per cent of cases have upward or downward variations and nearly eight per cent raised debts. Earnings reviews led to an increase in outlays of around \$3 million per fortnight, as the average increase in variation (around \$100 per fortnight) was over twice as large as the average downward variation, with the number of customers in both categories being about the same.

## The sample

**4.20** The ANAO contracted the Australian Bureau of Statistics (ABS) to design a sampling strategy that would enable the reliable estimation of processing error rates in the earnings review population. The sample was selected to allow ANAO fieldwork to be undertaken in Centrelink ASOs known to have a diverse

customer base. The ANAO visited five ASOs and 15 Customer Service Centres (CSCs).<sup>52</sup>

**4.21** The sample data was re-weighted by the ABS to convert the error rates in the sample into unbiased estimates of the error rates in the total population of earnings reviews processed during the period 1 February 2002 to 30 April 2002, within confidence intervals.

**4.22** Two Centrelink employees with experience in the processing and administration of the PPS program were seconded to the ANAO to assess customer records. The secondees assessed the correctness and administration of the sampled earnings reviews against a test sheet developed by the ANAO in consultation with Centrelink.

## Earnings review processing errors

**4.23** Errors identified in the sample earnings reviews were classified according to the definitions in the new Business Assurance Framework (BAF). The BAF classifies errors by their impact on outlays and by the source of the error. The BAF also includes a categorisation of errors as non-verifiable where there is insufficient information to determine whether a decision is correct or not.

**4.24** The ANAO requested the ABS to develop statistically unbiased estimates of the errors identified within the sample of earnings reviews. Some of the earnings reviews examined within the sample contained more than one error. In these instances, only one error was counted.<sup>53</sup>

**4.25** The true error proportions provided by the ABS indicate that there were a large number of errors in earnings reviews. The proportion of earnings reviews with at least one or more types of BAF errors was 48 per cent. The ABS found that the unbiased estimates of error rates for the total population were as follows:

- 16 per cent ( $\pm 4$  percentage points (pp)) contained an administrative error that had an immediate impact on outlays;
- at least 2 per cent ( $\pm 2$ pp) contained an administrative error with a potential impact on outlays;

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<sup>52</sup> To facilitate the interview process at the ASOs and CSCs, the ANAO specified that the sample contain 10 earnings reviews from each of the 15 CSCs visited. The remainder were drawn from the rest of the Centrelink network. A total of 433 earnings reviews were examined from the total population of 68 875 processed by Centrelink during the period 1 February 2002 to 30 April 2002.

<sup>53</sup> In classifying each of the errors, those with an immediate impact on outlays took precedence, in order, over those with a potential impact on outlays; those that contained a customer error; and those that contained an administrative error with no impact on outlays. Consequently, the number of earnings reviews that contained an error with a potential impact on outlays, a customer error, or an administrative error that had no impact on outlays, may be higher than that reported.

- at least 6 per cent ( $\pm 2$ pp) contained a customer error; and
- at least 24 per cent ( $\pm 4$ pp) contained an error that had no impact on outlays.

**4.26** The next section of this chapter examines the impact and causes of these errors.

## Immediate Impact on outlays

**4.27** For all earnings review cases that contained an administrative error with an immediate impact on outlays, Centrelink determined the impact of that error on the customer's payment rate. For the sample cases as a whole, the total upward variation (that is, the total amount that customers' fortnightly payments should be increased) was \$998 per fortnight, and the total downward variation (that is, the total amount that customers' fortnightly payments should be decreased) was \$754 per fortnight.

**4.28** The ANAO extrapolated these amounts to all PPS customers who were subject to an earnings review between the period 1 February 2002 and 30 April 2002.<sup>54</sup> For the 68 875 customers subject to such a review, this indicated:

- underpayments of PPS customers totalling \$158 700 per fortnight; and
- overpayments of PPS customers totalling \$120 000 per fortnight.

These amounts represent slightly less than one per cent of total fortnightly payments (\$25.4 million) for the 68 875 reviewed customers, who, in turn, represent only 16 per cent of the total of 436 883 PPS customers.<sup>55</sup> The small proportion of variation is a consequence of most errors being only a small proportion of the average fortnightly pension payment for those customers of \$369<sup>56</sup> (see Table 4.3). However, nearly a third of all review cases (some 4 per cent of the earnings reviews examined) that contained an administrative error with an immediate impact on outlays had identified errors of over \$30 per fortnight, which represented a considerable portion of these customers' entitlements.

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<sup>54</sup> The ANAO recognises that earnings reviews are conducted on a 12 weekly basis and as such, there may be some variation in the results of these reviews over time. However, for the purposes of this report, the ANAO extrapolated the results for the selected period of earnings reviews on an annual basis.

<sup>55</sup> Centrelink, *Parenting Assistance Performance Report*, Quarter 4, 2001–2002.

<sup>56</sup> The average fortnightly rate for PPS customers for 2001–02.

**Table 4.3**

**Distribution of payment variation in ANAO sample of PPS earnings review cases that contained an administrative error with an immediate impact on outlays**

Range of variation	Proportion in sample
Less than \$1	19%
\$1-\$10	27%
\$10-\$30	26%
\$30-\$50	12%
\$50-\$100	9%
More than \$100	7%
<b>Total</b>	<b>100%</b>

Source: ANAO analysis.

## Potential impact on future outlays

**4.29** The ANAO found that two per cent ( $\pm 2pp$ ) of earnings reviews over the sample period contained an error that could result in a potential impact on future outlays. This means the error does not have an immediate impact on assessment and outlays. However, if it is not amended, there is a chance that a future change in circumstance that should change the customer's entitlement, does not, because the earlier information was not correctly assessed.

**4.30** An error causing a potential impact on future outlays generally occurred when the customer was receiving the maximum PPS entitlement and the CSO neglected to update all the information provided on the customer's earnings review form. For example, if a customer receiving the maximum PPS entitlement commenced a part-time job and the income was not registered on the system, the administrative error would not have caused an immediate rate variation if the job paid less than the allowable amount under the income test to receive the maximum PPS payment. However, if the customer began another part-time job, and the total income of the two jobs was greater than the allowable amount for the customer to receive the maximum entitlement, the error of not coding the first income would become an error with an impact on payment. Hence the initial error was a potential payment error.

**4.31** An error with a potential impact on outlays may never impact on actual outlays, as it is possible that the error may be captured at a later stage or that the customer's circumstances may not change. However, the case is still defined as an error under the BAF.



## Non-verifiable cases

**4.32** The non-verifiable cases found in the sample reviewed by the ANAO required further information from the customers to establish whether they were being paid their correct entitlement. These cases reflected situations where CSOs did not obtain adequate information at the time of processing, or did not adequately document their decisions.

**4.33** The non-verifiable cases were returned to Centrelink for follow-up action to correct the customer's record where necessary and to determine the resulting change in rate. Centrelink reviewed the errors and found that approximately one-third were errors with an actual or potential impact on outlays.

**4.34** The ANAO also returned all potential errors to Centrelink for follow-up action to correct the customer's record.

## No impact on outlays

**4.35** An additional 24 per cent ( $\pm 4$ pp) of earnings reviews contained an administrative error that had no impact on outlays. The most common reason for these errors, or procedural faults, was that CSOs neglected to register review forms as received on the correct date. This error had no impact because customers were receiving the maximum entitlement and other changes in their circumstances did not affect this entitlement (for example, the customer's income was reduced).

**4.36** While these procedural faults did not affect the integrity of outlays, they were important because they reflect situations where the actions of a CSO could have had an impact on outlays if the customer's circumstances were different. For example, if the CSO registered the form on the wrong date and the customer's income was reduced, but the customer was receiving a partial rather than a full entitlement, his/her rate would be increased from the wrong date, leading to a payment error. Such departures by CSOs from expected practice when processing earnings reviews are important because:

- they represent a risk to quality customer service, as administrative errors may impact on Centrelink's duty of care obligation to its customers and may also represent a community perception risk, in that correct procedures are needed to ensure that the community perceives that there is accountability for public monies;
- they represent a risk to the efficiency of program delivery, as it may impact on Centrelink's ability to maximise the return on program expenditure and service delivery costs as well as the additional costs associated with the allocation of staff effort due to rework required in undertaking corrective action; and

- they represent a risk to the ability to conduct compliance activity, as it represents an evidentiary risk, since correct procedures are needed to ensure that FaCS and Centrelink can conduct appeals and prosecutions, and to ensure that they can comply with the provisions prescribed within *Social Security Law*.

**4.37** These departures from expected practice and the resultant risks represent a cost to the agencies, which is in addition to the costs associated with errors that have an immediate impact on outlays.

## **Causes of administrative errors**

**4.38** Under the BAF, the right rate is paid to a PPS customer when the following criteria have been assessed correctly:

- marital status;
- dependent children;
- accommodation;
- income;
- assets;
- Pensioner Education Supplement;
- change of circumstances;
- Pharmaceutical Allowance;
- Remote Area Allowance; and
- Telephone Allowance.

