

The Auditor-General
Audit Report No.34 2000–2001
Performance Audit

Assessment of New Claims for the Age Pension by Centrelink

Centrelink

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Canberra ACT
17 May 2001

Dear Madam President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in Centrelink in accordance with the authority contained in the *Auditor-General Act 1997*. I present this report of this audit, and the accompanying brochure, to the Parliament. The report is titled *Assessment of New Claims for the Age Pension by Centrelink*.

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

Yours sincerely



P. J. Barrett
Auditor-General

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

AUDITING FOR AUSTRALIA

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

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Contents

Abbreviations	7
Glossary	8
Summary and Recommendations	
Summary	13
Background	13
Assessment of new claims for the Age Pension	13
Business Partnership Agreement (BPA) between FaCS and Centrelink	14
Reasons for the audit	15
Audit objective	16
Audit scope	16
Audit approach	17
Audit focus and test criteria	18
Audit conclusion	20
Centrelink's response	23
Key Findings	25
Compliance of New Age Pension Claims Assessments with Relevant Legislation and Guidelines (Chapter 2)	25
Monitoring the Accuracy of New Age Pension Claim Assessments (Chapter 3)	31
Controlling the Accuracy of New Age Pension Claim Assessments (Chapter 4)	34
Recommendations	36
Audit Findings and Conclusions	
1. Introduction	43
Background	43
Assessment of new claims for the Age Pension	44
Business Partnership Agreement (BPA) between FaCS and Centrelink	46
Reasons for the audit	47
Audit objective	47
Audit scope	48
Audit criteria	48
Audit methodology	51
Consultants to the audit	53
Structure of the report	53
2. Compliance of Age Pension Assessments with Relevant Legislation and Guidelines	54
Introduction	54
Claim complexity	55
Sample selection	55
Sample size	56
Core audit test criteria	57
Module audit test criteria	57

Interpreting audit results tables	61
Core assessment errors	62
Module assessment errors	73
3. Monitoring the Accuracy of New Age Pension Claim Assessments	87
Preventive and detective controls	87
Monitoring and controlling the accuracy of new claim assessments	88
Centrelink compliance monitoring	89
Procedure and Accuracy Check (PAC) system	89
Quality On-Line (QOL)	91
4. Controlling the Accuracy of New Age Pension Claim Assessments	108
Training	108
Decision support	113
Centrelink's Balanced Scorecard (BSC)	121
Appendices	
Appendix 1 Core Audit Test Criteria	127
Appendix 2 Module Audit Test Criteria	130
Appendix 3 Complicating Factors	138
Appendix 4 Sample Design	139
Appendix 5 Detailed Results Tables	144
Appendix 6 Bibliography	152
Appendix 7 Explanatory Notes	153
Index	158
Series Titles	160
Better Practice Guides	163

Abbreviations

ABS	Australian Bureau of Statistics
ANAO	Australian National Audit Office
BPA	Business Partnership Agreement (between FaCS and Centrelink)
BSC	Balanced Scorecard
CAO	Complex Assessment Officer
CEN	Centrelink Education Network
CRN	Customer Record Number
CRS	Centrelink Reference Suite
CSC	Customer Service Centre
CSO	Customer Service Officer
FaCS	Department of Family and Community Services
ILP	Individual Learning Plan
KPI	Key Performance Indicator
NDM	Non-Decision Maker
NSO	National Support Office
ODM	Original Decision Maker
PAC	Procedure and Accuracy Check
POA	Proof of Age
POCDM	Point of Contact Decision-making
POI	Proof of Identity
POR	Proof of Residency
QOL	Quality On-Line
RCS	Retirement Community Segment Team (within Centrelink)
RETIDOC	Retirement Income Document System (within Centrelink)
SMT	Seniors and Means Test Branch (within FaCS)
TAL	Telephone Allowance

Glossary¹

Accurate assessment	An assessment of a new claim with no actionable errors.
Actionable assessment error	The non-compliance of a claims assessment against one or more of the eight major core audit test criteria. An actionable error in an Age Pension claims assessment if detected within Centrelink requires follow-up action, including the return of the claim to the Original Decision Maker for review. The ANAO used the term 'actionable' error rather than using Centrelink's internal terminology, 'critical' error in order to convey the consequences of such an error, namely the necessity for follow-up action within Centrelink and to avoid the possible misinterpretation that such errors always involved an incorrect payment. Actionable errors include instances of incorrect payment, but also include instances where there was the potential for incorrect payment when important information was not provided by the customer.
Audit criteria	The broad framework guiding the audit.
Audit test criteria	A set of around 200 specific criteria for determining compliance of new Age Pension claims assessments with legislation and relevant Centrelink internal guidelines.
Confidence interval	The upper and lower confidence bounds within which the population estimate lies, with a specified degree of confidence.
Core audit test criteria	A subset of audit test criteria comprising 39 common criteria against which all claims were tested regardless of their complexity.
Error rate	Customer claims assessed incorrectly as a proportion of total customer claims assessed.
Incorrect assessment	An assessment of a new claim with one or more actionable errors.

¹ See Appendix 7, Explanatory Notes, for further information on terms appearing in the Glossary.

Major core audit test criteria	The eight major audit test criteria fundamental to determining the accuracy of a claims assessment for reporting under the BPA.
Minor core audit test criteria	The remaining 31 core audit test criteria.
Module assessment error	The non-compliance of a claims assessment against one or more of the 169 Module audit test criteria.
Module audit test criteria	The 169 audit test criteria relating to the nine separate Module forms that a claimant may be required to complete depending upon his/her individual circumstances.
Non-actionable assessment error	The non-compliance of a claims assessment against one or more of the 31 minor core audit test criteria.
Payment rate error	The non-compliance of a claims assessment against one of the major core audit test criteria specifying whether the customer was paid at the correct rate.
Population	The 28 213 new claims for the Age Pension new Age Pension claims lodged with Centrelink and assessed during the period 1 October 1999 to 31 March 2000.
Population error rate	The proportion of customer claims within the total population of new claims that contain a specific type of error.
Possible payment rate error	The non-compliance of a claims assessment against one of the major core audit test criteria specifying whether there was a risk of inaccurate payment but which would require further information from the customer and/or other source in order to establish the correct payment rate.
Quantifiable actionable error	An actionable error in a claims assessment where the error impacted directly on payment and could be quantified by the ANAO on the basis of information on the customer file and/or computer record at the time of the audit.
Sample	The 354 new claims assessments examined by the ANAO drawn from the population of 28 213 new claims for the Age Pension new Age Pension claims lodged with Centrelink and assessed during the period 1 October 1999 to 31 March 2000.

Test subset The proportion of all claims to which a specific audit criterion applies.

Unquantifiable actionable error An actionable error in a claims assessment where the error impacted directly on payment but could not be quantified by the ANAO without further information from the claimant and/or other source to establish entitlement and/or the correct payment rate.

Summary and Recommendations

Summary

Background

1. Centrelink was established as a statutory authority with its own legislation in July 1997. Since its inception, Centrelink has set itself a goal to create an efficient customer-focused organisation that is highly responsive to government policy requirements. It has the very significant task of implementing government initiatives on behalf of a variety of Commonwealth purchasing agencies. In 1999–2000, Centrelink provided services in relation to the delivery of personal benefit payments and other payments on behalf of 13 client agencies, each with individual requirements including demanding timeframes and performance targets. A major income support payment that Centrelink delivers is the Age Pension.

2. The Age Pension is a social security income support payment available to Australian residents and eligible Australians residing overseas who have reached Age Pension age² and whose income and assets are under certain limits.³ In 1999–2000, approximately \$14 billion was paid to approximately 1.7 million Age Pension recipients.

3. Payment of Age Pension is made under the *Social Security Law*⁴ and in accordance with the *Guide to the Social Security Law* prepared by the Department of Family and Community Services (FaCS). FaCS has contracted Centrelink under a Business Partnership Agreement (BPA) to administer the payment of Age Pension to eligible customers.

Assessment of new claims for the Age Pension

4. In this audit, the ANAO examined Centrelink's assessment of new claims for the Age Pension lodged during the period 1 October 1999 to 31 March 2000.

² Age Pension age is currently 61.5 for women and 65 for men. The Age Pension qualifying age for women has been progressively increased from 1 July 1995 and will increase by an additional six months every two years until it reaches 65 in July 2013.

³ A number of other factors can also affect entitlement to the Age Pension eg. the number of years that the claimant has been an Australian resident and whether he/she is receiving other social security benefits.

⁴ The *Social Security Law* comprises the *Social Security Act 1991*, the *Social Security (Administration) Act 1999* and the *Social Security (International Agreements) Act 1999*.

5. The ANAO estimated that during this six month period, some 28 213 people lodged new claims for the Age Pension.⁵ Of these, 23 662 (83.9%) were granted and 4551 (16.1%) were rejected. The claims granted accounted for around 1.4% of current Age Pensioners and will cost around \$160 million per annum⁶ (or 1.1% of total expenditure on Age Pensions). For these new claims granted, the ANAO estimated that approximately 9040 customers received a full-rate pension of \$9670 per annum and approximately 14 622 received a part-rate pension averaging \$4830 per annum.

6. The assessment of new claims for the Age Pension involves consideration of many factors, including the claimant's income, assets and accommodation details. This diversity of factors produces considerable variation in the complexity of individual assessments. To date, the trend has been for more complex claims, due to the interaction of increased targeting of benefits and the deregulation of financial markets. This impacts directly on Centrelink's Customer Service Officers (CSOs) who must deal with such complexity on a daily basis.

Business Partnership Agreement (BPA) between FaCS and Centrelink

7. The BPA between FaCS and Centrelink requires Centrelink to assess new claims for the Age Pension, to make payments in accordance with the *Social Security Law* and the *Guide to the Social Security Law*, and to ensure that the Age Pension is paid to eligible claimants only and at the correct rate.

8. Under the 1999–2001 BPA, the primary performance indicator in relation to the objective of ensuring the compliance of new Age Pension claims with relevant legislation and guidelines was the proportion of claims correctly assessed, as measured by Centrelink's Procedure and Accuracy Check (PAC) system. The PAC system was a quality improvement and risk management tool used by Centrelink to undertake sample checking of new claims and reassessments. For the 2000–2001 BPA, it is being measured by new accuracy checking software called Quality On-Line (QOL), introduced on 25 May 2000. QOL was designed to reduce the likelihood of user error during the checking process, to identify the source of assessment error to inform training, and to provide more comprehensive management information reports on accuracy in

⁵ This figure excludes automatic transfers from other benefits.

⁶ This estimate does not allow for the natural decline in outlays associated with this cohort of Age Pensioners due to mortality.

decision-making. The accuracy standards, sampling regime and pay advancement performance thresholds remain essentially the same as for PAC.

9. The 1999–2001 BPA stated that the major priority area for Centrelink in 1999–2000 was ‘*payment correctness, and consistency and accuracy in decision-making.*’⁷ The 1999–2001 BPA standard was 95% of new claims assessments ‘*correctly assessed*’, as measured by the PAC system. The 2000–2001 BPA standard was 95% of all claims ‘*completely accurate*’ in terms of correctness of payment as measured by QOL.

10. Centrelink stated in its 1999–2000 Annual Report that it had met the majority of its performance targets. Though a number of indicators had been agreed with FaCS to assess Centrelink’s performance, timeliness and accuracy of new claims processing remained the two key performance measures for the Age Pension reported by both FaCS and Centrelink in their 1998–1999 and 1999–2000 Annual Reports.⁸ Accordingly, Centrelink reported to FaCS and Parliament that it had exceeded the 95% accuracy target for the processing of new Age Pension claims, achieving a 97% and 98% accuracy standard in these two reporting years respectively.⁹

Reasons for the audit

11. An ANAO theme within audits undertaken in recent years has been to provide Parliament, client agencies and the public with a positive assurance about the level of compliance that underpins the delivery of key products and services. The delivery of the Age Pension is a significant government service. This audit of the *Assessment of New Claims for the Age Pension by Centrelink* was conducted in parallel with an audit of FaCS that assessed whether FaCS had established effective business arrangements with Centrelink to help ensure the accuracy of Centrelink’s assessments of these new claims. The ANAO considered that the two audits:

- would provide assurance to Parliament and the public about the implementation of government policy in relation to the Age Pension program; and
- could identify opportunities for improvement in the administration of the Age Pension program.

12. The audit of *Family and Community Services’ Oversight of Assessment of New Claims for the Age Pension by Centrelink* was tabled on 17 May 2001.

⁷ Schedule for Seniors and Means Test, Clause 5.

⁸ The audit sample period lies within the reporting time frame for the 1999–2000 Centrelink Annual Report.

⁹ These accuracy performance figures were calculated by Centrelink from PAC data for the period 1 July 1998 to 24 May 2000.

Audit objective

13. The objective of the audit was to assess the extent to which new claims for Age Pension had been assessed in compliance with the *Social Security Law*, the *Guide to the Social Security Law* and other relevant guidelines developed by Centrelink, and whether Centrelink employed appropriate mechanisms to help ensure such compliance. In short, the focus was on compliance management which is an important element of corporate governance and the assurance needed for all stakeholders on accountability and performance.

Audit scope

14. Both the 1999–2001 Business Partnership Agreement (BPA) between FaCS and Centrelink and the 2000–2001 BPA clearly specified the objective of ensuring that new Age Pension assessments complied with the *Social Security Law* and the *Guide to the Social Security Law*. The 2000–2001 BPA identifies three key strategies for maximising correct payments and outlays—prevention, detection and deterrence. Of these, it gives priority to prevention, stating that *‘the primary aim of control strategies, as far as possible, will be to prevent incorrect payments, rather than detect them later’*. Consistent with this priority, the scope of the audit was on preventive controls to ensure accuracy in decision-making.

15. The ANAO focused on accuracy in decision-making and Centrelink’s preventive quality controls that seek to ensure that CSOs are able to make correct decisions at the new claim stage. A focus on preventive controls is consistent with the priorities in the BPA. New claims granted over the six-month audit sample period accounted for around 1.1% of Age Pension expenditures and 1.4% of Age Pension recipients. The audit findings relate to this cohort of Age Pension assessments and unsuccessful claims lodged during the same period.

16. The audit did not seek to determine the impact of new claims assessment errors on total Age Pension outlays. This would have required a much larger sample of new claims together with an analysis of Centrelink’s detection and review procedures, which was beyond the scope of this audit.

17. Centrelink has in place a range of detective controls for Age Pensions to identify potentially inaccurate assessments after they have occurred.¹⁰ Such detective controls are designed to identify a considerable proportion of incorrect assessments after the event. The ANAO plans to conduct an audit of these controls in the near future.

¹⁰ These include the Pension Entitlement Review program and Compliance Monitoring program.

Audit approach

18. To achieve the audit objectives, the audit team:

- examined a random sample of new Age Pension claim assessments undertaken by Centrelink between October 1999 and March 2000;
- obtained assistance from the Australian Bureau of Statistics (ABS) Statistical Consultancy to select a stratified random sample and, later, to extrapolate the weighted sample error rates and obtain unbiased estimates of error rates for the total population;
- developed audit test criteria and error rate measures¹¹ in consultation with Centrelink and FaCS that enabled the measurement of a claims assessment error consistent with the BPA accuracy measures;
- interviewed Centrelink staff with responsibilities for assessing Age Pension claims and/or providing advice or supervision to Age Pension assessors;
- interviewed Centrelink National Support Office (NSO) and Area Office staff with responsibilities for the management of Age Pension; and
- examined Centrelink NSO files relating to the management of Age Pension.

19. Centrelink contributed constructively to the audit fieldwork. In particular, it provided four secondees with considerable Age Pension assessment expertise to:

- assist with the development of the audit test criteria;
- examine the claims assessments selected for audit against these audit test criteria;
- organise fieldwork interviews and assist at these interviews; and
- assist in interpreting the overall findings of the claims assessment audit.

20. In addition, staff from the Retirement Community Segment Team (RCS) provided logistical support in coordinating the retrieval of the files corresponding to claims assessments selected for audit. RCS staff also helped to develop the audit test criteria and to devise a method of identifying claim complexity from the available customer record data. The ANAO is very grateful for the significant contribution and expertise of all Centrelink staff involved, particularly those who were part of the audit team.

¹¹ Error rates are defined as customer claims assessed incorrectly as a proportion of total customer claims assessed. This outcome, or customer-based approach, is consistent with Centrelink's reporting of assessment accuracy under the BPA.

21. During the audit fieldwork period, Centrelink RCS staff had full access to the ANAO audit team and all audit files containing the results of the examination of individual claims assessments by the team. This was to enable cross-validation of findings and follow-up action where appropriate by Centrelink RCS or by other areas within Centrelink. In addition, the ANAO presented the audit results to the manager and/or retirement team leader within 16 CSCs across four Centrelink Areas. This was to provide the opportunity for Centrelink input from officers directly involved in those specific assessments, and for comments about the factors that underpinned these results. These processes lead to some fine tuning of the sample results prior to data submission to the ABS for its calculation of population estimates.

Audit focus and test criteria

22. Sound administrative processes are critical to achieving efficient program outputs and effective program outcomes. In this audit, the ANAO sought to ascertain the extent to which new claims for Age Pension had been assessed in compliance with legislation and other relevant guidelines developed by Centrelink, and whether Centrelink employed appropriate mechanisms to help ensure such compliance. In particular, the ANAO sought evidence with respect to:

- *'payment at the right rate, from the right date, to the right person with the right product'* for new claims assessed during the audit sample period (that is, in accordance with the 'working definition' of accuracy within Centrelink);
- the accuracy of Centrelink's own reporting on compliance, as reported to FaCS under the BPA; and
- the application of appropriate mechanisms to help ensure such compliance.

23. Accurate decision-making at the new claims stage is an essential component of good customer service. In determining Centrelink's performance against its own working definition of accuracy, the ANAO developed eight major audit test criteria which were fundamental to determining the accuracy of a claims assessment for reporting under the BPA:

- *the right person/the right product:*
 - was sufficient Proof of Identity documentation provided?
 - was sufficient Proof of Age documentation provided?
 - was sufficient Proof of Residency documentation provided?
 - was the claim rejected when it should have been accepted or accepted when it should have been rejected?

- was a new Customer Record Number inappropriately created (creating risk of identity fraud or multiple payments)?
- *the right rate:*
 - was the customer paid at the correct rate?
 - was the customer underpaid/overpaid Telephone Allowance?
- *the right date:*
 - did the assessor correctly establish the payment commencement date?

24. In specifying the major audit test criteria, the ANAO was careful to ensure that its definition of accuracy corresponded to the expectations of the purchasing department, FaCS, as well as the provider, Centrelink. The failure of a claims assessment against any of the eight major audit test criteria during the audit fieldwork was classified and reported by the ANAO as an 'actionable' error, as follow-up action by Centrelink was required for such an error. The occurrence of one or more actionable errors within a claims assessment constituted an inaccurate claims assessment, as the assessment failed to meet Centrelink's working definition of accuracy.

25. The ANAO's identification of an actionable error was based on the information available to the audit team at the time of the audit fieldwork. This included information in both the customer file and electronic record on Centrelink's mainframe computer. The ANAO audit team did not pursue additional information through contact with the customer or other potential sources of information, but based its analysis on what was available through Centrelink's records for each customer.

26. In particular, the ANAO's definition of actionable error encompassed the type of error which FaCS and Centrelink considered should be identified as an error by the PAC and QOL for reporting as an inaccurate assessment under the BPA.¹² In focusing on the level of actionable error, the ANAO judged Centrelink's performance against its own BPA standard, as well as gauging the accuracy of Centrelink's own reporting on compliance. The audit did not question the reasonableness of the standard nor its achievability. Nor did it attempt to assign different weights to the individual elements. In short, the audit assessed Centrelink on its own performance indicators.

¹² The ANAO has reported such errors as 'actionable' errors rather than using Centrelink's internal terminology, 'critical' error. This approach was taken to (i) convey the consequences of such an error, namely the necessity for follow-up action within Centrelink, including the return of the claim to the Original Decision Maker for review; (ii) avoid the possible misinterpretation that such errors always involved an incorrect payment. Actionable errors include instances of incorrect payment, but also include instances where there was the potential for incorrect payment when important information was not provided by the customer.

27. The ANAO also examined preventive quality controls, given their priority in the BPA as a means of ensuring the accuracy of new claims assessments with legislation and guidelines. Specifically, the ANAO examined CSO training, availability of guidance material and access to expert advice, and performance management within Centrelink.

Audit conclusion

28. The ANAO concluded that assessments of new claims for the Age Pension conducted during the audit sample period demonstrated a significant degree of non-compliance with the provisions of the *Social Security Law*, the *Guide to the Social Security Law* and other relevant guidelines. In particular, Centrelink:

- could not assure ‘*payment at the right rate, from the right date, to the right person with the right product*’ for approximately half of new claims for the Age Pension assessed during the audit sample period;¹³
- did not report accurate data to the Department of Family and Community Services (FaCS) under the Business Partnership Agreement (BPA) on the level of accuracy of its assessments of such new claims for the audit sample period; and
- did not employ adequate preventive controls to ensure the accuracy of new claims for the audit sample period.

29. The ANAO calculated error rates for new claims assessments for Age Pensions based on Centrelink’s definition of error used for the reporting of errors to FaCS under the BPA. Accordingly, the error rate for new claims assessed was estimated at 52.1% (+/-6.8 percentage points (pp)).^{14 15}

30. The net monetary effect of incorrect assessments was relatively small in terms of program costs. The ongoing net overpayment of Age Pension/Telephone Allowance was \$2.52 million (+/- \$3.3 million) per annum (out of annualised expenditure of around \$160 million on this

¹³ Approximately half the claims assessments should have been reported as an ‘inaccurate assessment’ under the BPA. While some of these involved incorrect payment, others had the potential for incorrect payment as vital information was missing from the file; hence Centrelink could not be assured that the claim was assessed correctly from the data available at the time of the original decision.

¹⁴ Error rates are ABS estimates for the relevant population of assessments during the audit sample period (1 September 1999 to 31 March 2000). In the Report, 95% confidence intervals are presented for all error rate estimates.

¹⁵ For all 95% confidence intervals provided throughout this report, the abbreviation ‘pp’ is used for ‘percentage points’; the stated percentage points should be added and subtracted to the error rate estimate to obtain the respective upper and lower 95% confidence bounds for the error rate. For example the error rate for all new claims assessed was estimated at 52.1% (+/-6.8 pp.) This means that we can be 95% confident that the true error rate lies between 45.3% and 58.9%.

cohort of Age Pension recipients).¹⁶ However, the audit demonstrated that around one quarter of new Age Pension claimants i.e. 27.6% (+/-5.9 pp) within the audit sample period had an incorrect claims assessment where the error impacted directly on payment and could be quantified by the ANAO. Such errors included claims for the Age Pension or Telephone Allowance rejected or accepted inappropriately, payment rate errors, and payment from the wrong date.

31. Based on information available from customer files or electronic records or both, the ANAO estimated that 13.5% (+/-4.2pp) of new claims assessments contained payment rate errors. Inaccurate assessments have the potential to adversely affect Centrelink's customers.¹⁷ While the effects of underpayment may cause individual hardship, overpayment may also cause great difficulty for Age Pensioners where Centrelink's review/detection activities reveal that they must repay a debt. Centrelink service should not only aim to prevent hardship through underpayment, but prevent difficulties from debts incurred through overpayment.

32. The ANAO estimated that another 17.0% (+/-5.0 pp) contained possible payment rate errors where it was not possible to estimate the financial impact of these errors without further information from the customer and/or other sources. Subsequent follow-up activities by Centrelink may reveal that in fact many of these cases did not translate into actual payment rate errors. Whatever such follow-up action reveals, the ANAO's estimate of payment rate error alone was higher than the error rate for all actionable errors reported externally by Centrelink.

33. Under the BPA with FaCS, Centrelink is required to report the accuracy of new claims processing. As noted earlier, using the definition of accuracy agreed by FaCS and Centrelink, the ANAO's estimate of actionable error was 52.1%. The corresponding error rate for the same period reported by Centrelink to FaCS was 3.2%, based on Centrelink's Procedure and Accuracy Check (PAC) system. Moreover, the ANAO's estimate of one component of actionable error, payment rate error at 13.5%, was considerably higher than the 3.2% error rate that Centrelink reported externally for claims assessments against all eight categories of actionable error.

¹⁶ The sample size has resulted in wide confidence interval surrounding this financial estimate; it should therefore be treated with caution; however, the focus of the audit was on assessment accuracy, where the sample was designed to be sufficiently large to produce robust population estimates with tight confidence intervals.

¹⁷ 65.3% (+/-15.8 pp) of quantifiable payment rate errors among new Age Pension claimants involved an incorrect payment of at least \$10 per fortnight (both overpayments and underpayments). This translates to a payment rate error rate of +/- \$10 or more per fortnight for 8.8% (+/-3.2 pp) of the entire population of new Age Pension claims assessments.

34. The error rate for new claims assessed between September 2000 and November 2000 was reported by Centrelink as 4.1%, based on the new Quality On-Line (QOL) system (the replacement for PAC).¹⁸ Hence the introduction of a replacement system for PAC did not make a marked difference in reported levels of accuracy compared with its predecessor.

35. Regarding Centrelink's new compliance monitoring system, the ANAO considers that the ability of the QOL system to deliver reliable performance data was undermined by failure to address a number of structural issues that were identified as problematic in PAC and still underpinned QOL. In particular, better practice would have ensured that the QOL checks were themselves checked for accuracy, and the accountability provisions for the accuracy of QOL checks were more clearly defined.

36. The ANAO concluded that Centrelink's compliance monitoring systems, PAC and QOL, significantly underestimated the level of claims assessment error, adversely affecting the integrity of Centrelink's external reporting and impeding Centrelink's capacity to evaluate the effectiveness of its internal quality controls. To improve the reliability of its compliance monitoring system, the ANAO recommended that Centrelink should:

- establish clear lines of accountability for the accuracy of QOL checks; and
- implement a system of validating QOL checks independently to ensure that they are being conducted consistently and correctly across the Centrelink network.

37. The relatively high rate of actionable errors in the assessment of new Age Pension claims indicated that Centrelink quality controls had not been fully effective in ensuring adequate compliance of new Age Pension claims assessments with relevant legislation and guidelines. In particular, there is a need to:

- refocus training on technical assessment skills;
- increase the involvement of specialists in complex claims to lower significantly the rate of actionable error amongst business assessments and other claims where there is a high risk of error; and
- provide CSOs with greater access to expert advice across the Centrelink network to improve the accuracy of assessment activity.

¹⁸ Data provided to the ANAO by Centrelink's Service Integration Shop.

Centrelink's response

38. This report focuses intensively on a particular aspect of the Age Pension new claims process. Its findings in relation to the 200 rules governing applications for Age Pension highlight the particular challenge Centrelink faces in striking the right balance between conflicting goals. On the one hand, Centrelink is expected to adhere to, and report against, specified processes; on the other, it must apply a modern, risk managed approach providing maximum levels of responsive service to retirees, and minimising the costs of service delivery to the taxpayer and its customers.

39. The audit has been accompanied by redoubled efforts on the part of Centrelink to achieve the accuracy of decisions and processes expected by the government and its purchaser agencies. While Centrelink applies parallel processes at grant, and major detection and review processes to address any errors in primary decision-making, these processes were not within the scope of this audit, and Centrelink acknowledges the importance of getting it right from the start.

40. Since 2000, Centrelink has applied a thorough revamping of its quality control processes throughout the organisation, under the general banner of *Getting it Right*. No part of the organisation has been left untouched by this development, from the individual Customer Service Officer at the front line to the support provided to that officer from National Office. The strategy incorporates:

- the enhancement of Centrelink's quality control systems, to respond directly to the recommendations contained in this report. This includes the establishment of independent checking and validation processes;
- the application of minimum standards to key areas of claims processing, and making the application of these standards mandatory under the terms of the Public Service Act;
- the provision of local 'hotline' access to expert assistance;
- the redevelopment of on-line reference materials to support decision-making; and
- the provision of a national training facility to ensure the technical competencies of staff are maintained.

41. Some of these innovations, such as the testing of technical competencies and the delivery of a national training strategy via satellite technology, have been recognised in this report, and are considered leading practice for the entire Commonwealth public sector.

42. New forms of technology currently under development are also noted in this report, including the *Accessing Centrelink* tool, which has been specifically designed to deal with many of the problems identified here. Centrelink is also building major decision support systems to cover a range of payments, including Age Pension. These decision support systems will assist Centrelink's officers to provide a consistent, timely and accurate service to customers for all the matters they need to transact with Centrelink.

43. In terms of the large body of rules that formed the basis of this audit's assessment, the Minister for Family and Community Services, the Hon. Senator Vanstone, has announced an initiative aimed at simplifying the existing administrative requirements and arrangements for new customers when they first access pensions, allowances and ancillary benefits administered by the Department of Family and Community Services through Centrelink. Work on that initiative has commenced, and will report to the Minister in August 2001.

Key Findings

Compliance of New Age Pension Claims Assessments with Relevant Legislation and Guidelines (Chapter 2)

44. Based on the audit of a random sample of new Age Pension claims lodged during the six months to 31 March 2000, the Australian National Audit Office (ANAO) estimated that there was a significant degree of non-compliance of new claims assessments with relevant legislation and guidelines.

Actionable claims assessment errors

45. There is a considerable body of rules and guidelines governing Age Pension claim processing and decision-making. Centrelink's 'working definition' of accuracy for the assessment of new claims is '*payment at the right rate, from the right date, to the right person with the right product*'. This definition forms the basis for Centrelink's reporting of accuracy rates for claims assessments under its Business Partnership Agreement (BPA) with the Department of Family and Community Services (FaCS). It therefore was adopted by the ANAO for reporting of claims assessment error rates in the audit.

46. The ANAO translated the many rules governing the assessment of new Age Pension claims into 39 'core' audit test criteria. They were 'core' in that all claims were tested against them regardless of their complexity.¹⁹ Eight of these core audit test criteria were considered major criteria corresponding to an 'actionable' error; FaCS considered that assessments that failed to satisfy at least one of them should be:

- returned to the Original Decision Maker (ODM) for remedial action; and
- deemed to be an 'inaccurate assessment' for the purposes of reporting accuracy performance under the BPA.

47. The remaining 31 core audit test criteria were not considered major criteria for the audit; failure of a claims assessment against one of these criteria did not by itself require reassessment of the claim or constitute an error for reporting under the BPA. Follow-up action was not generally required. Their occurrence nevertheless represented a departure by Centrelink Customer Service Officers (CSOs) from expected practice when assessing new claims.

¹⁹ The ANAO also tested compliance against a number of other audit test criteria depending upon the complexity of the claim and the requirement for the client to therefore complete additional Module application forms. These are referred to in the report as 'Module audit test criteria'.

48. The correspondence between the ANAO's eight major audit test criteria and Centrelink's working definition of claims assessment accuracy is:

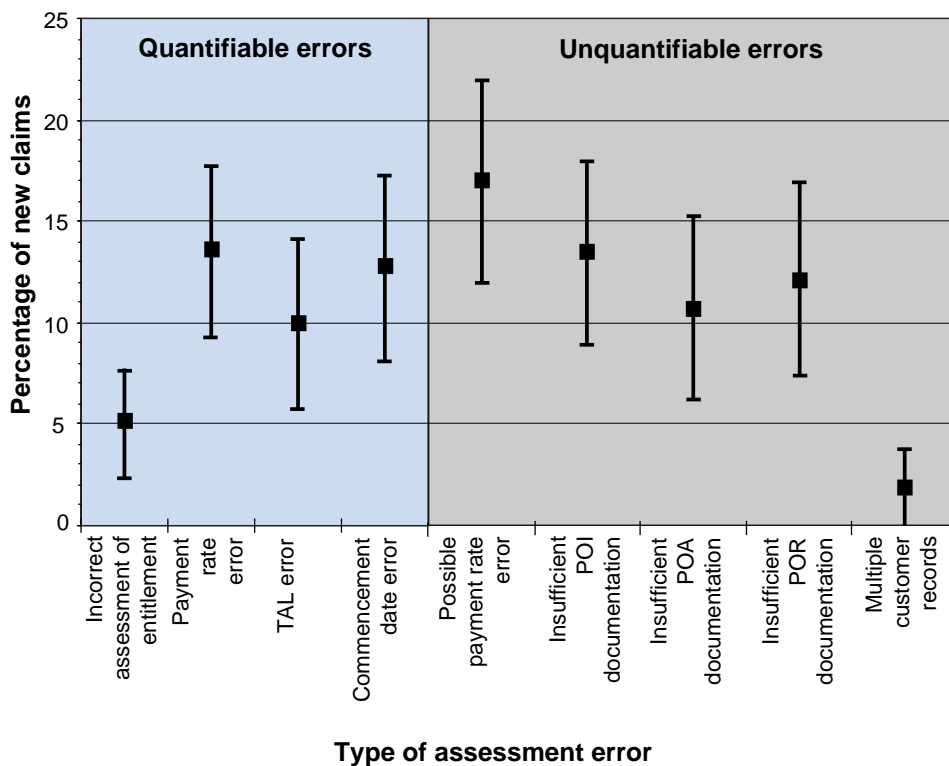
- *the right person/the right product:*
 - was sufficient Proof of Identity (POI) documentation provided?
 - was sufficient Proof of Age (POA) documentation provided?
 - was sufficient Proof of Residency (POR) documentation provided?
 - was the claim rejected when it should have been accepted or accepted when it should have been rejected (Incorrect assessment of entitlement)?
 - was a new Customer Record Number inappropriately created (creating risk of identity fraud or multiple payments)?
- *the right rate:*
 - was the customer paid at the correct rate (Payment rate)?
 - was the customer underpaid/overpaid Telephone Allowance (TAL)?
- *the right date:*
 - did the assessor correctly establish the payment commencement date?