**4.39** All the above criteria, with the exception of customer's asset details, are reviewed through the earnings review process. If the information provided by the customer is correct and is assessed accurately by Centrelink, the customer should be paid the right rate and consequently there should be no error causing an impact on outlays.

**4.40** In the sample reviewed by the ANAO there were two main causes for the 16 per cent ( $\pm 4$ pp) of administrative error with an immediate payment impact and the two per cent ( $\pm 2$ pp) of administrative error with a potential impact on outlays, namely:

- the CSO incorrectly processed the earnings information provided by the customer; and
- the CSO neglected to update information provided by the customer.

## Assessment of earnings

4.41 In examining the sample of earnings reviews, the ANAO identified that CSOs did not necessarily understand what should be included in, or excluded from, a customer's earnings. As set out in Table 4.4, the main areas of concern relate to:

- processing allowances;
- processing leave payments; and
- processing with insufficient documentation.

**Table 4.4**

### Processing errors in ANAO sample of earnings reviews of PPS customers

Error	Number of cases	Proportion in sample
Allowances	17	4%
Leave payments	6	1%
Insufficient documentation	13	3%

Source: ANAO analysis.

4.42 Individual cases may have had more than one error, so the percentages of incorrectly processed cases cannot be added together.

4.43 The *Guide to the Social Security Law* states that a 'payment of an allowance from an employer for expenses is NOT included in any income assessment'.<sup>57</sup> However, in the sample of earnings reviews assessed there were a number of instances where CSOs neglected to remove the customer's allowance. If the customer was in receipt of a reduced rate entitlement, the inclusion of the allowance in some instances caused a payment error with the customer not receiving their full entitlement. In addition, if the customer was in receipt of the maximum entitlement, incorrectly assessing the allowance could cause a potential payment error in the future.

4.44 In six cases, the ANAO found errors in assessing a customer's paid leave. Leave payments, whether received upon termination of employment or while on paid leave from ongoing employment, may affect the customer's payment. Centrelink guidance stipulates that if a customer is still employed and receives paid leave, it should be assessed as income under the normal income test. The ANAO found that in the earnings review sample, some customers did not have their paid leave recorded fully, or at all, and subsequently were at risk of being overpaid, as their assessed income was lower than their actual assessable income.

<sup>57</sup> There is an exception in cases where the employer pays an allowance greater than the expenses actually incurred by the customer. In such cases, the extra portion of the allowance is included in the customer's income assessment.

**4.45** However, if paid leave is received when the customer's employment has terminated, any leave received should be maintained as income on the customer's record for the duration of leave provided. Incorrectly processing a customer's paid leave after their employment has terminated can cause a payment error if the customer is in receipt of a reduced entitlement. In the sample of earnings reviews examined, the ANAO found two instances where the customer had left work and their paid leave had been recorded as income in the fortnight of receipt, rather than as income over the period for which it was applicable. This results in the customer's assessable income for that fortnight being assessed as greater than the income actually attributable for that fortnight, placing him/her at risk of being underpaid.

**4.46** In 13 cases, the ANAO found errors where the customer provided insufficient earnings documentation. Documentation is important, even if the customer provides regular earnings information. Many CSOs interviewed by the ANAO indicated that customers often are not aware of the difference between gross and net payments and may inadvertently advise incorrect information. In addition, documentation is required to ensure that any allowances, paid leave or salary sacrifice are assessed correctly.

**4.47** While providing documentation to verify a change in circumstances is generally the responsibility of the customer, Centrelink has stated on its earnings review form that CSOs can call the customer's employer to obtain proof of earnings. The form currently states 'please attach proof of your 12 week earnings e.g. pay slips, letter from your employer, or Centrelink may need to contact your employer'. Many CSOs who were interviewed, explained that customers often considered there was little need to attach documentation, as Centrelink could contact the employer.

**4.48** If, however, Centrelink intends that the onus of providing verification of earnings should rest with the customer, Centrelink should remove the note on the earnings review form that suggests that CSOs will follow-up with the employer if the customer does not provide verification of their earnings. However, at some point Centrelink must ensure that all customers are informed that Centrelink may contact their employer to confirm earnings.

## **Not updating information provided**

**4.49** Another frequent administrative error occurred when CSOs neglected to update Centrelink's system with all the information provided on the earnings review form. Neglecting to update information represents insufficient care being taken in processing the earnings review. As set out in Table 4.5, the most common information that was not updated related to bank balances and other income.

Again, individual cases may have had more than one error, so the number of cases where information is not updated cannot be added together.

**Table 4.5**

**Information not updated in ANAO sample of PPS earnings reviews**

Information not updated	Number of cases	Proportion in sample
Bank balances	70	16%
Other income	29	7%

Source: ANAO analysis.

**4.50** For customers in receipt of a part-rate PPS entitlement, a change in the customer's bank balance or other income may impact on the customer's entitlement. Although the impact may be small, it means, nonetheless, that the customer may not be in receipt of the 'right rate' under the BAF.

**4.51** For customers receiving the full PPS entitlement it is also important to update all information provided. While failure to record all recent information may not impact on the customer's current rate there is the possibility that, with further changes to the customer's circumstances, the customer's history could affect future payment rates. Although these administrative errors had a low impact or potential impact on outlays, they represent a departure by CSOs from expected practice and is important because:

- they represent a risk to quality customer service;
- they represent a risk to the efficiency of program delivery; and
- they represent a risk to the ability to conduct compliance activity.

**4.52** The *Training Resource Kit for Parenting Customer Service Officers—Highlighting ASOs for Improvement Following the Internal Audit of Parenting Payment in 2001* reinforces the need for CSOs to update the customer's record with all information provided by the customer.

## **Improving processing of earnings**

**4.53** Centrelink has recognised that processing customers' earnings can be complicated due to the complexity of the rules governing PPS and also the diversity and complexity of customers' circumstances. To assist CSOs, a wide range of training and guidance material related to the delivery of PPS was made available by Centrelink. Training is examined in further detail in Chapter 7.

## Earnings policy clarification

4.54 In July 2002, the Parenting Assistance Team in Centrelink's National Support Office issued an earnings policy clarification. This document outlined the correct Date of Event to be used for processing income and also the most appropriate way of assessing casual and fluctuating earnings.

4.55 General impressions from the CSOs interviewed were that this document has clarified how to assess casual and fluctuating earnings.

## Conclusion

4.56 The ANAO concluded that around 16 per cent of the earnings reviews processed during the audit assessment period demonstrated a substantial level of administrative error with an immediate impact on outlays, and that two per cent had a potential impact on outlays. These errors generally had a moderate impact on individual recipients, although they were more significant for around one third of these cases (some four per cent of earnings reviews examined). The errors tended to balance out, with a low material impact on outlays. Furthermore, in a significant number of cases, CSOs had made administrative errors, or procedural faults, which had no impact on outlays. The most common causes of immediate payment impacts were failures to correctly process information about the customer's income allowances and leave entitlements.

## Recommendation No.3

4.57 The ANAO recommends that Centrelink increase and target training, guidance and monitoring of CSOs involved in processing earnings reviews to improve:

- technical assessment skills required to process PPS customers' income allowances and leave entitlements; and
- the vigilance of CSOs in recording all information provided by customers.

## *FaCS response*

4.58 FaCS agrees. The timing of the audit report has coincided with the passage of legislation that gives effect to the Government's Australians Working Together (AWT) package of measures. Working Credit, one of the AWT measures that starts from 20 September 2003, provided an opportunity to simplify the rules for how employment income is measured by Centrelink for Parenting Payment. A large investment in training is also scheduled for all customer service staff in the lead up to the implementation of Working Credit. It will have a significant focus on correctly assessing employment income.

### *Centrelink response*

**4.59** Centrelink agrees. Centrelink continues to give a high priority to CSO training and has successfully improved consistency in the delivery of training by updating the training modules for PPS. Centrelink is also incorporating technical training into an accredited learning framework and developing a Learning Management System. These initiatives are expected to further improve operational consistency and quality assurance. Centrelink notes that the PPS earnings reviews are being replaced by service profiling which will involve a more targeted approach to PPS review activity.

### **New child reviews**

**4.60** Under the 2001–04 BPA, Centrelink is required to conduct new child reviews. New child reviews are conducted because having a new child while on PPS may mean that the customer is in a marriage like relationship (MLR) and, therefore, not eligible for PPS.

**4.61** Consequently, the stated objective of new child reviews is to establish whether the PPS customer is in a MLR. A customer is subject to a new child review if they have a child more than 40 weeks after being granted PPS.