49. The ANAO classified claims assessment errors against these major audit test criteria as 'actionable' errors. In developing the test criteria for claims assessment accuracy which correspond to the BPA requirements, the ANAO consulted with the purchaser, FaCS, and the provider, Centrelink, to ensure that its test criteria for defining accuracy corresponded to their expectations. In particular the ANAO sought, and obtained, agreement from relevant managers within both agencies that an error to be categorised in the audit as an 'actionable' error corresponded to the agencies intended definition of an error identified by the PAC and QOL for reporting as an incorrect assessment under the BPA. The ANAO's approach to reporting actionable errors is therefore consistent with Centrelink's focus on the accuracy in assessment of a customer claim for internal monitoring and external reporting.

50. The ANAO found that 52.1% (+/-6.8 pp) of new Age Pension assessments conducted over the sample period contained at least one actionable error. This indicates a level of performance well below the 95% BPA accuracy standard.

51. These errors were classified as 'quantifiable' or 'unquantifiable' errors depending upon whether the ANAO was able to estimate the impact on the payment rate without further information from the customer and/or other source. Figure 1 identifies the proportion of claims containing each type of actionable error.

Figure 1:
Actionable errors amongst new Age Pension claims



Notes

1. The graph depicts the population estimate for each type of actionable error with error bars above and below the point estimate depicting the magnitude of the 95% confidence interval in which the population estimate lies.

52. Around one quarter of new Age Pension claimants within the audit sample period had an incorrect claims assessment where the error impacted directly on payment and could be estimated by the ANAO. In particular, the ANAO found at least one quantifiable actionable error in 27.6% (+/-5.9 pp) of new Age Pension claim assessments, and:

- 5.1% (+/-2.7 pp) of new claims were assessed incorrectly on entitlement to the Age Pension (claim rejected or accepted inappropriately);
- 13.5% (+/-4.2 pp) contained quantifiable payment rate errors;
- 9.9% (+/-4.2 pp) of customers were either not being paid Telephone Allowance (TAL) they were entitled to or being paid TAL when they were not entitled to it; and
- 12.7% (+/-4.6 pp) of customers had received payment from the wrong date.

53. While some of the estimates of error rates amongst small subsets of population are subject to considerable sampling error, these are reported for completeness and do not influence the analysis or the conclusions drawn by the ANAO with respect to overall accuracy of claims assessment.²⁰

54. With regard to unquantifiable actionable errors in claims assessments, the ANAO found high error rates in most of the following:

- Possible Payment Error: 17.0% (+/-5.0 pp);
- Proof of Identity (POI) insufficient documentation: 13.5% (+/-4.5pp);
- Proof of Age (POA) insufficient documentation: 10.8% (+/-4.5 pp);
- Proof of Residency (POR) insufficient documentation: 27.9% (+/-9.9 pp);²¹ and
- multiple customer mainframe records: 2.0% (+/-1.9 pp).²²

55. The ANAO acknowledges that many of these unquantifiable errors may result from poor documentation and may not actually involve any over or underpayment, or have any adverse impact on pensioners. However, without such documentation, Centrelink cannot provide assurance that only eligible claimants received the Age Pension.

56. Centrelink agreed with the ANAO's methodology during the audit fieldwork as accurately identifying these assessment errors²³ and that these findings highlight the need for Centrelink to focus on improving the accuracy of decision-making. Since the conclusion of the audit fieldwork, Centrelink has introduced the *Getting it Right* strategy to, among other things, improve the accuracy in the assessment of new claims.²⁴ This new strategy was not examined by the ANAO through mutual agreement with Centrelink, as it was to be implemented after the audit fieldwork was completed.

²⁰ For example, the error rate of 52.1% for all actionable errors has a 95% confidence interval of +/-6.8 percentage points (pp) and the error rate of 27.6% for quantifiable actionable errors has a 95% confidence interval of +/-5.9 pp. Both these confidence intervals are relatively small compared with the magnitude of the error rate itself.

²¹ Only 43.9% of claims required POR documentation. To facilitate visual comparison, Figure 1 translates this 27.9% error rate into a per total population figure of 12.2%.

²² Multiple customer mainframe records create a small but serious risk of multiple payment and/or failure to identify customer fraud.

²³ The ANAO has reported such errors as 'actionable' errors rather than using Centrelink's internal terminology, 'critical' error. This approach was taken to (i) convey the consequences of such an error, namely the necessity for follow-up action within Centrelink, including the return of the claim to the Original Decision Maker for review; (ii) avoid the possible misinterpretation that such errors always involved an incorrect payment. Actionable errors include instances of incorrect payment, but also include instances where there was the potential for incorrect payment when important information was not provided by the customer.

²⁴ In a *Getting it Right* address to staff of 6 December 2000, the Centrelink CEO emphasised the need to make and record accurate decisions.

57. Subject to a number of qualifications,²⁵ the ANAO estimated that the quantifiable actionable errors identified would have resulted in an ongoing overpayment of Age Pension/TAL of \$2.52 million (+/- \$3.3 million) per annum (out of annualised expenditure of around \$160 million).

58. This estimate does not account for the impact of subsequent detection/review activity; Centrelink conducts regular audits of existing customers to ascertain any changes in their financial situation or other circumstances that may affect their entitlement to the Age Pension or the rate of payment. These reviews could be expected to identify errors made in the original claims assessment, resulting in subsequent adjustment of a customer's benefit to the correct amount. The accuracy of such review processes was beyond the scope of this audit, which focused exclusively on the accuracy of assessment of new Age Pension claims. Hence, the results of this audit cannot be used to extrapolate the impact of non-compliance on total Age Pension expenditure. The ANAO plans to undertake an audit of the Age Pension review process in the near future.

Non-actionable assessment errors

59. While eight of the 39 core audit test criteria were classified as 'major' criteria corresponding to actionable errors requiring follow-up action by the ODM, the remaining 31 were categorised as 'minor', with follow-up action not generally required. The failure of a claims assessment against one of these criteria did not in itself require reassessment of the claim or constitute an error for reporting under the BPA. Their occurrence nevertheless represented a departure by CSOs from expected practice when assessing new claims. For new claim assessments over the audit sample period, the ANAO found that:

- 95.6% (+/-3.5 pp) contained at least one 'administrative error';^{26 27}
- 38.3% (+/-7.2 pp) omitted at least one required Module of the claim form;
- 33.6% (+/-6.8 pp) contained Tax File Number errors;
- 59.6% (+/-7.2 pp) contained inadequate documentation of customer mainframe records; and
- 35.6% (+/-6.9 pp) contained other non-actionable errors.

²⁵ See paragraph 2.38.

²⁶ Examples of administrative errors are failing to date stamp claim forms or failing to ensure that forms are fully completed by claimants; such errors concern compliances with required internal administrative processes but generally do not affect the customer directly or impact on payment.

²⁷ See Table 4 for the list of errors that were regarded as 'administrative errors'.

60. Given the considerable number of administrative rules applying to Age Pension assessments, it is not surprising that a stringent examination found that nearly all claims assessments (95.6% +/-3.5 pp) failed to comply with at least one of these rules. Such errors do not generally have any direct impact on Age Pension customers and therefore should not be a matter of general concern to pensioners. However, the ANAO found that administrative issues were accorded a low priority by many staff. As non-compliance was so high, the ANAO suggests that Centrelink discuss with FaCS the necessity of such an extensive range of legislative requirements and guidelines applying to Age Pension assessments. A more streamlined approach is consistent with the general thrust of the M^cClure²⁸ report on social welfare reform, explained by the Prime Minister in a television interview in December 2000:

You know how complicated the existing payment structure is and we're not going to use that, incidentally [consolidating all the payments into a single payment] as a way of reducing people's benefits. We're trying to use it as a way of streamlining and consolidating the system.²⁹

Module assessment errors

61. In addition to measuring the compliance of new claims assessments with the 39 core audit test criteria against which all claims were assessed, the ANAO assessed their compliance with up to 169 'Module audit test criteria'. Module test criteria relate to the nine separate Module forms that a claimant may be required to complete depending upon his/her individual circumstances. These forms deal with a range of income sources and assets that may affect entitlement to the pension or the rate at which it is paid. As customers thus affected may be required to complete different Modules, the audit test criteria for determining the accuracy of the assessment are 'non-core' and vary between each claim examined by the ANAO.

62. The highest rate of Module assessment error was for Module F (Business). Module F seeks information on income received and share of assets in the business if the Age Pension claimant is involved in a business, for example, as a sole trader, in a partnership, a private company or a family trust. Although 10.6% of claims required Module F (Business), the form was completed for only 5.0% of claims. Of these, 96.3% (+/- 6.7pp) contained at least one Module F assessment error. That is, only a small proportion of all claimants needed to complete Module F (Business) as part of their application for Age Pension, but only half of those actually

²⁸ M^cClure, P. March 2000, *Participation Support for a More Equitable Society. Reference Group on Welfare Reform Report to the Minister for Family and Community Services.*

²⁹ *7:30 Report—14/12/00: 'PM defends welfare system'.*

did. Virtually all of this small proportion of claimants had their business income or value of their share in the business assessed incorrectly by Centrelink, or did not supply all necessary business information to Centrelink.

63. The ANAO found evidence to suggest that referring claims involving business assessments to specialists (such as Complex Assessment Officers (CAOs)) could reduce significantly the level of assessment error amongst this relatively small segment of new claims.

64. There may also be merit in involving specialists in assisting CSOs to assess complex income sources as 46.7% (+/-8.5 pp) of claims that included Module I (Income and Investments) contained at least one Module I assessment error.³⁰

65. The ANAO also found that:

- 37.0% (+/-6.8 pp) of claims did not include Module A (Assets), suggesting that many claimants may not be disclosing assets; and
- 56.0% (+/-14.3 pp) of claims that included Module R (Real Estate) contained Module R assessment errors.

66. Improved staff training is needed to raise the overall knowledge levels of CSOs on Age Pension benefit, and hence ensure that CSOs are alert to the specific information which customers in particular circumstances must provide. This, together with better technical training and the implementation of improved online decision support, should assist in reducing the error rate in the assessment of new claims.

Monitoring the Accuracy of New Age Pension Claim Assessments (Chapter 3)

67. Compliance monitoring has the purpose of:

- assuring FaCS that Centrelink is meeting its BPA commitments; and
- assisting Centrelink to better target its quality controls which prevent payment errors by ensuring accurate up-front assessment, detect errors through routine checking and review processes and deter customers from attempted fraud.³¹

³⁰ Module I seeks information from customers on income from such sources as bonds, debentures, loans, shares, managed investments, and income streams.

³¹ The BPA between FaCS and Centrelink identifies the following quality controls:

- prevention—having systems and procedures in place to minimise the risk of incorrect payment;
- detection—having processes aimed at detecting incorrect payments as soon as possible and promptly correcting any incorrect payments; and
- 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.

68. Since May 2000, Centrelink has made significant changes to its compliance monitoring systems, with the gradual implementation of new decision checking software called Quality On-Line (QOL). QOL replaced the Procedure and Accuracy Check (PAC) system. Early indications are that, although QOL is capable of delivering better management information than PAC, it is not currently producing reliable data.

69. Over the three months to November 2000, the average QOL accuracy rate was reported by Centrelink as 95.9%.³² This equates to an average assessment error rate of 4.1%. Based on the findings of this audit, the ANAO has estimated that the comparable actual error rate in the total population of Age Pension new claim assessments is significantly higher. Specifically, the ANAO estimated that the proportion of new Age Pension assessments that contained an actionable error in the audit sample period (1 October 1999 to 31 March 2000) was 52.1%.³³ This is well over the error level indicated by QOL (September 2000 to November 2000).

70. It should be emphasised that PAC, and not QOL, was the compliance monitoring tool in use during the audit sample period. However both QOL and PAC relied on the same underlying methodology and sampling regime, and both reported similar levels of error in a period of less than one year. The divergence between error rates identified by the ANAO and that reported by QOL, the successor to PAC, raises significant issues in terms of the accuracy of Centrelink's BPA reporting and the validity of the accuracy data which informs Centrelink's quality control processes.

71. During the initial fieldwork for this audit the ANAO detected that there was some ambiguity as to what constituted an 'accurate assessment' as measured by QOL for the purposes of reporting Centrelink's performance under the BPA. In particular, there was uncertainty about whether claims assessments requiring further information from customers or other sources to determine correct payment are 'completely accurate'. Nevertheless, both FaCS and Centrelink agreed that the ANAO major audit test criteria corresponded to the characteristics of an inaccurate assessment for Centrelink's reporting under the BPA, and identified throughout this report as 'actionable' errors as they required further action by Centrelink.³⁴

³² Data provided to the ANAO by Centrelink's Service Integration Shop.

³³ The eight types of assessment error considered to be 'actionable' are outlined in paragraph 2.16.

³⁴ The ANAO sought, and obtained, agreement from relevant managers within both agencies that the errors to be categorised in the audit as 'actionable' corresponded to the agencies intended definition of a 'critical error' as measured by the PAC and QOL and reported as such under the BPA.

However, the ambiguity detected by the ANAO requires formal clarification to permit the determination of appropriate standards for claims assessment accuracy in the BPA. The ANAO findings suggest that the current 95% BPA accuracy standard is unattainable for 2000–2001.

72. At the time of the audit fieldwork the ability of the QOL system to deliver reliable performance data was undermined by failure to address a number of structural issues that were identified as problematic in PAC and still underpinned QOL at that time. In particular, better practice would have ensured that:

- the QOL checks were themselves checked for accuracy; and
- the accountability provisions for the accuracy of QOL checks were more clearly defined.³⁵

73. At present, CSOs who have yet to attain 95% QOL accuracy are deemed to be 'Learners' and all of their claims assessments and reassessments are QOL checked. Once they attain 95% QOL accuracy, they become 'Experts' and have 5% of their work checked. The ANAO notes that this 'all or nothing' approach to checking and the requirement that staff attain 95% accuracy before receiving a pay increase may pressure checkers to inappropriately pass the work of Learners. Consequently, there is a risk that Learners may be promoted to Expert status before attaining a level of accuracy appropriate for staff with decision-making responsibilities.

74. Customer Service Centre (CSC) managers and team leaders currently have responsibility for selecting QOL checking officers.³⁶ Although Centrelink acknowledged that with the introduction of QOL, the checking activity should be restricted to more highly skilled and experienced officers than had occurred under the PAC system, the ANAO fieldwork indicated that a number of CSC managers had allowed all PAC checkers to become QOL checkers. In other CSCs where QOL checking responsibilities had been restricted, it was not clear on what basis checkers were selected.

³⁵ Centrelink advises that following the completion of the audit fieldwork, it has taken steps to address both these shortcomings.

³⁶ In an address via the Centrelink Education Network in April 2000, the Centrelink CEO advised Centrelink managers that 'managers and team leaders should assure themselves that staff have the skills to carry out the [QOL accuracy checking] task.'

75. An activity that has been selected for QOL checking cannot be actioned until the check has been completed. ANAO interviews provided information to suggest that this requirement had the potential to seriously affect the integrity of the QOL data in a number of ways. First, it meant that if staff were interviewing customers and that activity was selected for a QOL check, checkers were pressured to do a 'tick and flick' QOL check so as not to delay customer service. Secondly, some CSC managers were not willing to restrict the QOL checking activity to a few experienced officers because to do so would risk disrupting customer service if their activity was selected for QOL checking and a QOL checker was unavailable.

Controlling the Accuracy of New Age Pension Claim Assessments (Chapter 4)

Training

76. There is a need to refocus training of CSOs on technical assessment skills in order to improve the accuracy of new claim assessments. The ANAO found limitations amongst CSOs in their:

- knowledge of a number of specific topics; and
- general awareness of some administrative issues, such as the rules applying to the date stamping of documents.

77. At present, Centrelink Areas independently develop and/or modify National Support Office (NSO) training packages. This is not necessarily efficient or effective in producing quality training outcomes in all Areas. Although it may be appropriate to allow some customisation of training material to suit local needs, greater national coordination of training initiatives has the potential to improve training delivery and outcomes.

78. However, ensuring that Areas give staff adequate opportunity and encouragement to access training is fundamental to any training strategy to address CSO knowledge deficiencies effectively. Many CSOs noted that:

- a disproportionate amount of their Learning and Development Time was occupied by workplace meetings; and
- workload and timeliness pressures deterred staff from taking 'time out' for training.

79. The ANAO is currently conducting an audit of human resource development for Customer Service Officers in Centrelink, due to be tabled in 2001. Issues of CSO training will be explored more fully in that audit report.

Decision support

80. The ANAO's findings demonstrate that access to expert advice is a key factor influencing the accuracy of assessment activity, particularly for complex claims. However, the level of access to decision support varies considerably across the Centrelink network.

81. ANAO interviews provided evidence to suggest that most CSOs highly value the input of CAOs on complex assessments. Many CSOs considered that their CSC needed a full-time CAO rather than sharing a CAO with other CSCs in their Area. The ANAO recognises that this would have resource implications for Centrelink.

82. The opinions of CSOs about their local Area policy helpdesks varied across the network. The Retirement Community Segment (RCS) staff and the national policy helpdesk staff were concerned that some Area managers had cut significantly their Area's helpdesk facility and had not promoted the facility adequately to CSOs.

83. Many CSOs commented that it was difficult to find information in *The Guide to the Social Security Law* and RETIDOC,³⁷ prompting them to seek advice from colleagues instead. The tendency to avoid online guidelines contributed to considerable variation in procedures both across CSCs and within teams. The level and type of assessment errors also varied considerably across the CSCs visited by the audit team. Follow-up interviews provided evidence that these errors typically reflected a knowledge deficiency within the team or a common practice that was at variance with the procedures outlined in RETIDOC.

Centrelink's Balanced Scorecard (BSC)

84. Centrelink uses a Balanced Scorecard (BSC) to encourage Area managers to deliver the level of performance specified in the BPA. To be effective, the BSC should accurately reflect the BPA goals and priorities. Currently the BSC measures only the average accuracy of new claims assessments across all benefit types. By including accuracy data for each benefit type in the BSC, Centrelink could better target its quality controls towards any benefit where error rates were considered unacceptable.

85. Currently, the QOL data is used to measure performance against the BSC's accuracy standards. As all Areas typically report QOL accuracy rates above the 95% standard, little (if any) mention is made of accuracy issues in the BSC report. Until a reliable compliance monitoring system is in place, the BSC will not encourage effectively the accurate assessment of new Age Pension claims.

³⁷ RETIDOC is a Centrelink Intranet reference on retirement assessment procedures.

Recommendations

Set out below are the ANAO's recommendations with abbreviated responses from Centrelink. More detailed responses are shown in the body of the report together with the relevant audit findings. The ANAO recommends that priority be given to recommendations 2, 3, 4, 5, and 10. These recommendations address systemic issues that impact on management control over the compliance of assessments of claims for Age Pension with relevant legislation and guidelines.

Recommendation No. 1
Para. 2.51

In view of the very high rate of administrative error amongst Age Pension assessments, the ANAO recommends that Centrelink, in consultation with FaCS, reviews the necessity for certain administrative guidelines and any legislative underpinnings for Age Pension to ensure that all are warranted in terms of the risks that they address compared with the costs that they incur.

Centrelink response: Agreed.

Recommendation No. 2
Para. 2.108

To improve the accuracy of assessment decisions on new Age Pension claims involving business structures and/or complicated income sources, the ANAO recommends that Centrelink in consultation with FaCS, reviews its existing procedures to consider the costs and benefits of referring all such complex new claims to specialist assessment officers.

Centrelink response: Agreed in principle.

Recommendation No. 3
Para. 3.25

To help ensure that reliable and valid new Age Pension claim assessment accuracy information is collected, the ANAO recommends that Centrelink confers with FaCS to more clearly define assessment accuracy for the purposes of measuring Centrelink's performance under the Business Partnership Agreement (BPA).

Centrelink response: Agreed subject to negotiations with FaCS.

Recommendation No. 4
Para. 3.32 To improve the monitoring and control of Age Pension assessment accuracy, the ANAO recommends that Centrelink negotiates with FaCS to establish:

- an approach to implementing a reliable compliance monitoring system;
- a strategy to attain the Business Partnership Agreement (BPA) accuracy standards, including setting challenging but attainable intermediate performance targets; and
- a process for investigating the merit of setting individual targets for different assessment activities within the Age Pension.

Centrelink response: Agreed.

Recommendation No. 5
Para. 3.42 To improve the validity of its assessment accuracy data, the ANAO recommends that Centrelink:

- implements measures to ensure that all Quality On-Line (QOL) checking officers have sufficient skills and knowledge to identify assessment errors reliably; and
- reconsiders the requirement that QOL accuracy checks be completed before finalising the assessment, to ensure that checking officers are not pressured to clear the assessment with undue haste.

Centrelink response: Agreed.

Recommendation No. 6
Para. 3.52 To reduce the load of checking the assessment activity of Learners, the ANAO recommends that Centrelink, in consultation with FaCS, considers refining the Quality On-Line (QOL) sampling regime to:

- allow staff to attain Expert status for identifiable assessment activities; and
- require 100% checking only for those assessment activities for which they have not yet attained an agreed level of accuracy.

Centrelink response: Agreed in principle.

Recommendation No. 7
Para. 3.65

To improve the validity and consistency of compliance monitoring data gathered across the Centrelink network, the ANAO recommends that Centrelink:

- assigns responsibility to Area managers for implementing a system of accuracy checks within their Area and be accountable for the accuracy of those checks; and
- implements a system of regular Quality On-Line (QOL) validation checks, administered independently of Area managers.

Centrelink response: Agreed.

Recommendation No. 8
Para. 3.74
Para. 3.52

To minimise the cost of Quality On-Line (QOL) checking activity while ensuring an appropriate level of statistical precision, the ANAO recommends that Centrelink, in consultation with FaCS, reviews the entire compliance monitoring sampling regime to consider such factors as:

- the frequency of population estimates;
- the number of sampling strata;
- the proportions sampled from new claims and re-assessments;
- targeted sampling across different benefit types; and
- * targeted sampling for decisions of non-experts.

Centrelink response: Agreed.

Recommendation No. 9
Para. 4.40

In view of the complexity of many Age Pension assessments and the positive impact of expert advice on the accuracy of complex assessments, the ANAO recommends that Centrelink take action to ensure that all Customer Service Officers (CSOs):

- possess sufficient technical assessment skills; and
- have sufficient access to expert advice.

Centrelink response: Agreed.

Recommendation No. 10
Para. 4.54

To improve the usefulness of the current written guidance material issued by Centrelink, the ANAO recommends that Centrelink:

- ensures that all reference materials on the online resource Centrelink Reference Suite (CRS) provide consistent advice;
- investigates the scope to enhance the search engines and cross-referencing within CRS materials; and
- ensures that all staff are adequately trained on how to locate information on CRS.

Centrelink response: Agreed.

Recommendation No. 11
Para. 4.63

To ensure that Area managers focus on the issues of Age Pension assessment accuracy and accuracy data validity, the ANAO recommends that Centrelink:

- identifies separately the accuracy of new Age Pension claim assessments in its Balanced Scorecard (BSC); and
- includes a measure of the accuracy of Quality On-Line (QOL) checks in the BSC Key Performance Indicators once an independent QOL validation checking process has been implemented.

Centrelink response: Agreed.

Audit Findings and Conclusions

1. Introduction

This chapter provides background to the audit, the audit objectives and approach, as well as environmental factors particular to Centrelink that the ANAO took into account.

Background

The Age Pension

1.1 The Age Pension is a social security income support payment available to Australian residents who have reached Age Pension age³⁸ and whose income and assets are under certain limits.³⁹ In 1999–2000, approximately \$13 780 million was paid to approximately 1 727 500 Age Pensioners.

1.2 Payment of Age Pension is made under the *Social Security Law*⁴⁰ and in accordance with the *Guide to the Social Security Law* prepared by the Department of Family and Community Services (FaCS). FaCS has contracted Centrelink under a Business Partnership Agreement (BPA) to administer the payment of Age Pension to eligible customers.

Operating environment

1.3 Centrelink was established as an independent statutory authority in the Family and Community Services portfolio on 1 July 1997. Centrelink has responsibility for the delivery of a range of Commonwealth social and economic payments and services under formal purchaser/provider arrangements. Its primary client agency is FaCS.

1.4 Centrelink staff involved in assessing Age Pensions claims operate in an environment of considerable complexity, a consequence of the complexity in the retirement incomes industry, where sophisticated products have been, and are being developed to cater for the increasing resources retirees have accrued. In turn, complexity is a feature of the means test rules devised to support the targeting of social security outlays, and the way those rules respond to developments in the financial industry.

³⁸ Age Pension age is currently 61.5 for women and 65 for men. The Age Pension qualifying age for women has been progressively increased from 1 July 1995 and will increase by an additional six months every two years until it reaches 65 in July 2013.

³⁹ A number of other factors can also affect entitlement to the Age Pension eg. the number of years that the claimant has been an Australian resident and whether he/she is receiving other social security benefits.

⁴⁰ The *Social Security Law* comprises the *Social Security Act 1991*, the *Social Security (Administration) Act 1999* and the *Social Security (International Agreements) Act 1999*.

Assessment of new claims for the Age Pension

1.5 The ANAO estimated that during a six months' period from 1 October 1999 to 31 March 2000, some 28 213 people lodged new claims for the Age Pension.⁴¹ Of these, 23 662 (83.9%) were granted and 4551 (16.1%) were rejected. The claims granted accounted for around 1.4% of current Age Pensioners and will cost around \$160 million per annum⁴² (or 1.1% of total expenditure on Age Pensions). For these new claims granted, the ANAO estimated that approximately 9040 customers received a full-rate pension of \$9670 per annum and approximately 14 622 received a part-rate pension averaging \$4830 per annum.

1.6 The assessment of new claims for the Age Pension involves consideration of many factors, including the claimant's income, assets and accommodation details. This diversity of factors produces considerable variation in the complexity of individual assessments. To date, the trend has been for more complex claims, due to the interaction of increased targeting of benefits and the deregulation of financial markets.

1.7 A Customer Service Officer (CSO) handling a new Age Pension claim during the audit sample period is likely to have had to contend with considerable legislative, organisational and environmental change, including:

- a series of changes related to the treatment of income stream investments, in concert with rapid growth in that sector of the investment market;
- significant growth in the number of self-managed superannuation funds;
- the introduction of choice in paydays, which was accompanied by a large set of assessment and calculation rules;
- changes to a number of reciprocal agreements with other countries;
- the entry of many Australians to the share market, many for the first time, through demutualisations and the sale of Telstra; and
- a range of changes related to Commonwealth assistance for those in residential care.

⁴¹ This figure excludes automatic transfers for the reasons set out in paragraph 2.12.

⁴² This estimate does not allow for the natural decline in outlays associated with this cohort of Age Pensioners due to mortality.

1.8 Equivalent complexity and change has occurred in a range of other entitlements which are relevant to many Age Pension claimants, to the extent that they affect partners and dependent children or students.

1.9 The Age Pension claim form has been structured to accommodate the wide diversity in individual circumstances of claimants. While all Age Pension claimants must complete a main claim form, additional Module forms must only be completed if applicable to the claimant. For example, an Age Pension claimant must complete Module C only if they have received, or are receiving, compensation payments or have a compensation claim pending. In total, there are nine different claim Modules, comprising around 350 questions.

1.10 In addition, there are sets of rules including those pertaining to general legal principles such as: not accepting a claim completed in pencil; privacy arrangements; the entitlements of a partner; and administrative/financial rules relating to, for example, the situations in which a customer may receive an urgent payment.

1.11 In February 1997, the former Department of Social Security introduced Point of Contact Decision-Making (POCDM) whereby the officer who assesses a customer's claim has the authority to make the decision with regard to that claim and is considered to be the Original Decision Maker (ODM). This means that staff are able to deal with customer business to finality, without having to refer their work to a second officer for determination.

1.12 To support POCDM, the former Department of Social Security introduced the Procedure and Accuracy Check (PAC) system that checked the accuracy of a sample of assessment activities. It was a system based 'real time' quality check in that payments or reassessments selected for checking could not be finalised until the check had been completed and the work marked as having met the requirements for payment. PAC was the tool employed by Centrelink at the time of the audit sample period to measure the accuracy of decisions made, as it provided the number of activities checked, and the results of those checks. The PAC check involved the Checking Officer answering a series of questions relevant to the piece of work being checked.

1.13 Where staff attained a PAC accuracy rate of 95% or higher, they were deemed to be Experts and the proportion of their assessments randomly selected for checking was reduced from 100% to 5%. Experts received a salary increment. Staff with PAC accuracy rates of below 95% remained Learners and all their assessments were PAC checked before finalising the decision.

1.14 Between May and August 2000, Centrelink gradually replaced the PAC system with new decision checking software called Quality On-Line (QOL). QOL was designed to reduce the likelihood of user error during the checking process, to identify the source of assessment error to inform training, and to provide more comprehensive management information reports on accuracy in decision-making. However, the introduction of QOL has not changed the basic principles underpinning PAC—the accuracy standards, sampling regime and pay advancement performance thresholds remain essentially the same as for PAC.

Business Partnership Agreement (BPA) between FaCS and Centrelink

1.15 The BPA between FaCS and Centrelink requires Centrelink to assess new claims for the Age Pension, to make payments in accordance with the *Social Security Law* and the *Guide to the Social Security Law*, and to ensure that the Age Pension is paid to eligible claimants only and at the correct rate.

1.16 Under the 1999–2001 BPA, the primary performance indicator in relation to the objective of ensuring the compliance of new Age Pension claims with relevant legislation and guidelines was the proportion of claims correctly assessed, as measured by Centrelink’s Procedure and Accuracy Check (PAC) system. The PAC system was a quality improvement and risk management tool used by Centrelink to undertake sample checking of new claims and reassessments. For the 2000–2001 BPA, it is being measured by new accuracy checking software called Quality On-Line (QOL), introduced on 25 May 2000. QOL was designed to reduce the likelihood of user error during the checking process, to identify the source of assessment error to inform training, and to provide more comprehensive management information reports on accuracy in decision-making. The accuracy standards, sampling regime and pay advancement performance thresholds remain essentially the same as for PAC.

1.17 The 1999–2001 BPA stated that the major priority area for Centrelink in 1999–2000 was ‘payment correctness, and consistency and accuracy in decision-making’.⁴³ The 1999–2001 BPA standard was 95% of new claims assessments ‘correctly assessed’, as measured by the PAC system. The 2000–2001 BPA standard was 95% of all claims ‘completely accurate’ in terms of correctness of payment as measured by QOL.

⁴³ Schedule for Seniors and Means Test, Clause 5.

1.18 Centrelink stated in its 1999–2000 Annual Report that it had met the majority of its performance targets. Though a number of indicators had been agreed with FaCS to assess Centrelink’s performance, timeliness and accuracy of new claims processing remained the two key performance measures for the Age Pension reported by both FaCS and Centrelink in their 1998–1999 and 1999–2000 Annual Reports.⁴⁴ Accordingly, Centrelink reported to FaCS and Parliament that it had exceeded the 95% accuracy target for the processing of new Age Pension claims, achieving a 97% and 98% accuracy standard in these two reporting years respectively.⁴⁵

Reasons for the audit

1.19 An ANAO theme within audits undertaken in recent years has been to provide Parliament, client agencies and the public with a positive assurance about the level of compliance that underpins the delivery of key products and services. The delivery of the Age Pension is a significant government service. This audit was conducted in parallel with an audit of FaCS that assessed whether FaCS had established effective business arrangements with Centrelink to help ensure that new claims for Age Pension are accurately assessed. The ANAO considered that the two audits:

- would provide assurance to Parliament and the public about the implementation of government policy in relation to the Age Pension program; and
- could identify opportunities for improvement in the administration of the Age Pension program.

1.20 The audit of *Family and Community Services’ Oversight of Assessment of New Claims for the Age Pension by Centrelink* was tabled on 17 May 2001.

Audit objective

1.21 The objective of the audit was to assess the extent to which new claims for Age Pension had been assessed in compliance with the *Social Security Law*, the *Guide to the Social Security Law* and other relevant guidelines developed by Centrelink, and whether Centrelink employed appropriate mechanisms to help ensure such compliance. In short, the focus was on compliance management which is an important element of corporate governance and the assurance needed for all stakeholders on accountability and performance.

⁴⁴ The audit sample period lies within the reporting time frame for the 1999–2000 Centrelink Annual Report.

⁴⁵ These accuracy performance figures were calculated by Centrelink from PAC data for the period 1 July 1998 to 24 May 2000.

Audit scope

1.22 Both the 1999–2001 BPA and the 2000–2001 BPA clearly specified the objective of ensuring that new Age Pension assessments complied with the *Social Security Law* and the *Guide to the Social Security Law*. The 2000–2001 BPA identifies three key strategies for maximising correct payments and outlays—prevention, detection and deterrence. Of these, it gives priority to prevention, stating that *‘the primary aim of control strategies, as far as possible, will be to prevent incorrect payments, rather than detect them later’*. Consistent with this priority, the scope of the audit was on preventive controls to ensure accuracy in decision-making.

1.23 The ANAO focused on accuracy in decision-making and Centrelink’s preventive quality controls that seek to ensure that CSOs are able to make correct decisions at the new claim stage. A focus on preventive controls is consistent with the priorities in the BPA. New claims granted over the six-month audit sample period accounted for around 1.1% of Age Pension expenditures and 1.4% of Age Pension recipients. The audit findings relate to this cohort of Age Pension assessments and unsuccessful claims lodged during the same period.

1.24 The audit did not seek to determine the impact of new claims assessment errors on the total Age Pension outlays. This would have required a much larger sample of new claims together with an analysis of Centrelink’s detection and review procedures, which was beyond the scope of this audit.

1.25 Centrelink has in place a range of detective controls for Age Pensions to identify potentially inaccurate assessments after they have occurred.⁴⁶ Such detective controls are designed to identify a considerable proportion of incorrect assessments after the event, and the ANAO plans to conduct an audit of these controls in the near future.

Audit criteria

1.26 Sound administrative processes are critical to achieving efficient program outputs and effective program outcomes. In this audit, the ANAO sought to ascertain the extent to which new claims for Age Pension had been assessed in compliance with legislation and other relevant guidelines developed by Centrelink, and whether Centrelink employed appropriate mechanisms to help ensure such compliance. In particular, the ANAO sought evidence with respect to:

⁴⁶ These include the Pension Entitlement Review program and Compliance Monitoring program.

- ‘*payment at the right rate, from the right date, to the right person with the right product*’ for new claims assessed during the audit sample period (the ‘working definition’ of accuracy within Centrelink);
- the accuracy of Centrelink’s own reporting on compliance, as reported to FaCS under the BPA; and
- the application of appropriate mechanisms to help ensure such compliance.

1.27 Accurate decision-making at the new claims stage is an essential component of good customer service. In determining Centrelink’s performance against its own working definition of accuracy, the ANAO developed eight major audit test criteria which were fundamental to determining the accuracy of a claims assessment for reporting under the BPA:

- *the right person/the right product:*
 - was sufficient Proof of Identity documentation provided?
 - was sufficient Proof of Age documentation provided?
 - was sufficient Proof of Residency documentation provided?
 - was the claim rejected when it should have been accepted or accepted when it should have been rejected?
 - was a new Customer Record Number inappropriately created (creating risk of identity fraud or multiple payments)?
- *the right rate:*
 - was the customer paid at the correct rate?
 - was the customer underpaid/overpaid Telephone Allowance?
- *the right date:*
 - did the assessor correctly establish the payment commencement date?

1.28 In specifying the major audit test criteria, the ANAO was careful to ensure that its definition of accuracy corresponded to the expectations of the purchasing department, FaCS, and the provider, Centrelink. The failure of a claims assessment against any of the eight major audit test criteria during the audit fieldwork was classified and reported by the ANAO as an ‘actionable’ error, as follow-up action by Centrelink was required for such an error. The occurrence of one or more actionable errors within a claims assessment constituted an inaccurate claims assessment, as the assessment failed to meet Centrelink’s working definition of accuracy.

1.29 In particular, the ANAO's definition of actionable error encompassed the type of error which FaCS and Centrelink considered should be identified as an error by the PAC and QOL for reporting as an inaccurate assessment under the BPA.⁴⁷ In focusing on the level of actionable error, the ANAO judged Centrelink's performance against its own BPA standard, as well as gauging the accuracy of Centrelink's own reporting on compliance. The audit did not question the reasonableness of the standard nor its achievability. Nor did it attempt to assign different weights to the individual elements. In short, the audit assessed Centrelink on its own performance indicators.

1.30 The ANAO's identification of an actionable error was based on the information available to the audit team at the time of the audit fieldwork. This included information in both the customer file and electronic record on Centrelink's mainframe computer. The ANAO audit team did not pursue additional information through contact with the customer or other potential sources of information, but based its analysis on what was available through Centrelink's records for each customer.

1.31 To address the many detailed requirements for the compliance of new Age Pension claims assessments with the *Social Security Law*, the *Guide to the Social Security Law* and other relevant Centrelink internal guidelines (including those areas critical to achieving an accurate assessment) the ANAO developed a set of around 200 specific audit test criteria in total. This includes the eight criteria identified as major test criteria. These are addressed in Chapter 2 and itemised in Appendices 1 and 2.

1.32 The ANAO also examined preventive quality controls, given their priority in the BPA as a means of ensuring the accuracy of new claims assessments with legislation and guidelines. Specifically, the ANAO examined CSO training, availability of guidance material and access to expert advice, and performance management within Centrelink.

1.33 Management controls over the compliance of assessments were assessed to determine whether:

- effective quality checking and improvement mechanisms had been established over the assessment process;

⁴⁷ The ANAO has reported such errors as 'actionable' errors rather than using Centrelink's internal terminology, 'critical' error. This approach was taken to (i) convey the consequences of such an error, namely the necessity for follow-up action within Centrelink, including the return of the claim to the Original Decision Maker for review; (ii) avoid the possible misinterpretation that such errors always involved an incorrect payment. Actionable errors include instances of incorrect payment, but also include instances where there was the potential for incorrect payment when important information was not provided by the customer.

- assessment performance was monitored appropriately;
- relevant, consistent and comprehensible guidance material and assessment aids had been made available and were used by assessors;
- relevant skill levels and training needs for assessors were identified and met; and
- assessors had recourse to sufficient, reliable avenues of expert assistance in relation to more complex claims.

1.34 The criteria associated with Centrelink's framework for monitoring and controlling the accuracy of new Age Pension claims assessments are addressed in Chapters 3 and 4 respectively.

Audit methodology

1.35 To achieve the audit objectives, the audit team:

- examined a random sample of new Age Pension claim assessments undertaken by Centrelink between October 1999 and March 2000;
- obtained assistance from the Australian Bureau of Statistics (ABS) Statistical Consultancy to select a stratified random sample and, later, to extrapolate the weighted sample error rates and obtain unbiased estimates of error rates for the total population;
- developed audit test criteria and error rate measures⁴⁸ in consultation with Centrelink and FaCS that enabled the measurement of 'actionable' assessment error consistent with the BPA accuracy measures;
- interviewed Centrelink staff with responsibilities for assessing Age Pension claims and/or providing advice or supervision to Age Pension assessors;
- interviewed Centrelink National Support Office (NSO) and Area Office staff with responsibilities for the management of Age Pension; and
- examined Centrelink NSO files relating to the management of Age Pension.

1.36 The random sampling was based on a stratified approach that ensured that claims were selected from a representative range of offices, based on the volume of claims processed. The sampling strategy also ensured a representative selection of accepted and rejected claims as well as the range of claim complexity.⁴⁹

⁴⁸ Error rates are defined as customer claims assessed incorrectly as a proportion of total customer claims assessed. This outcome, or customer-based approach, is consistent with Centrelink's reporting of assessment accuracy under the BPA.

⁴⁹ Appendix 4 describes the sampling strategy in more detail.

1.37 Centrelink contributed constructively to the audit fieldwork. In particular, it provided four secondees with considerable Age Pension assessment expertise to:

- assist with the development of the audit test criteria;
- examine the claims assessments selected for audit against these audit test criteria;
- organise fieldwork interviews and assist at these interviews; and
- assist in interpreting the overall findings of the claims assessment audit.

1.38 In addition, staff from the Retirement Community Segment Team (RCS) provided logistical support in coordinating the retrieval of the files corresponding to claims assessments selected for audit. RCS staff also helped to develop the audit test criteria and to devise a method of identifying claim complexity from the available customer record data.

1.39 As well as examining the sample of claims, the audit team interviewed CSC managers, retirement team leaders and Age Pension assessors at 16 CSCs; policy officers at four Centrelink Area Offices; and relevant staff at Centrelink NSO. The purpose of these interviews was to:

- provide contextual information and insights into the individual office approaches to assessing Age Pension;
- explore issues that arose during the audit from particular claims; and
- assess quality controls aimed at ensuring compliance of new claim assessment decisions with relevant legislation and guidelines.

1.40 During the audit fieldwork period, Centrelink RCS staff had full access to the ANAO audit team and all audit files containing the results of the examination of individual claims assessments by the team. This was to enable cross-validation of findings and follow-up action where appropriate by Centrelink RCS or by other areas within Centrelink.

1.41 The ANAO presented the audit results to the manager and/or retirement team leader within 16 CSCs across four Centrelink Areas. This was to provide the opportunity for Centrelink input from officers directly involved in those specific assessments, and for comments about the factors that underpinned these results. In addition, one-on-one interviews were conducted with a selection of CSOs from each CSC. These processes lead to some fine tuning of the sample results prior to data submission to the ABS for its calculation of population estimates.

1.42 The audit was conducted in conformance with ANAO auditing standards at a cost to the ANAO of \$290 000.⁵⁰

⁵⁰ Centrelink advises that its costs associated with the audit were \$90 000.

Consultants to the audit

1.43 To assist with the development of an appropriate sample design, the ANAO obtained assistance from the Australian Bureau of Statistics (ABS) Statistical Consultancy to select a stratified random sample and, later, to extrapolate the weighted sample error rates and obtain unbiased estimates of error rates for the total population.

1.44 The ANAO engaged ORIMA Research Pty Ltd to assist with the conduct of the audit, given its particular expertise in undertaking audits and surveys of large population data sets.

Structure of the report

1.45 The compliance of new Age Pension claims assessments with relevant legislation and guidelines is reported in Chapter 2. Compliance monitoring by Centrelink is reported in Chapter 3, while the key Centrelink quality controls impacting on the accuracy of new claims assessments are addressed in Chapter 4.

2. Compliance of Age Pension Assessments with Relevant Legislation and Guidelines

This chapter reports the results of the audit examination of the random sample of new claims assessments for Age Pension, and how well the assessments complied with the relevant legislation and guidelines.

Introduction

2.1 The 1999–2001 BPA⁵¹ states that the major priority area for Centrelink’s Retirement Community Segment Team (RCS)⁵² in 1999–2000 will be *‘payment correctness, and consistency and accuracy in decision-making’*.⁵³ This audit examines whether Centrelink’s assessment of new claims lodged during the six months⁵⁴ ending 31 March 2000 complied with relevant legislation and guidelines.

2.2 The ANAO estimates that during that period 28 213 people lodged new Age Pension claims.⁵⁵ Of these, 23 662 (83.9%) were granted and 4551 (16.1%) were rejected. The claims granted account for around 1.4% of current Age Pensioners and will cost around \$160 million per annum⁵⁶ (or 1.1% of total expenditure on Age Pensions).

⁵¹ This was the BPA in force during the period audited. The current 2000–2001 BPA places even more emphasis on accuracy of decision-making and states that *‘Centrelink will: ... deliver on behalf of FaCS the information, payments, and services detailed in the Agreement in accordance with all relevant legislation, the Guide to the Social Security Law and the Family Assistance Guide ...’*.

⁵² In a recent internal restructure, the Retirement Customer Segment Team was renamed the Retirement Community Segment Team and is referred to as ‘RCS’ throughout this report.

⁵³ 1999–2001 BPA Seniors and Means Test Schedule, p. 186.

⁵⁴ The claims sampled were for the period 1 October 1999 through 24 March 2000. This period was chosen in light of the data available at the commencement of the audit. Sample statistics were adjusted by the ABS to produce population estimates for the full six-month period from 1 October 1999 through to 31 March 2000.

⁵⁵ This figure excludes automatic transfers for the reasons set out in paragraph 2.12. Over the six months to 31 March 2000, the ANAO estimates that around 24 000 people transferred from other benefits to the Age Pension. This estimate is based on a listing provided by RCS of total (that is, including transfers) Age Pension claimants over the sample period. As RCS was unable to accurately identify automatic transfers, the audit sample was used to estimate the proportion of claims that were non-transfers.

⁵⁶ This estimate does not allow for the natural decline in outlays associated with this cohort of Age Pensioners due to mortality. It is a short-term estimate based on the average full- and part-rate payments rates as at June 2000 (of \$9670 and \$4830 per annum, respectively) and the estimated number of new full- and part-rate pensioners over the sample period (9040 and 14 622 respectively).

Claim complexity

2.3 There is a wide diversity in the complexity of Age Pension claims. For example, a claim where the payment is not affected by the application of the income and assets tests will generally be easier to assess than one requiring analysis of a business or trust structure. The type of claims dealt with at a Centrelink Customer Service Centre (CSC) largely reflects its customer base, with CSCs servicing relatively affluent areas likely to have a higher proportion of claims where the payment is affected by the application of the income and assets tests.

2.4 In framing the audit, the ANAO expected the error rate to increase with the complexity of claims, although noting that assistance is generally available to CSOs for more complex claims.⁵⁷ Accordingly, before selecting customer records electronically which corresponded to customer files containing new claims, the ANAO identified in consultation with RCS staff and experienced assessors, 12 'complicating factors'. The number and type of these factors were used to categorise claims assessments as 'simple', 'complex' or 'very complex' (see further information at Appendix 3).

2.5 Of the 28 213 claims lodged over the audit period, 6717 (24%) were simple, 14 053 (50%) were complex and 7443 (26%) were very complex.

Sample selection

2.6 The methodology adopted by the Australian Bureau of Statistics (ABS) to select claims assessments for review is detailed in Appendix 4. Two constraints were that:

- there be sufficient claims in absolute terms of each category of complexity to allow error rates for each category to be identified with sufficient statistical precision to make comparisons between the categories;⁵⁸ and
- the sample be stratified so as to represent adequately each level of complexity.

⁵⁷ Centrelink Areas generally have Complex Assessment Officers (CAOs) to whom Customer Service Officers (CSOs) can refer complex claims.

⁵⁸ The sample was constructed on the basis that the level of actionable assessment error amongst simple, complex and very complex claims would be 5%, 20% and 30% respectively. However, the audit estimates that these error rates are actually 45%, 54% and 55% respectively. The higher error rates mean that there is limited scope to draw firm conclusions about comparative error rates across categories.

2.7 The sample was also selected in a way which would allow follow-up fieldwork in Centrelink Areas with diverse customer bases. Four CSCs were selected for audit interview⁵⁹ in each of Area South East Victoria, Area Western Australia, Area Pacific Central (which covers northern NSW and Southern Queensland) and Area Central and Northern Queensland.⁶⁰

2.8 To facilitate the CSC interview process, the ANAO specified that the sample contain around 10 claims from each of these CSCs.

2.9 The remaining claims were selected from the rest of the Centrelink network.

2.10 The sample data has been re-weighted by the ABS to produce unbiased estimates of the population error rates (see further information at Appendix 4).

Sample size

2.11 Taking into consideration the requirements set out in paragraphs 2.6 to 2.8 above, 495 claims were originally selected by the ABS for audit.

2.12 However, 85 of these claims were excluded because they were automatic transfers to Age Pension from other benefit types. Although automatic transfers were originally included within the scope of the audit, it was decided to exclude them once it became apparent that the transfer process was primarily an income and assets review, with most of the assessment activity occurring within a different benefit type and outside the sample period.

2.13 Of the remaining 410 new claims, Centrelink was unable to locate 39 of the related paper files within the audit timeframe. Another 14 files were found late during the audit but could not be processed prior to completion of the fieldwork. Three were found to be outside the scope of the audit for other reasons.⁶¹ This left 354 new Age Pension claims for audit analysis.

⁵⁹ The 16 CSCs selected were located in: Cheltenham, Camberwell, Glen Waverley, Mornington (each in Area South East Victoria); Bunbury, Midland, Perth City, Victoria Park (each in Area Western Australia); Coffs Harbour, Grafton, Tweed Heads, Palm Beach (each in Area Pacific Central); Aitkenvale, Atherton, Cairns and Townsville (each in Area Central and Northern Queensland).

⁶⁰ The mix of rural/non-rural claims also impacts on the complexity of Age Pension claims. One of the selected Areas was included because it had no Complex Assessment Officers with significant Age Pension experience to whom CSOs could refer Age Pension assessments during the audit sample period and the ANAO wished to assess what impact this might have on the accuracy of assessments.

⁶¹ Of the three claims found to be out of scope for 'other reasons': one claim was submitted outside the sample period, one was a case in which a new claim activity had been used to pay arrears and one was a Retirement Assistance for Farmers Scheme case.

Core audit test criteria

2.14 There is a considerable body of rules and guidelines governing Age Pension claim processing and decision-making. In conducting its audit, the ANAO translated these rules into around 200 audit test criteria relating to whether the decision had been made in accordance with the *Social Security Law*, the *Guide to the Social Security Law* and relevant internal guidelines. Thirty-nine of these 200 test criteria are described in this report as 'core' in that all claims were tested against them regardless of their complexity.⁶²

Major audit test criteria

2.15 Eight of these 39 core audit test criteria were classified as 'major', and were developed by the ANAO in consultation with the staff from the Retirement Community Segment Team (RCS) in Centrelink and the Seniors and Means Test Branch (SMT) in FaCS. As the purchaser, SMT considered that, if selected for PAC/QOL checking, assessments that failed to comply with any of the eight major test criteria should be:

- returned to the Original Decision Maker (ODM) for remedial action; and
- deemed to be an 'inaccurate assessment' for the purposes of reporting accuracy performance under the BPA.⁶³

2.16 The eight major core test criteria comprised:

- C1. Was sufficient Proof of Identity (POI) documentation provided?
- C2. Was sufficient Proof of Age (POA) documentation provided?
- C3. Was sufficient Proof of Residency (POR) documentation provided?
- C4. Was the customer underpaid/overpaid Telephone Allowance (TAL)?
- C5. Was a new Customer Record Number (CRN) inappropriately created (i.e. two mainframe records in existence for one customer)?
- C6. Was the claim:
 - C6a. rejected when it should have been accepted; or
 - C6b. accepted when it should have been rejected?

⁶² The ANAO also tested compliance against a number of other audit test criteria depending upon the complexity of the claim and the requirement for the client to therefore complete additional Module application forms. These are referred to in the report as 'Module audit test criteria'.

⁶³ Only assessments conducted by staff that have attained 'Expert' status are included in the measure reported to FaCS. All other staff have their work checked by Expert staff before actioning a decision. Issues related to attaining Expert status are discussed in Chapter 3, paragraph 3.46ff.

C7. was the customer paid at the correct rate? If not, was the claim one for which:

C7a. the auditor could quantify the payment rate error (a 'payment rate error'); or

C7b. there was a risk of inaccurate payment but further information would be required from the customer and/or other source in order to establish the correct payment rate (a 'possible payment rate error')?

C8. Did the assessor correctly establish the payment commencement date?

2.17 Centrelink's 'working definition' of accuracy for the assessment of new claims is *'payment at the right rate, from the right date, to the right person with the right product'*. This definition forms the basis for Centrelink's reporting of accuracy rates for claims assessments under the BPA with FaCS. The correspondence between the ANAO's eight major audit test criteria and Centrelink's working definition of claims assessment accuracy is:

- *the right person/the right product:*
 - was sufficient Proof of Identity documentation provided?
 - was sufficient Proof of Age documentation provided?
 - was sufficient Proof of Residency documentation provided?
 - was the claim rejected when it should have been accepted or accepted when it should have been rejected?
 - was a new Customer Record Number inappropriately created (creating risk of identity fraud or multiple payments)?
- *the right rate:*
 - was the customer paid at the correct rate?
 - was the customer underpaid/overpaid Telephone Allowance?
- *the right date:*
 - did the assessor correctly establish the payment commencement date?

2.18 Centrelink's working definition of accuracy underpinned both its own reporting under the BPA, and the ANAO's major audit test criteria. The ANAO classified a claims assessment error against any of these major audit test criteria as an 'actionable' error. This approach is consistent with Centrelink's focus on the accuracy in assessment of a customer claim for internal monitoring and external reporting.

2.19 The Retirement Community Segment Team (RCS) also agreed that, notwithstanding the fact that the ANAO employed a more detailed survey methodology, the PAC/QOL systems should have reported a claims assessment with one or more actionable errors (as defined above) as an 'inaccurate assessment' for reporting under the BPA.⁶⁴ Consequently, the PAC/QOL error rates should approximate the actionable error rate⁶⁵ identified by the ANAO.

2.20 The ANAO's identification of an actionable error was based on the information available to the audit team at the time of the audit. If there was insufficient information against one or more of the eight major test criteria, then the particular claims assessment was classified as inaccurate according to Centrelink's working definition of accuracy. Centrelink's own compliance monitoring controls should likewise have flagged an incorrect assessment in such a case.

2.21 Where inadequate information was available to the ANAO to guarantee a correct initial assessment of a new claim by Centrelink, further investigation at a later date by Centrelink may obtain additional information from the customer and/or other sources. Nevertheless, such a case should still have been reported by Centrelink as an inaccurate assessment under the BPA, as vital information was not available to the Original Decision Maker to assure claims assessment accuracy.

2.22 When interpreting the overall level of actionable error, it is important to appreciate that not all actionable errors translate into payment rate errors.

- Five of the 10 actionable error types listed above definitely translate into payment errors (i.e. errors against Criteria C4, C6a, C6b, C7a and C8) and they are described as 'quantifiable actionable errors'. The estimated fiscal impact of these errors is reported below.
- The remaining five actionable error types require further information from the customer or other source to establish entitlement and/or the correct payment rate (i.e. Criteria C1, C2, C3, C5 and C7b). These are described as 'unquantifiable actionable errors'.

2.23 Follow-up activity by Centrelink may reveal that many of these unquantifiable actionable errors reflect poor documentation and do not translate into actual payment rate errors. Nevertheless, based on the information available at the time, the ANAO could not be assured that the initial assessment was correct without further information being obtained from the customer and/or other sources.

⁶⁴ The PAC and QOL accuracy checking systems are discussed in detail in Chapter 3.

⁶⁵ The 'actionable error rate' equals the estimated proportion of new claims assessments that fail to comply with any of the major audit test criteria listed in paragraph 2.16.

Minor audit test criteria

2.24 The remaining 31 core audit test criteria were considered ‘minor’ criteria for the audit. The failure of a claim assessment against one or of these minor criteria was classified as a ‘non-actionable’ error; it did not in itself require reassessment of the claim or constitute an inaccurate assessment for reporting under the BPA. The occurrence of non-actionable errors nevertheless represented a departure by CSOs from expected practice when assessing new claims. Results against the non-actionable errors are reported under the five categories specified in Table 1, and the sub-categories listed in Appendix 1.

Table 1
Non-actionable assessment error categories

<i>Error category</i>	<i>Assessor has failed to ...</i>
Administrative errors	follow all required administrative procedures (such as checking that the claim form and Modules were signed by the claimant, date stamping the claim form, putting relevant documents on file); these do not usually affect customers directly
Omitted Modules	obtain all necessary claim Modules from the claimant
Tax File Number errors	remove all Tax File Numbers from the file
Inadequate mainframe documentation	adequately document the claim on the customer’s computer record
Other non-actionable assessment error	adhere to a number of miscellaneous administrative procedures such as verifying accommodation details

Module audit test criteria

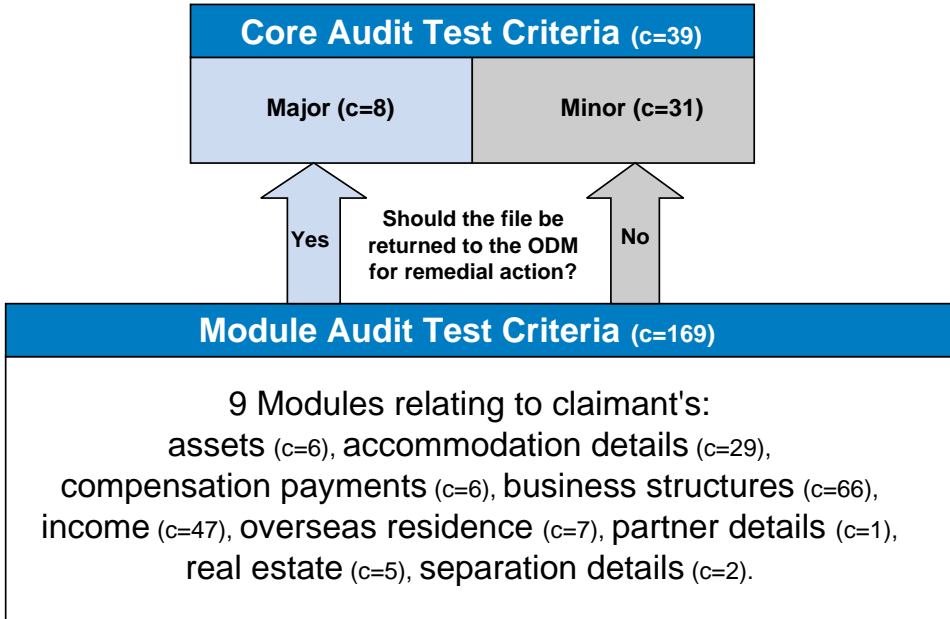
2.25 In addition to the core audit test criteria, the ANAO assessed compliance against up to 169 ‘Module’ audit test criteria depending upon the complexity of the claim.

2.26 Module test criteria relate to the nine separate Module forms that a claimant may be required to complete depending upon his or her individual circumstances. These Modules relate to the claimant’s: real estate; income; assets; compensation payments; accommodation details; business structures; overseas residence; partner details; and separation details.

2.27 The major test Criteria C6, C7 and C8 were addressed after assessment of all other aspects of the claim. In this way, these major test criteria reveal whether any Module errors identified by the audit mean that the file should have been returned to the ODM for remedial action. This is illustrated in Figure 2.

Figure 2

ANAO framework for auditing new Age Pension claim assessments
(c=number of audit test criteria)



2.28 When reviewing claim Modules, the ANAO identified whether any errors had the potential to impact on the payment rate.⁶⁶ This gives a sense of the severity of these errors.

2.29 Administrative errors made with regard to claim Modules (such as failing to date stamp the form) have been reported as non-actionable core errors rather than Module errors. Non-administrative Module test criteria are listed in Appendix 2.

Interpreting audit results tables

2.30 The following sections outline the ANAO findings with regard to the level of actionable, non-actionable and Module assessment error. Each section contains a table setting out estimates (and the corresponding 95% confidence intervals⁶⁷) of:

- the proportion of claims to which the underlying audit criterion applies for each type of error—the ‘test subset’; and

⁶⁶ A Module assessment error was deemed to have the potential to impact on the payment rate if it could have led to a non-trivial payment rate error in a case where payment is affected by the income and assets tests.

⁶⁷ Confidence intervals are symmetric about the point estimate and are expressed as the percentage point (pp) difference between the point estimate and the confidence bounds. For example, an estimate that 50% (+/-10 pp) of assessments are subject to a particular error means that there is a 95% probability that between 40% and 60% of assessments contain that error.

- the proportion of assessments within that test subset that have that type of error—the ‘error rate’.

2.31 An estimate of the proportion of all new claims with a particular error—the ‘population error rate’—is obtained by multiplying the test subset by the corresponding error rate. All reported statistics are based on the number of assessments with a particular error, not the number of individual errors made.

2.32 For example, Table 2 shows a test subset of 43.9% and an error rate of 27.9% for ‘Insufficient Proof of Residency (POR) documentation’. This means that 43.9% of claimants had been born or have lived or worked overseas (and so required POR documentation) but insufficient POR documentation was obtained in 27.9% of such cases. The proportion of all new claims with insufficient POR documentation (the population error rate) is therefore 12.2% (i.e. 43.9% multiplied by 27.9%).

2.33 Appendix 5 consolidates the results tables and provides a more detailed breakdown of the errors identified by the ANAO and the corresponding test subsets, error rates and population error rates.

2.34 Each results table also contains total error rates in bold font that record the proportion of assessments that have at least one of the subsequent individual error types. For example, the first row of Table 2 notes that 95.6% of assessments contained at least one of the administrative errors set out in the rest of the table. These total error rates are generally less than the sum of their constituent individual error rates because assessments that contain more than one individual error are only counted once when calculating the total error rate.⁶⁸

Core assessment errors

Actionable assessment errors

2.35 The ANAO found that 52.1% (+/-6.8 pp) of new Age Pension assessments conducted over the sample period contained at least one actionable error and therefore should have been returned to the ODM for remedial action (Table 2). This is well over the error level indicated by either PAC or QOL. It is also well above the 5% target specified in the BPA. In particular:

- Centrelink’s PAC system estimated that 3.2% of new Age Pension claims were inaccurately assessed over the audit sample period (October 1999 to March 2000).

⁶⁸ The total error rate will equal the sum of the individual component error rates if and only if all assessments contain only one component error.

- Centrelink's QOL system estimated that 4.1% of new Age Pension claims assessed between September 2000 and November 2000 were inaccurately assessed.⁶⁹

2.36 This divergence raises significant issues in terms of the accuracy of Centrelink's BPA reporting and the validity of the accuracy data which informs Centrelink's quality control processes. These issues and associated recommendations are discussed in Chapter 3. The remainder of Chapter 2 focuses on the ANAO's findings in relation to the level and nature of errors made.

Table 2

Estimated Rates of Actionable Assessment Error

	<i>Test subset (% of new claims)</i>	<i>95% Confidence Interval (+/- pp)</i>	<i>Error Rate (% of claims within test subset)</i>	<i>95% Confidence Interval (+/- pp)</i>
Actionable assessment errors	100.0	na	52.1	6.8
Quantifiable Actionable Errors:	100.0	na	27.6	5.9
Claim rejected when it should have been accepted	16.1	5.9	5.9	7.0
Claim accepted when it should have been rejected	83.9	5.9	4.9	2.9
Payment rate error	100.0	na	13.5	4.2
Telephone Allowance payment error	100.0	na	9.9	4.2
Commencement date error	100.0	na	12.7	4.6
Unquantifiable Actionable Errors:				
Possible payment rate error	100.0	na	17.0	5.0
Insufficient POI documentation	100.0	na	13.5	4.5
Insufficient POA documentation	100.0	na	10.8	3.8
Insufficient POR documentation	43.9	6.6	27.9	9.9
A new CRN inappropriately created	100.0	na	2.0	1.9

Notes

1. The level of actionable error is less than the sum of the individual actionable errors because claims assessments containing more than one actionable error are only counted once in the headline result. (See paragraph 2.34 for an explanation of the relationship between total and component error rate).
2. The level of total unquantifiable error is not reported because some assessments with unquantifiable errors (which would be included in the total unquantifiable error rate) also contain quantifiable errors.

⁶⁹ Data provided to the ANAO by Centrelink's Service Integration Shop.

Quantifiable actionable errors

2.37 Around one quarter of new Age Pension claimants within the audit sample period had an incorrect claims assessment where the error impacted directly on payment and could be quantified by the ANAO. That is, the ANAO estimated that 27.6% (+/-5.9 pp) of new Age Pension claim assessments contained quantifiable actionable errors. With regard to the five quantifiable actionable error types listed in Table 2, the ANAO estimated that:

- 5.9% of new claims that were rejected should have been accepted and 4.9% of claims that were accepted should have been rejected. (Overall, entitlement to the Age Pension was incorrectly assessed for 5.1% (+/-2.7 pp) of the entire population of new Age Pension claims.)⁷⁰ This reflected a wide range of factors including incorrect assessment of assets/income or failure to detect a non-compliance with residency requirements;
- 13.5% of new claim assessments contained payment rate errors.⁷¹ That is, the customer was being paid the wrong amount based on the information contained in his/her claim. Such claims assessments were returned by the audit team to the ODM for redetermination of the rate of payment;
- 9.9% of customers were either not being paid Telephone Allowance (TAL) they were entitled to or being paid TAL when they were not entitled to it;⁷²
- 12.7% of claims assessments had payment commencing on the wrong date.⁷³

⁷⁰ The respective proportions of all claims within the population that had been rejected or accepted were 16.1% and 83.9%. Within each of these population subsets (test subsets) the ANAO estimated that 5.9% had been rejected that should have been accepted and 4.9% had been accepted that should have been rejected. For the entire population, the estimated error rate for claims rejected that should have been accepted is 0.9% (the product of 5.9% and 16.1%), and the estimated population error rate for claims accepted that should have been rejected is 4.2% (the product of 4.9% and 83.9%). The population estimate for all claims incorrectly assessed is therefore 5.1% (the sum of 0.9% and 4.2%). (Appendix 5 Table 21 provides further details on the population estimates for Actionable Assessment Errors).