**4.62** Although the prime objective of the new child review is to determine whether the customer is in a MLR, the review form requires additional information to be supplied to ensure that Centrelink has up-to-date information regarding the customer's circumstances. The review form requires information relating to the customer's marital status, accommodation, employment, bank accounts, assets, and dependants. Thus the review also considers the correctness of other eligibility criteria for the PPS benefit.

**4.63** Ideally, new child reviews are conducted as face-to-face interviews. However, if a customer lives more than 40 kilometres from a CSC, the customer can choose to have the review by phone or mail.

### **Reported results**

**4.64** This section of the chapter examines the results reported by Centrelink for the new child reviews that were conducted during the 2001–02 financial year and assesses the correctness of such reviews.

**4.65** As displayed in Table 4.6, new child reviews undertaken by Centrelink in 2001–02 resulted in variations to PPS payments in nearly three per cent of cases. Similar to earnings reviews, these lead to an overall increase in outlays as the cost of upward variations outweighed payment reductions. However, the average variation in new child reviews was large for many customers, averaging

\$111 per increase and \$160 per decrease, and thus representing a substantial portion of an individual customer's entitlement.

**Table 4.6**

**New child review results in 2001–02 financial year**

Year	Reviews		Cancellations		Downward variations			Upward variations			Debts	
	Number	% of PPS population	Number	% of reviews	Number	% of reviews	Fortnightly savings (\$)	Number	% of reviews	Fortnightly increase (\$)	Number	Debts %
2001-02	13 463	6.3	29	0.2	130	1.0	20 730	239	1.8	26 503	240	1.8

Source: ANAO analysis based on information provided by Centrelink (2002).

**4.66** The statistics outlined in Table 4.3 were extracted from Centrelink's National Selective Review System (NSRS). Centrelink uses statistics derived from the NSRS to report information to FaCS. Centrelink have advised the ANAO that any statistics extracted from the NSRS may not be accurate.

**4.67** During ANAO fieldwork, the ANAO interviewed a number of CSOs from different ASOs. Many stated that new child reviews are problematic. The two main concerns were that new child reviews require CSOs to:

- ask personal questions of the customer, which CSOs indicated they were not comfortable in asking; and
- have a high level of investigative skills.

**4.68** Most CSOs interviewed believed they were unable to identify MLRs unless the customer admitted to it. However, they did believe that in some circumstances a MLR existed which was not disclosed. Centrelink was unable to provide figures on the number of MLRs found as a result of the new child review. However, the low number of cancellations and debts suggest that few were detected (though these do not exclusively represent MLRs). Centrelink also suggests that some MLR cases identified will result in benefit transfers. There were 1172 benefit transfers as a result of new child reviews in the 2001–02 financial year. However, Centrelink could not identify those due to a MLR. Comments made by the CSOs during field visits suggest that FaCS and Centrelink should consider improving the effectiveness of the reviews in their current form.

**4.69** Prior to 1997, Department of Social Security compliance officers were responsible for conducting new child reviews. Since 1997, CSOs have taken over responsibility for conducting the reviews. Centrelink made this change in responsibility because new child reviews rely entirely on information provided by the customer, and subsequently are not classified as compliance work. The role of compliance CSOs is to undertake complex investigations to ensure that customers are receiving their correct entitlements and not committing fraud. Compliance CSOs have greater investigative skills than most CSOs. Many CSOs



interviewed believed that compliance officers were better equipped to conduct new child reviews.

**4.70** Under Service Profiling, Centrelink will continue to review all customers who have a new child while on PPS. However, at the time of the audit the review mechanism had not been determined.

## **Processing new child reviews—the ANAO sample**

**4.71** The ANAO examined a sample of 124 new child reviews selected randomly from the total new child reviews conducted during the period 1 February 2002 to 30 April 2002. This sample was examined in order to assess whether new child reviews were processed correctly by CSOs in accordance with Centrelink and FaCS' own definition of correctness, the *Social Security Law* and the *Guide to the Social Security Law*. While not a statistically valid sample, this represents approximately three per cent of new child reviews processed during the period. It is sufficiently large to indicate areas of concern and provides valuable insight into general processing issues.

**4.72** New child reviews used many of the same BAF right rate criteria relating to earnings reviews, as outlined in paragraph 4.38. If the information provided by the customer is correct and assessed accurately by Centrelink, the customer should be paid the right rate and, consequently, there should be no error causing an impact on outlays.

**4.73** In the sample reviewed, the ANAO found that:

- in 19 per cent of cases, CSOs did not use the recommended form, and in an additional 12 per cent of cases there is no evidence that the CSO asked all questions, and hence there was insufficient evidence that the criteria referred to in section 4.38, were satisfied and that the customer was paid the correct entitlement;
- in 20 per cent of cases, there was insufficient evidence that a MLR was examined and, consequently, there was insufficient information to determine whether the customer's marital status was correct;
- in 15 per cent of cases, CSOs did not update the customer's bank balance and hence the customer's income details may not have been correct; and
- in seven per cent of cases, CSOs did not update the customer's 'other assets' and hence the customer's asset details may not have been correct.

**4.74** Individual cases may have had more than one error, so the percentages of incorrectly processed cases cannot be added together.

4.75 Centrelink guidance for staff conducting new child reviews states that CSOs should use the *Review for Parenting Payment (single)* form during interviews. In the sample of new child reviews examined, the ANAO found that in 19 per cent of cases the CSO did not use the recommended form or an appropriate substitute.<sup>58</sup> The ANAO also found that in 12 per cent of cases there was no evidence that all questions were asked of the customer. Not asking the required questions of the customer contravenes the *Guide to the Social Security Law* which states that CSOs should, 'to ensure reasonable care is taken when issuing advice... ensure they obtain and understand all relevant facts'. Although these administrative errors had a low impact or potential impact on outlays, they represent a departure by CSOs from expected practice and as mentioned previously are important because they represent a risk to quality customer service, the efficiency of program delivery and the ability to conduct compliance activity, all of which have associated costs.

4.76 In addition, although the prime objective of the new child review is to determine whether the customer is involved in a MLR, the ANAO identified that in 20 per cent of cases examined there was no evidence on the review form or on the customer's record that the CSO had determined whether a MLR existed. While the ANAO acknowledges that the CSO may have asked the required questions to determine whether a MLR exists, the ANAO was unable to verify that this had happened. The decision as to whether a customer is in a MLR is of a discretionary nature. The *Social Security Act* provides broad guidance to determine the nature of the relationship with the child's father. The CSO is required to consider:

- a. the financial aspects of the relationship;
- b. the nature of the household;
- c. the social aspects of the relationship;
- d. any sexual relationship between the people; and
- e. the nature of the people's commitment to each other.<sup>59</sup>

4.77 As mentioned earlier, under Service Profiling, Centrelink will continue to review all customers who have a new child whilst on PPS. Centrelink is developing a new review form aimed at ensuring that questions are better targeted to determine whether a customer is in a MLR. Centrelink has also developed and delivered additional training relevant to the processing of new child reviews. Training is examined in greater detail in Chapter 7.

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<sup>58</sup> New child reviews conducted by mail use a different form.

<sup>59</sup> Section 4 of the *Social Security Act 1991* prescribes the key determinants in assessing whether an MLR exists between two people.

**4.78** Both FaCS and Centrelink have examined establishing a joint working group that would evaluate issues surrounding MLR and recommend policy and administrative improvements in this area. It is envisaged that the joint working group will meet and that the terms of reference be established once FaCS and Centrelink have had an opportunity to examine the findings of the ANAO on this issue.

**4.79** The ANAO found that CSOs sometimes neglected to update all information provided by customers. As stated above, in 15 per cent of cases CSOs did not update the customer's bank balances and in seven per cent of cases the customer's 'Other Assets' were not updated. Neglecting to update information relating to a customer's assets and bank balances reduces the effectiveness of a review's assessment of income and earnings, and thus its ability to identify and rectify incorrect assessments.

**4.80** Not updating information is an ongoing concern for Centrelink. Findings from a Centrelink internal audit of Parenting Payment reinforce the findings of this ANAO audit. In 2001, Centrelink Audit conducted an audit of Parenting Payment that included an examination of a sample of post grant reviews. Post grant reviews use the same *Review for Parenting Payment (single)* form as the new child reviews. The internal audit identified that some CSOs failed to update low value bank account balances and 'Other Assets'. These problems were also found in the ANAO sample.

**4.81** In response to the internal audit, Centrelink produced the *Training Resource Kit for Parenting Customer Service Officers—Highlighting ASOs for Improvement Following the Internal Audit of Parenting Payment in 2001*. This document emphasises the importance of updating all information provided by the customer stating that:

If a customer provides Centrelink with information, it is imperative that we record this. It avoids rework and may disadvantage the customer later on if we have to request the information again. It also leads to potential errors.<sup>60</sup>

## Conclusion

**4.82** In the sample of new child reviews examined, the ANAO found a high rate of error. In particular, in about one third of all cases there was no evidence that the right questions were asked. In around 20 per cent of cases, CSOs did not fully record all the information provided by the customer. Whilst these errors had a very low immediate impact on payment, they are a departure from expected practice, which represents a risk to quality customer service, the efficiency of program delivery and Centrelink's ability to conduct compliance activity, all of which have associated costs.

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<sup>60</sup> Centrelink, *Training Resource Kit for Parenting Customer Service Officers*—September 2002, p. 8.

**4.83** The ANAO concluded that determining whether a customer is in a MLR is problematic. Under legislation, CSOs are provided with broad guidance on determining a MLR. However, many CSOs stated that they do not feel comfortable asking personal questions and that they did not feel that they had the investigative skills required. Therefore it appears that the new child review is not fully effective in identifying PPS customers in a MLR, possibly resulting in Centrelink overpaying PPS.

## **Recommendation No.4**

**4.84** The ANAO recommends that Centrelink improve the technical and investigative skills of CSOs involved in processing new child reviews, particularly to enable them to more effectively probe all issues that must be addressed to establish whether PPS customers are in a marriage like relationship.

### *FaCS response*

**4.85** FaCS agrees with this recommendation.

### *Centrelink response*

**4.86** Centrelink agrees. Centrelink notes that this is a particularly difficult aspect of the administration of the PPS. Establishing whether PPS customers are in a marriage like relationship is a complex area of administration that is often contested and requires a CSO to exercise judgement and sensitivity.

## 5. Customer Initiated Reassessments and Automated Rate Calculations

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*This chapter assesses the correctness of processing customer initiated reassessments and automated rate calculations.*

### Introduction

**5.1** Payment of the Parenting Payment Single (PPS) depends on the rate set by *Social Security Law* and customers' personal and financial circumstances.

**5.2** PPS customers have an obligation to inform Centrelink about changes in their circumstances, for example, if they take on or leave work or become partnered. Based on information regarding these changes, Centrelink conducts a reassessment of a customer's circumstances. Reassessments can lead to a variation in the rate of payment a customer receives, or in some instances to cancellation of payment. This process of updating a customer's details on the advice of the customer is known as a customer initiated reassessment (CIR).

**5.3** Once Customer Service Officers (CSOs) have obtained information from customers, determined how to treat that information and entered it into Centrelink information systems, those systems automatically calculate the rate of payment.

**5.4** Given these reassessment processes, the ANAO examined whether:

- Centrelink CSOs correctly processed Parenting Payment Single CIRs; and
- Centrelink information systems correctly calculated the rate of payment to PPS customers.

**5.5** Each of these is discussed under separate headings below.

### Customer initiated reassessments

**5.6** In 2002, Centrelink carried out approximately 200 000 CIRs for PPS customers. The majority of these were processed by CSOs located at Centrelink Call Centres or Customer Service Centres (CSCs). A customer initiates a reassessment by contacting Centrelink to advise of a change of details. The contact can be made by telephoning a Call Centre, in person at a CSC, by mail or by facsimile.

**5.7** The CSO must first establish the customer's identity. When a customer contacts a Call Centre, the CSO asks the customer some questions relating to personal information held on the customer's record. When the customer visits a CSC, their identity is verified by viewing personal documents such as a driver's

licence, or if the customer has no identification, by asking them questions relating to their personal record. If the customer is known to the CSO, then the CSO is not required to establish the customer's identity.

**5.8** Once the customer's identity has been established, the CSO processes the reassessment. The complexity of the processing can vary from relatively simple changes to the customer's details such as new bank account numbers, to far more complex revisions, such as adjustments to investments and income levels. Underpinning the quality of the processing is the skill of the CSO in determining what details need to be changed, and what effect these changes will have on the customer's eligibility to receive the PPS payment.

### **Assessment of correct processing of CIRs by Centrelink**

**5.9** In order to assess the correctness of CIRs, the ANAO selected a sample of 388 customer contacts drawn from the population of approximately 50 000 CIRs completed between 1 February and 30 April 2002. The methodology for the sample selection was provided by the Australian Bureau of Statistics' Statistical Consultancy Unit. The sample design was based on a stratified sample (with a systematic selection of reassessments), according to the number of reassessments per CSC. This sampling method allowed the ANAO to select a representative sample from the data set provided by Centrelink.

**5.10** Customer records were assessed by two Centrelink employees with experience in the processing and administration of the PPS program, seconded to the ANAO. The secondees assessed the correctness of the sampled CIRs against a test sheet developed by the ANAO, in consultation with Centrelink. The test sheet tested correctness against the definition agreed between FaCS and Centrelink in the Business Assurance Framework.

**5.11** In assessing the correctness of CIR processing by Centrelink, the ANAO found that 2 per cent<sup>61</sup> ( $\pm 2$  pp) of CIRs contained administrative errors with an immediate impact on outlays.

**5.12** For all cases that contained an administrative error with an immediate impact on outlays, Centrelink determined the impact of that error on the customer's payment rate. For the sample cases, the total upward variation (that is, the total amount that customers' fortnightly payments should be increased) was \$42 per fortnight. Additionally, administrative errors also resulted in one-off incorrect payments to customers. These were one-off overpayments, totalling \$654, and one-off underpayments, totalling \$286.

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<sup>61</sup> All percentages in the text are rounded to the nearest whole number. Decimals of 0.5 to 0.9 are rounded up to the next whole number, while decimals of 0.1 to 0.4 are rounded down to the next whole number. Percentages in figures and tables are rounded to one decimal place, using the same convention.

**5.13** Because of the sample selection process for CIRs, the dollar impact amounts could not be extrapolated to the entire PPS population. However, the proportion of CIRs with an administrative error with an impact on payment was small. The proportion of each payment in error was very small. The risk to program outlays is therefore low. However, while the risk to program outlays is small, incorrect processing by Centrelink can create substantial debts or arrears in individual cases and be the source of hardship for affected customers.

**5.14** The above assessment of correctness provides a level of assurance limited to the actions undertaken by CSOs in processing the sample of CIRs, measured against the agreed FaCS/Centrelink definition of correctness. It does not provide assurance that the end result of the CIR was accurate. In the majority of cases, the customer was not required to produce documentation when initiating the CIR. Consequently, the ANAO was only able to assess the actions undertaken by the CSO after the customer had contacted Centrelink. We were unable to assess whether the final result of the CIR was actually consistent with what the customer reported to Centrelink. However, Centrelink advised the ANAO that, after a CIR is completed, a letter is sent to the customer to confirm the update(s) that have occurred. The onus is on the customer to advise Centrelink if the information contained in this letter is incorrect.

## Conclusion

**5.15** The ANAO concluded that Centrelink was able to achieve a high degree of correctness in processing CIRs. Additionally, CIR processing errors identified by the ANAO present low risks to program outlays.

## Automated rate calculations

**5.16** In order to determine whether Centrelink's information systems calculate payments correctly, the ANAO selected a sample of 100 customers chosen at random from the program review and CIR samples<sup>62</sup> and calculated their payments manually. The manual calculations were then compared with the customers' payments listed on the information system.

**5.17** Fifteen of the 100 customers sampled were no longer on payment at the time of the rate check, resulting in a final sample of 85. Of these, the ANAO found that one had an incorrect rate of payment due to a failure of the system to assess correctly the number of eligible children. The error caused an overpayment of \$9.84 per fortnight.

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<sup>62</sup> Program reviews are discussed in Chapter 4 of this audit report and CIRs were discussed earlier in this chapter.

**5.18** Centrelink was aware of this problem and had taken action to correct it. The details of the problem were recorded on Centrelink's problem management system and an interim solution was issued to CSOs. The scheduled correction of the problem subsequently took place in March 2003.

## **Conclusion**

**5.19** This result cannot be extrapolated statistically to the population of PPS customers<sup>63</sup>, due to the sampling methodology. However, it suggests that system faults, even once they are identified, have the potential to place significant outlays at risk even where customers have provided accurate information and CSOs have processed that information correctly. The ANAO did not audit Centrelink's effectiveness in responding to errors in automated rate calculations. However, it notes the existence of a Centrelink regime to resolve system problems of the type identified in this audit.

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<sup>63</sup> PPS population was 436 883 as at June 2002, based on Centrelink, *Parenting Assistance Performance Report*, Quarter 4, 2001–2002.



## 6. Quality Control

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*This chapter examines changes being made by Centrelink to its quality control processes as part of implementing the FaCS-Centrelink Business Assurance Framework.*

### Introduction

**6.1** Under the 2001–04 Business Partnership Agreement (BPA), the Department of Family and Community Services (FaCS) and Centrelink agreed to work together to develop a revised Business Assurance Framework (BAF). Key components for stage 1 of the BAF, addressing payment correctness, were agreed between the agencies in February 2002.<sup>64</sup> Subsequently, the agencies are working to implement the early stage of the BAF and to determine the associated reporting requirements.