⁷¹ 65.3% (+/-15.8 pp) of quantifiable payment rate errors among new Age Pension claimants involved an incorrect payment of at least \$10 per fortnight (both overpayments and underpayments). This translates to a payment rate error rate of +/- \$10 or more per fortnight for 8.8% (+/-3.2 pp) of the entire population of new Age Pension claims assessments.

⁷² Age Pensioners who are residential telephone subscribers are entitled to a quarterly payment of Telephone Allowance (currently, \$16.16) which is indexed annually and paid quarterly.

⁷³ Many of these errors reflected assessors inappropriately back-dating payment to the date the customer first contacted Centrelink, rather than the date the customer formally lodged their claim. Under new policy introduced on 20 March 2000 (that is, after virtually all the audited claims had been lodged), payment should now be back-dated to the date of first contact (provided the claim form is lodged within 14 days).

2.38 For each file that contained a quantifiable actionable error, the ANAO estimated the impact of that error on the customer's payment rate. Based on these estimates, the ABS produced the fiscal impact estimates presented in Table 3. When interpreting these figures, it is important to appreciate that:

- they are based on errors detected at the new claims stage. They do not account for the impact of subsequent detection/review activity and so cannot be used to extrapolate the impact of non-compliance on total Age Pension expenditure;
- they seek to quantify the load being placed on Centrelink detection/review activity owing to non-compliance at the new claim stage. This load is in addition to that placed on detection/review activity by customer error and/or fraud. It was beyond the scope of this audit to estimate the extent to which detection/review activity or other factors (such as death or customer-initiated discontinuation of pension) act to reduce net overpayment over time;
- the wide confidence intervals surrounding the estimates dictate that they be treated with caution. Given the small absolute number of sampled claims with quantifiable actionable errors, these are indicative estimates; and
- although presented in annualised terms, the estimates relate only to new claims assessed within the six-month audit sample period and do not include the additional fiscal impact of any errors made outside that sample period.

2.39 Bearing in mind the above qualifications, the ANAO estimates that, if left uncorrected, the quantifiable actionable errors identified would have resulted in:

- an ongoing overpayment of Age Pension and Telephone Allowance of \$2.52 million (+/- \$3.3 million) per annum⁷⁴ (out of annualised expenditure of around \$160 million⁷⁵); and
- a once-off underpayment of Age Pension of \$30 000 (+/- \$280 000) as a result of commencement date errors.

⁷⁴ This annual estimates was derived by multiplying a fortnightly estimate of \$96 923 by 26.

⁷⁵ The derivation of this figure is described in footnote 56.

Table 3**Estimated Fiscal Impact of Quantifiable Actionable Errors**

	<i>Estimated Fiscal Impact (\$m pa)</i>	<i>95% confidence interval (+/- \$m pa)</i>
Pension rate errors:		
Gross overpayment of pension	4.03	3.05
Gross underpayment of pension	1.43	1.21
Net overpayment of pension payments	2.60	
Telephone Allowance (TAL) errors:		
Gross overpayment of TAL	0.05	0.04
Gross underpayment of TAL	0.13	0.07
Net overpayment of TAL	-0.08	
Net Overpayment due to Quantifiable Actionable Errors (excluding commencement date errors)	2.52	3.3
	(\$m)	(+/- \$m)
Commencement date errors		
Gross overpayment due to early payment	0.10	0.12
Gross underpayment due to late payment	0.13	0.26
Net overpayment due to commencement date errors	-0.03	0.28

Notes

1. The net overpayment is obtained by subtracting the gross underpayment from the gross overpayment;
2. A negative net overpayment is the equivalent of a net underpayment;
3. The net overpayment due to quantifiable actionable errors is the sum of the net overpayment of pension payments and the net overpayment of TAL.

2.40 The above estimates are based on those claims assessments for which the ANAO was able to quantify the payment error. There were many others that would require further information from the customer or other source to assess whether there had been a payment error. The above figures do not include any estimate of the impact of such unquantifiable actionable errors.

2.41 Following the completion of the audit fieldwork, all claims assessments selected for audit were returned by the ANAO to Centrelink for scrutiny and follow-up action where considered appropriate by Centrelink.

Unquantifiable Actionable Errors

2.42 The ANAO could not quantify the errors in the remaining 24.5% of claims assessments with actionable errors. This typically reflected the fact that further information would be required from the claimant or other source to determine whether the correct pension rate was being paid.

2.43 The ANAO estimated that another 17.0% (+/-5.0 pp) of new claims assessments contained possible payment rate errors where it was not possible to estimate the financial impact of these errors without further information from the customer and/or other sources. Subsequent follow-up activities by Centrelink may reveal that in fact many of these cases will not translate into actual payment rate errors. Examples in the audit sample that contained such 'possible payment errors' follow:

- one claim had no valuation of a farming property owned by the customer, no assets had been recorded, two required Modules had not been obtained and the customer's managed investment portfolio had not been entered on his computer file;
- another claim had no tax returns for the company and trusts in which the customer was involved;
- one claimant had been employed for the past 35 years but declared no superannuation; this was not followed-up by the assessor; and
- another customer who previously had three rental properties and sold two was not asked how the proceeds of sale were disbursed.

2.44 The ANAO found high rates of insufficient Proof of Identity (POI), Proof of Age (POA) and Proof of Residency (POR) documentation—with error rates of 13.5%, 10.8% and 27.9% respectively. If all the administrative errors associated with POI, POA and POR processes (i.e. failure to: put photocopies of documents on file; date, stamp and sign copies; or correctly code details on the mainframe file⁷⁶) are included, then the POI/POA/POR error rates are 76%, 63% and 84% respectively.

2.45 An internal risk assessment⁷⁷ of the Age Pension conducted prior to this audit also identified non-compliance with the POI requirements contained in the *Guide to the Social Security Law* as a problem area. Amongst other things, the internal review recommended that POI coding errors be identified in the PAC process and be referred back to the ODM. In its Action Plan, RCS indicates that most of the review's POI recommendations had been addressed. However, the above results indicate that there is still some work to be done.

2.46 The ANAO also found that a new Customer Record Number (CRN) had been inappropriately created in 2.0% of cases. This creates the risk of multiple payment—a small but serious risk—and may lead to a failure to identify customer error/fraud.⁷⁸

⁷⁶ These are reported as non-actionable administrative errors.

⁷⁷ This internal risk assessment was conducted in October 1998 as part of Centrelink's BPA commitment to FaCS.

⁷⁸ For example, if a new CRN and computer record is created for a claimant who had previously been rejected Age Pension under the assets test, then non-disclosure of these assets in the most current claim may not be detected.

Non-actionable assessment errors

Administrative errors

2.47 The ANAO found that almost all claims assessments (95.6% +/-3.5 pp) contained at least one of the administrative errors listed in Table 4. Such errors do not generally have any direct impact on Age Pension customers and therefore should not be a matter of general concern to pensioners. Administrative issues are generally accorded a low priority by staff under workload pressures and the high rate of administrative error probably reflects a degree of 'risk management' by staff. In fieldwork interviews, many CSOs noted that managers had encouraged them to 'cut corners' on matters that did not present a risk of incorrect payment in order to improve the timeliness of customer service.

2.48 However, it was evident that most CSC staff and managers were not aware of the high rate of administrative error. When asked at interview what they thought the level of administrative error would be amongst Age Pension assessments done within their CSC, over half of

Table 4
Administrative Errors

<i>Error Type</i>	<i>Test subset (% of new claims)</i>	<i>95% Confidence Interval (+/- pp)</i>	<i>Error Rate (% of claims within test subset)</i>	<i>95% Confidence Interval (+/- pp)</i>
Administrative Errors	100.0	na	95.6	3.5
Failure to sign claim form	100.0	na	3.6	1.9
Failure to date claim form	100.0	na	14.7	4.4
Failure to date stamp	100.0	na	31.4	5.8
Failure to fully complete forms	100.0	na	49.1	6.5
Failure to initial amendments	64.1	6.8	91.8	4.8
Wrong claim form used	100.0	na	1.6	1.7
POI documents not stamped, signed and verified	100.0	na	49.5	6.6
POI documents not on file	100.0	na	7.7	3.7
POI incorrectly coded on mainframe	100.0	na	39.2	6.5
POA documents not stamped, signed and verified	100.0	na	50.2	6.6
POA documents not on file	100.0	na	11.4	4.2
POA incorrectly coded on mainframe	100.0	na	17.4	5.0
POR documents not stamped, signed and verified	43.9	6.6	67.7	9.6
POR documents not on file	43.9	6.6	22.9	9.2
POR incorrectly coded on mainframe	43.9	6.6	22.6	9.2

CSC managers and retirement team leaders thought that under 10% of claims assessments would contain such an error.

2.49 The level of non-compliance with some administrative rules⁷⁹ is so high that it suggests that Centrelink and FaCS should adopt a risk management approach as organisations in determining what administrative rules to set Age Pension assessors. The need for FaCS to actively seek feedback from Centrelink on opportunities for simplification of assessment rules is noted in the report of the audit *Family and Community Services' Oversight of Assessment of New Claims for the Age Pension by Centrelink*. While non-compliance with some administrative rules (such as failing to get customers to sign their claim form) can have serious legal ramifications in the event of a prosecution for fraud, non-compliance with other rules may have only minor consequences.⁸⁰

2.50 While the very high rate of administrative error primarily reflects the low priority placed on administrative accuracy, a number of staff commented they were unsure of the rules relating to document handling. Many considered that new-starters were not given sufficient training on file management. Such training issues are addressed in Chapter 4.

Recommendation No.1

2.51 In view of the very high rate of administrative error amongst Age Pension assessments, the ANAO recommends that Centrelink, in consultation with FaCS, reviews the necessity for certain administrative guidelines and any legislative underpinnings for Age Pension to ensure that all are warranted in terms of the risks that they address compared with the costs that they incur.

Centrelink response

2.52 Agreed. Centrelink agrees with the suggestion that there should be a review, noting that the implementation of this recommendation requires the active support of the Department of Family and Community Services. To the extent that 'legislative underpinnings' are a reflection of government policy, not all the rules which formed the basis of this audit may be available for reassessment. Centrelink notes that the implementation of this recommendation will also be supported by the review of QOL, which is to be undertaken as a joint exercise with FaCS. Other information from the random sample reviews and data matching exercise should guide the administrative aspects of the new claims process.

⁷⁹ Such as the requirement that staff get claimants to initial amendments to their claim.

⁸⁰ In assessing these risks, both the potential severity of the adverse consequence of non-compliance and the probability of this consequence occurring should be considered.

Omitted modules

2.53 The Age Pension claim form contains trigger questions that indicate to the assessor which specific Modules he/she should check for completion by the customer. For example, the question: 'Do you or will you get money from: trust distributions?' has an 'F' next to the 'Yes box' indicating that if this box is ticked Module F should be provided. Despite the relatively straight-forward nature of this task and the considerable risk of incorrect assessment if required Modules are not obtained, over a third of new claims (38.3%) omitted at least one required Module (see Table 5). This result is consistent with the finding that staff are not checking submitted claim forms thoroughly—almost one half (49.1%) of submitted claims forms were not completed fully by customers.

Table 5
Omitted Modules

<i>Error Type</i>	<i>Test subset (% of new claims)</i>	<i>95% Confidence Interval (+/- pp)</i>	<i>Error Rate (% of claims within test subset)</i>	<i>95% Confidence Interval (+/- pp)</i>
At least one required Module was not obtained	92.8	3.9	38.3	7.2
Module A (Assets)	73.0	5.9	13.5	6.3
Module AC (Accommodation)	5.8	3.2	92.2	12.5
Module C (Compensation)	4.9	2.8	33.4	28.6
Module F (Business Structures)	10.6	3.2	53.7	15.6
Module I (Income)	75.5	5.7	17.5	6.7
Module O (Overseas Residence)	40.7	6.7	20.1	8.7
Module P (Partner details)	56.1	6.7	11.7	5.4
Module R (Real Estate)	19.8	4.7	13.7	8.6
Module S (Separation details)	1.2	1.3	14.1	24.4

2.54 Centrelink advises that, in order to address the issues raised by this audit, from August 2001 most new Age Pension claims will be processed using a new online decision support tool called *Accessing Centrelink*. According to Centrelink, this tool will:

- collect basic claimant information and index the customer record;
- identify via trigger questions what evidence and forms/modules the claimant needs to supply;
- produce prompts for the CSO assessing the claim (eg. 'claimant has investment income' or 'claimant needs to be referred to a specialist');
- prompt the CSO to follow up the claimant in certain circumstances; and

- produce a personalised claim form, a tailored service offer and a Customer Declaration Form (CDF) for the claimant to check and sign.

2.55 *Accessing Centrelink* has been designed to reduce the incidence of omitted claim Modules by identifying when a particular Module should be used and prompting the CSO to issue that Module. The printout received by the claimant would also reinforce the need for him/her to supply that Module.

2.56 The requirement that claimants check and sign a CDF which mirrors their system record should also generally reduce the problem of incomplete or incorrectly keyed claim forms. By signing the CDF, the claimant is doing a quality check of his/her own system record. In addition, Centrelink advises that *Accessing Centrelink* will automatically do much of the mainframe coding—increasing the productivity of CSOs and reducing coding errors.

Tax File Number (TFN) error

2.57 CSOs are required to remove all Tax File Numbers (TFNs) from documents stored on file to protect claimants from misuse of their TFN.⁸¹ The section of the Age Pension claim form containing the customer's TFN is perforated so that staff can easily remove these details. Despite this, around one third (33.6%) of claims contain TFN errors, as shown in Table 6.

Table 6
Tax File Number error

<i>Error Type</i>	<i>Test subset (% of new claims)</i>	<i>95% Confidence Interval (+/- pp)</i>	<i>Error Rate (% of claims within test subset)</i>	<i>95% Confidence Interval (+/- pp)</i>
Tax File Number error	100.0	na	33.6	6.8
Details incorrectly coded	100.0	na	2.7	2.3
TFN not removed from claim form	100.0	na	16.2	5.6
TFN not removed from file documents	100.0	na	24.3	5.7

⁸¹ The *Tax File Guidelines* 1992, issued under Section 17 of the *Privacy Act* 1988, require that 'where an individual chooses not to delete their tax file number from a document that they provide to another person or organisation ... then that other person or organisation must delete the tax file number from the document.' TFNs are also encrypted on the customer's computer record.

Inadequate documentation of the claimant's computer record

2.58 Centrelink's computer system enables staff to enter free-text descriptions of their reasons for decision and any other key events or significant interactions with the customer on the customer's computer record. Amongst other things, this 'Online Document Recording' (or 'DOCs') gives CSOs in Customer Service Centres and Call Centres access to a meaningful customer profile, provides a detailed audit trail and may be required to justify decisions that are made. Centrelink internal guidelines require assessors include '*all relevant information that has in the past or may in the future affect the entitlements of that customer*' in a DOC. In light of these requirements, the ANAO checked whether the lodgement of the new claim, the decision rationale and some other specified events were noted in DOCs.

2.59 Table 7 shows that many staff are not documenting customer records in a way that can be clearly understood by others, with 59.6% of new claims not being documented adequately by assessors. DOCs are generally not well summarised and often key information is omitted—for example, 'customer provided information about bank accounts', 'customer rang on 12 October', or 'customer sold property'.

2.60 The quality of DOCs varies considerably across CSCs. Some CSCs exhibited a high standard of online documentation, whereas the attitude within other CSCs was that DOCs are of limited usefulness and are a low priority.⁸² There is, however, a general need to improve the standard of online documentation and there would appear to be scope for greater automation of the DOC process (eg. system prompts triggered by activities that require DOCs).

2.61 Centrelink advises that *Accessing Centrelink* will automatically create a number of DOCs at the initial contact and subsequent interview with the claimant.⁸³

⁸² Across the 16 CSCs visited during the course of the audit, the level of DOCs error varied between 14% and 100%.

⁸³ *Accessing Centrelink* is outlined at paragraph 2.54.

Table 7
Inadequate mainframe documentation (DOCs)

<i>Error Type</i>	<i>Test subset (% of new claims)</i>	<i>95% Confidence Interval (+/- pp)</i>	<i>Error Rate (% of claims within test subset)</i>	<i>95% Confidence Interval (+/- pp)</i>
Inadequate mainframe documentation (DOCs)	100.0	na	59.6	7.2
No lodgement of claim DOC	100.0	na	44.8	7.2
No assessment decision DOC	100.0	na	37.3	6.2
Other required DOCs not created	100.0	na	16.8	4.6

Other non-actionable assessment errors

2.62 Table 8 shows that around one third (35.6%) of new claim assessments contained other non-actionable errors.

Table 8
Other non-actionable assessment errors

<i>Error Type</i>	<i>Test subset (% of new claims)</i>	<i>95% Confidence Interval (+/- pp)</i>	<i>Error Rate (% of claims within test subset)</i>	<i>95% Confidence Interval (+/- pp)</i>
Other non-actionable assessment error	100.0	na	35.6	6.9
Savings account details incorrectly coded	95.6	3.1	16.2	5.2
Accommodation details not verified	89.6	3.6	5.1	3.1
Accommodation details incorrectly coded	62.1	7.0	17.6	6.3
Partner permission incorrectly coded	53.0	8.3	11.6	5.1
Family details incorrectly coded	1.4	1.1	0.0	0.0

Module assessment errors

2.63 As noted above, the requirement to complete particular Modules of the claim form depends on the circumstances of the claimant. The 'test subset' for each Module therefore equals the proportion of new claims for which the Module was both required and obtained.

Module A (Assets)

2.64 A claimant must complete Module A if he/she has any non-financial assets (eg. car, television, stereo). Around one quarter (27%) of claimants stated that they had no such assets and did not submit a Module A. A further 16% of claimants, who did state that they had assets to declare, did not submit a Module A. In total, over one third (37%) of claimants did not provide assets details. Given the high proportion of applicants

claiming they had no non-financial assets, and the failure of others to provide such information, Centrelink advises that it is currently revising the main claim to incorporate Module A to assist in addressing possible non-disclosure or accidental omission.

2.65 Table 9 shows that around one third (36.8%) of submitted Module A forms contain Module A assessment errors. However, most Module A assessment errors were relatively minor in nature. Only 28.4% (+/-6.7 pp) of claims that required a Module A contained assessment errors that had the potential to lead to incorrect payment. This was lower than for any other Module.

Table 9
Module A Assessment Errors

<i>Error Type</i>	<i>Test subset (% of new claims)</i>	<i>95% Confidence Interval (+/- pp)</i>	<i>Error Rate (% of claims within test subset)</i>	<i>95% Confidence Interval (+/- pp)</i>
Mod A non-admin assessment error	63.2	6.8	36.8	8.0
Household contents incorrectly assessed	63.2	6.8	12.4	5.2
Insurance policies incorrectly assessed	63.2	6.8	3.3	2.7
Vehicles/boats/caravans incorrectly assessed	63.2	6.8	19.5	6.0
Other assets incorrectly assessed	63.2	6.8	8.9	6.0
Required AVO valuation incorrectly coded	0.3	0.4	70.3	40.6
Other asset assessment errors	63.2	6.8	8.3	3.9

2.66 The ANAO found that many customers do not fully complete the Module A form because they fail to answer the final question about whether they have any 'other assets' to declare. It appears that many assessors neglect to check whether this question has been answered because it is the only question on the back of the form.

2.67 Many assessors recorded incorrect car registration dates/model details on the customer's computer file. Such coding errors are generally minor and probably reflect the assessor's judgement that such details are unnecessary because the assets test does not affect the particular customer. However, these details may be required if the customer's circumstances change.

2.68 The complexity of claims involving a business has created difficulties for some CSOs in separating business assets from personal assets. Assets such as company cars may be coded twice, leading to underpayment to the customer. This appears to be related to the general

lack of understanding amongst CSOs on how to accurately assess business structures (see discussion of Module F errors below). A recent RCS analysis of the technical knowledge of Age Pension assessors found that only 64% of questions related to the assessment of assets were answered correctly. This result was well below the score of 80% that RCS considered satisfactory.⁸⁴

Module AC (Accommodation)

2.69 A claimant must complete Module AC if he/she:

- lives in retirement accommodation (eg. retirement village or nursing home);
- has recently sold his/her home and is considering moving into another; or
- is illness-separated from his/her partner.⁸⁵

2.70 Few people fall within the above categories when first claiming Age Pension. Reflecting this, the ANAO estimates that only 5.8% of new Age Pension claims require a Module AC form. This appears to have led to a general lack of awareness by assessors of when a Module AC should be issued to the customer, with only one Module AC completed out of the 16 claims within the audit sample that should have included it.

2.71 With only one Module AC to audit, it was not possible to identify common Module AC errors or analyse the severity of these errors.

Module C (Compensation)

2.72 A claimant must complete Module C if they have received, or are receiving, compensation payments or have a compensation claim pending. The impact of compensation payments on a customer's pension entitlements is assessed by Compensation Management Teams (CMTs) within each Centrelink Area. The ANAO focused on whether assessors: correctly documented compensation cases; referred these cases to their CMT; and correctly implemented CMT decisions.

2.73 As with Module AC, the most serious Module C error identified by the ANAO was the failure to complete the form: 33% of required Module C's were not obtained, despite the fact that claimants had indicated that they had received compensation payments. However, the ANAO found that where Module C forms had been issued, CMT decisions were correctly implemented, although there were some minor coding errors.

⁸⁴ For a discussion of this RCS technical skills analysis, see paragraphs 4.6 through 4.8.

⁸⁵ Illness-separated couples are treated as single when applying income and asset tests.

Table 10
Module C Assessment Errors

<i>Error Type</i>	<i>Test subset (% of new claims)</i>	<i>95% Confidence Interval (+/- pp)</i>	<i>Error Rate (% of claims within test subset)</i>	<i>95% Confidence Interval (+/- pp)</i>
Module C non-admin assessment error	3.3	2.2	8.4	13.3
Compensation details incorrectly coded	3.3	2.2	8.4	13.3
Clearance decision not provided by CMT	3.3	2.2	8.4	13.3
CMT clearance decision not implemented correctly	3.0	2.2	0.0	na

Module F (Business)

2.74 A claimant must complete Module F if they are a sole trader or have an involvement in a partnership, private company or family trust. The ANAO focused on whether assessors had obtained all necessary business information from the claimant and had correctly assessed the claimant’s equity in the business and income derived from the business.

2.75 The 1999–2001 BPA Schedule for SMT noted that a file study of Age Pension customers with complex business structures had found a substantial problem with incorrect assessment. FaCS and Centrelink agreed that RCS would provide *‘a strategy to arrive at a measure of correctness of assessments of complex business structures and an appropriate course of action to access any problems identified, by October 1999.’*⁸⁶

2.76 In response, RCS updated and extended the coverage of business assessments in the CAO handbook and ran a national program of local training workshops on the issue. It was agreed with SMT that these actions, together with the introduction of QOL, overtook the requirement to produce a strategy as required under the BPA. It was also agreed that further action to improve accuracy of complex business assessments would be taken as issues were diagnosed and as Centrelink resources would permit.

2.77 Most retirement team leaders interviewed during the audit fieldwork indicated that private company and family trust assessments were the most problematic for CSOs as they require business tax assessments and balance sheets to be analysed. This complexity is reflected in the very high error rates for Module F. Although 10.6% of claims required Module F, the form was only completed for 5.0% of claims and 96.3% of these claims contained at least one Module F assessment

⁸⁶ 1999–2001 BPA, SMT Schedule performance measure 5.1.17.

error (see Table 11). 70.4% (+/-14.4 pp) of the claims that required Module F contained Module assessment F errors with the potential to impact on the pension rate.⁸⁷

Table 11
Module F Assessment Errors

<i>Error Type</i>	<i>Test subset (% of new claims)</i>	<i>95% Confidence Interval (+/- pp)</i>	<i>Error Rate (% of claims within test subset)</i>	<i>95% Confidence Interval (+/- pp)</i>
Mod F non-admin assessment error	5.0	2.1	96.3	6.7
Sole Trader Assessment Error	0.1	na	100.0	na
Necessary business information not obtained	0.1	na	100.0	na
Sole trader business income assessment error	0.1	na	50.3	46.2
Business value assessment error	0.1	na	75.5	32.3
Partnership Assessment Error	2.9	1.7	92.4	12.2
Necessary partnership information not obtained	2.9	1.7	31.6	25.7
Partnership income assessment error	2.9	1.7	71.4	26.6
Partnership value assessment error	2.9	1.7	56.2	29.2
Private Company Assessment Error	1.9	1.2	100.0	na
Necessary business information not obtained	1.9	1.2	90.4	14.5
Private Company income assessment error	2.5	1.8	31.7	33.3
Priv. Comp. deemed income assessment error	2.5	1.8	31.7	33.3
Priv. Comp. share value assessment error	2.5	1.8	39.8	33.2
Family Trust Assessment Error	0.6	na	100.0	na
Necessary F. Trust information not obtained	0.6	na	100.0	na
F. Trust income assessment error	0.6	na	44.4	46.3
F. Trust deemed income assessment error	0.6	na	11.9	17.9
F. Trust value assessment error	0.6	na	28.7	35.5

2.78 An RCS pilot exercise to determine the level of technical knowledge of Age Pension assessors found that participants correctly answered only 63% of basic multiple choice questions on business assessments. This was well below the 'pass mark' of 80% set by RCS. The ANAO also found that a general lack of knowledge amongst CSOs with regard to technical aspects of business assessments. For example:

- business income is often not adjusted to include deductions, such as donations, which are allowable for tax purposes but not under the *Social Security Act*;

⁸⁷ Modules that were required but not obtained were deemed to contain a Module error with the potential to impact on the payment rate. Whether these errors translate into an actionable payment error depends on the circumstances of the claimant.

- council land rates are sometimes not correctly adjusted to allow for business use of the family home;⁸⁸ and
- assessors often incorrectly assume that business partners have an equal share (i.e. 50:50 for a two person partnership) rather than asking for the partnership agreement or details of the claimant's equity in the business.

2.79 There is also a general lack of procedural and policy knowledge amongst CSOs with regard to business assessments, as evidenced by the high rate of failure to obtain all necessary information about the claimant's business (see Table 11). One-on-one interviews with CSOs indicated that online business assessment resources are often under-utilised. RETIDOC⁸⁹ (which comprehensively guides the assessment of sole traders and partnerships) is sometimes dismissed as being a tool for new-starters only and the CAO Handbook (which contains useful information on business assessments) is often incorrectly viewed as a resource for CAOs only.

2.80 Improved staff training alone will not address the very high rates of business assessment error because most CSOs do not get enough exposure to such claims to confidently and accurately assess them. Furthermore, providing intensive and in-depth technical training to all CSOs would be inefficient given that only a relatively small proportion of new claims require a Module F.

2.81 In recognition of this, Centrelink Areas generally have systems to deliver expert advice to CSOs on business assessment issues and have appointed Complex Assessment Officers (CAOs) who specialise in the assessment of financial arrangements and business structures.⁹⁰ CSOs are given the discretion as to whether to refer a claim to a CAO. However, audit fieldwork indicates that most CSCs do not have clear guidelines on when to refer claims to CAOs. Given the very high rate of Module F assessment error, Centrelink should review its procedures governing business assessments. There may be merit in implementing a system whereby all claims with associated business structures are referred to specialist officers such as CAOs.

⁸⁸ A business office at home is included in the assets test whereas the family home is an excluded asset under the *Social Security Act*.

⁸⁹ RETIDOC is a Centrelink Intranet reference on retirement assessment procedures.

⁹⁰ At the commencement of the audit, RCS advised that one of the Areas had no CAOs during the sample period. However, following the audit fieldwork, RCS advised that this Area had one CAO, although it was unclear whether that CAO had sufficient relevant experience to assess complex Age Pension assessments at the time.

2.82 Given the broad range of their responsibilities, it may be unrealistic to expect CSOs to accurately assess highly complex claims to which they get little exposure. Furthermore, although Point Of Contact Decision-Making (POCDM) has a number of benefits in terms of improved customer service,⁹¹ it needs to be judiciously applied and the benefits weighed against the costs of inaccurate assessment by non-specialists for this small segment of customers. Inaccurate assessment not only has fiscal implications for the Commonwealth, but also adversely affects customers (especially where subsequent review/detection activity reveals that overpayment has occurred and debt must be recovered from the customer).

Gains from specialisation: the impact of CAOs on assessment error rates

2.83 The ANAO considers that there are significant gains from specialisation with regard to the accuracy of business assessments. The audit tested the hypothesis that officers who specialise in business assessments are more accurate than generalist CSOs by considering the impact of CAOs on assessment error rates.

2.84 For this audit, any claim that contained details of a business structure that might affect payment was deemed to be 'very complex' (see Appendix 3). Given this and the fact that CAOs focus their attention on the impact of such arrangements on the rate of payment, CAO activity will have most bearing on the level of quantifiable actionable (QA) error for very complex claims.⁹²

2.85 Table 12 shows the estimated level of QA error for simple, complex and very complex claims. Despite the fact that the inherent risk of error for very complex claims is higher than that for complex claims, the QA error rate is 28.4% for very complex claims compared with 32.2% for complex claims. This suggests that CAOs are having a positive impact on the accuracy of claims assessments.

⁹¹ Prior to the introduction of POCDM in February 1997, all Age Pension claims were referred to Determining Officers for decision. This led to delays in customer service and customers were unable to obtain unqualified advice from counter staff with regard to the prospects of their claim. Under POCDM, the CSO handling a customer's claim has the authority to make a decision with regard to that claim—leading to improved timeliness of customer service and greater clarity and certainty for Age Pension claimants.

⁹² Since POI/POA/POR checks are generally conducted by CSOs before referring a claim to a CAO, it is more appropriate to focus on the level of quantifiable actionable error (which excludes POI/POA/POR errors) than the overall level of actionable error (which includes POI/POA/POR errors) when considering the impact of CAO activity.

Table 12**Quantifiable Actionable Error Rates**

Level of Claim Complexity	Quantifiable Actionable (QA) Error Rate	95% Confidence Interval (+/- pp)
Simple	17.0%	13.6
Complex	32.2%	9.0
Very complex	28.4%	7.6
All claims	27.6%	5.9

2.86 Although the audit sample is not large enough to provide statistically precise error rate estimates for each of the Centrelink Areas, the rate of QA error the one visited Area that had very limited access to CAOs over the audit sample period—was over twice the national average for both very complex claims and all claims.⁹³ Furthermore, the rate of QA error for Area South East Victoria—the Area with the most CAOs in the network—was very low.⁹⁴

2.87 While these statistics support the hypothesis that the input of specialists can significantly improve the accuracy of assessment, it is important to note that a number of other factors outside the control of Areas also affect assessment accuracy. For example, Areas that service a large geographic region have greater difficulty in supporting small and isolated CSCs.

2.88 The ANAO also identified whether Module F claims audited had been referred to CAOs. Of the six private company and family trust cases that had been referred, only one had a QA error. In contrast, of the remaining 11 private company and family trust cases that were assessed by CSOs alone, seven had QA errors. Although it is not possible to produce reliable population error rates estimates from such a small sample of business assessments,⁹⁵ these sample statistics also suggest that CAO involvement significantly reduces the level of business assessment error.

2.89 The empirical evidence presented in this section suggests that the input of specialists can significantly lower the rate of actionable error amongst business assessments. This is consistent with the views of CSOs expressed during audit interviews. Many CSOs were unsure of the

⁹³ The rate of QA error in this Area was 63.8% amongst very complex claims (compared with 28.4% nationally) and 57.1% amongst all claims (compared with 27.6% nationally).

⁹⁴ The rate of QA error in Area South East Victoria was 2.4% for very complex claims and 1.0% for all claims.

⁹⁵ The audit sample contained four sole traders, 16 partnerships, 11 private companies and six family trusts.

technical aspects of assessing business structures and highly valued the input of CAOs. The audit findings suggest that where CSOs do not refer business assessments, there is a high risk of error.

Module I (Income and Investments)

2.90 A claimant must complete Module I if they receive income from any source (eg. employment, investments, superannuation). As with Module A, it would be expected that a Module I is required for most claimants. Leaving aside instances of non-disclosure of income, the ANAO estimates that 75.5% of claimants should have provided a Module I. However, assessors failed to obtain a Module I from 17.5% of these claimants.

2.91 Table 13 shows that of claims that included a Module I, 46.7% contained Module I assessment errors. Assessment error rates varied considerably over the different types of income:

- the highest error rates related to employment earnings (73.1%), bonds (59.7%),⁹⁶ gifted income (33.4%) and income streams (31.7%); and
- most other income sources had assessment error rates of between 10% and 20%.

Table 13
Module I Assessment Errors

<i>Error Type</i>	<i>Test subset (% of new claims)</i>	<i>95% Confidence Interval (+/- pp)</i>	<i>Error Rate (% of claims within test subset)</i>	<i>95% Confidence Interval (+/- pp)</i>
Mod I non-admin assessment error	62.5	6.9	46.7	8.5
Employment earnings assessment error	7.3	3.1	73.1	18.6
Bonds assessment errors	3.1	3.8	59.7	45.6
Debentures assessment errors	2.2	1.7	0.0	na
Loans assessment errors	6.4	2.9	11.7	15.6
Shares assessment errors	27.7	5.3	15.2	8.0
Managed investments assessment errors	30.9	5.8	20.6	9.1
Income streams assessment errors	22.1	5.1	31.7	12.2
Foreign income assessment errors	10.9	5.1	19.2	15.4
Other income assessment errors	4.3	2.6	4.9	9.0
Gifted income assessment errors	6.0	3.1	33.4	24.9

⁹⁶ Given the extremely wide confidence intervals surrounding the bonds assessment error, little weight should be placed on this estimate.

2.92 Employment earnings were often not verified by assessors (eg. recent payslips were not obtained). Some CSOs did not realise that payslips are required. Others considered such verification to be unnecessary on the basis that errors would be identified by Centrelink entitlement and/or compliance reviews. This places an undue burden on the review process. Failure to verify presents a risk of incorrect payment because claimants may confuse net income with gross income (i.e. state their take-home pay rather than their before-tax pay). Claimants with casual earnings may also fail to provide sufficient payslips. A number of CSOs advised at audit interviews that the rules for assessing casual earnings were ambiguous. There may be merit in Centrelink investigating whether there is scope to further clarify and simplify the casual earnings assessment rules for Age Pension.

2.93 There is a general lack of knowledge amongst CSOs on how to analyse income stream schedules. For example, some CSOs did not recognise that superannuation is an income stream or did not accurately assess the impact of lump-sum superannuation withdrawals on pension entitlements.

2.94 Gifting of assets/income is generally not adequately documented on customer records, creating the risk that multiple gifting will not be accurately assessed.⁹⁷ Centrelink is currently investigating whether IT system improvements could facilitate better online documentation of gifting by assessors.

2.95 Improved technical training of CSOs is the key to addressing most of the Module I errors identified by the ANAO.⁹⁸ However, there may also be merit in involving specialists in the problem areas identified in Table 13. Further analysis is required to establish the most appropriate framework for involving specialists.

2.96 On the one hand, a number of factors suggest that primary responsibility for assessing Module I should continue to remain with CSOs. Unlike Module F (where increased involvement of specialists is recommended):

- Module I is typically less complicated to assess;
- CSOs have greater familiarity with Module I;
- less intensive training is required to address CSO income assessment knowledge deficiencies;

⁹⁷ Gifts (typically money given to relatives) should be cumulated for the purposes of establishing whether the allowable gifting limit of \$10 000 in a pension year (each 12 month anniversary of the date of grant) has been exceeded.

⁹⁸ The ANAO findings with regard to training are summarised in Chapter 3.

- the Module I error rate (46.7%) is considerably lower than the Module F error rate (96.3%); and
- Module I errors tend to be less serious (with 47.7% Module I errors having the potential to impact on the pension rate, compared with 70.4% of Module F errors).

2.97 On the other hand, there are some ‘highly engineered’ income streams⁹⁹ for which assessors have less familiarity and referral to specialist income streams assessors may be more appropriate. In addition, some superannuation funds issued incorrect schedules (eg. incorrectly categorising a product as ‘complying’ with the asset exemption clauses of the *Social Security Act*) and CSOs did not generally detect these mistakes. As it would be unreasonable to expect CSOs to identify such errors, this also supports the involvement of specialists with regard to some components of income stream assessments.

Module O (Overseas residence)

2.98 A claimant must complete Module O if they were born overseas or have lived or worked overseas. The ANAO estimates that 40.7% of claimants should have provided a Module O over the sample period. However, assessors failed to obtain a Module O in 20.1% of these cases.

2.99 Table 14 shows that for the claims that did include a Module O, 66.0% contained Module O assessment errors. The ANAO estimates that of the claims that required Module O, 46.2% (+/-10.6 pp) had Module O errors with the potential to impact on the pension rate.

Table 14
Module O Assessment Errors

<i>Error Type</i>	<i>Test subset (% of new claims)</i>	<i>95% Confidence Interval (+/- pp)</i>	<i>Error Rate (% of claims within test subset)</i>	<i>95% Confidence Interval (+/- pp)</i>
Mod O non-admin assessment errors	32.8	6.3	66.0	11.9
Date of arrival not verified	25.7	5.6	62.4	12.5
Claim not screened on foreign pension system	20.5	5.3	54.9	15.3
Verification of foreign pension not obtained	7.4	3.3	23.3	19.4
Other errors	21.2	5.4	5.0	5.5

⁹⁹ The proportion of claims that involve income streams will increase over time due to the recent and projected increase in retirement savings amongst Australian workers and there is a growing industry of financial consultants offering advice on how to maximise pension entitlements by using sophisticated income stream products. Many of these products are highly complex and difficult to accurately assess.

2.100 Audit interviews indicated that CSOs put little priority on Module O and generally did not follow up failures by claimants to fully complete it. The ANAO also notes that there was poor understanding of the requirement that claimants have a working life residence of 300 months (25 years) to be entitled to a full Australian pension overseas. Most CSOs interviewed thought that it is sufficient to establish 10 years residency. As a result, 62.4% of assessments had not verified the customer’s date of arrival. This information would be required to calculate the percentage of pension payable if the customer sought to emigrate. However, Centrelink advises that all Age Pensioners who are about to emigrate are interviewed and that this provides an opportunity to obtain the information necessary to calculate the pension portability. These procedures appear justified in terms of cost effectiveness.

2.101 Increasing staff awareness of residency requirements and the importance of obtaining residency information is required to reduce the level of such errors.

Module R (Real Estate)

2.102 A claimant must complete Module R if they own an investment property or their home property is larger than five acres (two hectares). The ANAO estimates that 19.8% of claimants should have provided a Module R over the sample period. However, assessors failed to obtain a Module R in 13.8% of these cases. Table 15 shows that of the claims that included a Module R, 56.0% contained Module R assessment errors.

Table 15
Module R Assessment Errors

<i>Error Type</i>	<i>Test subset (% of new claims)</i>	<i>95% Confidence Interval (+/- pp)</i>	<i>Error Rate (% of claims within test subset)</i>	<i>95% Confidence Interval (+/- pp)</i>
Mod R assessment errors	17.1	4.5	56.0	14.3
Module R form not fully completed	15.1	4.2	32.5	14.7
Supporting documents not provided	15.1	4.2	25.5	13.8
Real estate details incorrectly coded	14.5	4.2	27.9	14.2
Required AVO valuation not requested	7.0	2.8	68.5	18.6
Other real estate assessment errors	13.0	4.0	13.7	10.2

2.103 An Australian Valuation Office (AVO) valuation of investment properties is required whenever the value of the claimant’s assets is within \$10 000 of the assets test threshold. However, this requirement is not always adhered to by CSOs because it requires them to calculate total

assets value manually and the customer's own valuation can significantly impact on whether the AVO test is met. AVO valuations can differ significantly from council valuations and this can lead to significant under/overpayment of the pension. There is a need to raise staff awareness of the AVO valuation requirements. Centrelink advises that *Accessing Centrelink*¹⁰⁰ will automatically review claims and prompt CSOs to seek valuations where necessary.

2.104 In the assessment of rental income from investment properties, there may be an over-reliance on the '1/3 rule' which permits the classification of 1/3 of rental income as an allowable deduction. Its preferential use may be due to its greater simplicity and speed compared with the demands of analysing the customer's tax return. However, inappropriate use of the rule can lead to an incorrect assessment of income; relevant rental income information contained in the claimant's income tax return in all but recent property rentals should also be considered. Further staff training is required in this area.

2.105 Real estate assessment errors can have a significant impact on the pension rate. For example, CSOs often neglect to verify mortgage amounts/payments, despite the fact that these often bear directly on the pension rate of customers affected by income/assets tests. The ANAO estimates that of those claims that required a Module R, 54.1% (+/-13.2 pp) had Module R errors that had the potential to impact on the pension rate.

Module S (Separation details)

2.106 A claimant must complete Module S if they are separated from their spouse as the assets/income test limits differ for married and single/separated claimants. Very few claims in the audit sample required a Module S. Of the four claims that required it, two included it. No Module S assessment errors were identified by the ANAO.

2.107 During the audit fieldwork Centrelink advised that *Accessing Centrelink*¹⁰¹ will automatically book interviews with, or make a referral to, a technical expert if initial screening identifies that a claim is likely to be Very Complex (eg. where the claimant states that he/she has a family trust).

¹⁰⁰ *Accessing Centrelink* is outlined at paragraph 2.54.

¹⁰¹ *Accessing Centrelink* is outlined at paragraph 2.54.

Recommendation No. 2

2.108 To improve the accuracy of assessment decisions on new Age Pension claims involving business structures and/or complicated income sources, the ANAO recommends that Centrelink in consultation with FaCS, reviews its existing procedures to consider the costs and benefits of referring all such complex new claims to specialist assessment officers.

Centrelink response

2.109 Agreed in principle. Centrelink agrees in principle with this recommendation, noting that its implementation may have cost implications and requires the involvement of FaCS as Centrelink's chief purchasing agency.

3. Monitoring the Accuracy of New Age Pension Claim Assessments

This chapter assesses Centrelink’s compliance monitoring framework and the effectiveness of various quality controls to help ensure that assessments of new Age Pension claims comply with relevant legislation and guidelines.

Preventive and detective controls

3.1 Both the 1999–2001 BPA and the 2000–2001 BPA fully and unambiguously specified the objective of ensuring that new Age Pension assessments complied with the *Social Security Law* and the *Guide to the Social Security Law*. The 2000–2001 BPA identifies three key strategies for maximising correct payments and outlays—prevention, detection and deterrence. Of these, it gives priority to prevention, stating that ‘*the primary aim of control strategies, as far as possible, will be to prevent incorrect payments, rather than detect them later.*’¹⁰² Preventive controls seek to ensure that CSOs make correct decisions at the new claims stage. These controls include:

- staff training;
- access to expert advice (CAOs and policy helpdesks) and written guidance (such as RETIDOC¹⁰³ and the *Guide to the Social Security Law*); and
- performance reporting processes (such as the Balanced Scorecard).

3.2 While detective controls (such as data-matching processes¹⁰⁴ and pension entitlement reviews) can reduce the impact of initial assessment errors, they focus on customer error/fraud rather than non-compliance by assessors. Because the ANAO’s objective is to assess the extent to which new Age Pension assessments comply with the *Social Security Law* and relevant guidelines at the new claims stage, this report focuses on preventive controls. The estimates presented (both in terms of error rates and the financial impact of non-compliance) quantify the load that assessment errors are placing on Centrelink detection and review activity.

¹⁰² 2000–2001 BPA, Outcomes, Strategies and Performance Protocol 4.1.

¹⁰³ The Retirement Income Documentation (RETIDOC) system is a Centrelink intranet reference on assessment procedures for CSOs.

¹⁰⁴ For example, Centrelink cross-checks income information reported by customers against income data from the Australian Tax Office.

A full consideration of the impact of non-compliance would require an analysis of the interaction of preventive and detective controls, which is beyond the scope of this audit.¹⁰⁵

Monitoring and controlling the accuracy of new claim assessments

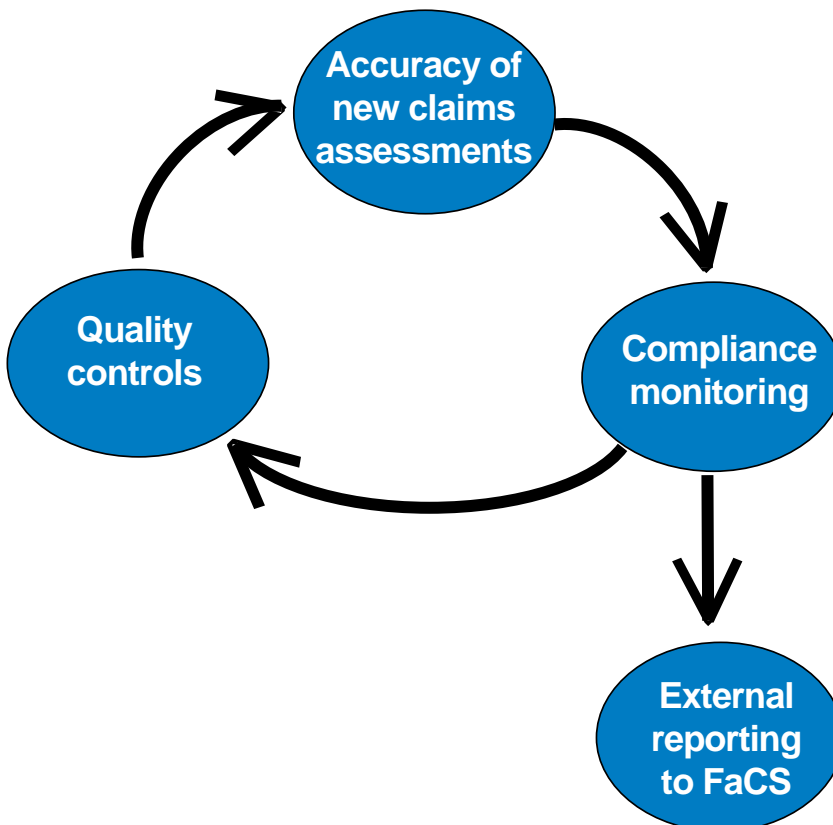
3.3 The high rate of assessment error identified in Chapter 2 indicates that Centrelink quality controls have not been effective in ensuring adequate compliance of assessment decisions with relevant legislation and guidelines.

3.4 As illustrated in Figure 3, compliance monitoring has the purpose of:

- assuring FaCS that Centrelink is meeting its BPA commitments; and
- assisting Centrelink to better target its quality controls.

Figure 3

Monitoring and controlling the accuracy of new claims assessments



¹⁰⁵ Preventive and detective controls complement one another. For example, data-matching activities can be seriously undermined if CSOs do not obtain adequate POI documentation at the new claim stage. Preventive and detective controls also have different impacts on customer service.

3.5 As noted in paragraph 2.35, Centrelink's compliance monitoring systems do not reliably measure the accuracy of new Age Pension claim assessments. This has the potential to seriously affect the integrity of Centrelink's external reporting and Centrelink's capacity to evaluate the effectiveness of its internal quality controls. This chapter considers Centrelink's compliance monitoring system. The various quality controls that impact on the assessment of new Age Pensions claims are evaluated in Chapter 4.

Centrelink compliance monitoring

3.6 There have been significant changes in Centrelink's compliance monitoring systems since May 2000, with the gradual implementation of new decision checking software called Quality On-Line (QOL). QOL replaces the Procedure and Accuracy Check (PAC) system, which had been Centrelink's primary compliance monitoring tool since mid-1998.

3.7 The following section compares the results found by the ANAO with the PAC results for the same period. The discussion is kept brief given that, though the PAC system was in operation during the audit sample period, it no longer operates. The remainder of the chapter focuses on the performance of the QOL system and its capacity to reliably monitor compliance. Although QOL has only recently been fully operational, fieldwork and initial QOL data indicate that there are serious deficiencies with the QOL system as it was being used during the audit fieldwork. Accordingly, Centrelink needs to address a number of threshold issues before any confidence can be placed in the QOL data.

Procedure and Accuracy Check (PAC) system

3.8 According to the 1999–2001 BPA, in effect during the audit sample period, the primary performance indicator for compliance of new claims assessments with legislation and other relevant guidelines was the number and proportion of claims correctly assessed, as measured by Centrelink's Procedure and Accuracy Check (PAC). The PAC system was a quality improvement and risk management tool which Centrelink used to undertake sample checking of new claims and reassessments.

3.9 Centrelink provided the ANAO during the final stages of the audit with extracts of seven internal audit reports related to PAC or referring to PAC since 1997. While one particular audit found no evidence to suggest inadequate checking to ensure the accuracy and validity of payment, the other six internal audits were unable to verify the effectiveness of PAC as a control over the accuracy and completeness of information.

3.10 The ANAO performance audit of Special Benefit (November 1999) included an examination of accuracy data reported by the PAC system for Special Benefit payment and concluded that:

the accuracy rates reported by PAC for Special Benefit new claims are an inappropriate basis for: controlling assessment accuracy; monitoring individual assessor performance; and reporting accuracy of Special Benefit decisions under the BPA.¹⁰⁶

3.11 This ANAO performance audit of new Age Pension claims assessments concludes similarly that the PAC system was an inappropriate basis to report accuracy of new Age Pension claims assessments under the BPA and a more reliable system for measuring accuracy was needed. Table 16 shows the PAC accuracy levels as reported to FaCS for the audit sample period. As with the Special Benefit, the PAC significantly overstated the level of accuracy. The average accuracy rate as reported by PAC was 96.8%, which exceeded the BPA performance standard of 95% and equated to an average assessment error rate of only 3.2%. By comparison, the ANAO estimates that 52.1% of new claim assessments should have been recorded as inaccurate by the PAC system. Moreover, the ANAO's estimate of one component of actionable error, payment rate error at 13.5%, was considerably higher than the 3.2% error rate that Centrelink reported externally for claims assessments against all eight categories of actionable error.

Table 16
Monthly PAC Accuracy Data (October 1999 - March 2000)

	<i>PAC accuracy rate</i>	<i>PAC error rate</i>
October 1999	97.3%	2.7%
November 1999	95.9%	4.1%
December 1999	96.2%	3.8%
January 2000	96.3%	3.7%
February 2000	96.2%	3.8%
March 2000	98.7%	1.3%
October 1999 - March 2000 (average)	96.8%	3.2%

Notes

1. Source: Service Integration Shop, Centrelink.

¹⁰⁶ ANAO Audit Report No.20 1999–2000, *Special Benefit, Centrelink and Department of Family and Community Services*, Canberra, (paragraph 3.60).

3.12 These findings reinforce the recommendation of the ANAO performance audit of the Special Benefit that Centrelink reassess the operation of the PAC system, including the skills and knowledge of the checking officers who use the system.¹⁰⁷

Quality On-Line (QOL)

3.13 QOL was introduced on 25 May 2000 and was designed to reduce the likelihood of user error during the checking process, to identify the source of assessment error to inform training, and to provide more comprehensive management information reports on accuracy in decision-making. The accuracy standards, sampling regime and pay advancement performance thresholds remain essentially the same as for PAC.

3.14 As of 23 August 2000, the QOL system has been Centrelink's primary compliance monitoring tool. The ANAO interviewed CSOs, CSC and Area managers and relevant NSO staff to assess the user-friendliness of QOL, the usefulness of QOL management data; and whether Centrelink had taken sufficient steps to ensure the reliability of QOL data.

3.15 Early indications were that, although QOL is capable of delivering better management information than PAC, it was not producing reliable performance data. This chapter focuses on structural issues that need to be addressed. It discusses:

- improvements in the QOL software relative to the PAC software;
- initial CSO reactions to the QOL;
- the BPA and QOL definitions of accuracy;
- the BPA performance targets;
- data validity and some threshold issues that need to be addressed if Centrelink accuracy data is to be relied upon;
- a framework to ensure data validity;
- some measurement issues;
- initial QOL data; and
- some funding issues.

Improved Software

3.16 In terms of software design, QOL is significantly better than its predecessor PAC. In particular, QOL:

¹⁰⁷ *ibid.*, Recommendation No. 7.

- is more user-friendly than PAC and assists checking staff by displaying each screen actioned by the CSO and the relevant questions at the same time;
- is more flexible and can be easily redesigned to focus on different issues as they arise;
- reduces the ability of checking officers to compromise the integrity of the accuracy data by by-passing relevant test criteria;¹⁰⁸
- enables users to identify the source of assessment error, which can then be used to inform training and quality control initiatives; and
- offers an improved reporting capacity in relation to specific issues and the performance of individual CSCs and Centrelink Areas.

Initial CSO reactions to QOL

3.17 The audit interviews with CSOs were conducted during July and August 2000. At that stage the QOL system had only been partially implemented and was still subject to significant downtime. This period of instability, lasting from May 2000 to August 2000, disrupted the work of CSC staff and clearly coloured CSOs' reactions to the QOL system. These system issues have, however, been largely resolved and QOL has been operating across the entire network since 23 August 2000.

3.18 Some CSOs considered that the QOL questionnaire did not cover all the issues that were important to establishing correct payment. Others noted that file handling procedures (such as document stamping and signing) were also not included. These issues can be resolved, in consultation with FaCS, through ongoing refinement of the QOL questionnaire.

3.19 A number of CSOs misunderstood the QOL software design.¹⁰⁹ This appeared to reflect broader issues of how CSOs are trained and informed of changes. A number had not seen the introductory QOL presentation due to Centrelink Education Network (CEN)¹¹⁰ technical difficulties and many had not accessed intranet resources that would have addressed their questions about QOL.

¹⁰⁸ Under the PAC system, checkers could select PAC checklists which, although quicker to complete, were not appropriate for the activity being checked.

¹⁰⁹ For example, many complained that the font size was too small to read and could not be changed, despite the fact that the QOL intranet reference guide instructs CSOs on how to adjust the QOL font settings.

¹¹⁰ The CEN is a recently implemented interactive broadcast system, which is discussed in paragraph 4.15ff. Centrelink advises that the technical difficulties experienced during the audit fieldwork period are being addressed.

3.20 More importantly, the failure to address a number of structural issues undermined CSO confidence in the ability of the QOL system to deliver reliable performance data. A number of CSOs commented that:

- there was the pressure to adopt a ‘tick and flick’ mentality to the QOL checking activity due to other work demands;
- there was pressure from other staff not to be too stringent in applying the rules because this would ‘only create more work for everybody’; some believed that other staff chose not to approach them to check their work because they were ‘too’ diligent when checking others’ work;
- a ‘you PAC mine and I’ll PAC yours’ culture continued to exist within some CSCs; and
- the QOL checks were not themselves checked for accuracy.

Defining accuracy

3.21 Under the 1999–2001 BPA, Centrelink performance was assessed and reported using PAC. The 2000–2001 BPA specifies that 95% of new assessments must be ‘completely accurate’ in terms of correctness of payment as measured by QOL.¹¹¹ During the initial audit fieldwork, the ANAO detected that there was some ambiguity about the term ‘completely accurate’ and whether this corresponds to the accuracy rate reported by QOL for the purposes of measuring Centrelink’s performance under the BPA. In particular, there was uncertainty about whether claims assessments requiring further information from customers or other sources to determine correct payment are completely accurate. Deeming all such claims assessments to be ‘inaccurate’ at the new claims stage may increase the reported error rate significantly compared with deeming as inaccurate only those where subsequent follow-up action reveals an error.

3.22 The approach taken by the ANAO was to regard all such claims assessments as inaccurate for the purposes of measuring performance against the BPA because it was inappropriate to describe assessments that contained such fundamental assessment errors as ‘completely accurate’. According to Centrelink, the working definition of QOL accuracy is ‘has the assessor paid the right person the right rate from the right date using the right product’? It is unclear from this definition whether QOL checkers would report claims requiring further information from customers to determine payment accuracy, and more generally, whether QOL checkers would apply a consistent definition of a ‘completely accurate’ assessment under the BPA.

¹¹¹ 2000–2001 BPA, Outcomes, Strategies and Performance Protocol, Section 4.1.

3.23 Greater clarity is required in defining what constitutes an accurate assessment for the purposes of measuring Centrelink's performance under the BPA.¹¹² Assessment accuracy should be defined in terms of compliance with a specific set of criteria agreed to by FaCS.

3.24 This recommendation is consistent with Recommendation No. 3 in the ANAO audit of *Family and Community Services' Oversight of Assessment of New Claims for the Age Pension by Centrelink* tabled on 17 May 2001.

Recommendation No. 3

3.25 To help ensure that reliable and valid new Age Pension claim assessment accuracy information is collected, the ANAO recommends that Centrelink confers with FaCS to more clearly define assessment accuracy for the purposes of measuring Centrelink's performance under the Business Partnership Agreement (BPA).

Centrelink response

3.26 Agreed. Centrelink agrees, subject to negotiations with FaCS in the context of the development of their Business Partnership Agreement.

Setting performance targets

3.27 Whatever definition of assessment accuracy is applied, the ANAO findings presented in Chapter 2 suggest that the current 95% BPA accuracy standard is unattainable for 2000–2001.

3.28 Once a precise BPA accuracy standard has been defined, Centrelink should confer with FaCS to agree on a strategy to attain this standard. This strategy should involve setting challenging but attainable intermediate performance targets that encourage continuous improvement in customer service. These intermediate targets should be regularly re-assessed to reflect the progress made by Centrelink. The strategy may also include allocating increased resources to Age Pension assessments, having considered the potential impact on other payments.

3.29 Appropriate intermediate targets can be set only when the current level of performance has been ascertained by an ongoing and reliable compliance monitoring system. The key ingredients of such a system—adequate skilling of accuracy checkers, independent validation of the accuracy data and external assurance of the integrity of the compliance monitoring system—are outlined below.

¹¹² The level of tolerable payment inaccuracy should also be clearly defined. For example, should trivial payment errors of under \$1 per fortnight be included in the definition of 'payment error'?

3.30 Different accuracy targets may be warranted for new claims assessments and re-assessments. Re-assessments include all activities in relation to existing customers—for example, updating a file to reflect a change in residential address. Accordingly, the accuracy level of re-assessments would be expected to differ from that of new claims activity, suggesting that separate intermediate targets may be justified.

3.31 At present, the summary measure of Age Pension assessment accuracy presented in Centrelink’s bi-monthly report to FaCS, is an unweighted average accuracy rate for new claims and re-assessments. This means that it gives the same weight to a correctly entered change of address as to the accurate assessment of a complex new claim. As this measure effectively ‘adds apples to oranges’, it is of limited analytical value. However, the component measures—the accuracy of new claims and the accuracy of re-assessments—do have value.¹¹³ Similarly, there may be merit in identifying activities within new claims and re-assessments and establishing separate targets for these activities.

Recommendation No. 4

3.32 To improve the monitoring and control of Age Pension assessment accuracy, the ANAO recommends that Centrelink negotiates with FaCS to establish:

- an approach to implementing a reliable compliance monitoring system;
- a strategy to attain the Business Partnership Agreement (BPA) accuracy standards, including setting challenging but attainable intermediate performance targets; and
- a process for investigating the merit of setting individual targets for different assessment activities within the Age Pension.

Centrelink Response

3.33 Agreed. Centrelink advises that already there has been substantial progress in relation to this recommendation. The operation of the QOL system is the subject of a review by FaCS and Centrelink. Area level validation has already been established and a national validation check of the checking process is under development and should be operational in the next two months.

¹¹³ Accuracy rates for new claims and re-assessments are also reported in the bi-monthly report.

3.34 Centrelink advises that it has also implemented a *Getting it Right* strategy aimed at improving the quality of decision-making (see Centrelink’s response to Recommendation No. 9 for full details). The strategy focuses on six priority areas which will lead to improved accuracy in making and recording decisions. As part of this strategy Centrelink has implemented training arrangements to provide Managers and Team Leaders with in-depth information about how to use the QOLStat Management Information to identify accuracy issues and possible problems with the checking in their team or office.

3.35 Existing systems do not allow for the setting of individual targets down to the level of individual activities within a payment type, however Centrelink will examine this in consultation with FaCS.

Data validity—some threshold issues to address¹¹⁴

3.36 The ANAO has identified four threshold issues that should be addressed by Centrelink before the accuracy of its data can be relied upon. Recommendations Nos. 5 through 7 below should be addressed in the context of developing an agreed approach to compliance monitoring (Recommendation No. 4).

The knowledge of accuracy checkers

3.37 Although QOL is significantly better than PAC in terms of software design, the key issue remains how the software is used. The ANAO Special Benefit audit found that the primary source of PAC measurement error was the level of knowledge of checking officers. In its response to the Special Benefit audit findings, Centrelink noted that:

*like any computer based system [PAC] relies on the skills and knowledge of the operator—in this case the Checking Officer. If the Checking Officer has insufficient knowledge to assess the claim then he or she will not be able to detect errors and will pass the work when it contains errors.*¹¹⁵

3.38 At the time of the audit fieldwork, Centrelink had not introduced new procedures to ensure that QOL checking officers are able to accurately

¹¹⁴ In its report *Good Practice in Performance Reporting in Executive Agencies and Non-Departmental Public Bodies* (March 2000), the United Kingdom’s National Audit Office (UK NAO) presents a useful checklist of key issues to consider when implementing and reviewing performance measurement systems (pp. 7–8). These key issues include: Has the quality of the performance data been considered? Has specialist advice been sought on the design of performance measures? Are there established performance measure definitions? Is there clear accountability for performance data? Does management play an active role in ensuring data quality? Have the benefits of validating data been considered?

¹¹⁵ ANAO Audit Report No.20 1999–2000, *Special Benefit*, op. cit., (paragraph 3.64).

detect assessment errors. This may have adversely affected the integrity of Centrelink's compliance data. Centrelink advises that following the completion of the audit fieldwork, it has implemented procedures to address this. The initial NSO instruction to staff in relation to QOL recognised that there needed to be tighter controls on who conducted QOL checks.¹¹⁶ However, following adverse union reaction,¹¹⁷ subsequent NSO advice stated that the PAC checking process would remain unchanged pending negotiations with the union.¹¹⁸ Fieldwork confirmed that many CSCs were not restricting QOL checking responsibilities to suitably qualified staff. Where checking responsibilities had been restricted by CSC managers, it was not always clear on what basis checkers were selected.

Removing the requirement to complete accuracy checks prior to actioning

3.39 An activity that has been selected for QOL checking cannot be actioned until the check has been completed. ANAO interviews provided information to suggest that this requirement had the potential to seriously affect the integrity of the QOL data in a number of ways. First, it meant that if staff were interviewing customers and that activity was selected for a QOL check, checkers were pressured to do a 'tick and flick' QOL check so as not to delay customer service. Secondly, some CSC managers were not willing to restrict the QOL checking activity to a few experienced officers because to do so would risk disrupting customer service if their activity was selected for QOL checking and a QOL checker was unavailable.

¹¹⁶ The Centrelink Gateway Team initially advised network staff that

the introduction of QOL needs to be accompanied by a change to the use of expert checking officers. Experience has shown that being assessed as baseline on PAC is no longer sufficient qualification to check other staff's work. Managers should designate staff as QOL checkers. As a rule of thumb, experience in CSC's who have adopted a designated checker approach approximately 20% of staff is adequate.

¹¹⁷ The Community and Public Sector Union (CPSU) reacted adversely to a lack of consultation with regard to the replacement of PAC with QOL, especially given that CSO salary advancement is linked to PAC performance (CPSU Bulletin, 7 April 2000).

¹¹⁸ In responding to the CPSU Bulletin article, the Centrelink CEO advised staff that

the PAC process remains unchanged. We have only improved the software. We are not mandating a set number of staff to undertake checking. We are saying that managers and team leaders should assure themselves that staff have the skills to carry out the task.

Subsequent advice from the Gateway Team also stated that:

there is nothing in QOL which alters the principles of the PAC process.

3.40 The requirement to QOL check prior to actioning activity is justified where QOL is being used as a quality control tool, as is the case with Learners and Non-Decision Makers (NDMs) who have 100% of their work checked. For Expert staff, QOL is not a genuine quality control tool because it only checks around 5% of new claims. Accordingly, for such staff it is primarily a compliance monitoring tool that informs quality controls such as staff training and decision support structures. Centrelink advises that the QOL system can be modified to remove the requirement to QOL before actioning for Expert staff while maintaining it for Learners NDMs.

3.41 It could be argued that the requirement to check activities before they are actioned has the benefit of increasing the priority given to checks by effectively making them urgent and assisting to reinforce the need for accuracy when QOL checking (as the QOL checker appreciates that the customer's payment rate may be affected by his/her decision). However, both these benefits can equally be delivered by a process which reviews assessments after the decision has been made and monitors whether checks are undertaken in a timely manner. This data validation process is discussed further at paragraphs 3.54 and following. Removing the requirement to QOL check prior to actioning would also:

- improve the validity of the QOL data by reducing the pressure to 'tick and flick';
- result in less disruption to the work of QOL checkers;¹¹⁹ and
- enable Area managers to adopt alternative QOL checking structures (such as external checking by specialist officers) if warranted.

Recommendation No. 5

3.42 To improve the validity of its assessment accuracy data, the ANAO recommends that Centrelink:

- implements measures to ensure that all Quality On-Line (QOL) checking officers have sufficient skills and knowledge to identify assessment errors reliably; and
- reconsiders the requirement that QOL accuracy checks be completed before finalising the assessment, to ensure that checking officers are not pressured to clear the assessment with undue haste.

¹¹⁹ A number of QOL checkers commented that the requirement to complete checks prior to actioning the activity meant that these checks often interrupted their work-flow because the CSOs wanted them done immediately.