**6.2** FaCS and Centrelink agreed that assurance concerning correctness of payment would be provided through measurement processes at three layers, namely:

- quality control;
- quality assurance; and
- external assurance.

**6.3** Measurement at each layer would be based upon methodologies and sample sizes agreed between FaCS and Centrelink. Agreed definitions of correctness, accuracy and core processes would underpin the three layers of the BAF.

**6.4** A payment would be correct if: the right person is paid; under the right program; at the right rate; and for the right date(s), on the basis of all the latest information provided to Centrelink. These four criteria are known as the ‘four pillars’. Correctness therefore relates to decision-making processes within Centrelink’s control. Accuracy is defined as Centrelink complying with the four pillars, with the qualifier, all of the time. This recognises the obligation of the customer to advise of changes in circumstances that may affect their payment entitlements.

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<sup>64</sup> Stage 1 of the comprehensive BAF incorporates measures to ensure payment correctness and integrity of outlays. The other stages would be:

- stage 2–non-income support payment services for FaCS;
- stage 3–internal service delivery;
- stage 4–payments and services delivered for other agencies;
- stage 5–business support functions, such as information technology performance and costs; and
- stage 6–relationships with other external organisations such as the private sector, Non-Governmental Organisations and State/Territory Governments.

6.5 To determine whether a payment was correct under the four pillars, a customer's circumstances would be assessed against a series of core questions. These questions are based on requirements specified in the *Social Security Law* and were agreed between FaCS and Centrelink for all income support payments in June 2002. Core questions would include only those steps that could have an effect on the payment. While the definition of correctness would apply across all payment programs, the core questions would be specific to each payment. That is, questions about whether a customer was paid at the 'right rate' would include the caring arrangement for children, however these would be different between, for example, Parenting Payment Single (PPS) and Youth Allowance.

6.6 Implementation of stage 1 of the BAF required these definitions and the core questions to be incorporated into the measurement tools at each layer: quality control; quality assurance; and external assurance.<sup>65</sup>

6.7 Other processing issues, that would not normally have an impact on payment, are known as service delivery issues and would be assessed through other questions. These service delivery issues are being addressed through stage 3 of the BAF. These would include issues addressed by the CEO's *Instruction on Minimum Standards*, that is standards: for examining, storing and retrieving customer records and documents; for the establishment and use of online documentation; and for recording decisions. The Instruction was issued as part of Centrelink's November 2000 *Getting It Right* (GIR) strategy promulgated in response to the ANAO's Age Pension new claims audit.<sup>66</sup> Stage 3 will also cover quality standards in relation to customer experience management. In December 2002, Centrelink began to address non-income support payment related services delivered for FaCS under the PPS program, as part of the development of BAF stage 2.

## Quality control

6.8 Quality control encompasses those processes designed to ensure the quality of the final product, in this case a correct payment outcome. This includes in-office checks, measured using the Quality On-Line (QOL) tool and the proposed Area Based Checking (ABC); and checks conducted at the network level as part of National Accuracy Validation (NAV).

6.9 QOL is an information system that selects a random sample of activities for checking after the Customer Service Officer (CSO) has completed them, but before a payment is made by the income support information system. A checking

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<sup>65</sup> While consistent definitions underpin the three layers, core questions have been adapted at each layer to reflect the differences in the measurement tools.

<sup>66</sup> Audit Report No. 34 2000–01, *Assessment of New Claims for the Age Pension by Centrelink*.

officer reviews the source documents and screens actioned by the CSO and assesses them against a series of questions. At the end of the review, the checker either passes the activity, in which case it is processed by the Centrelink information system and changes are applied to the customer's record, or fails it, in which case it is returned to the original CSO for correction.

**6.10** Check the Checking (CtC) is a validation mechanism established in each Area Support Office (ASO) as part of the GIR strategy. ASOs chose to meet their validation obligations by conducting rechecks of a sample of QOL-checked records, though this approach was not specifically mandated by the GIR strategy. ASOs adopted a range of models for conducting the checks.

**6.11** NAV is a further validation mechanism established by National Support Office (NSO) as part of the GIR strategy. The checks were conducted by staff in the lead ASOs for each payment type, and were undertaken on a rolling basis, which aimed to check each payment once a quarter.

## Quality assurance

**6.12** Quality assurance encompasses those processes designed to assure the integrity of quality control processes. Quality assurance is carried out by Centrelink, but outside line management responsibility and would be measured by a program of rolling Random Sample Surveys (RSS).

**6.13** The RSS (discussed in Chapter 3) are designed to provide annual assurance for all major payments<sup>67</sup> and for selected minor payments over a three-year cycle. These surveys commenced in July 2002. FaCS proposes to conduct a total of 8750 reviews, sampled on a rolling quarterly basis, in 2002–03.

## External assurance

**6.14** External assurance encompasses the processes undertaken by FaCS to provide assurance on the integrity of Centrelink work, such as quality assurance checks on the RSS results.

## Quality On-Line

**6.15** As a result of the ANAO Age Pension new claims audit, FaCS and Centrelink agreed that QOL was not an appropriate tool for reporting performance. QOL data would therefore no longer be the source of performance information for correctness of payment under the BPA. Under the 2001–04 BPA, correctness of payment would be measured through a program of RSS.

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<sup>67</sup> Major payments are Age Pension, Youth Allowance, Parenting Payment (Single and Partnered), Disability Support Pension, and Newstart Allowance.

**6.16** Under the BPA, 2001–02 QOL data would be considered supplementary management information, used for monitoring purposes, rather than performance information against which Centrelink would be held accountable. QOL management information was provided to FaCS quarterly. QOL remained the source of accuracy data within Centrelink’s Balanced Scorecard, which is the agency’s primary internal tool for communicating and understanding performance, and for providing the information necessary to focus future performance improvement efforts. As of 1 July 2002, QOL has been refocused on measuring correctness as defined in the BAF. If QOL data is going to be useful as management and internal performance data, it must be reliable and provide meaningful information.

**6.17** The ANAO, therefore, examined whether the revised questions were having an impact on:

- QOL results; and
- the reliability of QOL results.

**6.18** Each of these is discussed under separate headings below.

## **Quality On-Line results**

**6.19** Figure 6.1 shows the National QOL results for all PPS processing activities and for all CSOs, for the period March 2002 to February 2003.

**6.20** The results for March to June 2002 are based on QOL before the introduction of the payment correctness questions, while those for July 2002 to February 2003 are based on the payment correctness questions. The two periods are, therefore, not strictly comparable. Introducing the payment correctness questions led to some early fluctuations in the QOL results, with the overall QOL results showing a slight downward movement. ANAO fieldwork interviews with QOL checkers suggests that a likely explanation of the early results may be the QOL checkers’ uncertainty vis-à-vis the definitions of error and the types of activities to pass or fail.

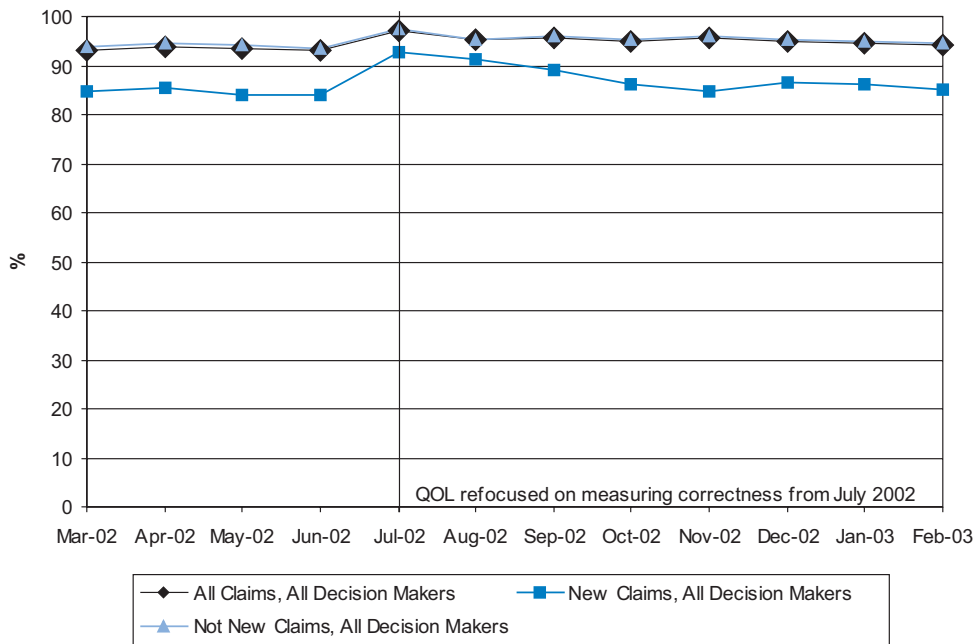
**6.21** Besides introducing payment correctness questions to QOL, Centrelink was in the process of introducing a number of other changes to the conduct of QOL checks.<sup>68</sup> These were described in Audit Report No.17 2002–03, *Age Pensions Entitlements* and included: changes to the sampling profile of CSOs; changes to the checking profiles of QOL-checkers in order to restrict their checking duties to their areas of expertise; and releasing mandatory training packages for QOL-checkers. As these changes were in the process of being introduced, the ANAO was unable to assess their impact on QOL results.