Centrelink response

3.43 Agreed. Centrelink advises that the mandatory minimum standards recently implemented as part of *Getting it Right*, will assist in addressing this recommendation. Centrelink provides further details in its response to Recommendation No. 9.

3.44 Centrelink has implemented *Check the Checking* arrangements as a means of providing feedback and identifying training needs for QOL checking officers. Centrelink is also providing training for Managers and Team Leaders to assist in identifying the skill needs of checkers. The QOL system has been changed specifically to target quality issues and the questions checking officers need to consider when checking the work of Original Decision Makers.

3.45 The timing of QOL accuracy checks will need to be examined in consultation with FaCS and considered in terms of likely cost-benefit of such an approach. Centrelink would be concerned in terms of the possible underpayments or overpayments to customers.

Attaining Expert/baseline status¹²⁰

3.46 Centrelink was unable to provide data on the proportion of Age Pension assessors that have attained Expert status. Based on QOL data, Experts conduct around 95% of assessment activity. To attain Expert status, a Learner must attain 95% accuracy. While Learners have all their work QOL checked, Experts have only 5% of their work checked. Interviewees indicated that staff are generally promoted quickly to Expert status and some indicated that there was pressure on checkers to pass the work of Learners so as to:

- reduce the load involved in checking all of the Learner's work; and
- enable Learners to obtain the pay increment associated with becoming Experts.

3.47 This pressure is exacerbated by the requirement that Learners be 95% accurate across all new claims activities before being promoted. Accordingly if, for example, a Learner correctly assesses all new claims except for the 10% that contain business structures, then the QOL checker could:

- assess the Learner as 90% accurate and so be required to continue to check all the Learner's work even though he/she only needs guidance on an identifiable 10% of new claims assessments; or
- inappropriately pass half the claims that contain business structures so as to raise the Learner's accuracy rate to over 95%.

¹²⁰ The terms 'Expert' and 'baseline' are used interchangeably within Centrelink and in the discussion of QOL.

3.48 As a result:

- the accuracy rates for Learners may be artificially inflated; and
- there may be a tendency to promote CSOs from Learner to Expert status before they have attained a level of accuracy appropriate for staff who have delegated decision-making responsibilities.

3.49 This reinforces the need for QOL validation checks. The importance of such validation in these circumstances is recognised by the United Kingdom (UK) Cabinet Office, which requires that UK government agencies obtain external validation of performance data where the pay of staff is linked to performance targets.¹²¹

3.50 Modifying the QOL sampling engine to require 100% QOL checking only for those particular assessment activities for which Learners have not attained sufficient accuracy has the potential to:

- significantly reduce the volume of QOL checking required for Learners;¹²² and
- target only those high-risk areas of activity.

3.51 This would, in turn, significantly reduce the pressure on QOL checkers to prematurely promote staff to Expert status. Such an undertaking should be pursued in the context of a review of the entire sampling regime underpinning QOL. This is discussed further below.

Recommendation No. 6

3.52 To reduce the load of checking the assessment activity of Learners, the ANAO recommends that Centrelink, in consultation with FaCS, considers refining the Quality On-Line (QOL) sampling regime to:

- allow staff to attain Expert status for identifiable assessment activities; and
- require 100% checking only for those assessment activities for which they have not yet attained an agreed level of accuracy.

Centrelink response

3.53 Agreed in principle. Centrelink agrees in principle, though indicates that industrial relations implications will need to be explored.

¹²¹ *Next Steps Agencies: Guidance on Annual Reports* (October 1998), United Kingdom Cabinet Office, states 'Where achievement of targets affects the pay of Agency staff ... the performance against targets must be subject to validation, external to the Agency.'

¹²² In the example in paragraph 3.47, if the QOL checker only had to check 100% of business assessment and 5% of all other new claim activity, then only 15% of this Learner's work (rather than 100%) would require checking.

Centrelink advises that a system amendment due for release in March 2001 will enable 'expert' status to be attained by individuals across a number of payments in a single IT system.

A framework to ensure data validity

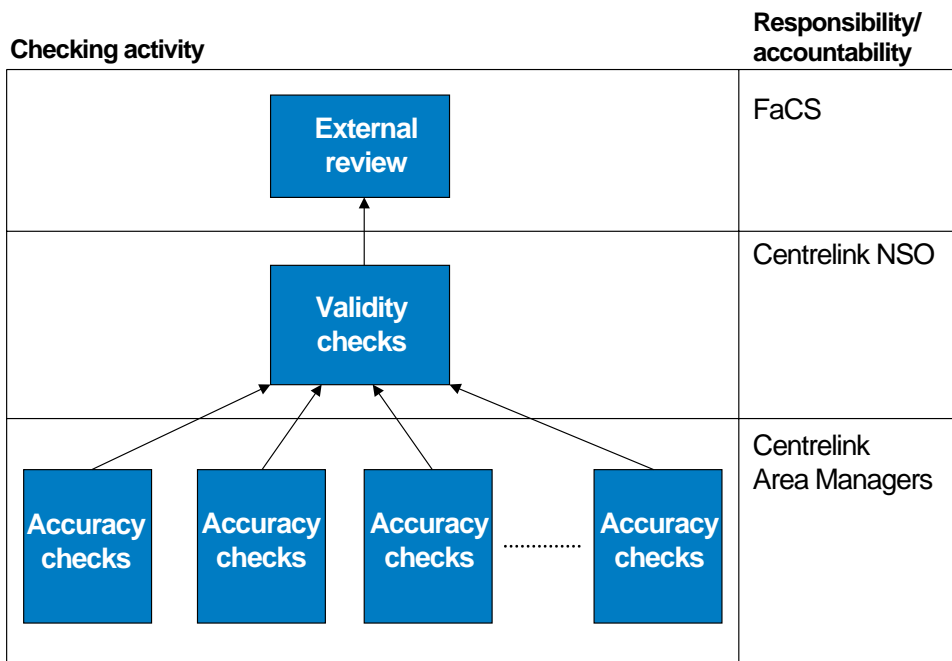
3.54 A framework to ensure that compliance data is accurate would require:

- a system of independently validating data to ensure that accuracy checks are being consistently and correctly conducted across the network; and
- clear lines of accountability for the accuracy of data.

3.55 Figure 4 illustrates these principles. The following sections discuss how they might be applied to the QOL system.

Figure 4

Framework to ensure performance data validity



Accuracy checks

3.56 At the time of the audit fieldwork, CSC managers and team leaders had responsibility for selecting QOL checking officers.¹²³ The ANAO considers that, although CSC managers and team leaders should have a

¹²³ In an address via the Centrelink Education Network in April 2000, the Centrelink CEO advised Centrelink managers that 'managers and team leaders should assure themselves that staff have the skills to carry out the [QOL accuracy checking] task.'

key role in identifying suitably qualified staff, there may be advantages if overall responsibility for the accuracy of QOL checks rests with Area managers. This flows from the principle that the accountability for an output should only rest with those who can significantly control/influence that output. Interviews indicated that, in some instances, there may be no staff within a CSC who are sufficiently qualified to undertake QOL checks of complex assessments. For example, managers of CSCs with few staff or of CSCs that have had high staff turnover may not be in a position to ensure that QOL checkers are suitably qualified. However, Area managers are in a position to assure accuracy because they can organise alternative arrangements, such as external QOL checking of the work of these CSCs. Centrelink advises that following the audit fieldwork, Area Managers have been given the responsibility for the accuracy of QOL checks.

3.57 The development by Centrelink of a framework for compliance checks based on the principles of accountability outlined by the ANAO should, if appropriately enforced, encourage an increased focus on assessment accuracy and the development of a reliable compliance monitoring system.

3.58 Area managers should be given the flexibility to tailor the QOL checking structure to their particular circumstances. In some Areas, this may require the Area manager to set up a dedicated QOL checking unit within the Area office for complex new claims. In others, all QOL checking might occur within CSCs. Removing the requirement to conduct QOL checks prior to actioning (see Recommendation No. 5) delivers the flexibility to Area managers to implement centralised QOL checking structures where necessary.

Validity checks

3.59 Accountability for the accuracy of QOL checks requires that the checks themselves be validated to ensure that they are undertaken accurately and consistently throughout the Centrelink network. These checks should be based on a random sample of all claims assessments that have been QOL checked, with the sample size set to minimise the load on Centrelink, while ensuring an adequate level of statistical precision.¹²⁴

3.60 In its report *Good Practice in Performance Reporting in Executive Agencies and Non-Departmental Public Bodies* (March 2000), the United Kingdom's National Audit Office (UK NAO) also highlights the importance of establishing and implementing clear guidelines for the

¹²⁴ QOL sampling issues are discussed in the paragraphs preceding Recommendation No. 8.

validation of performance data. It notes that internal mechanisms to validate the quality of performance data include: establishing specialist teams independent of those responsible for data collection, processing and analysis to check performance data; and using internal auditors to review data collection systems.¹²⁵

3.61 In recognition of the need for independent validation of QOL checks, the QOL software has been designed to support a system of validity checks. It allows reports on the activity of individual checkers, CSOs, CSCs or Centrelink Areas. However, at the time of the audit fieldwork, NSO had not formally proposed a framework for validating QOL checks.

3.62 Interviews suggest that Area managers typically assumed that they will ultimately become responsible for establishing a system of QOL validity checks within their Area.¹²⁶ Such an outcome would be inadvisable for two reasons. First, Area managers would have a conflict of interest if they were both accountable for accuracy of QOL checking activity in their Area and responsible for validating the accuracy of those checks. Secondly, it was apparent from fieldwork that the resources being devoted to the QOL accuracy checks and the skill levels of QOL checkers varied considerably across CSCs and Areas. Allocating validation responsibility to Area managers could therefore be expected to lead to validation checks being conducted inconsistently across different parts of the network.

3.63 It is also worth noting that currently no consolidated reference guide is available to QOL checkers, who must search a variety of reference documents if unsure of the rules applying to a particular QOL question. Interviews suggest that such a consolidated reference guide would assist checking officers to accurately and consistently check assessment activity selected for QOL checking.

3.64 Centrelink should establish mechanisms to ensure that QOL validation is applied in a consistent manner across the network, and that feedback is provided to individual QOL checkers and CSC and Area managers on improvements needed. At interview, some CSC managers indicated that they did not have the time or expertise to identify process improvement needs from a matrix of QOL accuracy data. Such analysis would more usefully be conducted by experts who are familiar with the QOL data and the current rules and guidelines governing Age Pension assessment activity.

¹²⁵ *Good Practice in Performance Reporting in Executive Agencies and Non-Departmental Public Bodies* (March 2000), para. 2.31.

¹²⁶ Some Areas had already commenced nominating staff for the validity checking task.

Recommendation No. 7

3.65 To improve the validity and consistency of compliance monitoring data gathered across the Centrelink network, the ANAO recommends that Centrelink:

- assigns responsibility to Area managers for implementing a system of accuracy checks within their Area and be accountable for the accuracy of those checks; and
- implements a system of regular Quality On-Line (QOL) validation checks, administered independently of Area managers.

Centrelink response

3.66 Agreed. Centrelink advises that Area based accuracy checks have been developed and are being implemented by Area Managers including a system based analysis tool to assist in data analysis. A national validation check of the checking process is under development and should be in operation in the next two months.

Quality assurance

3.67 The ANAO audit of *Family and Community Services' Oversight of Assessment of New Age Pension Claims by Centrelink* states in Recommendation No. 1 that FaCS should conduct regular independent reviews to assure itself that performance data based on QOL is reliable. This issue is discussed in more detail in that report.

Measurement issues

Sampling versus measurement error

3.68 The two principal sources of error in compliance monitoring data are sampling error and measurement error. In the present context:

- sampling error reflects the difference between the accuracy of assessments selected for compliance checking compared with the results that would have been found if all assessments were checked; and
- measurement error reflects failure of compliance checkers to accurately detect and/or record errors in claims assessments selected for compliance checking.

3.69 The key deficiency with both the PAC and QOL systems relates to measurement error. The introduction of the controls outlined above (eg. validation, external review) will reduce the level of such error. As discussed below, there is scope to improve the targeting of the QOL sampling regime allowing the number (and cost) of accuracy checks to be reduced. The resources thereby released could be used to attend to some of these fundamental measurement issues.

Targeted sampling

3.70 To attain a given level of statistical precision for population estimates, the required sample size is broadly¹²⁷ proportional to:

- the frequency at which estimates are produced (eg. producing fortnightly accuracy estimates requires around twice the sample size as monthly estimates with the same statistical precision); and
- the number of strata for which estimates are produced (eg. producing estimates for each of the 16 Centrelink Areas would require 16 times the sample size required for a national estimate with the same statistical precision).

3.71 At present, 5% of new claims assessments and 5% of re-assessments are randomly selected for QOL checks. This is the same sampling regime as used by PAC. However, there are a number of reasons why Centrelink, in consultation with FaCS, should re-assess the sampling regime utilised by QOL:

- QOL produces much more detailed estimates than the PAC;
- there would appear to be scope to reduce the frequency of the estimates (currently fortnightly) in order to reduce the number of the QOL checks;
- there may also be scope to reduce the level of statistical precision required of some accuracy estimates. At present, re-assessments account for around 95% of QOL checking activity. This is despite the fact that re-assessments could be expected to result in fewer incorrect payments than new claims activity. Reducing the sampling rate amongst re-assessments could release resources to increase sampling of new claims assessments.

3.72 By varying the sampling rate across benefit types, the UK's Benefits Agency focus their data collection efforts on those priority areas of their business where they aim to improve performance. For benefits for which they wish to improve the accuracy of payments, the sample size is set to enable the production of statistically accurate performance measures at both the national and local level. For payments for which accuracy is consistently higher than agreed targets, the sampling rate is set at a level which only allows for the production of statistically accurate results at the national level.¹²⁸

¹²⁷ Where the estimates are for large populations (say over 100 000) the required sample size is almost exactly proportional to the identified factors. Where estimates are for smaller populations (perhaps due to stratification), a less than proportionate increase in the overall sample size is required to maintain a given level of statistical precision for individual estimates.

¹²⁸ *Good Practice in Performance Reporting in Executive Agencies and Non-Departmental Public Bodies* (9 March 2000), Case Study 9: Benefits Agency focusing data collection on the most important measures, at p. 31.

3.73 The targeted sampling for decisions of non-experts is addressed fully in Recommendation No. 6. It is included in Recommendation No. 8 for completeness in identifying a broad spectrum of those aspects of the compliance monitoring sampling regime that should be reviewed.

Recommendation No. 8

3.74 To minimise the cost of Quality On-Line (QOL) checking activity while ensuring an appropriate level of statistical precision, the ANAO recommends that Centrelink, in consultation with FaCS, reviews the entire compliance monitoring sampling regime to consider such factors as:

- the frequency of population estimates;
- the number of sampling strata;
- the proportions sampled from new claims and re-assessments;
- targeted sampling across different benefit types; and
- targeted sampling for decisions of non-experts.

Centrelink response

3.75 Agreed.

QOL data

3.76 Table 17 shows that QOL accuracy rates for new Age Pension claims lodged between September and December 2000 are not significantly different from those produced by PAC over the sample period. It shows that, over the three months to November 2000, the average QOL accuracy rate was 95.9%, which satisfies Centrelink's 95% BPA standard and equates to an average assessment error rate of only 4.1%.

Table 17

QOL Accuracy Data (September - November 2000)

	<i>QOL accuracy rate</i>	<i>QOL error rate</i>
September 2000	95.5%	4.5
October 2000	95.4%	4.6
November 2000	96.7%	3.3
September – November 2000 (average)	95.9%	4.1

Notes

1. Source: Service Integration Shop, Centrelink.

3.77 The ANAO found that around one half (52.1%) of new Age Pension claims assessed over the six months to 31 March 2000 contained actionable errors. Given the Centrelink control framework has not changed

significantly over the past year, it is reasonable to expect that similar error rates currently prevail. Consequently, the ANAO concludes that, until Centrelink adequately addresses the above threshold issues, QOL accuracy data are an inappropriate basis for monitoring and reporting the accuracy of new Age Pension claim assessment under the BPA.

Funding improved accuracy

3.78 A review of the compliance monitoring sampling regime may present opportunities to release resources to address the deficiencies with Centrelink's compliance monitoring system identified above. This audit also demonstrates that improving the accuracy of new claims assessments has the potential to reduce Commonwealth outlays on Age Pensions which may merit expenditure of additional funds to partially fund the implementation of a system of validity checks.

4. Controlling the Accuracy of New Age Pension Claim Assessments

This chapter considers the key Centrelink quality controls impacting on the accuracy of new Age Pension claims assessments, particularly CSO training; the decision support facilities available to CSOs; and performance management within Centrelink.

Training

4.1 The ANAO found a number of topics where the knowledge of Customer Service Officers (CSOs) was generally deficient. There is a need to refocus CSO training on technical assessment skills in order to improve the accuracy of new claim assessments. For example, it was noted in Chapter 2 that there is a general lack of knowledge with regard to:

- assessing business structures, including the need to collect all necessary business information from claimants;
- analysing business balance sheets and profit/loss statements and accurately separating business and personal assets; and
- assessing more complex income stream products.

4.2 The ANAO also found a general lack of awareness of some administrative issues, such as the rules applying to the date stamping of documents and the initialing of claim amendments. Fieldwork indicated that:

- administrative procedures vary across CSCs and largely depend upon the opinions of the most senior assessor within the retirement team; and
- improved induction training on these core administrative procedures is required.

4.3 The ANAO is currently conducting an audit of human resource development for Customer Service Officers in Centrelink, due to be tabled in 2001. Issues of CSO training will be explored more fully in this audit report. Consequently, this report makes no recommendations with regard to training, but briefly notes some of the key issues identified by fieldwork.

The quality of CSO training across the network

4.4 Many CSOs complained about the poor quality of training delivered by Area and/or CSC trainers. A number of CSOs considered that the quality of NSO training material was reduced when edited by Area and/or CSC trainers prior to delivery in order to reduce the course length. This resulted in inconsistencies in the training materials provided in different Areas.

4.5 Centrelink has taken some steps to address the problem of technical skills deficiency. Two key initiatives are discussed below.

NSO Retirement Community Segment (RCS) training needs analysis

4.6 During August 2000, RCS conducted a skills audit via the Centrelink Education Network (CEN) to identify technical training needs of a sample of 180 Retirement staff in five Areas. This assessment was based on a comprehensive multiple-choice test of basic technical knowledge required to accurately assess new Age Pension claims. Out of this assessment process, staff received:

- a detailed assessment of their achievement;
- an individual learning plan (ILP) of their technical training needs;
- a training schedule; and
- reassessment in three months to ascertain the effectiveness of the administered training.

4.7 The results of this pilot were consistent with the ANAO's findings—in every category of knowledge, the average score of participants was below the 'pass mark' set by RCS.¹²⁹ The pilot also revealed that:

- 19% of participants had had no technical training in the past year and a further 10% had never had any technical training;
- 22% had no team training plan and a further 29% did not know if they had one;
- 51% did not know if their Area had an Area training plan; and
- 23% had difficulty accessing CEN.

4.8 The initiative taken by RCS for developing an innovative and rigorous approach to identifying the technical training needs of Age Pension assessors is a positive step to improve training within Centrelink. The ANAO audit of human resource development for Customer Service Officers in Centrelink will address this more fully.

¹²⁹ RCS set a 'pass mark' of 80% which it considered low given the basic nature of the questions. Across all categories the average score of participants was 63%.

Area South East Victoria's Learning Project

4.9 A number of CSOs in Area South East Victoria gave positive feedback on a local training initiative called the Learning Project. The Learning Project seeks to improve the accuracy and quality of decision-making by having external technical experts (or learning facilitators) visit CSCs to:

- assess the quality of recently made decisions;
- provide personalised feedback on these assessments to CSOs;
- gauge individual learning needs through one-on-one discussions with CSOs;
- pass on 'quick tips' to CSOs in relation to minor knowledge gaps;
- assist with developing ILPs; and
- discuss common themes with the team and assist with the development of team learning plans.

4.10 Since its introduction in July 1999, every CSO in Area South East Victoria has been assessed and received individual feedback from a learning facilitator. The Learning Project documentation notes that getting someone from outside the CSC to undertake this task is valuable because

an independent examination of the knowledge and skill level of staff comes without bias or preconceived notions of "how we do things around here". This aims to build a more consistent "organisational" approach to decision-making and allows a technical expert to have an in-depth discussion about the technical development needs of a staff member.

4.11 One-on-one coaching of CSOs represents a positive step toward addressing skill deficiencies. Although the audit sample is not large enough to provide statistically precise error rate estimates for each of the Centrelink Areas, it is noteworthy that the rate of actionable error in Area South East Victoria was considerably lower than the national average.¹³⁰

Co-ordinating National Support Office (NSO) and Area training initiatives

4.12 The current system whereby Centrelink Areas effectively 're-invent the training wheel' does not appear to be efficient and is not delivering a quality training outcome in all Areas. Improved national coordination of training initiatives has the potential to deliver a better

¹³⁰ Only 1.0% of new claim assessments conducted in Area South East Victoria contained quantifiable actionable errors (compared with 27.6% nationally). 37.6% of assessments conducted in Area South East Victoria had actionable assessment errors (compared with 52.1% nationally).

targeted and higher quality training outcome. For example, there would appear to be potential for the above two initiatives to be co-ordinated and adopted more broadly. Each initiative has its own strengths that could be used to complement the other:

- the RCS initiative identifies objectively knowledge deficiencies and delivers targeted training materials. However, it is heavily reliant upon one method of delivering training (CEN) and could benefit from utilising the more personalised coaching available through the Learning Project; whilst
- the Learning Project provides individual feedback and coaching. However, the skills of learning facilitators may vary across the network and the NSO skills examination could be used to better inform learning facilitators of CSO training needs.

4.13 Centrelink advised that each Area would have in place a technical training plan for its retirement staff by the end of December 2000. This was to be based on a series of Learning Needs Analyses following the approach taken by the RCS pilot, and may incorporate information from other sources, such as Team and Individual Learning Plans developed by Team Leaders.

4.14 Once the QOL system is producing reliable data, it can also be used to inform Centrelink's training agenda.

Centrelink Education Network (CEN)

4.15 Centrelink Education Network (CEN) is an interactive broadcast system developed by the People Management Team within NSO. It combines digital television with 'real time' interactivity to provide staff with an interactive distance learning facility. It is a recent innovation, having been piloted just prior to the commencement of the audit fieldwork. Centrelink is aware that CEN is not suitable for all types of training and is not intended to replace face-to-face training in all situations. However, it is to become the primary vehicle for training delivery, particularly for technical training for system releases, corporate training and to complement accredited learning.

4.16 CSOs are generally positive about the potential of CEN to deliver quality technical training, but note that the following aspects of CEN need improvement:

- the CEN system was prone to breaks in communication in some Areas during the course of the audit;
- some CSCs had set-up the CEN facility in staff meeting rooms, which were not always accessible to staff during broadcast times; and

- some CEN productions were fairly ‘amateurish’ with more attention needed to presentation.

4.17 Centrelink advises that initial technical difficulties experienced with CEN are being addressed and that managers of CEN have implemented a set of minimum requirements for content and presentation. As a result, the quality of CEN programs is continuing to improve and gain acceptance by network staff, according to Centrelink.

4.18 The ANAO views the introduction of CEN as a positive step by Centrelink with the potential to achieve:

- national consistency in the content and delivery of learning material; and
- timely delivery of training to much greater numbers in a shorter time frame than by traditional direct delivery methods.

4.19 Both of these factors are crucial for successfully imparting technical or product/service knowledge across the network.

Low take-up of training initiatives

4.20 A consistent theme raised by interviewees was the lack of time for technical training. Many CSOs noted that:

- a disproportionate amount of their Learning and Development Time is occupied by workplace meetings;¹³¹
- workload and timeliness pressures deterred staff from taking ‘time out’ for training; and
- some CSC managers and/or team leaders did not actively support training activity because it was seen as placing a burden on the rest of the team.

4.21 The RCS pilot suffered from low take-up of prescribed CEN training courses. RCS advises that, although around 170 of the 180 pilot study participants required training in all of the topics tested, only around 60 to 70 attended the initial set of prescribed training sessions. Centrelink advises that Area Managers were encouraged to ensure the participation of their staff in these sessions. Together with the general implementation of Learning Needs Analysis for all Retirement staff in November–December 2000, this has resulted in upwards of 250 staff on average being trained a week.

¹³¹ CSOs are allocated 12 hours per four weeks for learning and development activities.

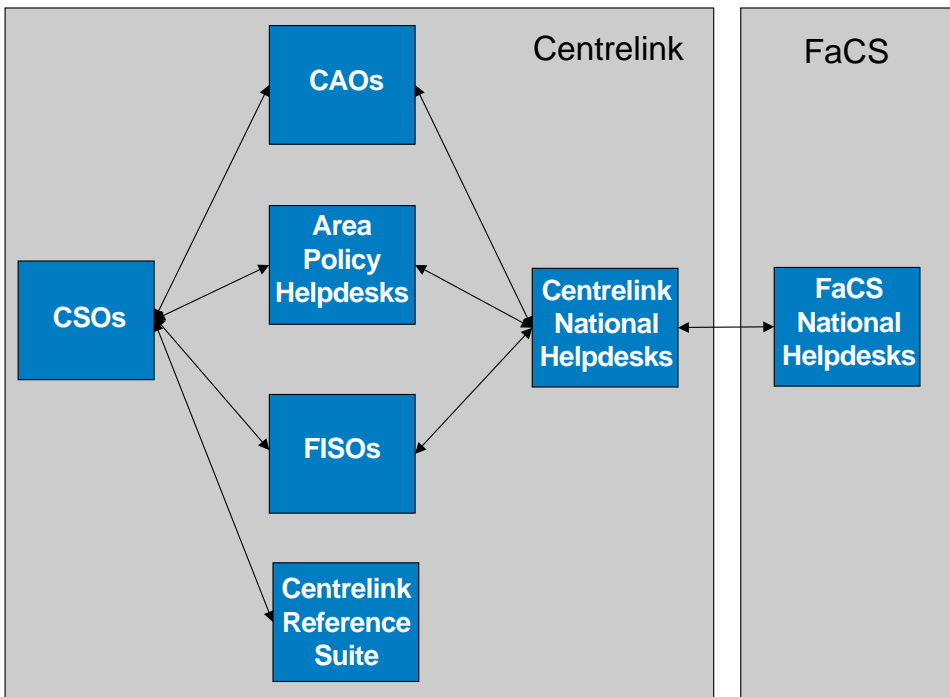
4.22 Ensuring that staff are given adequate opportunity and encouragement to access training is an issue that must be addressed before any training strategy will effectively address CSO knowledge deficiencies. Another factor influencing the take-up of training is the lack of directive power by NSO regarding the implementation of training packages across the network. Currently, it must rely on its influence on Area managers, but this does not appear to have been sufficient to ensure that all Areas accord adequate priority to training.

Decision support

4.23 Figure 5 illustrates the sources of expert/policy advice available to CSOs.

Figure 5

Policy/expert advice available to CSOs



4.24 To assess the adequacy of these sources of advice, the ANAO examined relevant documentation and asked CSOs about their timeliness, accessibility and quality. Issues identified were discussed with relevant staff and managers. These discussions suggest some possible ways to improve the interface between CSOs and Centrelink's decision support systems.

4.25 The following sections outline the ANAO findings with regard to:

- Complex Assessment Officers (CAOs);
- Centrelink's policy helpdesk system; and
- the *Guide to the Social Security Law* and the RETIDOC¹³² system (which are the primary reference materials available through the Centrelink Reference Suite (CRS) component of Centrelink's intranet).

4.26 The ANAO did not assess the adequacy of advice provided by Financial Information Services Officers (FISOs) because, although FISOs provide advice to CSOs on financial products, their primary role is the provision of financial information to current and potential Centrelink customers.

Complex Assessment Officers

4.27 The ANAO interviews with CSOs suggest that most highly value the input of CAOs on complex assessments. Many stated that CSOs could not be experts in all the differing benefit types they are sometimes required to assess. CSOs often prefer to ask more experienced assessors or CAOs for answers to their policy queries rather than using local policy helpdesks or searching on-line resources available on CRS.¹³³

4.28 The majority of CSOs interviewed were very satisfied with the quality of advice provided by CAOs. Although some were concerned that it could take a number of weeks for CAOs to provide advice on referred assessments, most CSOs considered that these delays were reasonable given the considerable workload being placed on CAOs. Nevertheless, some CSOs noted that these delays could impact negatively upon their timeliness performance statistics, discouraging them from referring assessments. The ANAO's findings¹³⁴ suggest that reluctance to refer assessments to CAOs increases the rate of assessment error, particularly amongst complex claims.

4.29 However, the key concern raised by CSOs was the accessibility of CAO advice. The ANAO found that access to expert advice varies considerably across the network. A number of CSOs in the visited Area with limited access to CAOs noted that although they could seek advice

¹³² The Retirement Income Documentation (RETIDOC) system is a Centrelink intranet reference on assessment procedures for CSOs.

¹³³ Many CSOs stated that this reflected difficulties in finding the required information on CRS resources. Some were unaware that policy helpdesks were available to them. Both these issues are discussed further below.

¹³⁴ See paragraphs 2.83 through 2.89.

on complex claims from more senior assessors within their team, this was generally informal oral advice, which left them uncertain about how to proceed with the assessment.

4.30 Table 18 shows the number of CAOs located in each of the Centrelink Areas.¹³⁵ Many CSOs considered that their CSC needed a full-time CAO rather than sharing a CAO with other CSCs in their Area.

Table 18

CAOs across the Centrelink network

Centrelink Area	Number of CAOs (Full-time equivalents)
NSW – South Metro	1.0
NSW – Pacific Central	4.0
NSW – South West	4.0
NSW – West	2.0
NSW – Hunter	3.8
NSW – East Coast	4.0
VIC – South East	6.0
VIC – North Central	0.0
VIC – West	4.0
QLD – Central & Northern	1.0
QLD – Brisbane	3.8
North Australia	0.8
South Australia	3.0
Tasmania	2.0
Western Australia	3.0
Australia (Total)	42.4

Centrelink policy helpdesks

4.31 The 2000–2001 BPA sets out guidelines for responding to policy queries from Centrelink staff.¹³⁶ FaCS is responsible for responding to complex policy questions (i.e. where the answer cannot be ascertained from legislation, the *Guide to the Social Security Law* or other material available or previously supplied to Centrelink). Centrelink is responsible for responding to all other queries.

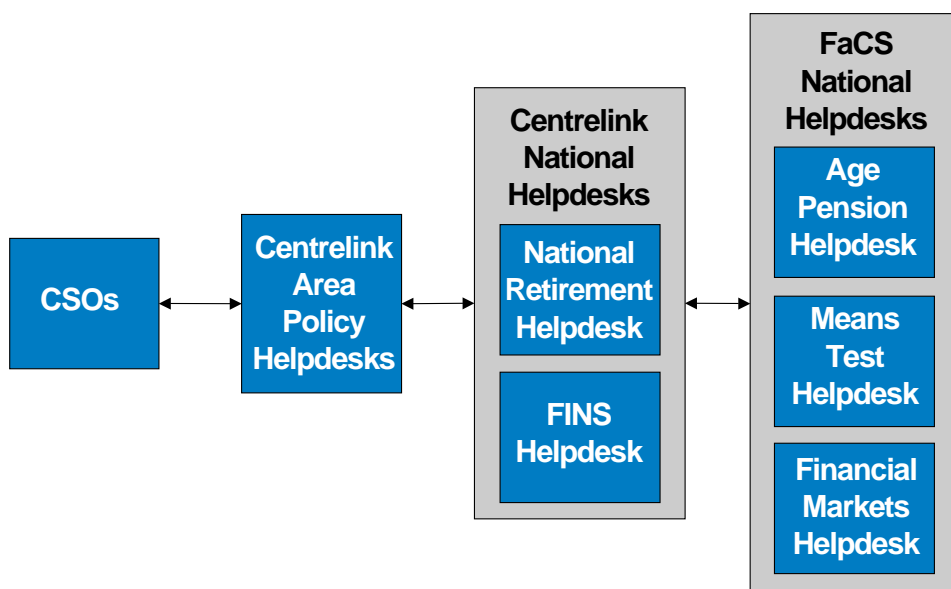
¹³⁵ Table 18 excludes Centrelink International Services (Hobart) which is staffed by specialist assessors and does not have the same CSO/CAO structures as the rest of the Centrelink network.

¹³⁶ 2000–2001 BPA, Section 7 of the Seniors and Means Test Specification.

4.32 Centrelink has established a network of Area and national helpdesks to respond to staff queries and refer complex policy questions to FaCS. To ensure that only appropriate questions are referred to FaCS, CSOs must direct all their queries to their local Area policy helpdesk.¹³⁷ If Area policy helpdesks are unable to answer queries, they refer them to either the National Retirement Helpdesk or the Financial Industry and Network Support (FINS) Helpdesk.¹³⁸ Only if these national helpdesks are unable to respond, are queries referred to FaCS. FaCS has three helpdesks within Seniors and Means Test (SMT) Branch—the Age Pension, Means Test and Financial Markets helpdesks.¹³⁹

4.33 The Centrelink/FaCS policy helpdesk system is illustrated in Figure 6.

Figure 6
Centrelink/FaCS policy helpdesk system



¹³⁷ Alternative arrangements exist in Area East Coast, and Area South West NSW. These are discussed below.

¹³⁸ Both Centrelink national helpdesks are outposted sections of the NSO Service Integration Shop. The FINS Helpdesk is located in Sydney and handles all queries related to financial products. The Centrelink National Retirement Helpdesk is located in Melbourne and handles other policy queries related to Retirements.

¹³⁹ The Age Pension helpdesk provides advice on questions related to entitlement to the Age Pension and the rate of payment, the Means Test helpdesk provides advice on income and asset tests, and the Financial Markets helpdesk provides advice on a broad range of issues related to financial investment and superannuation.

4.34 To assess how effectively the Centrelink helpdesk system responds to CSO policy queries, the ANAO interviewed helpdesk staff and CSOs from a number of Areas. These interviews indicated that Area policy helpdesks were generally satisfied with the service provided by the Centrelink national helpdesks—both in terms of the timeliness and quality of advice given. Likewise, the Centrelink national policy helpdesks stated that FaCS helpdesks responded in a timely and well-considered fashion. In turn, the FaCS helpdesks were satisfied that Centrelink effectively filtered out non-complex policy queries. Both the Centrelink and FaCS national policy helpdesks stated that they had a positive working relationship.

4.35 The opinions of CSOs about the advice given by their local Area policy helpdesks varied across the network. Some were very positive about the timeliness and quality of advice offered. However, others stated that there was a tendency for helpdesks to respond to their queries with *'the answer can be found on CRS'*. CSOs often require a quick response to provide advice to claimants and many felt that it was difficult to find information on the Centrelink Reference Suit (CRS).

4.36 RCS and the national policy helpdesk staff were concerned that some Area managers had cut significantly their Area's helpdesk facility and had not promoted the facility adequately to CSOs. This is consistent with the fact that a number of CSOs were unaware that they had access to a policy helpdesk.

4.37 Two Areas no longer have policy helpdesks,¹⁴⁰ but have instituted alternative arrangements whereby 'clusters'¹⁴¹ identify experts to whom CSOs can refer policy queries. Where these experts cannot resolve the issue, they call the national helpdesks for advice. These arrangements were motivated by a need to reduce Area office overheads and also to encourage CSOs to use the online resources available to them. However, staff from adjacent Areas and NSO said that CSOs from these two Areas occasionally ring their policy helpdesks instead. This practice has been discouraged.

4.38 Without drawing conclusions about the relative strengths and weaknesses of the approaches adopted by individual Areas, it is apparent that the accessibility of expert advice varies considerably across the network. The ANAO's findings demonstrate that access to expert advice is a key factor influencing the accuracy of assessment activity.

¹⁴⁰ There are no policy helpdesks in Area East Coast, and Area South West NSW.

¹⁴¹ 'Clusters' are regionally-based grouping of CSCs within an Area.

4.39 During the audit fieldwork Centrelink advised that each Area had put in place a 'hot line' process for access to specialist officers including CAOs, FISOs, Appeal Review Officers and Area policy staff.

Recommendation No. 9

4.40 In view of the complexity of many Age Pension assessments and the positive impact of expert advice on the accuracy of complex assessments, the ANAO recommends that Centrelink take action to ensure that all Customer Service Officers (CSOs):

- possess sufficient technical assessment skills; and
- have sufficient access to expert advice.

Centrelink response

4.41 Agreed. Centrelink advises that it has implemented strategies in every Area to ensure staff have direct access to expert advice.

4.42 In addition, Centrelink has launched a *Getting it Right* strategy which establishes mandatory minimum standards in six key areas, for which network managers and team leaders are to be held accountable. These standards have been conveyed to staff as a direction for the purpose of the APS Code of Conduct set out in section 13 of the *Public Service Act 1999*. The minimum standards apply to the following key areas:

- correct procedures for establishing and documenting Proof of Identity;
- correct procedures for examining, storing and retrieving customer records and documents;
- correct procedures for the establishment and use of on-line documentation;
- the maintenance and enhancement of the network's technical skills;
- correct procedures for the recording of decisions; and
- establishment of 'check the checking' processes.

4.43 Information and training programs on *Getting it Right* have been delivered locally and via CEN, including almost continuous programming of sessions on Training for Checkers, Using QOL Management Information, Recording Reasons for Decisions, and Proof of Identity.

4.44 More generally, Centrelink's National Learning Framework will incorporate these minimum standards into a general Orientation module, to ensure that all new starters are provided with sufficient training to fully perform their responsibilities.

4.45 Centrelink is also developing and implementing a clear set of operational requirements linked to appropriate reference material to

ensure that all staff are aware of actions required when processing a claim. Current 'helpdesk' arrangements are under review.

4.46 Centrelink has applied the Learning Needs Analysis program commended by the ANAO at paragraph 4.8 in this audit report to all officers working in Retirements teams. This independent, rigorous assessment of an officer's knowledge forms the basis for individual, team and Area learning strategies, and is supported by a comprehensive distance learning program.

Centrelink Reference Suite (CRS)

4.47 The Centrelink Reference Suite (CRS) contains a range of Age Pension reference materials, including the *Social Security Act*, the *Guide to the Social Security Law*, RETIDOC (which provides procedural guidelines in relation to Age Pension assessments) and a host of other relevant documentation.

4.48 The ANAO found that CRS is readily accessible to CSOs through the Centrelink intranet. However, during audit interviews CSOs and RCS staff cited issues on which the various resources available on CRS gave inconsistent advice. Some CSOs were unsure which resources were authoritative leading to confusion on these issues. The most common complaint was that CRS was not particularly user-friendly in terms of enabling CSOs to find information quickly. Many suggested that the cross-referencing between the various resources could be improved. Others noted that the search engine could be enhanced by ensuring that the keywords used by it corresponded to the terms commonly used by CSOs.

4.49 Owing to the difficulty that they have in finding information on CRS, many CSOs stated that they typically sought advice from colleagues rather than using CRS to avoid delaying customer service. The RCS pilot found that one third of assessors tested did not regularly use CRS. The tendency of CSOs not to use online guidelines means that procedures can vary considerably both across CSCs and within teams. Many CSOs stated that the answer to a procedural question depended on who you asked. It is therefore not surprising that the level and type of assessment errors varied considerably across CSCs visited by the audit team. Follow-up interviews with CSC team leaders indicated that these assessment errors typically reflected a knowledge deficiency within the team or a common practice that was at variance with the procedures outlined in RETIDOC.

The Guide to the Social Security Law

4.50 Under the 2000–2001 BPA, FaCS is required to ensure that the *Guide to the Social Security Law* is updated in a regular and timely manner to reflect changes to legislation.¹⁴² Centrelink is required to identify any areas of policy ambiguity.¹⁴³ The ANAO audit of *Family and Community Services’ Oversight of Assessment of New Claims for Age Pension* found that FaCS has updated the Guide in a regular and timely manner with regard to Age Pension policy issues. Discussions with SMT staff indicate that Centrelink had notified them effectively of instances where the Guide required clarification and/or updating with regard to policy issues.

4.51 However, while the content of the Guide appears to be accurate and up-to-date, many CSOs considered that it was often difficult to locate information in the Guide and this discouraged them from using it. This suggests that there may be scope to increase the utilisation of the Guide by improving the cross-referencing and searching facility on CRS. A number of staff considered that the Guide should contain cross-references to relevant sections of RETIDOC.

RETIDOC

4.52 CSOs were generally satisfied with the content of RETIDOC. Most considered that RETIDOC is more user-friendly than the Guide, stating that it contains helpful cross-references and is generally easier to navigate. However, despite the fact that RETIDOC is the authoritative internal guide on Age Pension assessment procedures, a number of experienced assessors thought that it was primarily a tool for new-starters and so rarely used it.

4.53 During the audit fieldwork Centrelink advised that *Accessing Centrelink*¹⁴⁴ will have context sensitive links direct to RETIDOC and other reference sources.

Recommendation No. 10

4.54 To improve the usefulness of the current written guidance material issued by Centrelink, the ANAO recommends that Centrelink:

- ensures that all reference materials on the Centrelink Reference Suite (CRS) provide consistent advice;
- investigates the scope to enhance the search engines and cross-referencing within CRS materials; and
- ensures that all staff are adequately trained on how to locate information on CRS.

¹⁴² 2000–2001 BPA, Core Agreement, 2.3.

¹⁴³ 2000–2001 BPA, Core Agreement, 3.1.

¹⁴⁴ *Accessing Centrelink* is outlined at paragraph 2.54.

Centrelink response

4.55 Agreed. Centrelink advises that the mandatory minimum standards recently implemented as part of *Getting it Right*, detailed in its response to Recommendation No. 9, will assist in this. Action has been taken to improve the consistency of resource information, available from the Centrelink Reference Suite. The Centrelink Reference Suite is being replaced by a tool known as e-Reference which will provide enhanced search facilities. Training in the use of e-Reference commenced in February 2001.

Centrelink's Balanced Scorecard (BSC)

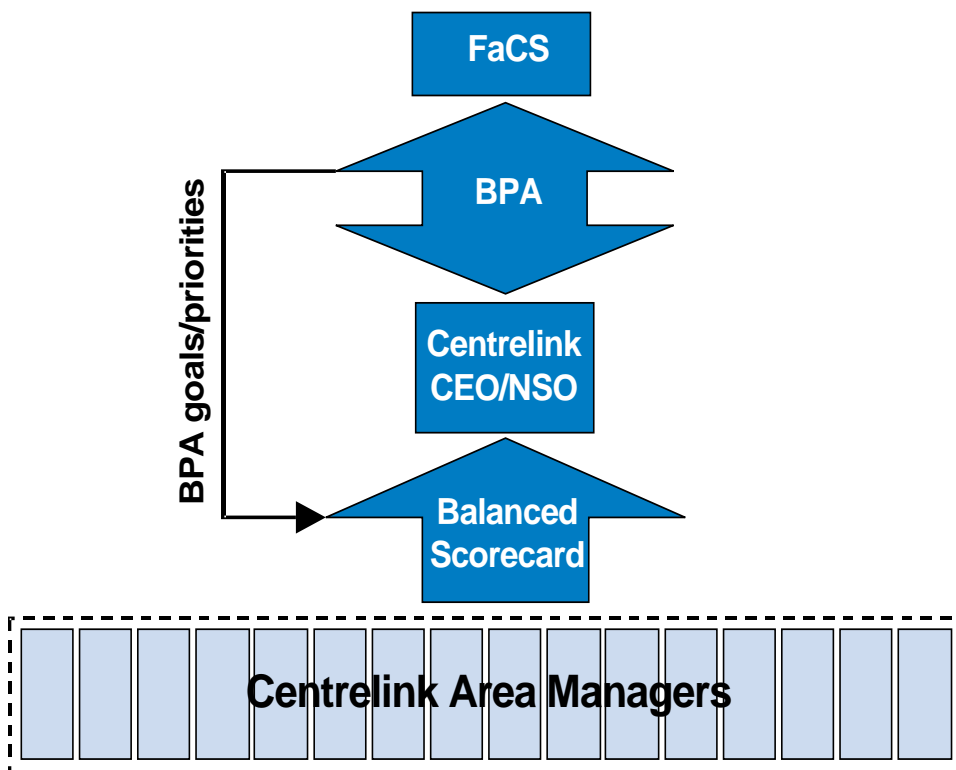
4.56 The BPA specifies that 95% of new Age Pension claim assessments must be 'completely accurate' in terms of payment accuracy. Centrelink must report to FaCS on its performance against this standard.

4.57 In December 1997, Centrelink introduced a Balanced Scorecard (BSC) approach to performance management. The BSC reports on a wide range of performance indicators that are included in BPAs with client agencies, including accuracy of claims processing. The BSC helps focus Centrelink's attention on its strategic goals, linking these to explicit objectives and performance indicators. The BSC framework allows Centrelink to monitor its ongoing performance through a range of Key Performance Indicators (KPIs) against which achievements can be recognised and opportunities to improve performance highlighted. Accordingly, the BSC has become one of the primary tools used to inform the Centrelink Executive and Board of Management on Centrelink's performance.

4.58 The relationship between the BPA and the BSC is illustrated in Figure 7.

Figure 7

Relationship between the BPA and Balanced Scorecard (BSC)



4.59 Through the BSC process, Area managers are directly accountable to the Centrelink CEO for their Area’s performance, including in relation to processing accuracy. To effectively encourage Area managers to deliver the level of performance specified in the BPA, the BSC KPIs should accurately reflect the BPA goals and priorities.

4.60 By contrast to the approach taken with regard to timeliness¹⁴⁵, currently the BSC only measures the average accuracy of new claims assessments across all benefit types. This does not accurately reflect the BPA requirement that the accuracy for each benefit type be at least 95%. Accuracy data for each benefit type by Area is readily available through the QOL system and including it in the BSC would help Area managers focus on individual benefit types. Separate measures are also required to implement the ANAO’s recommendation that there be interim accuracy targets (see Recommendation No. 4). Increasing the BSC’s focus on accuracy to at least the same level of detail as its timeliness KPIs would also be consistent with the priority that the BPA places on accuracy of decision-making.

¹⁴⁵ Timeliness standards are identified for individual benefit types and the overall timeliness standards is that all benefit types meet their individual timeliness standards (that is, it is not an average).

4.61 The link between the BSC and the BPA also means that the same data should be used to measure accuracy. Currently, the QOL data underpins both. Unfortunately, this means that shortcomings of the QOL data undermine both the BPA and BSC processes. As all Areas typically report QOL accuracy rates above the 95% target, little (if any) mention is made of accuracy issues in the BSC report. Until a reliable compliance monitoring system is in place, the BSC will not effectively encourage accurate assessment of new Age Pension claims.

4.62 Centrelink advised during the audit fieldwork that the Quality Subcommittee of the Centrelink Board has commissioned a review of BSC KPIs, with the aim of making the KPIs outcome focused, with less emphasis on timeliness.

Recommendation No. 11

4.63 To ensure that Area managers focus on the issues of Age Pension assessment accuracy and accuracy data validity, the ANAO recommends that Centrelink:

- identifies separately the accuracy of new Age Pension claim assessments in its Balanced Scorecard (BSC); and
- includes a measure of the accuracy of Quality On-Line (QOL) checks in the BSC Key Performance Indicators once an independent QOL validation checking process has been implemented.

Centrelink response

4.64 Agreed. Centrelink advises that the appropriateness of all accuracy KPIs is currently being discussed with FaCS.

Canberra ACT
17 May 2001



P. J. Barrett
Auditor-General

Appendices

Appendix 1

Core Audit Test Criteria

This Appendix lists the major and minor core audit test criteria. For analytical purposes, results against the major and minor audit test criteria, corresponding to actionable and non-actionable errors respectively, are reported under the following six groupings.

Major audit test criteria

- C1. Was sufficient Proof of Identity (POI) documentation provided?
- C2. Was sufficient Proof of Age (POA) documentation provided?
- C3. Was sufficient Proof of Residency (POR) documentation provided?
- C4. Was the customer underpaid/overpaid Telephone Allowance (TAL)?
- C5. Was a new Customer Record Number (CRN) inappropriately created (i.e. two mainframe records in existence for one customer)?
- C6. Was the claim:
 - C6a. rejected when it should have been accepted; or
 - C6b. accepted when it should have been rejected?
- C7. Was the customer paid at the correct rate? If not, was the claim one for which:
 - C7a. the auditor could quantify the payment rate error (a 'payment rate error'); or
 - C7b. there was a risk of inaccurate payment but further information would be required from the customer and/or other source in order to establish the correct payment rate (a 'possible payment rate error')?
- C8. Did the assessor correctly establish the payment commencement date?

Minor audit test criteria

1. Administrative test criteria

- N1. Was the correct claim form used?
- N2. Was the claim form signed?
- N3. Was the claim form dated?
- N4. Was the claim form date stamped?
- N5. Were all applicable questions answered?
- N6. Were amendments to the claim initialled?
- N7. Were copies of Proof of Identify (POI) documents on the paper file?

- N8. Were copies of POI documents date stamped?
- N9. Were copies of POI documents signed and certified by CSC staff?
- N10. Was customer's maiden name/alias coded correctly on the mainframe file?
- N11. Was POI accurately coded on the mainframe file?
- N12. Were copies of POA documents on the paper file?
- N13. Were copies of POA documents date stamped?
- N14. Were copies of POA documents signed and certified by CSC staff?
- N15. Was POA accurately coded on the mainframe file?

If Proof of Residence (POR) was required:

- N16. Were copies of POR documents on the paper file?
- N17. Were copies of POR documents stamped by CSC staff?
- N18. Were copies of POR documents signed and certified by CSC staff?
- N19. Was POR accurately coded on the mainframe file?

Test Criteria N2 through N6 were also applied to any claim Modules completed by the customer. Purely administrative errors on both the main claim form and the claim Modules are reported under the one banner—'core administrative errors'. Consolidating the administrative errors in this way and excluding them from Module errors aids the analysis of assessment errors.

2. Omitted modules

- N20. Did the assessor issue all required Module forms?

3. Tax File Number (TFN)

- N21. Were the TFN details correctly coded on the mainframe file?
- N22. Was the TFN removed from the claim form?
- N23. Was the TFN removed from all documents on paper file?

4. Inadequate mainframe documentation (DOCs)

- N24. Was lodgement of the claim noted in a DOC?
- N25. Were assessment decisions (including reasons if rejected) noted in a DOC?
- N26. Were all other required DOCs created (as specified by internal guidelines)?

5. Other minor test criteria

- N27. Were the family details correctly coded on the mainframe file?

- N28. Were the savings account details correctly coded on the mainframe file?
- N29. Were accommodation details verified?
- N30. Were accommodation details correctly coded on the mainframe file?
- N31. Was 'Partner Permitted to Enquire' field coded correctly on the mainframe file?

Appendix 2

Module Audit Test Criteria

This Appendix lists the Module audit test criteria.

1. Module A (Assets)

- A1. Were household contents correctly assessed?
- A2. Were insurance policies correctly assessed?
- A3. Were vehicles, boats and/or caravans correctly assessed?
- A4. Were other assets correctly assessed?
- A5. Was the required AVO valuation correctly coded?
- A6. Were there any other asset assessment errors?

2. Module AC (Accommodation)

Rent details

- AC1. Was the rent type coded correctly?
- AC2. Was the rent amount verified?
- AC3. Was the rent amount coded correctly?

Sharing

- AC4. Were the details of shared accommodation verified?
- AC5. Were shared accommodation details coded correctly?

Board and Lodging

- AC6. Were board and lodging details verified?
- AC7. Were board and lodging details coded correctly?

Retirement Village/Serviced Unit details

- AC8. Were retirement village details verified?
 - AC9. Were retirement village details coded correctly?
- If the customer was living in a serviced unit,
- AC10. Was documentation provided to verify customer's circumstances?
 - AC11. Was documentation provided to verify the amount paid in ongoing maintenance or service fees?
 - AC12. Was the Entry Contribution amount coded correctly?
 - AC13. Was the customer's 'home-ownership' status coded correctly?
 - AC14. Was the Entry Contribution coded as part of the customer's assets (if they are a 'non-homeowner')?

Nursing Home/Hostel details

- AC15. Were nursing home or hostel details coded correctly?
- AC16. Has the customer's 'homeownership' status been coded correctly?
- AC17. If an Accommodation Bond has been paid, was the amount correctly coded as an asset of the customer?
- AC18. If the customer is not residing in an approved aged care facility, was rent assistance being paid to the customer?
- AC19. If a gift or loan was made in addition to any Accommodation Bond or Entry Contribution, was deprivation correctly assessed/coded?

Providing/receiving care

- AC20. Were the details provided?
- AC21. Were the details coded correctly?

Vacation of former home

If the former home has been let:

- AC22. Were income details provided?
- AC23. Were rent income details verified?
- AC24. Were rent details coded correctly?

If the former home was sold:

- AC25. Were details of sale provided?
- AC26. Were details verified?
- AC27. Were the proceeds of sale coded correctly?

If the customer has purchased a new home:

- AC28. Were details of the purchase provided?
- AC29. Were details verified?

3. Module C (Compensation)

- C1. Were all the compensation details coded correctly?
- C2. Was the Compensation Scriptor run?
- C3. Was documentation faxed to a Compensation Management Team (CMT)?
- C4. Was clearance decision provided by a CMT?
- C5. Was a CMT Clearance decision implemented correctly?
- C6. Were there any other compensation assessment errors?

4. Module F (Business Structures)

Sole Traders

- F1. Was necessary business information obtained?
- F2. Were income details obtained?
- F3. Was 'review of business' coded for next year?
- F4. Were there any other assessment errors?
- F5. Was the business balance sheet obtained?
- F6. Were all income deductions made?
- F7. Were impermissible deductions made?
- F8. Were there any other assessment/coding errors?
- F9. Was the current market value of real estate correctly assessed and coded?
- F10. Was the current market value of shares correctly assessed and coded?
- F11. Was the current market value of other assets correctly assessed and coded?
- F12. Was the current market value of business correctly assessed and coded?
- F13. Was the business type coded correctly?

Partnerships

- F14. Was tax return information obtained?
- F15. Was a business profit/loss statement obtained?
- F16. Was a business balance sheet obtained?
- F17. Was a personal income tax return obtained?
- F18. Have all permissible income deductions been made?
- F19. Were there any impermissible deductions made?
- F20. Were other business income factors assessed and coded correctly?
- F21. Was real estate assessed and coded correctly?
- F22. Were shares assessed and coded correctly?
- F23. Were other assets assessed and coded correctly?
- F24. Was overall value assessed and coded correctly?
- F25. Was business type correctly coded?
- F26. Was review of business coded for next year?
- F27. Were there any other assessment errors?

Private Companies

- F28. Was necessary business information obtained?
- F29. Was Australian Securities and Investment Commission (ASIC) statement obtained from customer?
- F30. Was company profit/loss statement obtained from customer?
- F31. Was company balance sheet obtained from customer?
- F32. Was company memorandum obtained from customer?
- F33. Was personal income tax return obtained from customer?
- F34. Were wages assessed and coded correctly?
- F35. Were director's fees assessed and coded correctly?
- F36. Were dividends assessed and coded correctly?
- F37. Were funds loaned to company assessed and coded correctly?
- F38. Were assets loaned to the company assessed and coded correctly?
- F39. Was a DOC created for assets/funds gifted to the company?
- F40. Was real estate assessed and coded correctly?
- F41. Were shares assessed and coded correctly?
- F42. Were other assets assessed and coded correctly?
- F43. Was customer's equity value assessed correctly?
- F44. Was business type coded correctly?
- F45. Was review of company coded for next year?
- F46. Were there any other assessment or coding errors?

Family Trusts

- F47. Was tax return information obtained?
- F48. Was trust profit/loss statement obtained?
- F49. Was trust balance sheet obtained?
- F50. Was trust deed obtained?
- F51. Was a determination with respect to income obtained?
- F52. Was a determination with respect to assets obtained?
- F53. Was personal income tax return obtained?
- F54. Was customer's trust income assessed/coded correctly?
- F55. Was deeming correctly applied?
- F56. Were asset loans correctly assessed/coded?
- F57. Was DOC created for relevant gifting data?

- F58. Was deprivation assessed/coded correctly?
- F59. Was value of real estate assessed correctly?
- F60. Was value of shares assessed correctly?
- F61. Was value of other trust assets assessed correctly?
- F62. Was overall value of trust assessed correctly?
- F63. Was value of customer's interest assessed correctly?
- F64. Was the business type correctly coded?
- F65. Was a review coded for next year?
- F66. Were there any other assessment/coding errors?

5. Module I (Income and Investments)

Earnings

- I1. Were recent payslips provided?
- I2. Were employer details provided?
- I3. Were work details provided?
- I4. Were earning correctly assessed?
- I5. Were employment details correctly coded?
- I6. Were required DOCs created?

Board and Lodging Income

- I7. Was board and lodgings income correctly assessed?
- I8. Was board and lodgings income coded correctly?
- I9. Were board and lodgings DOCs created?

Bonds

- I10. Were bonds correctly assessed?
- I11. Were bonds errors coded on correct screen?
- I12. Were bond errors coded correctly?

Debentures

- I13. Were debentures correctly assessed?
- I14. Were debentures coded correctly?

Loans

- I15. Were loans correctly assessed?
- I16. Were loans coded correctly?

HEC (Home Equity Contribution) Loans

- I17. Were HEC loan details verified?

I18. Was HEC loan correctly assessed?

I19. Was HEC loan coded correctly?

Shares

I20. Did the customer provided enough detail to identify the correct shares?

I21. Were share details coded correctly?

I22. If the customer has shares in a private company, was a Module F issued?

I23. If the customer sold/transferred private company shares, was a Module F issued?

Managed Investments Income Assessment Errors

If the customer has any investment trusts:

I24. Were enough details provided to identify the correct products?

I25. Were the details coded correctly?

If the customer has superannuation in a private fund:

I26. Was a member statement attached?

I27. Were details coded correctly?

If the customer has money invested in an approved deposit fund or a deferred annuity:

I28. Were enough details provided to identify the correct products?

I29. Were the details coded correctly?

Income Streams

I30. Has the most recent schedule been lodged?

I31. Was the schedule completed correctly by the provider?

I32. Were the details coded on the correct screen?

I33. Were the details coded correctly?

Income from outside Australia

I34. Were documents provided to verify?

I35. Were enough details given to identify correctly?

I36. Were details coded correctly?

Other Income

If the customer has received a lump sum payment:

I37. Was it assessed correctly?

I38. Was it coded correctly?

- I39. If the customer has money invested or receives income from a family trust, was a Module F issued?
- I40. If the customer is involved in a business or company, was a Module F issued?
- I41. If the customer has income from investments not declared elsewhere, were details coded correctly?
- I42. If the customer has declared income from any other source, were details coded correctly?

Gifts

- I43. Was deprivation assessed correctly?
- I44. Was there a DOC relating to the gift/writing off?
- I45. Were relevant documents requested?
- I46. Was the correct pension year assessed and coded?
- I47. Was a gifting review input?

6. Module O (Overseas residence)

- O1. Was the date of first arrival verified?
- O2. Was the claim screened on the Foreign Pension System?
- O3. If the customer is currently in receipt of a foreign pension, was verification of payment obtained?
- O4. Were details of foreign pension coded correctly?
- O5. If the customer is a widow or widower, did the assessor screen the claim for a possible entitlement to survivor payments?
- O6. If the customer has lived in New Zealand, were the relevant details provided?
- O7. Were there any other Foreign Pension coding errors?

7. Module P (Partner details)

In assessing whether a claimant's partner details were correctly assessed and coded, the audit team addressed most of the core test criteria outlined above (for the partner rather than the claimant). However, given that the audit of Module P raised similar issues as the audit of the claimant's main claim form, the only Module P audit results presented in this report are against the following criterion.

- P1. If the Module P was required, was it obtained?

Test criteria P1 is covered by core test criteria N20 ('Did the assessor issue all required Module forms?') and so Module P results are not separately identified in this report.

8. Module R (Real estate details)

- R1. Was Module R form fully completed?
- R2. Did the customer provide necessary supporting documents?
- R3. Were the real estate details coded correctly?
- R4. If an AVO Valuation should have been requested, was it requested?
- R5. Were there any other assessment/coding errors?

9. Module S (Separation details)

- S1. Were the 'person separated from' details coded correctly?
- S2. Were there any other assessment/coding errors?

Appendix 3

Complicating Factors

This Appendix details the 12 factors used for defining the complexity of Age Pension claims.

Table 19

Complicating factors

	Factor	Age Pension claim
1	Business	contains details of a business that may affect their payment.
2	Real estate	contains details of real estate other than their own home that may affect their payment.
3	Earnings	contains details of their earnings from employment that may affect their payment.
4	Foreign income	contains details of the customer's income from overseas that may affect their payment.
5	Foreign assets	contains details of the customer's assets held overseas that may affect their payment.
6	Agreement	indicates that the customer is paid under an International Agreement that may affect their payment.
7	Superannuation	contains details of the customer's superannuation that may affect their payment.
8	Compensation	contains details of the customer's compensation that may affect their payment.
9	Managed investments	contains details of the customer's managed investments that may affect their payment.
10	Shares	contains details of the customer's shares that may affect their payment.
11	Deprived income	contains details of the customer's deprived income from gifting that may affect their payment.
12	Deprived assets	contains details of the customer's deprived assets from gifting that may affect their payment.

The definition of simple/complex/very complex claims

1. The following definitions of complexity were derived in consultation with RCS staff and experienced Age Pension assessors.

- A 'simple' claim has none of the above complicating factors.
- A 'complex' claim has one or two of the non-business factors (i.e. factors 2 through 12 above).
- A 'very complex' claim has the business factor (factor 1) or three or more of the other factors (factors 2 through 12).

Appendix 4

Sample Design

ABS sampling methodology

1. The audit examined a random sample from the population of new Age Pension claims during the period 1 October 1999 through 24 March 2000. The examination was aimed at identifying and measuring the extent of errors in the assessment process.
2. The ANAO contracted the ABS to design a random sample of new Age Pension claims that would enable the reliable estimation of assessment error rates in the population as a whole and for 'simple', 'complex' and 'very complex claims'. (Appendix 2 describes how the level of claim complexity was defined.)

Sample constraints

Visited CSCs

3. The ANAO required that the sample contain approximately 10 claims from each of 16 CSCs in four Centrelink Areas that were selected for follow-up audit interviews. These CSCs were selected by the ANAO to represent a range of Area types (eg. metropolitan, regional) and sizes of CSCs in terms of the number of claims processed. An additional sample of claims from the remaining CSCs was also required. All selected claims were to be sent to Canberra for audit.

Accuracy requirements

4. The ANAO required estimates of primary error rates for various sub-populations to have associated 95% confidence interval widths of around +/-5 percentage points (pp). A 95% confidence interval width of +/-5 pp means that there is a 95% probability that the true percentage of claims processed incorrectly, that is the percentage that would have been obtained if all claims in the population were audited, lies within 5 pp of the estimate of the proportion of claims processed incorrectly obtained from the sample. This requirement applied to estimates of primary error rates for the following populations:

- new claims assessed by Centrelink;
- simple claims assessed by Centrelink;
- complex claims assessed by Centrelink; and
- very complex claims assessed by Centrelink.

5. The audit also produced estimates at finer levels (eg. by Centrelink Area) as well as estimates of a range of secondary error types. However, these were not considered crucial to the audit exercise and were ignored for the purposes of the sample design.

Missing claims

6. The ANAO estimated that around 10% of selected claims would be unable to be audited due to, for example, failure to locate claim documentation. In a sample survey sense this is equivalent to non-response, which will cause both an increase in the confidence interval widths of estimates and an unknown bias. In order to minimise the increase in the confidence interval widths due to expected missing claims, the initial sample size was inflated by 10%.

Population frame

7. The population frame used to develop the sample design was a list provided by Centrelink of new Age Pension claims lodged between 1 October 1999 and 24 March 2000. Information available on this list which was used in the sample design included:

- a claim identifier;
- location of the claim including CSC and Area;
- status of claim, i.e. accepted or rejected; and
- a complexity flag indicating whether the claim was simple, complex or very complex.

8. Once the audit was in the field various problems with the population frame used in the sample design became apparent. One such problem was that out-of-scope claims were included on the list, eg. electronic transfers had not been accurately flagged. A revised frame for the six month period 1 October 1999 through 31 March 2000 was forwarded after the audit was conducted and this revised frame formed the basis of estimation. All estimates produced by the ABS are for this six month period. As the sample was designed on a different frame to the one used in estimation, the sampling efficiency was reduced (i.e. an increase in level of associated sampling error).

Sample design

9. The sample design implemented for this audit was a stratified sample with systematic selection of claims.

Stratification

10. Stratification is the process of dividing the population into non-

overlapping groups of units called strata. A stratified sample is one where sample is selected independently from within each stratum. Stratified sampling is good for a number of reasons, namely it:

- reduces sampling error, i.e. the confidence interval widths of our estimators;
- allows for different sampling and estimation methods within each stratum; and
- allows the sample designer to control the expected accuracy of estimates for sub-populations.

11. The population of claims was initially stratified into 'visited' and 'non-visited' strata. The visited stratum consisted of the CSCs that were chosen by the ANAO to be visited during audit fieldwork. The remaining CSCs were allocated to the non-visited stratum.

12. The population was further stratified into CSC size strata in order to improve the accuracy of our estimates of error rates and minimise sample size. CSC size was defined to be the total number of claims in the population processed by the CSC in the sample period. There were two size strata defined for the visited strata and five size strata for the non-visited strata. The following size boundaries were adopted:

- for visited CSCs: 0 to 199 claims; and 200 or more claims; and
- for non-visited CSCs: 0 to 39 claims; 40 to 99 claims; 100 to 149 claims; 150 to 224 claims; and 225 or more claims.