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<sup>68</sup> Implementation of several of these changes is subject to negotiations under the 2002–2005 Centrelink Development Agreement.

**Figure 6.1**

**QOL results for all PPS activities and for all decision makers,  
March 2002–February 2003**



Source: Centrelink.

## Quality On-Line reliability

**6.22** It was noted in the Age Pension Entitlements audit<sup>69</sup> that, as part of the November 2000 GIR strategy, Centrelink established mechanisms to validate QOL results at both the ASO and NSO levels. ASOs were responsible for the design of their CtC models, while NSO began conducting NAV checks from August 2001.

**6.23** Visits to five ASOs during the current audit confirmed that the CtC models varied significantly from one ASO to another. Of the five ASOs visited in the current audit, only one consolidated its CtC results to facilitate comparison over time.

**6.24** However, the results from the ASO for which consolidated CtC information could be readily obtained indicated that, at the time of the audit, changing the way the questions and errors in QOL were structured had not yet ensured that QOL results were reliable. CtC data collected from another ASO also indicated that, at the time of the visit, QOL-checkers were often incorrectly allowing

<sup>69</sup> Audit Report No.17 2002–03, *Age Pension Entitlements*.

customer payments with both payment correctness and service delivery errors to be released for payment when conducting Parenting Payment QOL checks.

**6.25** Centrelink aims to introduce ABC as a consistent validation mechanism to replace the various CtC models currently in place. However, at the time of the audit, Centrelink's implementation of ABC was pending the resolution of the Centrelink Development Agreement.

**6.26** NAV checks for PPS began in August 2001. The ongoing development of the measures of payment correctness across the sampling rounds and the variation in definitions of payment correctness and service delivery errors used by the lead ASO's resulted in differing approaches for those payments being validated using NAV. Consequently, NAV could not provide national results for Centrelink at the conclusion of the fieldwork for the audit.

**6.27** In the absence of consistent validation mechanisms to assure the quality of QOL checking, Centrelink is not yet able to provide assurance about the reliability of QOL results. FaCS and Centrelink also need to discuss what constitutes an acceptable tolerance level for errors in QOL checking.

## **Conclusion**

**6.28** As part of the implementation of the BAF, changes to QOL continue to be progressed. However, in the absence of consistent validation mechanisms such as ABC, Centrelink is not as yet able to assure the quality and reliability of these results. Improvements to QOL reliability are required, and are possible, through the continuing analysis of validation checks, particularly once changes have been introduced to the sampling regime and to the selection, training and certification of QOL-checkers, as described in ANAO Audit Report No.17 2002–03, *Age Pension Entitlements*.

## 7. Decision Support

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*This chapter considers the key Centrelink mechanisms for the provision of information and support to Customer Service Officers (CSO) that deliver the Parenting Payment Single (PPS).*

### Introduction

**7.1** In order for CSOs in Centrelink to make correct decisions, they must have access to accurate information about the many rules of a program, including legislation, policy, and procedures. CSOs have three main sources for this information:

- their own knowledge, developed through training (including formal development, and on-the-job training) and personal experience;
- automated and manual reference tools; and
- access to experts.

**7.2** Once CSOs have obtained information from customers, determined how to treat that information, and entered it into Centrelink information systems, those systems automatically calculate the rate of payment.

**7.3** As Centrelink's mechanisms for providing information and support to its CSOs in making and processing their decisions are similar across payment types, issues such as training, reference tools, access to experts and Centrelink's information systems have been addressed in earlier ANAO reports.<sup>70</sup> This chapter builds on this earlier work by examining the particular circumstances of PPS.

**7.4** The ANAO therefore examined arrangements for the provision of decision support for PPS in relation to:

- technical training;
- reference tools; and
- experts.

**7.5** Each of these is discussed under separate headings below.

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<sup>70</sup> These reports include Audit Report No.20 1999–2000, *Special Benefit*, Audit Report No.34 2000–01, *Assessment of New Claims for the Age Pension by Centrelink*, Audit Report No.39 2000–01, *Information and Technology in Centrelink*, Audit Report No.9 2001–02, *Learning for Skills and Knowledge-Customer Service Officers*, and Audit Report No.17 2002–03, *Age Pension Entitlements*.

## Technical training

**7.6** Aspects of the delivery of training to Centrelink staff have been examined in a number of recent ANAO reports.<sup>71</sup> In general, these reports concluded that there were gaps in the technical skills and knowledge of CSOs, often concerning the more complicated rules for particular payments. These reports also recognised that the delivery of technical training was decentralised. This made it difficult for Centrelink to ensure that training was being undertaken consistently across its Network.

**7.7** Given the examination of Centrelink training in the previous ANAO audits referred to above, this audit focused on examining:

- Centrelink efforts to improve the consistency of planning and delivery of PPS training; and
- whether CSOs delivering PPS felt they could access the training they needed.

**7.8** Gaps in the skills and knowledge of CSOs processing PPS are discussed in other chapters, particularly Chapters 4 and 5.

### Planning and delivery of technical training

**7.9** The ANAO found that the planning and delivery of technical training for PPS was decentralised, with Customer Service Centres (CSCs) and Area Support Offices (ASOs) identifying their own technical training needs and determining how best to meet them, usually with planning horizons of three to six months. ASOs use a range of structures to manage their training, though there was usually some effort to combine and coordinate training across groups of CSCs, known as 'clusters' or 'networks'.

**7.10** National Support Office (NSO) had, however, undertaken a major effort to improve the consistency of training content for PPS. Between November 2001 and June 2002, seven PPS training modules were reviewed, updated and published on the Parenting Payment homepage<sup>72</sup> on the Centrelink intranet (Centrenet).

**7.11** NSO has also utilised the Centrelink Education Network (CEN) to provide satellite enabled, interactive distance learning on PPS technical training issues, such as PPS qualifications and eligibility, service profiling for PPS customers,

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<sup>71</sup> These reports include Audit Report No.34 2000–01, *Assessment of New Claims for the Age Pension by Centrelink*, Audit Report No.9 2001–02, *Learning for Skills and Knowledge-Customer Service Officers*, and Audit Report No.17 2002–03, *Age Pension Entitlements*.

<sup>72</sup> The Parenting Payment homepage is designed to assist CSOs delivering both PPS and Parenting Payment Partnered.



and for changes relating to PPS customers, as part of the Australians Working Together initiative. It is the responsibility of network team leaders to ensure that all CSOs have access to the relevant training.

**7.12** ASOs visited during the audit indicated that they used the training modules developed by the NSO to deliver PPS technical training, with only minor modifications for local circumstances.

**7.13** However, there was little external quality assurance of the PPS training materials. Training modules were prepared by the Parenting Assistance Team within Centrelink's Service Integration Shop, and in consultation with Centrelink's Parenting Community Segment Team. There were no formalised or documented standards followed for the development and presentation of training material. However, the modules developed did follow a consistent format. In addition, information was provided in the modules on assessment methods. However, the results of the assessment were not reported to NSO to assist in determining whether the training was proving effective.

**7.14** At the time of the audit, Centrelink was examining the feasibility of combining technical training with accredited learning, a process that could be expected to strengthen the consistency and quality assurance of the training. Centrelink already delivers a suite of qualifications<sup>73</sup> as a Registered Training Organisation (RTO) under the Australian Quality Training Framework (AQTF) managed by the Australian National Training Authority. Under the proposal, all CSOs would work towards an appropriate qualification which would include assessment of, and where necessary, training in, their technical skills for the delivery of payment programs. All technical training, both to obtain the qualification, and subsequently to maintain skills would be formally assessed by qualified workplace trainers and assessors.

**7.15** At present a business case to integrate technical training into the accredited learning framework has been developed, and will be submitted to Centrelink's Business Improvement Committee (BIC) for funding approval. Timelines have been developed for this proposal, should the BIC approve its funding.

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<sup>73</sup> Nationally recognised qualifications issued by Centrelink at the time of the audit included:

- Certificate III in Business (Office Administration);
- Certificate IV in Business (Administration);
- Diploma of Business (Administration);
- Certificate IV in Assessment and Workplace Training;
- Certificate IV in Community Services (Youth Work);
- Diploma of Community Services (Disability Work);
- Certificate IV in Government (Fraud Control);
- Certificate IV in Government (Prevention/Detection); and
- Certificate IV in Telecommunications (Call Centres).