13. These strata were then further stratified into 'complexity' strata to enable the control of expected confidence interval widths of estimates of error rate for each complexity level.

Sample Allocation

14. In order to achieve an expected confidence interval width of less than +/-5 pp for the estimate of error rate for the entire population of claims, a sample size of 450 claims was required. The following assumptions were used:

- the percentage of errors among simple claims was 5%;
- the percentage of errors among complex claims was 20%; and
- the percentage of errors among very complex claims was 30%.

15. 160 claims were allocated to the visited strata proportional to the number of claims in each size strata. Within each size stratum, sample was allocated among the complexity strata in order to minimise the expected confidence interval widths of the estimates. The final allocation of sample to CSCs ensured that there were at least eight claims selected from each visited CSC.

16. 290 claims were allocated to the non-visited strata. These 290 claims were allocated among the 15 'size/complexity' sub-strata in order to minimise the expected confidence interval widths of the estimates of error rates for each population of interest.

17. Each stratum sample allocation was inflated by 10% in anticipation of missing claims. This led to the final sample size of 495. Table 20 shows the number of claims selected in each of the 21 strata identified within the population. From this allocation and the assumptions of error rates listed above, it was expected that the following Confidence Interval widths would be achieved:

- estimate of overall error rate: +/-4.2pp;
- estimate of simple error rate: +/-6.8pp
- estimate of complex error rate: +/-6.9pp; and
- estimate of very complex error rate: +/-6.8pp.

Table 20
Selection of claims

<i>Visited/ Non-Visited CSCs</i>	<i>CSC size (number of new claims assessed)</i>	<i>Level of of complexity</i>	<i>Number of claims in stratum</i>	<i>Number of claims selected</i>
Visited	0–199	Simple	290	10
		Complex	609	47
		Very Complex	319	48
	200+	Simple	326	9
		Complex	792	29
		Very Complex	584	33
Non-visited	0–39	Simple	419	6
		Complex	795	9
		Very Complex	363	5
	40–99	Simple	1 499	8
		Complex	2 714	24
		Very Complex	1 408	26
	100–149	Simple	1 587	3
		Complex	2 737	23
		Very Complex	1 423	28
	150–224	Simple	2 576	15
		Complex	4 937	41
		Very Complex	2 586	42
	225+	Simple	2 570	13
		Complex	4 542	34
		Very Complex	2 297	42
Total			35 373	495

Sample Selection

18. The sample was selected in a systematic fashion from within each stratum. The method of selecting claims from each stratum was as follows:

- for each stratum, all claims were sorted by CSC, area and status (accepted/rejected);
- a skip, k , equal to the total number of claims in the stratum divided by the number of claims to be selected from the stratum and then rounded to the nearest integer was calculated;
- a random number, r , between 0 and the skip was chosen; and
- claim numbers $r, r+k, r+2k, \dots$ up to $r + (n-1) \times k$, where n is the number of claims allocated to that stratum, were then selected.

19. This selection technique was adopted to ensure that the resulting sample selection was representative across all Areas, CSCs and status of claims (accepted/rejected) and complexity level.

Appendix 5

Detailed Results Tables

This Appendix consolidates and expands the results tables presented in Chapter 2. The following tables provide estimates of the population error rates (and their corresponding 95% confidence intervals), as well as the estimates of the test subset and error rates.¹⁴⁶

Table 21
Actionable Assessment Errors

	Test subset (% of new claims)	95% Confidence interval (+/- pp)	Error Rate (% of claims within test subset)	95% Confidence Interval (+/- pp)	Population Error Rate (% of claims within population)	95% Confidence Interval (+/- pp)
Actionable assessment errors	100.0	na	52.1	6.8	52.1	6.8
Quantifiable Actionable Errors:						
Claim rejected when it should have been accepted	16.1	5.9	5.9	7.0	0.9	1.1
Claim accepted when it should have been rejected	83.9	5.9	4.9	2.9	4.2	2.4
Payment rate error	100.0	na	13.5	4.2	13.5	4.2
Telephone Allowance payment error	100.0	na	9.9	4.2	9.9	4.2
Commencement date error	100.0	na	12.7	4.6	12.7	4.6
Unquantifiable Actionable Errors:						
Possible payment rate error	100.0	na	17.0	5.0	17.0	5.0
Insufficient POI documentation	100.0	na	13.5	4.5	13.5	4.5
Insufficient POA documentation	100.0	na	10.8	3.8	10.8	3.8
Insufficient POR documentation	43.9	6.6	27.9	9.9	12.2	4.7
A new CRN inappropriately created	100.0	na	2.0	1.9	2.0	1.9

¹⁴⁶ The 'population' refers to the population of new Age Pension claims lodged during the audit sample period. See paragraphs 2.30 to 2.34 for an explanation of how to interpret the statistics presented in these results tables.

Table 22

Non-actionable assessment errors

	<i>Test subset (% of new claims)</i>	<i>95% Confidence interval (+/- pp)</i>	<i>Error Rate (% of claims within test subset)</i>	<i>95% Confidence Interval (+/- pp)</i>	<i>Population Error Rate (% of claims within population)</i>	<i>95% Confidence Interval (+/- pp)</i>
Administrative Errors	100.0	na	95.6	3.5	95.6	3.5
Failure to sign claim form	100.0	na	3.6	1.9	3.6	1.9
Failure to date claim form	100.0	na	14.7	4.4	14.7	4.4
Failure to date stamp	100.0	na	31.4	5.8	31.4	5.8
Failure to fully complete forms	100.0	na	49.1	6.5	49.1	6.5
Failure to initial amendments	64.1	6.8	91.8	4.8	58.8	7.0
Wrong claim form used	100.0	na	1.6	1.7	1.6	1.7
POI documents not stamped, signed and verified	100.0	na	49.5	6.6	49.5	6.6
POI documents not on file	100.0	na	7.7	3.7	7.7	3.7
POI incorrectly coded on mainframe	100.0	na	39.2	6.5	39.2	6.5
POA documents not stamped, signed and verified	100.0	na	50.2	6.6	50.2	6.6
POA documents not on file	100.0	na	11.4	4.2	11.4	4.2
POA incorrectly coded on mainframe	100.0	na	17.4	5.0	17.4	5.0
POR documents not stamped, signed and verified	43.9	6.6	67.7	9.6	29.7	6.3
POR documents not on file	43.9	6.6	22.9	9.2	10.1	4.3
POR incorrectly coded on mainframe	43.9	6.6	22.6	9.2	9.9	4.2
At least one required Module was not obtained	92.8	3.9	38.3	7.2	35.6	6.8
Module A (Assets)	73.0	5.9	13.5	6.3	9.9	4.7
Module AC (Accommodation)	5.8	3.2	92.2	12.5	5.4	3.1

Table 22**continued: Non-actionable assessment errors**

	<i>Test subset (% of new claims)</i>	<i>95% Confidence interval (+/- pp)</i>	<i>Error Rate (% of claims within test subset)</i>	<i>95% Confidence Interval (+/- pp)</i>	<i>Population Error Rate (% of claims within population)</i>	<i>95% Confidence Interval (+/- pp)</i>
At least one required Module was not obtained						
Module C (Compensation)	4.9	2.8	33.4	28.6	1.6	1.7
Module F (Business Structures)	10.6	3.2	53.7	15.6	5.7	2.5
Module I (Income)	75.5	5.7	17.5	6.7	13.2	5.1
Module O (Overseas Residence)	40.7	6.7	20.1	8.7	8.2	3.9
Module P (Partner details)	56.1	6.7	11.7	5.4	6.5	3.1
Module R (Real Estate)	19.8	4.7	13.7	8.6	2.7	1.8
Module S (Separation details)	1.2	1.3	14.1	24.4	0.2	0.2
Tax File Number error	100.0	na	33.6	6.8	33.6	6.8
Details incorrectly coded	100.0	na	2.7	2.3	2.7	2.3
TFN not removed from claim form	100.0	na	16.2	5.6	16.2	5.6
TFN not removed from file documents	100.0	na	24.3	5.7	24.3	5.7
Inadequate mainframe documentation (DOCs)	100.0	na	59.6	7.2	59.6	7.2
No lodgement of claim DOC	100.0	na	44.8	7.2	44.8	7.2
No assessment decision DOC	100.0	na	37.3	6.2	37.3	6.2
Other required DOCs not created	100.0	na	16.8	4.6	16.8	4.6
Other non-actionable assessment error	100.0	na	35.6	6.9	35.6	6.9
Savings account details incorrectly coded	95.6	3.1	16.2	5.2	15.5	5.0
Accommodation details not verified	89.6	3.6	5.1	3.1	4.5	2.8
Accommodation details incorrectly coded	62.1	7.0	17.6	6.3	10.9	4.1
Partner permission incorrectly coded	53.0	8.3	11.6	5.1	6.1	2.8
Family details incorrectly coded	1.4	1.1	0.0	na	0.0	na

Table 23

Module assessment errors

	<i>Test subset (% of new claims)</i>	<i>95% Confidence interval (+/- pp)</i>	<i>Error Rate (% of claims within test subset)</i>	<i>95% Confidence Interval (+/- pp)</i>	<i>Population Error Rate (% of claims within population)</i>	<i>95% Confidence Interval (+/- pp)</i>
Mod A non-admin assessment error	63.2	6.8	36.8	8.0	23.3	7.0
Household contents incorrectly assessed	63.2	6.8	12.4	5.2	7.9	7.4
Insurance policies incorrectly assessed	63.2	6.8	3.3	2.7	2.1	7.6
Vehicles/boats/caravans incorrectly assessed	63.2	6.8	19.5	6.0	12.3	7.3
Other assets incorrectly assessed	63.2	6.8	8.9	6.0	5.6	7.5
Other asset assessment errors	63.2	6.8	8.3	3.9	5.3	7.5
Module C non-admin assessment error	3.3	2.2	8.4	13.3	0.3	2.2
Compensation details incorrectly coded	3.3	2.2	8.4	13.3	0.3	2.2
Compensation Scriptor not run	3.3	2.2	8.4	13.3	0.3	2.2
Clearance decision not provided by CMT	3.3	2.2	8.4	13.3	0.3	2.2
CMT clearance decision not implemented correctly	3.0	2.2	0.0	na	0.0	na

Table 23**continued: Module assessment errors**

	<i>Test subset (% of new claims)</i>	<i>95% Confidence interval (+/- pp)</i>	<i>Error Rate (% of claims within test subset)</i>	<i>95% Confidence Interval (+/- pp)</i>	<i>Population Error Rate (% of claims within population)</i>	<i>95% Confidence Interval (+/- pp)</i>
Module F (Business) assessment error ¹⁴⁷	5.0	2.1	96.3	6.7	4.8	2.1
Sole trader assessment error	0.1	na	100.0	na	0.1	na
Necessary business information not obtained	0.1	na	100.0	na	0.1	na
Income details not obtained	0.1	na	100.0	na	0.1	na
Review of business not coded for next year	0.1	na	50.3	46.2	0.1	na
Business balance sheet not obtained	0.1	na	75.5	32.3	0.1	na
Sole trader business income assessment error	0.1	na	50.3	46.2	0.1	na
Not all income deductions made	0.1	na	25.2	40.0	0.0	na
Impermissible deductions made	0.1	na	25.2	40.0	0.0	na
Other assessment/coding errors	0.1	na	50.3	46.2	0.1	na
Business value assessment error	0.1	na	75.5	32.3	0.1	na
Partnership assessment error	2.9	1.7	92.4	12.2	2.7	1.7
Necessary partnership information not obtained	2.9	1.7	31.6	25.7	0.9	1.7
Tax return information not obtained	2.9	1.7	12.8	17.6	0.4	1.7
Business profit/loss statement not obtained	2.9	1.7	9.0	16.2	0.3	1.7
Business balance sheet not obtained	2.9	1.7	9.9	16.3	0.3	1.7
Personal income tax return not obtained	2.9	1.7	12.8	17.6	0.4	1.7
Partnership income assessment error	2.9	1.7	71.4	25.6	2.0	1.7
All permissible income deductions not made	2.9	1.7	16.8	21.0	0.5	1.7
Impermissible deductions made	2.9	1.7	54.1	29.4	1.6	1.7
Other business income factors coded incorrectly	2.9	1.7	54.8	29.3	1.6	1.7
Partnership value assessment error	2.9	1.7	56.2	29.2	1.6	1.7

¹⁴⁷ Since the audit sample included only four sole traders, 16 partnerships, 11 private companies and six family trust assessments, little can be inferred from the statistics for each individual business type (these statistics are presented for completeness). However, with 37 business assessments, we can be reasonably confident about the overall business assessment error rate conclusions.

Table 23

continued: Module assessment errors

	<i>Test subset (% of new claims)</i>	<i>95% Confidence interval (+/- pp)</i>	<i>Error Rate (% of claims within test subset)</i>	<i>95% Confidence Interval (+/- pp)</i>	<i>Population Error Rate (% of claims within population)</i>	<i>95% Confidence Interval (+/- pp)</i>
Private company assessment error	1.9	1.2	100.0	na	1.9	1.2
Necessary business information not obtained	1.9	1.2	90.4	14.5	1.7	1.2
Company tax return not obtained from customer	2.5	1.8	8.0	16.9	0.2	1.8
Company profit/loss statement not obtained from customer	2.5	1.8	26.6	28.3	0.7	1.8
Company balance sheet not obtained from customer	2.5	1.8	16.6	22.6	0.4	1.8
Company memorandum not obtained from customer	2.1	1.7	90.6	13.7	1.9	1.7
Personal income tax return not obtained from customer	2.5	1.8	4.4	8.7	0.1	1.8
Private company income assessment error	1.9	1.2	31.7	33.3	0.6	1.2
Wages assessed incorrectly	1.6	1.2	37.4	37.3	0.6	1.2
Directors fees assessed incorrectly	0.4	0.6	56.0	44.0	0.3	0.6
Dividends assessed incorrectly	0.8	0.9	0.0	na	0.0	na
Private company deemed income assessment error	1.9	1.2	31.7	33.3	0.6	1.2
Private company share value assessment error	1.9	1.2	39.8	33.2	0.8	1.2
Family trust assessment error	0.6	0.6	100.0	na	0.7	0.6
Necessary family trusts information not obtained	0.6	0.6	100.0	na	0.7	0.6
Tax return information not obtained	0.6	0.6	7.7	15.0	0.0	0.6
Trust profit/loss statement not obtained	0.6	0.6	41.6	45.8	0.3	0.6
Trust balance sheet not obtained	0.6	0.6	33.9	45.6	0.2	0.6
Trust deed not obtained	0.6	0.6	28.7	35.5	0.2	0.6
Determination respect to income not obtained	0.6	0.6	11.9	17.9	0.1	0.6
Determination respect to assets not obtained	0.6	0.6	11.9	17.9	0.1	0.6
Family trust income assessment error	0.6	0.6	44.4	46.3	0.3	0.6
Family trust deemed income assessment error	0.6	0.6	11.9	17.9	0.1	0.6
Deeming incorrectly applied	0.4	0.5	17.2	26.0	0.1	0.5
Asset loans incorrectly assessed	0.2	0.4	12.4	28.8	0.0	0.4
Family trust value assessment error	0.6	0.6	28.7	35.5	0.2	0.6

Table 23
continued: Module assessment errors

	<i>Test subset (% of new claims)</i>	<i>95% Confidence interval (+/- pp)</i>	<i>Error Rate (% of claims within test subset)</i>	<i>95% Confidence Interval (+/- pp)</i>	<i>Population Error Rate (% of claims within population)</i>	<i>95% Confidence Interval (+/- pp)</i>
Module I assessment error	62.5	6.9	46.7	8.5	29.2	7.0
Earnings assessment error	7.3	3.1	73.1	18.6	5.3	3.1
Recent payslips not provided	7.3	3.1	63.1	20.3	4.6	3.1
Employer details not provided	7.3	3.1	14.1	17.1	1.0	3.1
Work details not provided	7.3	3.1	18.9	18.7	1.4	3.1
Earnings incorrectly assessed	7.3	3.1	22.3	20.3	1.6	3.1
Employment details incorrectly coded	7.3	3.1	22.9	20.3	1.7	3.1
DOCs not created	7.3	3.1	49.3	22.2	3.6	3.1
Bonds assessment errors	3.1	3.8	59.7	45.6	1.9	3.8
Bonds incorrectly assessed	3.1	3.8	59.7	45.6	1.9	3.8
Bonds coded incorrectly	3.1	3.8	59.7	45.6	1.9	3.8
Debentures assessment errors	2.2	1.7	0.0	na	0.0	na
Loans assessment errors	6.4	2.9	11.7	15.6	0.7	2.9
Share Income assessment errors	27.7	5.3	15.2	8.0	4.2	5.2
Insufficient share details obtained	25.8	5.2	6.1	6.0	1.6	5.2
Shares coded incorrectly	25.8	5.2	9.8	6.7	2.5	5.2
Managed investments income assessment errors	30.9	5.8	20.6	9.1	6.3	5.9
Investment trusts - insufficient details	20.3	4.9	8.7	8.4	1.8	4.9
Investment trusts - coded incorrectly	20.3	4.9	8.5	8.5	1.7	4.9
Private Superannuation - member statement not attached	3.3	1.5	35.1	22.8	1.2	1.5
Private Superannuation - coded incorrectly	3.1	1.5	13.6	16.4	0.4	1.5
Approved deposit fund/deferred annuities - insufficient details	10.9	4.0	11.5	13.9	1.3	4.1
ADF/deferred annuity errors - coded incorrectly	10.9	4.0	14.7	13.1	1.6	4.1

Table 23

continued: Module assessment errors

	<i>Test subset (% of new claims)</i>	<i>95% Confidence interval (+/- pp)</i>	<i>Error Rate (% of claims within test subset)</i>	<i>95% Confidence Interval (+/- pp)</i>	<i>Population Error Rate (% of claims within population)</i>	<i>95% Confidence Interval (+/- pp)</i>
Income streams assessment errors	22.1	5.1	31.7	12.2	7.0	3.2
Most recent schedule not lodged	22.1	5.1	11.6	9.1	2.6	2.2
Schedule not completed correctly	22.1	5.1	11.9	7.7	2.7	1.8
Coded incorrectly	22.1	5.1	25.4	11.9	5.6	3.0
Foreign income assessment errors	10.9	5.1	19.2	15.4	2.1	5.2
Necessary documents not provided	10.9	5.1	1.0	2.1	0.1	5.2
Coded incorrectly	10.9	5.1	20.1	15.7	2.2	5.2
Gifted income assessment errors	6.0	3.1	33.4	24.9	2.0	3.1
No DOC created	6.0	3.1	20.4	20.5	1.2	3.1
Incorrect pension year	4.4	2.7	8.0	10.5	0.4	2.7
Coded incorrectly	4.4	2.7	37.7	29.4	1.7	2.7
Module O assessment errors	32.8	6.3	66.0	11.9	21.7	6.4
Date of arrival not verified	25.7	5.6	62.4	12.5	16.0	5.6
Claim not screened on foreign pension system	20.5	5.3	54.9	15.3	11.3	5.2
Verification of foreign pension not obtained	7.4	3.3	23.3	19.4	1.7	3.3
Other errors	21.2	5.4	5.0	5.5	1.1	5.4
Module R assessment errors	17.1	4.5	56.0	14.3	9.6	4.4
Module R form not fully completed	15.1	4.2	32.5	14.7	4.9	4.2
Supporting documents not provided	15.1	4.2	25.5	13.8	3.8	4.2
Real estate details incorrectly coded	14.5	4.2	27.9	14.2	4.1	4.2
Required AVO valuation not requested	7.0	2.8	68.5	18.6	4.8	2.8
Other real estate assessment errors	13.0	4.0	13.7	10.2	1.8	4.0

Appendix 6

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Appendix 7

Explanatory Notes

1. Centrelink terminology

Accurate assessment	An assessment of a new claim with no actionable errors. <i>'Payment at the right rate, from the right date, to the right person with the right product'</i> (Centrelink's working definition).
Balanced Scorecard (BSC)	Performance reporting process introduced in December 1997 by Centrelink; the BSC reports on a wide range of performance indicators that are included in Business Partnership Agreements (BPAs) with client agencies, including accuracy of claims processing.
Business Partnership Agreement (BPA)	An agreement between FaCS and Centrelink, under which Centrelink is required to deliver income support and related services, with Centrelink delivering in 1999–2000 on behalf of FaCS, payments to the value of \$43 billion.
Centrelink Education Network (CEN)	An interactive broadcast system developed by the People Management Team within Centrelink National Support Office (NSO); it combines digital television with 'real time' interactivity to provide staff with an interactive distance learning facility.
Centrelink Reference Suite (CRS)	An on-line service provided to Customer Service Officers via the Centrelink Intranet containing information on a range of Age Pension reference materials, including the <i>Social Security Act</i> , the <i>Guide to the Social Security Law</i> , RETIDOC (which provides procedural guidelines in relation to Age Pension assessments) and a host of other relevant documentation.
Complex Assessment Officer (CAO)	Customer Service Officer who specialises in the assessment of financial arrangements and business structures.
Original Decision Maker (ODM)	Customer Service Officer who assesses a customer's claim.
Point of Contact Decision-Making (POCDM)	Policy introduced in February 1997 by the former Department of Social Security whereby the officer who assesses a customer's claim has the authority to make the decision with regard to that claim.

Procedure and Accuracy Check (PAC)	A quality improvement and risk management tool used by Centrelink to undertake sample checking of new claims and reassessments; Centrelink's primary compliance monitoring tool from approximately mid-1998 to mid-2000.
Quality On-line (QOL)	New accuracy checking software introduced by Centrelink in May 2000 to replace PAC software.
RETIDOC	Centrelink Intranet reference on retirement assessment procedures.

2. ANAO audit criteria terminology

Audit criteria	The broad framework guiding the audit, namely, determining the compliance of Centrelink's assessment of new claims for the Age Pension with legislation and guidelines; the effectiveness of Centrelink's monitoring of this compliance; and the effectiveness of Centrelink's preventative controls to ensure compliance.
Audit test criteria	A set of around 200 specific criteria developed by the ANAO to correspond to the many detailed requirements for the compliance of new Age Pension claims assessments with legislation and relevant Centrelink internal guidelines.
Core audit test criteria	A subset of audit test criteria comprising 39 common criteria against which all claims were tested regardless of their complexity.
Major core audit test criteria	The eight major audit test criteria fundamental to determining the accuracy of a claims assessment for reporting under the BPA, and corresponding to Centrelink's working definition of accuracy. If non-compliance with any of these eight criteria was identified by Centrelink through its checking software, this should have resulted in the reassessment of the claim and its reporting as an inaccurate assessment for reporting under the BPA.
Minor core audit test criteria	The remaining 31 core audit test criteria, if non-compliance was identified by Centrelink through its checking software, this did not in itself require reassessment of the claim or constitute an inaccurate assessment for reporting under the BPA, but represented a departure by Centrelink

Module audit test criteria	<p>Customer Service Officers from expected practice when assessing new claims.</p> <p>The 169 audit test criteria relating to the nine separate Module forms that a claimant may be required to complete depending upon his/her individual circumstances; these forms deal with a range of income sources and assets that may affect entitlement to the pension or the rate at which it is paid. As customers thus affected may be required to complete different Modules, the audit test criteria for assessing the accuracy of the assessment are 'non-core' and vary between each claim examined by the ANAO.</p>
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3. ANAO error terminology

Actionable assessment error	<p>The non-compliance of a claims assessment against one or more of the eight major core audit test criteria. An actionable error in an Age Pension claims assessment if detected within Centrelink requires follow-up action, including the return of the claim to the Original Decision Maker for review. Actionable errors include instances of incorrect payment, and instances where there was the potential for incorrect payment when important information was not provided by the customer. The identification of an actionable error was based on the information available to the audit team at the time of the audit fieldwork, including information in both the customer file and electronic record on Centrelink's mainframe computer.</p>
Incorrect assessment	<p>An assessment of a new claim with one or more actionable errors. Incorrect assessments should be flagged by Centrelink's checking systems for reporting to Family and Community Services under the Business Partnership Agreement.</p>
Non-actionable assessment error	<p>The non-compliance of a claims assessment against one or more of the 31 minor core audit test criteria. Non-actionable errors involve the departure by Centrelink Customer Service Officers from expected practice when assessing new claims, but are not generally of sufficient seriousness to require follow-up action or to be reported to FaCS as an incorrect assessment.</p>

Module assessment error	The non-compliance of a claims assessment against one or more of the 169 Module audit test criteria.
Payment rate error	The non-compliance of a claims assessment against one of the major core audit test criteria specifying whether the customer was paid at the correct rate. A payment rate error was an actionable error requiring reporting as an inaccurate assessment under the BPA.
Possible payment rate error	The non-compliance of a claims assessment against one of the major core audit test criteria specifying whether there was a risk of inaccurate payment but which would require further information from the customer or other source in order to establish the correct payment rate. A possible payment rate error was an actionable error requiring reporting as an inaccurate assessment under the BPA.
Quantifiable actionable error	An actionable error in a claims assessment where the error impacted directly on payment and could be quantified by the ANAO on the basis of information on the customer file and/or computer record at the time of the audit. Such errors include incorrect assessments with respect to entitlement to the Age Pension (claim accepted or rejected inappropriately), payment rate errors, incorrect assessments with respect to entitlement to Telephone Allowance and payment from the wrong date.
Unquantifiable actionable error	An actionable error in a claims assessment where the error impacted directly on payment but could not be quantified by the ANAO without further information from the claimant and/or other source to establish entitlement and/or the correct payment rate.

4. Statistical terminology

Confidence interval	The upper and lower confidence bounds within which the population estimate lies, with a specified degree of confidence. For example, if the confidence interval has been specified as 95%, an error rate of 50% +/-5 percentage points means that we can be 95% confident that the population
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	error rate is between 45% and 55%, and therefore a 5% chance that it lies outside this interval.
Population	The 28 213 new claims for the Age Pension new Age Pension claims lodged with Centrelink and assessed during the period 1 October 1999 to 31 March 2000.
Sample	The 354 new claims assessments examined by the ANAO drawn from the population.
Test subset	The proportion of all claims to which a specific audit criterion applies. For example, since 43.9% of claimants had been born or have lived or worked overseas, 43.9% is the 'test subset' for checking whether adequate Proof of Residency was obtained from claimants.
Error rate	Customer claims assessed incorrectly as a proportion of total customer claims assessed. This outcome, or customer-based approach, is consistent with Centrelink's reporting of assessment accuracy under the BPA. The error rate for a particular test subset is the proportion of assessments within a test subset that have the corresponding type of error. For example, insufficient POR documentation was obtained from 27.9% of claimants who had been born or have lived or worked overseas: 27.9% is the insufficient POR documentation 'error rate'.
Population error rate	The proportion of customer claims within the total population of new claims that contain a specific type of error. This can be obtained by multiplying the error rate by the corresponding test subset: <i>Population error rate = error rate X corresponding test subset</i> . For example, of the 43.9% of claims that required POR, 27.9% contained insufficient POR documentation and so 12.2% of all new claims (i.e. 43.9% multiplied by 27.9%) had insufficient POR—12.2% is the corresponding 'population

Index

A

- accurate assessment 16, 19-21, 25, 32, 35, 48, 50, 57, 59, 60, 79, 94, 95, 100, 123, 133, 154, 153, 156
- actionable assessment error 19, 26, 29, 55, 58, 59, 61-64, 110, 144, 155
- Australian Bureau of Statistics (ABS) 17, 18, 20, 51-56, 65, 139-140
- audit criteria 48, 154
- audit test criteria 17-19, 25, 26, 29, 30, 32, 49-51, 52, 57-61, 127, 130, 154-156

B

- Balanced Scorecard (BSC) 35, 39, 121, 122, 123, 153
- Business Partnership Agreement (BPA) 13-21, 25, 26, 29, 31-33, 35-37, 43, 46, 48-51, 54, 57-60, 62, 63, 67, 76, 87-91, 93-95, 106, 107, 115, 120-123, 153, 154, 156, 157

C

- Complex Assessment Officer (CAO) 31, 35, 55, 76, 78-81, 87, 114, 115, 118, 153
- Centrelink Education Network (CEN) 92, 109, 111, 112, 118, 153
- Centrelink Reference Suite (CRS) 39, 114, 117, 119, 120, 153
- commencement date 19, 26, 49, 58, 63, 65, 66, 127, 144
- confidence interval 20, 21, 27, 28, 61, 65, 80, 81, 139-142, 144, 156
- core audit test criteria 8, 9, 25, 29, 30, 57, 60, 127, 154-156
- Customer Record Number (CRN) 57, 63, 67, 127, 144
- Customer Service Centre (CSC) 18, 33-35, 52, 55, 56, 68, 69, 72, 78, 80, 91-93, 97, 101-103, 108-112, 115, 117, 119, 128, 139-141, 143

- Customer Service Officer (CSO) 14, 16, 20, 22, 25, 29, 31, 33-35, 38, 44, 48, 50, 52, 55, 56, 60, 68, 70-72, 74-85, 87, 88, 91-93, 97, 98, 100, 103, 108-120

E

- entitlement 16, 26, 27, 29, 30, 43, 45, 48, 59, 64, 72, 75, 82, 83, 87, 116, 136, 155, 156, 160
- error rate 17, 20, 21, 22, 25, 28, 31, 32, 35, 51, 53, 55, 56, 59, 62-64, 69-73, 75-77, 79, 80, 81, 83, 84, 87, 90, 91, 93, 106, 107, 110, 139, 141, 142, 144, 146, 148, 150, 156, 157

F

- Family and Community Services (FaCS) 13-21, 25, 26, 30-32, 36-38, 43, 46, 47, 49-51, 54, 57, 58, 67, 69, 76, 86, 88, 90, 92, 94-96, 99, 100, 104-106, 115-117, 120, 121, 123, 153, 155, 160

I

- Individual Learning Plan (ILP) 109-111
- incorrect assessment 16, 20, 26, 48, 59, 64, 70, 76, 85, 155, 156

K

- Key Performance Indicator (KPI) 121-123

M

- major 13, 15, 18, 19, 23-26, 29, 32, 46, 47, 49, 50, 54, 57-60, 114, 127, 154, 155, 156
- major core audit test criteria 18, 19, 25, 26, 49, 57, 58, 129, 154-156
- major criteria 25
- minor core audit test criteria 29, 60, 154, 127
- module assessment error 30, 61, 73, 147, 149-151, 156
- module audit test criteria 25, 30, 57, 60, 130, 155, 156

N

National Support Office (NSO) 17, 34, 51, 52, 91, 97, 103, 109-111, 113, 116, 117, 153
 Non-Decision Maker (NDM) 98
 Non-actionable assessment error 29, 61, 68, 73, 144, 146, 155

O

Original Decision Maker (ODM) 25, 29, 45, 57, 60, 62, 64, 67, 153

P

Procedure and Accuracy Check (PAC) 14, 15, 19, 21, 22, 26, 32, 33, 45-47, 50, 57, 59, 62, 67, 89-93, 96, 97, 104-106, 154
 payment rate error 21, 27, 58, 59, 61, 63, 64, 67, 90, 127, 144, 156
 Proof of Age (POA) 26, 28, 57, 63, 67, 68, 79, 127, 128, 144
 Point of Contact Decision Making POCMD 45, 79, 153
 Proof of Identity (POI) 26, 28, 57, 63, 67, 68, 79, 88, 127, 128, 144
 population 17, 18, 20, 21, 27, 28, 32, 38, 51-54, 56, 62, 64, 80, 105, 106, 139-142, 144, 146, 148, 150, 156, 157
 population error rate 56, 62, 64, 80, 144, 156, 157
 Proof of Residency (POR) 26, 28, 57, 62, 63, 67, 68, 79, 127, 128, 144, 157
 possible payment rate error 21, 58, 63, 67, 127, 144, 156

Q

quality on-line (QOL) 14, 15, 19, 22, 26, 32-35, 37-39, 46, 50, 57, 59, 62, 63, 69, 76, 89, 91-93, 95-107, 111, 118, 122, 123, 154

Quantifiable Actionable Error 27, 28, 29, 59, 63-66, 79, 80, 110, 144, 156

R

Retirement Community Segment Team (RCS) 7, 17, 18, 35, 52, 54, 55, 57, 59, 67, 75-78, 109, 111, 112, 117, 119, 138
 RETIDOC 35, 78, 87, 114, 119, 120, 153, 154

S

sample 14-18, 20, 21, 25-27, 29, 32, 38, 44-49, 51-56, 62, 64, 65, 67, 69, 75, 78, 80, 83-85, 89, 90, 102, 105, 106, 109, 110, 139-144, 148, 154, 157
 Seniors and Means Test Branch (SMT) 57, 76, 116, 120

T

Telephone Allowance (TAL) 26, 27, 29, 57, 64, 66, 127
 test subset 61, 62, 64, 73, 144, 157

U

unquantifiable actionable error 28, 59, 63, 66, 144, 156

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