**7.16** Nationally recognised qualifications issued under Centrelink's registration, must meet the AQTF standards, which are subject to audit by a registering body.<sup>74</sup> These standards include the requirement to:

- have documented systems for quality training and assessment;
- have written procedures for recruitment, induction and professional development of staff, as well as induction programs;
- follow explicit requirements for quality assurance in assessment; and
- follow specific requirements for developing, validating and implementing learning and assessment strategies.

**7.17** The inclusion of technical training in an accreditation framework should ensure that training material is subjected to a more structured quality control and assurance regime. However, Audit Report No.9 2001–02, *Learning for Skills and Knowledge—Customer Service Officers* noted that there were some deficiencies in Centrelink's implementation of one accredited learning package. The report also noted that Centrelink had taken steps to address those deficiencies but it will be important to ensure that accredited technical training packages meet the key elements of the AQTF.<sup>75</sup>

**7.18** Combining technical training with accredited learning would increase the importance of the early, and effective, implementation of tools that Centrelink was developing to improve consistency in the planning and delivery of training, particularly Centrelink's Learning Needs Analysis (LNA) and Learning Management System (LMS).

**7.19** The *Age Pension Entitlements* audit noted that Centrelink has developed a Three-Tier LNA:

- Tier 1 is a series of multiple-choice questions that must be answered in a short timeframe;
- Tier 2 is a series of questions that may or may not be multiple-choice, but where the CSO is expected to research the answer; and
- Tier 3 is a series of questions where the CSO must indicate which issues should be referred to specialists.

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<sup>74</sup> At the time of the audit, Centrelink's was registered through the Training Accreditation Council of Western Australia, but the agency was in the process of transferring its registration to the Australian Capital Territory.

<sup>75</sup> At the time of the CSO skilling audit, the standards were known as the Australian Recognition Framework (ARF). The ARF was revised in 2000–01 and renamed the Australian Quality Training Framework (AQTF) from 8 June 2001.

**7.20** Between January and May 2002, Centrelink conducted all three Tiers of an LNA for Parenting Payment.<sup>76</sup> Approximately 4350 staff completed a Tier 1 LNA, and approximately 1943 staff completed Tier 2 and 3 LNAs. Additional Centrelink staff may have completed all three Tiers of the LNA for Parenting Payment, via the Parenting Payment homepage. However, Centrelink is unable to provide figures on the number of staff that completed the LNAs in this manner.

**7.21** Despite this high response rate, several CSCs visited during the audit indicated that they had experienced problems with accessing the Tier 1 Parenting Payment LNA, which was delivered through the Centrelink Education Network. Due to the fact that these CSCs were unable to access the LNA, staff had not been able to participate.

**7.22** The ANAO found that not all CSCs visited had received their results from the Tier 1 LNA. Those that had, commented that it took too long to receive the results, and that it would have been more useful if the results had also indicated what the CSOs original response had been, in cases where they made an error. Centrelink's NSO was not able to provide individual results for the Tier 2 and 3 LNAs, because the analysis required more labour-intensive assessing, and NSO had received many more responses than anticipated.

**7.23** In response to these problems, Centrelink indicated that it was developing information systems to provide greater automation of the LNA process. These enhancements are designed to shorten timeframes in gathering and delivering individual and management information. As only one Parenting Payment LNA had been conducted at the time of the audit, the ANAO was unable to determine whether these systems were effective in improving the timeliness of PPS results.

**7.24** The *Age Pension Entitlements*<sup>77</sup> audit noted that Centrelink was planning to implement an LMS for accredited training in January 2003, but that technical training would only be incorporated at a later date.

**7.25** To date, contractual negotiations for the LMS are scheduled to commence in February 2003, with Centrelink intending to complete stage one of the implementation by the end of June 2003. Centrelink indicated that they would then review the implementation of stage one and would then roll out LMS to the rest of the network by December 2003.

**7.26** However, Centrelink's increasing focus on restructuring its training has led some ASOs to begin to develop information systems to manage the planning and delivery of technical training in the short term. Two of the five ASOs visited

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<sup>76</sup> The LNA was conducted for the entire Parenting Payment program. Parenting Payment encompasses both PPS, payable to single parents, and Parenting Payment Partnered (PPP), payable to partnered parents.

<sup>77</sup> Audit Report No.17 2002–03, *Age Pension Entitlements*.

during the audit were developing information systems for managing technical training. This represents a duplication of effort both across the network and between the network and NSO. Centrelink should take steps to prevent this duplicated effort.

## **Access to training**

**7.27** Improvements to the planning and delivery of technical training will only be effective if Centrelink staff have time to take the required training. Centrelink has recognised this reality. The 1999–2002 Centrelink Development Agreement (CDA) specifies that CSOs should have access to 12 hours of learning and development time per four-week period. However, the CSO skilling audit noted that, at the time of that audit, CSOs considered that their workload often precluded them from using their learning and development time.

**7.28** During visits to CSCs, the ANAO interviewed 45 CSOs and asked whether they had sufficient time and facilities to take the training they needed, and to meet the expectations of the CDA. A total of 8 (18 per cent) indicated that they sometimes experienced difficulty securing sufficient learning and development time, due to their workload or staff shortages. One CSO indicated that there were difficulties in finding training opportunities to meet needs; while six commented that they did not have adequate facilities for self-study.

**7.29** With regard to access to learning opportunities, the information obtained by the ANAO is only indicative, but suggests that access to learning opportunities improved during 2001–02.

## **Conclusion**

**7.30** The ANAO concluded that Centrelink has improved consistency in the delivery of training by updating the training modules for PPS. Consistency in planning and assessing technical training remains limited. However, incorporating technical training into accredited training can be expected to improve consistency and quality assurance to meet the needs of the AQTF.

## **Reference tools**

**7.31** Under the 2001–2004 Business Partnership Agreement (BPA), FaCS is responsible for policy formulation and advice concerning income support payments, as well as for ensuring that policy is implemented through purchase arrangements, principally with Centrelink. Centrelink, in turn, is responsible for the delivery of income support payments to the Australian community.

**7.32** Reflecting these different responsibilities, the two agencies have developed separate, but closely linked, documents codifying the legislation, policy and procedures that must be followed when delivering income support payments. FaCS has developed, and maintains the *Guide to the Social Security Law* (the *Guide*) as the authoritative source of interpretation of social security legislation and of supplementary policy statements. Centrelink has developed, and maintains *e-Reference*, which is the authoritative source of procedures to be followed by CSOs. Both documents are available on-line to all Centrelink staff, and *e-Reference* is extensively cross-referenced to the *Guide*.

**7.33** The BPA states specifically that FaCS is responsible for providing Centrelink with timely advice on policy and for ensuring that policy guides and rule bases, primarily the *Guide*, are kept up-to-date. Centrelink is responsible for ensuring that its guides, primarily *e-Reference*, are consistent with policy advice and are kept up-to-date.<sup>78</sup>

**7.34** Recognising that accurate and up-to-date policy advice is important to enable correct payments, as discussed in Chapter 1, both FaCS and Centrelink have begun to explore ways to measure the appropriateness of advice. Furthermore, in July 2002, FaCS provided an assurance statement to Centrelink for the first time addressing three areas of risk, two of which concerned the provision of advice.<sup>79</sup> These were:

- the accuracy of advice on the application of legislation provided by the FaCS to Centrelink (aspects of this are discussed later in this chapter); and
- the accuracy of the *Guide* and the *Family Assistance Guide*.

**7.35** The ANAO therefore examined whether:

- processes were in place and operating to ensure that the *Guide* was up-to-date;
- processes were in place and operating to ensure that *e-Reference* was consistent with the *Guide* and up-to-date; and
- Centrelink CSOs were able to use the reference tools.

## **Guide to the Social Security Law**

**7.36** The requirement to update the *Guide* can arise from several sources. The sources include changes to legislation or policy initiated by the Government,

<sup>78</sup> Department of Family and Community Services and Centrelink 2001, *Business Partnership Agreement, Business Development and Operations Protocol*, Section 13.2.

<sup>79</sup> The third area of risk was the comprehensiveness and accuracy of instruments of delegation under the *Social Security Law* and *Family Assistance Law*.

review by FaCS program areas, inquiries to policy help desks, or problems identified by Centrelink in the course of delivering a program.

**7.37** FaCS has developed a number of tools to assist in updating the *Guide*. These include an information system (the Guide Amendment System), documentation standards, templates and Guide Author Training. The Guide Amendment System manages the flow of information between the program area responsible for the update and FaCS' Guide Management Group (GMG), and makes the update available for viewing by other organisations within the Department.

**7.38** In its assurance statement to Centrelink, FaCS listed the strategies it employs to ensure that the *Guide* is accurate and up-to-date, including the above-mentioned tools. Updates specific to the PPS components of the *Guide* are relatively infrequent, because many policy changes or clarifications affect several payments and are therefore managed by FaCS program areas with functional responsibilities, rather than the program branches. For example, most issues associated with the assessment of income and assets can affect several payments but are addressed by the Seniors and Means Test Branch.

**7.39** The ANAO examined the processes followed for three recent updates to the PPS components of the *Guide* to determine whether they reflected the strategies. Table 7.1 indicates the results of the assessment.

**Table 7.1****Risk Management Strategies for PPS Updates to the Guide.**

Risk Management Strategy Implemented	Update 1	Update 2	Update 3
Legal Services Branch or the program area initiated the change and took responsibility for it.	✓	✓	✓*
Appropriate Centrelink teams were consulted.	✓	✓	✓
Draft changes were sent to the Guide Management Group and placed on a database viewable by guide authors.	✓	✓	✓
Guide authors had received Guide Author Training, and training in plain English writing and information mapping.	✓	✓	✓
GMG provided guidance and advice to the program area on standards, readability and plain English writing.	No direct evidence of this process. However, the update authors indicated that it occurs through training, exchange of drafts, and discussion.		
Changes were made in publishable formats to minimise retyping.	✓	✓	✓
Changes were made in accordance with relevant timetables, including the Guide release schedule.	✓	✓	✗
Significant changes were signed off by an appropriate director or the Assistant Secretary of the author Branch.	✓	✓	✓
Centrelink was advised of upcoming changes.	✓	✓	✓

\*Note : The program area took responsibility for this update, however there were legal issues involved, and there was no evidence of consultations with Legal Services on file. Updates 1 and 2 were completed within three months of the issue being identified. Update 3 took six months to complete because of delays in completing consultations within the branch.

Source: Information provided to the ANAO by Centrelink (2002).

**7.40** As Table 7.1 indicates, FaCS' risk management strategies were largely implemented for the recent changes to PPS components of the *Guide*. The one area where there might have been opportunities to improve was in the timeliness of one update.

**7.41** With regard to the timeliness of *Guide* updates, Centrelink has expressed concerns to FaCS that the *Guide* is not updated to keep pace with changes in legislation. At the time of the audit, FaCS was looking to enhance assurances to Centrelink regarding the timeliness of updating the *Guide*, possibly including developing a timeliness standard.

## e-Reference

**7.42** As with the *Guide*, changes to *e-Reference* can come from a number of sources. These include:

- feedback from the Centrelink Network through policy helpdesks to the Parenting Assistance Segment Team or to the Parenting Assistance Team in Centrelink's Service Integration Shop;

- feedback from the Centrelink Network directly to the *e-Reference* Team in the Service Integration Shop by email, phone or the *e-Reference* feedback button on Centrenet; and
- new initiatives or projects.

**7.43** In principle, updates to *e-Reference* could also result from policy changes that are not part of a new initiative. However, Centrelink staff indicated that, at the time of the audit, there had been no cases of such changes in the parenting life event since it was released.

**7.44** CSOs interviewed during the audit were asked whether they were satisfied with the opportunities to provide feedback on aspects of their work, such as commenting on *e-Reference*. Most indicated that they were satisfied and that they would mainly provide feedback through their team leader and ASO. However, some CSOs commented that suggestions made using NSO feedback tools were not necessarily responded to promptly. As a result, these staff were not inclined to use the tools again.

**7.45** The process for updating *e-Reference* is similar to that for updating the *Guide*, however the *e-Reference* Team plays a larger role. They can correct technical and display problems on their own initiative, and are responsible for making substantive changes if the necessary information can be found in policy and procedural resources, such as legislation and the *Guide*.

## Conclusion

**7.46** By establishing separate organisations responsible for the formatting and presentation of their respective on-line resources, both FaCS and Centrelink have improved the consistency of the presentation of information. Devolving responsibility for the content of updates to functional and program branches also ensures that updates are prepared by staff with the expertise in the area under review.

**7.47** With the absence of an overall review of content, there is a risk that the on-line resources being used by FaCS and Centrelink may not be aligned. Moreover, the *Guide* and *e-Reference* organise and structure their information differently, which can make it difficult to match their information precisely.

**7.48** FaCS and Centrelink have recognised these problems. At the time of the audit, they were discussing establishing a mechanism to streamline and align the *Guide* and *e-Reference*, in the context of simplification.



## Experts

**7.49** It has been noted throughout this report that the interaction between the rules of the PPS, and customers' circumstances, could result in very complicated scenarios. For such cases, CSOs should have access to experts who can provide advice on the application of legislation, policy and procedures to individual cases. To provide this advice, FaCS and Centrelink have established networks of policy help desks and specialists that CSOs can access.

**7.50** The ANAO therefore examined whether CSO obtained adequate expert advice through:

- policy helpdesks; and
- specialists, particularly Social Workers.

## Helpdesks

**7.51** Under the 2001–04 BPA, Centrelink was required to provide helpdesk arrangements for service delivery and operational issues. These helpdesks are telephone numbers and electronic mailboxes that CSOs can contact to obtain advice and guidance on aspects of their work. Centrelink helpdesks for PPS policy issues had been established in ASOs and in NSO. CSOs would normally contact their ASO helpdesk first. The ASO helpdesk would then pass on any queries that they could not answer to NSO helpdesks.

**7.52** Occasionally, Centrelink staff would be unable to answer a query, and it would be referred to FaCS for advice.<sup>80</sup> As was noted earlier in this chapter, under the BPA, FaCS has agreed to provide timely advice on policy and legal interpretations of relevant legislation. In that regard, in its 2002 *Assurance Statement* to Centrelink, FaCS noted that the timeliness and accuracy of such advice were two areas of risk in its relationship with Centrelink. These risks were the only two which continued to be rated as 'significant' even after the application of existing risk management strategies, and which therefore required senior management attention.

**7.53** In response to the risk of not providing timely advice, the agencies agreed in the BPA to work together to agree timeliness standards for the provision of advice. However, progress on the project has been slow. At the time of the audit and more than one year after the BPA was agreed, FaCS was still considering draft timeliness targets.

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<sup>80</sup> As an example of the frequency of such referrals, according to the Third Quarter *Parenting Assistance Performance Report*, from January to March 2002, Centrelink NSO Parenting Assistance helpdesks received 104 queries from the network, and referred 7 to FaCS for policy advice.

**7.54** Such a target, however, is already in place in the BPA output specification for parenting and employment programs. The specification states that urgent enquiries are to be dealt with within one working day, and non-urgent enquiries within five working days. FaCS is also required to report on cases where the timeliness standards are not met. During the 2001–02 financial year, FaCS met the timeliness standards consistently.

**7.55** In response to the risk of providing inaccurate advice, FaCS indicated that it planned to initiate a further review of its helpdesk protocols. At the time of the audit, this review had not yet begun.

## **Conclusion**

**7.56** The ANAO concluded that Centrelink helpdesks for PPS policy issues provided adequate expert advice to CSOs in the processing and administration of PPS payments. In view of the importance of providing timely advice, FaCS should continue to plan and implement its proposed review of its helpdesk protocols.

## **Specialists**

**7.57** CSOs interviewed for the audit indicated that the specialists they used most often for assistance were Social Workers, Complex Assessment Officers (CAOs) and Jobs, Education and Training (JET) Advisors. They also made occasional use of a range of other specialists, such as Psychologists, Migrant Services Officers and Indigenous Services Officers. For the current audit, the ANAO therefore examined the availability and role of Social Workers.

**7.58** PPS customers are the second largest group of customers referred to Social Workers. For the April to June 2002 quarter, 12 800 PPS customers were referred to Social Workers, representing 21 per cent of all referrals.<sup>81</sup> Despite the frequency of their involvement with PPS customers, Social Workers do not have delegations for any components of PPS determinations. Social Workers are available to help customers in CSCs and Call Centres. Social Workers can help by:

- providing counselling and support to Centrelink customers with difficult personal or family issues;
- providing information about, or referring customers to, community support services; and
- assisting with claims for Centrelink payments.

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<sup>81</sup> In comparison, Youth Allowance customers, for which Social Workers have delegations for certain assessments, represented 26 per cent of referrals, and the third most frequent source of referrals were customers who were not on a payment at the time of referral (18 per cent). All other payments combined provided only 35 per cent of referrals.

**7.59** Centrelink employs more than 500 Social Workers, and is therefore able to provide almost all CSCs with an on-site resource. CSOs interviewed during the audit indicated that they had no difficulty accessing social worker support when needed.

## **Conclusion**

**7.60** The ANAO found that Centrelink is able to provide almost all CSCs with an on-site social worker resource. The CSOs interviewed during the audit indicated that they had no difficulty in assessing social worker support when needed.

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Canberra ACT  
23 May 2003



P. J. Barrett  
Auditor-General

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